



\$1,103,875,000
Puerto Rico Highway and Transportation Authority
\$700,855,000 Transportation Revenue Bonds (Series D)
\$284,405,000 Transportation Revenue Refunding Bonds (Series E)
\$118,615,000 Transportation Revenue Refunding Bonds (Series F)



The Transportation Revenue Bonds (Series D), the Transportation Revenue Refunding Bonds (Series E) and the Transportation Revenue Refunding Bonds (Series F) (collectively, the "2002 Bonds") are being issued pursuant to Resolution No. 98-06 adopted by the Authority on February 26, 1998, as amended.

The 2002 Bonds, the outstanding bonds of the Authority previously issued under Resolution No. 98-06 and any additional bonds that the Authority may from time to time issue under Resolution No. 98-06 are payable from, and are secured by a pledge of, the following revenues of the Authority:

- The total amount of excise taxes, up to \$120 million per fiscal year, imposed by the Commonwealth of Puerto Rico (the "Commonwealth") on certain petroleum products;
- Toll revenues on the Authority's traffic facilities that were not financed with Highway Revenue Bonds issued under Resolution No. 68-18 adopted by the Authority on June 13, 1968, as amended;
- Certain investment earnings; and
- The following to the extent they are unencumbered and available after payment of debt service on the Authority's outstanding Highway Revenue Bonds issued under Resolution No. 68-18: (i) all current gasoline taxes, one-half of the current gas oil and diesel oil taxes and a portion of the current motor vehicle license fees allocated to the Authority by the Commonwealth; (ii) all toll revenues of the Authority's traffic facilities financed with Highway Revenue Bonds issued under Resolution No. 68-18 and any extensions, improvements or betterments thereto, however financed; and (iii) certain investment earnings.

All of the aforesaid revenues of the Authority that constitute 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 all other Commonwealth revenues are not sufficient therefor.

The 2002 Bonds will have the following characteristics:

- The 2002 Bonds will be dated their date of delivery.
- The 2002 Bonds will be registered under The Depository Trust Company's book-entry only system. Purchasers of the 2002 Bonds will not receive definitive 2002 Bonds.
- The 2002 Bonds are subject to redemption as described in this Official Statement.
- Interest on the 2002 Bonds will be payable on July 1, 2002 and on each January 1 and July 1 thereafter.
- The inside cover page contains information concerning the maturity schedule, interest rates, prices or yields of the 2002 Bonds and the maturities of the Series D and Series E Bonds insured by Financial Security Assurance Inc.
- Subject to continuing compliance with certain tax covenants, interest on the 2002 Bonds will be excluded from gross income for federal income tax purposes and interest on the 2002 Bonds is exempt from state, Commonwealth and local income taxation under existing law. However, see "TAX EXEMPTION" for alternative minimum tax consequences with respect to interest on the 2002 Bonds and other tax considerations.
- It is expected that settlement for the Series D Bonds and Series E Bonds will occur on or about February 7, 2002 and that settlement for the Series F Bonds will occur on or about April 3, 2002.

The 2002 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.

SALOMON SMITH BARNEY

LEHMAN BROTHERS

MORGAN STANLEY

ABN AMRO FINANCIAL SERVICES, INC.

BANC OF AMERICA SECURITIES LLC

BEAR, STEARNS & CO., INC.

FIRST UNION NATIONAL BANK

GOLDMAN, SACHS & CO.

MERRILL LYNCH & CO.

UBS PAINEWEBBER INC.

January 25, 2002

\$1,103,875,000
Puerto Rico Highway and Transportation Authority

\$700,855,000
Transportation Revenue Bonds (Series D)

\$ 84,990,000*	5%	Term Bonds due July 1, 2027	–	Yield 5.13%
\$196,320,000*	5%	Term Bonds due July 1, 2032	–	Yield 5.16%
\$142,665,000	5 ³ / ₈ %	Term Bonds due July 1, 2036	–	Yield 5.46%
\$129,890,000	5 ¹ / ₄ %	Term Bonds due July 1, 2038	–	Yield 5.48%
\$146,990,000	5 ¹ / ₄ %	Term Bonds due July 1, 2041	–	Yield 5.25%

\$284,405,000
Transportation Revenue Refunding Bonds (Series E)

Maturity (July 1)	Principal Amount	Interest Rate	Yield
2011	\$21,780,000*	5 ¹ / ₂ %	4.07%
2012	33,045,000*	5 ¹ / ₂	4.17
2013	34,860,000*	5 ¹ / ₂	4.28
2014	18,625,000*	5 ¹ / ₂	4.39
2015	19,650,000*	5 ¹ / ₂	4.50
2016	22,145,000*	5 ¹ / ₂	4.60
2017	31,550,000*	5 ¹ / ₂	4.68
2018	19,260,000*	5 ¹ / ₂	4.75
2019	13,450,000*	5 ¹ / ₂	4.81
2020	14,185,000*	5 ¹ / ₂	4.86
2021	14,970,000*	5 ¹ / ₂	4.89
2022	15,790,000*	5 ¹ / ₂	4.91
2023	16,660,000*	5 ¹ / ₂	4.94
2024	8,435,000	5 ¹ / ₄	5.15

\$118,615,000
Transportation Revenue Refunding Bonds (Series F)

Maturity (July 1)	Principal Amount	Interest Rate	Yield
2003	\$6,030,000	5%	2.03%
2004	7,320,000	5	2.66
2005	7,690,000	5	3.18
2006	10,785,000	5	3.46
2007	11,430,000	5	3.80
2008	20,855,000	5	4.01
2009	21,895,000	5 ¹ / ₄	4.23
2010	23,040,000	5 ¹ / ₄	4.43
2011	9,570,000	5 ¹ / ₄	4.51

* Insured by Financial Security Assurance Inc.

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 2002 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, Financial Security Assurance Inc. and other official sources that are believed to be reliable. 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 or condition of the Authority, the Commonwealth or Financial Security Assurance Inc. since the date hereof. The Underwriters have provided the following three sentences for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and the specimen "Municipal Bond Insurance Policy" attached as Appendix V herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the 2002 Bonds; or (iii) the tax exempt status of the interest on the 2002 Bonds.

IN CONNECTION WITH THE OFFERING OF THE 2002 BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 2002 BONDS AND THE OUTSTANDING TRANSPORTATION REVENUE 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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TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTION	3	SUMMARY OF CERTAIN PROVISIONS OF THE	
FINANCING PLAN	5	1968 RESOLUTION	38
Series D Bonds	5	Definition of Certain Terms	38
Series E Bonds	5	Sinking Fund	42
Series F Bonds	5	1968 Construction Fund	44
Sources and Uses of Funds	6	Defeasance	44
Delayed Delivery of the Series F Bonds	6	Issuance of Additional Bonds	45
General	6	Other Indebtedness	46
Settlement	7	Investment of Funds	47
Ratings Risk	7	Modifications	47
Secondary Market Risk	7	Miscellaneous Covenants	48
Market Value Risk	7	SUMMARY OF CERTAIN PROVISIONS OF THE	
Tax Law Risks	7	PROPOSED SUPPLEMENTAL RESOLUTION	49
Conditions of Settlement	8	Modification with Consent of Holders of	
Termination of Series F Purchase Contract	8	Majority of Bonds	49
THE 2002 BONDS	8	Parity Liens to Providers of Credit Facilities	
Description of the 2002 Bonds	8	and Liquidity Facilities	50
General	8	SUMMARY OF CERTAIN PROVISIONS OF THE	
Redemption Provisions	9	1998 RESOLUTION	50
Optional Redemption	9	Definition of Certain Terms	50
Mandatory Redemption	9	Sinking Funds	55
Notice of Redemption	9	1998 Construction Fund	58
Selection of 2002 Bonds to be Redeemed	10	Defeasance	59
Security for the Senior Transportation Revenue		Issuance of Additional Bonds	59
Bonds	10	Other Indebtedness	60
Pledged Revenues	10	Investment of Funds	61
1998 Senior Bond Reserve Account	13	Modifications	62
Prior Payment of Full Faith and Credit		Miscellaneous Covenants	63
Obligations of the Commonwealth	14	Rights of Bond Insurer	65
Additional Bonds	15	TAX EXEMPTION	65
Book-Entry Only System	17	Opinion of Bond Counsel	65
Payments and Transfers	18	Certain Ongoing Federal Tax Requirements	
Discontinuance of Book-Entry Only System	19	and Covenants	66
BOND INSURANCE	19	Certain Collateral Federal Tax Consequences	66
Bond Insurance Policy	19	Original Issue Discount	66
Financial Security Assurance Inc.	19	Bond Premium	67
THE AUTHORITY	20	Possible Government Action	67
General Description	20	UNDERWRITING	67
Organization	20	VERIFICATION	68
Management	21	LITIGATION	68
Employee Relations	21	LEGAL MATTERS	68
TRANSPORTATION SYSTEM REVENUES AND		LEGAL INVESTMENT	68
EXPENDITURES	21	GOVERNMENT DEVELOPMENT BANK	69
Revenues	21	RATINGS	69
Sources of 1998 Resolution Revenues	22	CONTINUING DISCLOSURE	69
Sources of 1968 Resolution Revenues	24	MISCELLANEOUS	71
Historical Revenues	26	Appendix I - Audited Financial Statements	
Projected 1968 Resolution Revenues and		of the Authority, June 30, 2001 ..	I-1
1998 Resolution Revenues	27	Appendix II - Letter of Traffic Engineers	II-1
Operating Expenses and Capital Expenditures	29	Appendix III - Forms of Opinions of	
Operation and Maintenance- Highway		Bond Counsel	III-1
Facilities	29	Appendix IV - Form of Delayed Delivery	
Operation and Maintenance - Tren Urbano	30	Contract	IV-1
Construction Improvement Program	31	Appendix V - Form of Municipal Bond	
Teodoro Moscoso Bridge	35	Insurance Policy	V-1
DEBT	36		
Authority Debt	36		
Principal and Interest Requirements	37		

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\$1,103,875,000
PUERTO RICO HIGHWAY AND TRANSPORTATION AUTHORITY
\$700,855,000 Transportation Revenue Bonds (Series D)
\$284,405,000 Transportation Revenue Refunding Bonds (Series E)
\$118,615,000 Transportation Revenue Refunding Bonds (Series F)

This Official Statement sets forth information in connection with the sale by Puerto Rico Highway and Transportation Authority (the "Authority") of \$700,855,000 aggregate principal amount of its Puerto Rico Highway and Transportation Authority Transportation Revenue Bonds (Series D) (the "Series D Bonds"), \$284,405,000 aggregate principal amount of its Puerto Rico Highway and Transportation Authority Transportation Revenue Refunding Bonds (Series E) (the "Series E Bonds") and \$118,615,000 aggregate principal amount of its Puerto Rico Highway and Transportation Authority Transportation Revenue Refunding Bonds (Series F) (the "Series F Bonds"). The Series D Bonds, the Series E Bonds and the Series F Bonds (collectively, the "2002 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. 98-06, adopted by the Authority on February 26, 1998, as amended (the "1998 Resolution"), and Resolution No. 2002-04 adopted by the Authority on January 25, 2002 ("Resolution 2002-04"). JPMorgan Chase Bank acts as fiscal agent under the 1998 Resolution (in such capacity, the "1998 Fiscal Agent"). The scheduled payment of principal of and interest on the Series D Bonds maturing on July 1 of the years 2027 and 2032 and the Series E Bonds maturing on July 1 of the years 2011 through 2023 inclusive when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Financial Security Assurance Inc.

The Authority is issuing the Series D Bonds to finance or refinance a portion of the costs of construction of a new urban rail mass transit system for the San Juan metropolitan region, known as Tren Urbano, and certain highway system improvements and to make a deposit to the 1998 Senior Bond Reserve Account hereinafter mentioned. The Authority is issuing the Series E Bonds and Series F Bonds to achieve debt service savings by refunding a portion of the Authority's outstanding bonds. See *Financing Plan*.

Under the 1998 Resolution, the Authority is authorized to issue bonds on a parity with the 2002 Bonds for any lawful purpose of the Authority. Pursuant to this authority, the Authority has heretofore issued Puerto Rico Highway and Transportation Authority Transportation Revenue Bonds, of which \$1,654,767,049 principal amount (includes accreted value for capital appreciation bonds as of June 30, 2001) was outstanding as of October 31, 2001 (the "Outstanding Bonds"). The Outstanding Bonds, the 2002 Bonds and any additional bonds issued under the 1998 Resolution, as described below, are herein collectively referred to as the "Senior Transportation Revenue Bonds".

As described more fully below, the 1998 Resolution also permits the Authority to issue bonds subordinated in right of payment to the Senior Transportation Revenue Bonds (the "Subordinated Transportation Revenue Bonds") for the purpose of financing transportation projects eligible for federal assistance. In August 1998, the Authority issued its \$75,050,000 Subordinated Transportation Revenue Bonds (Series 1998) (Puerto Rico State Infrastructure Bank) (the "1998 SIB Bonds") under the 1998 Resolution to finance certain highway projects eligible for federal financial assistance. See "Additional Bonds-Subordinated Transportation Revenue Bonds" under *The 2002 Bonds*. On August 4, 2000, the Authority also obtained a \$300 million loan from the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998, as amended, to finance a portion of the cost of construction of the Tren Urbano project. The TIFIA Loan is subordinate to the Authority's Highway Revenue Bonds and Transportation Revenue Bonds and is secured by, and is payable only to the extent of, amounts available in the 1998 Construction Fund. See "Additional Bonds - TIFIA Loan" under *The 2002 Bonds*.

All Senior Transportation Revenue Bonds will be secured equally and ratably under the 1998 Resolution and will be payable from 1998 Resolution Revenues (as defined below). All Subordinated Transportation Revenue Bonds will be secured equally and ratably under the 1998 Resolution (except for differences in any debt service reserve requirements related thereto as permitted by the 1998 Resolution) and will be payable from 1998 Resolution Revenues remaining after providing for the payment of debt service on Senior Transportation Revenue Bonds and providing the required debt service reserve therefor.

The Authority has heretofore issued pursuant to Resolution No. 68-18, adopted by the Authority on June 13, 1968, as amended (the "1968 Resolution"), Puerto Rico Highway and Transportation Authority Highway Revenue Bonds, of which \$2,098,150,000 principal amount was outstanding as of October 31, 2001 (said bonds, and any additional bonds that may be issued under the 1968 Resolution (subject to the limitations as to the issuance of such additional bonds contained in the 1998 Resolution, as hereinafter described) are herein collectively called the "Highway Revenue Bonds"). The Authority has determined to finance its future capital requirements, after applying other available funds, through the issuance of Transportation Revenue Bonds under the terms and conditions of the 1998 Resolution and has covenanted in the 1998 Resolution not to issue additional bonds under the 1968 Resolution, other than bonds whose maturity does not extend beyond July 1, 2036 and which are issued (i) to refund outstanding Highway Revenue Bonds to achieve debt service savings, or (ii) in exchange for all outstanding Puerto Rico Highway and Transportation Authority Special Facility Revenue Bonds issued under a separate trust agreement to finance the Teodoro Moscoso Bridge, as described below. See "Additional Bonds-Highway Revenue Bonds" under *The 2002 Bonds* and "Teodoro Moscoso Bridge" under *Transportation System Revenues and Expenditures*.

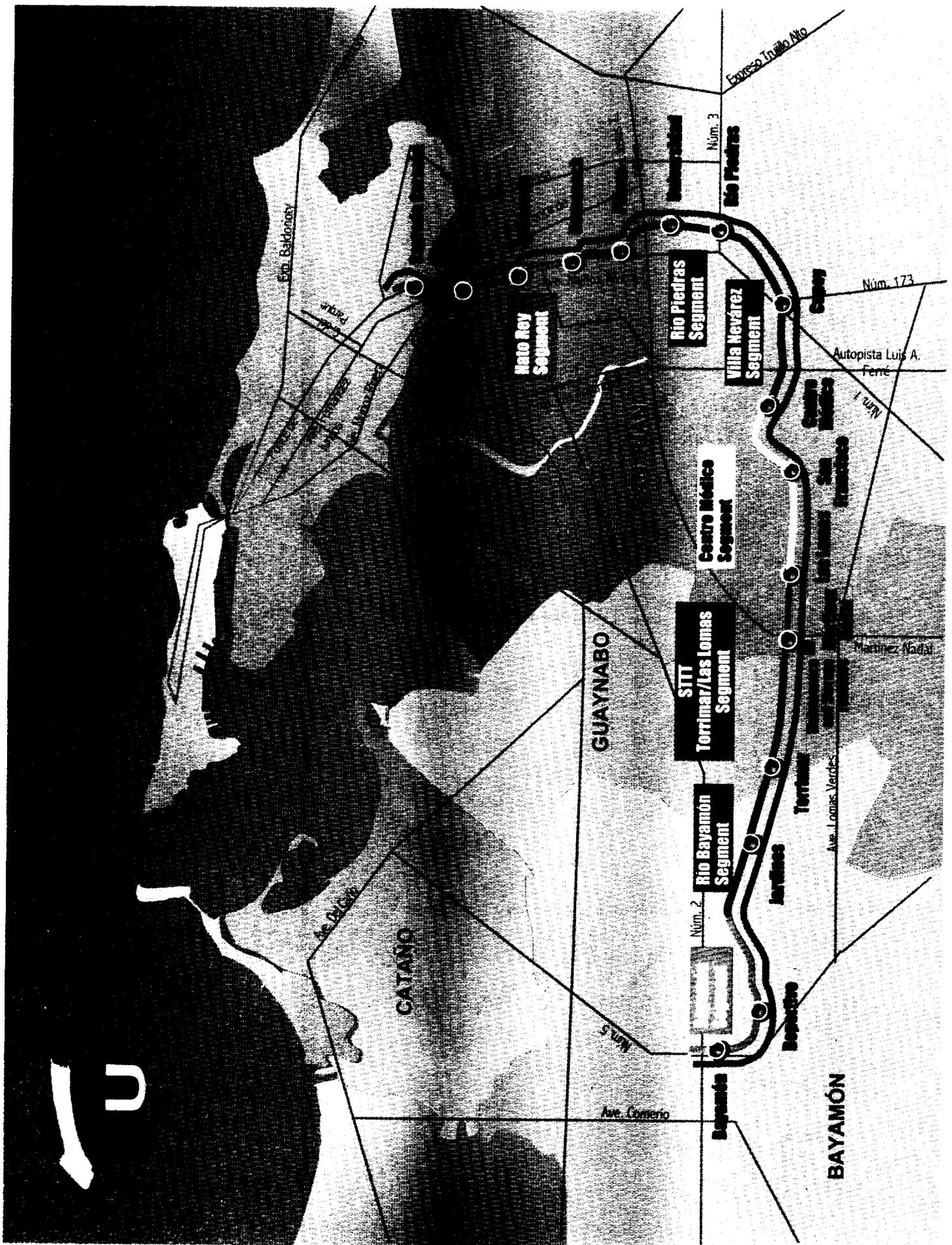
Capitalized terms used herein but not otherwise defined herein have the meanings assigned to them under *Summary of Certain Provisions of the 1968 Resolution* and *Summary of Certain Provisions of the 1998 Resolution*.

This Official Statement hereby incorporates by reference the Commonwealth of Puerto Rico Financial Information and Operating Data Report, dated September 25, 2001 (the "Commonwealth Report"), which includes economic and financial information about the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico") and the general purpose financial statements of the Commonwealth for the fiscal year ended June 30, 2000, together with the independent auditor's report thereon, dated December 29, 2000, of Deloitte & Touche LLP certified public accountants (the "Commonwealth Financial Statements"). The Commonwealth Report is included as Appendix I to the Official Statement of the Commonwealth dated October 11, 2001 relating to its \$455,000,000 Public Improvement Bonds of 2002, Series A, and \$837,960,000 Public Improvement Refunding Bonds, Series 2002 A (the "Commonwealth Official Statement"), which has been filed by the Commonwealth with the Municipal Securities Rulemaking Board ("MSRB") and with each nationally recognized municipal securities information repository ("NRMSIR"). The Commonwealth Financial Statements have been filed with each NRMSIR. This Official Statement hereby also incorporates by reference the Supplement to the Official Statement of Puerto Rico Public Finance Corporation related to the offering of its 2001 Series C Bonds (Commonwealth Appropriation Bonds) in the principal amount of \$771,274,288.85, its 2001 Series D Bonds (Commonwealth Appropriation Bonds) in the principal amount of \$40,750,000, and its 2001 Series E Bonds (Commonwealth Appropriation Bonds) in the principal amount of \$1,095,845,000, which is dated January 11, 2002 (the "Supplement") and has been filed with the MSRB and each NRMSIR. The Supplement discusses a recent development with respect to the Projected General Fund Revenues and Expenditures of the Commonwealth for fiscal year 2002.

Any official statement of the Commonwealth or of any instrumentality of the Commonwealth filed with each NRMSIR and the MSRB, or any other document filed with each NRMSIR, after the date hereof and prior to the termination of the offering of the 2002 Bonds, which supplements or amends the information appearing in the Commonwealth Report or the Supplement shall be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document. Any statement contained in any of the above described documents incorporated by reference shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document modifies or supersedes such statement. Any statement contained herein or in any of the above described documents shall also be deemed to be modified or superseded to the extent that a statement contained in any subsequently filed document modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. For information on how to obtain the Commonwealth Report, the Commonwealth Financial Statements and the Supplement, see *Miscellaneous*.

This Official Statement, including information incorporated in this Official Statement by reference, contains certain "forward-looking statements" concerning the operations, financial condition, plans and objectives of the Commonwealth and of the Authority. These statements are based upon a number of assumptions and estimates which are subject to significant uncertainties, including general economic conditions, many of which are beyond the control of the Commonwealth or the Authority. The words "may", "would", "could", "will", "expect", "anticipate", "believe",

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“intend”, “plan”, “estimate” and similar expressions are meant to identify these forward-looking statements. Actual results may differ materially from those expressed or implied by these forward-looking statements.

INTRODUCTION

The Commonwealth established the Authority in 1965 as a public corporation and governmental instrumentality to design and oversee the construction, reconstruction and improvement of Puerto Rico’s highway system. This highway system currently consists of 4,604 miles of roads, highways, bridges and tunnels, including the Luis A. Ferré (PR-52), De Diego (PR-22), PR-53 and Martínez Nadal (PR-20) tollways (see the Puerto Rico Strategic Network map). The Authority operates and maintains these tollways and related connecting roads. The Department of Transportation and Public Works (the “Department”), through its Public Works Directorate, operates and maintains all other portions of Puerto Rico’s highway system. There are also approximately 10,268 miles of local streets and adjacent roads in Puerto Rico operated and maintained at the municipal level which are not part of Puerto Rico’s highway system.

Since 1968, the Authority has carried out the planning, construction, improvement and equipping of all Puerto Rico roads, highways, bridges and tunnels pursuant to its master plan for the long-range development of the highway system, which plan is supplemented as necessary, and an ongoing five-year construction program (the “Construction Improvement Program”). During this time, the Authority has constructed highway system facilities with a total cost of approximately \$9.439 billion as of October 31, 2001. This amount includes approximately \$3.408 billion financed with internally generated funds, \$2.580 billion financed through the issuance of Highway Revenue Bonds, \$1.521 billion financed through the issuance of Transportation Revenue Bonds, \$1.821 billion paid with federal assistance funds and \$108 million paid with funds provided by the Legislature of Puerto Rico and other appropriations.

Legislation enacted in 1990 and 1991 expanded the Authority’s power to enable it to contract for the private design, construction, operation and maintenance of roads, highways, bridges and tunnels and to implement public policy relating to the development of a multi-modal transportation system for Puerto Rico. In furtherance of these expanded powers, in 1991 the Authority entered into a concession agreement with a private company for the design, construction, operation and maintenance of a toll bridge facility known as the Teodoro Moscoso Bridge. The bridge opened to traffic in February 1994. See “Teodoro Moscoso Bridge” under *Transportation System Revenues and Expenditures*.

In 1994, the Authority began planning and designing and in 1996 began constructing a new mass transit rail project for the San Juan Metropolitan Region known as Tren Urbano (see the Tren Urbano alignment map). Through June 30, 2001, the Authority had incurred \$1.493 billion in costs for this project. Tren Urbano is the largest single project included in the Authority’s current Construction Improvement Program. Its initial phase consists of approximately 17 km. of trackway running from Bayamón to Santurce. This initial phase, which does not include the Minillas Extension described below, is expected to be fully operational by September 2003, and its total construction cost is estimated to be \$2.036 billion, approximately 41.5% of which is expected to be funded by grants from the federal government (excluding the \$300 million TIFIA Loan discussed below under “Additional Bonds - TIFIA Loan”). The Authority has contracted with various private parties for the construction of the project and has entered into a five-year contract for the operation and maintenance of the system. See “Operating Expenses and Capital Expenditures-Construction Improvement Program-Tren Urbano” under *Transportation System Revenues and Expenditures*.

All Senior Transportation Revenue Bonds issued by the Authority are and will be payable solely from, and are secured by a pledge of, the Authority’s 1998 Resolution Revenues, including (except as stated in the next section) 1968 Resolution Revenues (as defined below) remaining after their application to pay debt service on the Authority’s outstanding Highway Revenue Bonds and providing a reserve therefor. Under certain circumstances relating to the termination of the Authority’s private concession agreement for the Teodoro Moscoso Bridge, such remaining 1968 Resolution Revenues would be applied to the payment of debt service on the Authority’s Special Facility Revenue Bonds issued to finance the Teodoro Moscoso Bridge prior to the application of such revenues to the payment of debt service on the Transportation Revenue Bonds. See the fifth paragraph in “Teodoro Moscoso Bridge” under *Transportation System Revenues and Expenditures*.

Any Subordinated Transportation Revenue Bonds issued by the Authority will be payable from 1998 Resolution Revenues remaining after their application to pay debt service on the Senior Transportation Revenue Bonds and providing a reserve therefor. See "Security for the Senior Transportation Revenue Bonds" under *The 2002 Bonds*.

At October 31, 2001, the aggregate outstanding debt of the Authority, including outstanding Highway Revenue Bonds, Senior Transportation Revenue Bonds, Subordinated Transportation Revenue Bonds, the TIFIA Loan and certain notes payable to Government Development Bank for Puerto Rico ("Government Development Bank"), amounted to \$4,339,079,062 (includes accreted value for capital appreciation bonds as of June 30, 2001).

The 1998 Resolution Revenues consist of: (i) the total amount of excise taxes, up to \$120 million per fiscal year, imposed by the Commonwealth on certain petroleum products (as defined herein), (ii) the tolls and other charges imposed by the Authority for the use of Toll Facilities (other than Existing Toll Facilities Revenues, as defined below, prior to the repeal and cancellation of the 1968 Resolution), (iii) certain investment earnings, all as described more fully below, and (iv) until the Highway Revenue Bonds are paid or defeased and the 1968 Resolution is repealed and canceled, Excess 1968 Resolution Revenues (as defined below) and, after the repeal and cancellation of the 1968 Resolution, all 1968 Resolution Revenues. See "Security for the Senior Transportation Revenue Bonds—Pledged Revenues—1998 Resolution Revenues" under *The 2002 Bonds*.

The 1968 Resolution Revenues consist of: (i) all current gasoline taxes, a portion of the current gas oil and diesel oil taxes and a portion of the current motor vehicle license fees allocated to the Authority by the Commonwealth, (ii) all toll revenues of the Traffic Facilities (as defined in the 1968 Resolution) financed with Highway Revenue Bonds and any extensions, improvements or betterments thereto however financed (the "Existing Toll Facilities Revenues"), and (iii) certain investment earnings, all as described more fully below. See "Security for the Senior Transportation Revenue Bonds" under *The 2002 Bonds*.

All of the aforesaid taxes and license fees constituting revenues of the Authority pledged under the 1968 Resolution or the 1998 Resolution 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 all other Commonwealth revenues are not sufficient therefor. See "Security for the Senior Transportation Revenue Bonds—Prior Payment of Full Faith and Credit Obligations of the Commonwealth" under *The 2002 Bonds* and "Debt" in the Commonwealth Report. The Commonwealth has never applied the taxes or license fees allocated to the Authority to the payment of such Commonwealth debt.

The Authority is not pledging the fare box revenues of Tren Urbano to the payment of the Transportation Revenue Bonds or the Highway Revenue Bonds.

Neither the credit of the Commonwealth nor that of any of its political subdivisions, other than the Authority, is pledged for the payment of the 2002 Bonds.

The financial condition of the Commonwealth and economic conditions in Puerto Rico, including gasoline and oil prices and automobile usage, 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 Puerto Rico highway system which is the responsibility of the Department. Information regarding the Commonwealth is contained in the Commonwealth Report incorporated by reference herein. See *Miscellaneous*.

This Official Statement includes brief descriptions of the Authority and the Authority's transportation system, revenues and expenditures and Construction Improvement Program, together with other information, including summaries of the terms of the 2002 Bonds, the 1998 Resolution, the 1968 Resolution, 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 2002 Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the 1998 Resolution.

FINANCING PLAN

Series D Bonds

The Authority is issuing the Series D Bonds to (i) finance or refinance a portion of the costs of Tren Urbano and various highway projects included in the Authority's current Construction Improvement Program, including the payment of approximately \$300,000,000 principal amount of notes issued to finance such costs initially (the "Outstanding Notes") held by Government Development Bank, (ii) make a deposit to the 1998 Senior Bond Reserve Account, and (iii) pay costs of issuance of the Series D Bonds. See "Operating Expenses and Capital Expenditures-Construction Improvement Program" under *Transportation System Revenues and Expenditures* and "Security for the Senior Transportation Revenue Bonds-1998 Senior Bond Reserve Account" under *The 2002 Bonds*.

Series E Bonds

The Authority is issuing the Series E Bonds to (i) advance refund a portion of the Authority's Senior Transportation Revenue Bonds (Series B) in the amounts and maturities identified in the table below (the "Advance Refunded Bonds") and (ii) pay costs of issuance of the Series E Bonds. See "Security for the Senior Transportation Revenue Bonds-1998 Senior Bond Reserve Account" under *The 2002 Bonds*.

Principal Amount to be Refunded	Interest Rate	Maturity Date July 1,	Redemption Date	Redemption Price (% of Par)
\$ 7,090,000.00	5¾%	2011	July 1, 2010	101%
7,470,000.00	6	2012	July 1, 2010	101
7,920,000.00	5½	2013	July 1, 2010	101
8,355,000.00	5½	2014	July 1, 2010	101
8,815,000.00	5%	2015	July 1, 2010	101
9,310,000.00	5¾	2016	July 1, 2010	101
9,845,000.00	5¾	2017	July 1, 2010	101
17,470,000.00	6½	2027	July 1, 2010	101
81,390,000.00	6	2031	July 1, 2010	101
129,100,000.00	6	2039	July 1, 2010	101

The Authority will deposit the net proceeds of the Series E Bonds, together with other available moneys, with the 1998 Fiscal Agent as escrow agent, under the terms of an escrow deposit agreement. The net proceeds, together with such transferred moneys, will be invested in Government Obligations (as defined in the applicable resolution) the principal of and interest on which when due, together with any moneys deposited with the 1998 Fiscal Agent remaining uninvested, will provide moneys sufficient to pay the interest coming due on the Advance Refunded Bonds through their dates of redemption and to pay the principal of the Advance Refunded Bonds on their dates of redemption. The sufficiency of the amount so deposited, with investment earnings thereon, to accomplish the refunding of the Advance Refunded Bonds will be verified by Causey Demgen & Moore (the "Verification Agent").

Upon the deposit with the 1998 Fiscal Agent referred to above, the Advance Refunded Bonds will, in the opinion of Bond Counsel, no longer be deemed to be outstanding under the 1998 Resolution and the Advance Refunded Bonds will thereupon be defeased.

Series F Bonds

The Authority is issuing the Series F Bonds on or about April 3, 2002, to (i) redeem on July 1, 2002, at the redemption price set forth in the table below, a portion of the Authority's Highway Revenue Bonds (Series V) in the aggregate principal amount of \$125,640,000 (the "Current Refunded Bonds"; and together with the Advance Refunded Bonds, the "Refunded Bonds"), stated to mature as set forth below and (ii) pay costs of issuance of the Series F Bonds. See "Security for the Senior Transportation Revenue Bonds - 1998 Senior Bond Reserve Account" under *The 2002 Bonds*.

Principal Amount to be Refunded	Interest Rate	Maturity Date (July 1)	Redemption Price (% of Par)
\$ 995,000.00	6 ³ / ₈ %	2004	101.5%
1,060,000.00	6 ³ / ₈	2005	101.5
8,015,000.00	6 ³ / ₈	2007	101.5
13,305,000.00	6 ³ / ₈	2008	101.5
62,480,000.00	6 ⁵ / ₈	2012	101.5
39,785,000.00	5 ¹ / ₄	2018	100

The Authority will deposit the net proceeds of the Series F Bonds with the 1998 Fiscal Agent as escrow agent under the terms of an escrow deposit agreement. The net proceeds of the Series F Bonds will be invested in Government Obligations (as defined in the 1968 Resolution) the principal of and interest on which when due, together with any uninvested proceeds, will be sufficient to pay the principal of and premium on the Current Refunded Bonds on July 1, 2002, which redemption date will be irrevocably designated by the Secretary of Transportation and Public Works in Resolution 2002-04, and to pay the interest thereon after the issuance of the Series F Bonds to the redemption date. The sufficiency of the amount so deposited, with investment earnings thereon, to accomplish the refunding of the Current Refunded Bonds will be verified by the Verification Agent.

Sources and Uses of Funds

Sources:

Principal Amount of 2002 Bonds	\$1,103,875.000
Net Original Issue Premium	25,989,056
Other available moneys	<u>7,361,705</u>
Total Sources	<u>\$1,137,225,761</u>

Uses:

Deposit into 1998 Construction Fund	\$318,552,901
Payment of Outstanding Notes	300,000,000
Deposit to Escrow Funds	434,202,711
Deposit to 1998 Senior Bond Reserve Account	60,336,249
Underwriting discount and legal, printing and financing expenses	<u>24,133,900</u>
Total Uses	<u>\$1,137,225,761</u>

Delayed Delivery of the Series F Bonds

General

Subject to the terms of the Series F Purchase Contract (as defined below), the Authority expects that the Series F Bonds will be issued and delivered on or about April 3, 2002, or at such later date as is mutually agreed upon by the Authority and the Underwriters (the "Series F Settlement Date").

The following is a description of certain provisions of the forward delivery bond purchase contract between the Authority and Salomon Smith Barney, as representative (the "Representative") of the Underwriters (the "Underwriters"), with respect to the Series F Bonds (the "Series F Purchase Contract"). This description is not to be considered a full statement of the terms of the Series F Purchase Contract and accordingly is qualified by reference thereto and is subject to the full text thereof. All purchasers of the Series F Bonds are required to execute and deliver to the Underwriters a "Delayed Delivery Contract" substantially in the form of *Appendix IV*. The form of the Delayed Delivery Contract has been provided by the Underwriters, the Authority makes no representation as to the completeness or the accuracy of *Appendix IV*, and no duties or obligations of the Authority arise under the Delayed Delivery Contracts.

Settlement

Delivery of the Series F Bonds and the Underwriters' obligations under the Series F Purchase Contract to purchase, to accept delivery of and to pay for (all but not less than all) the Series F Bonds on the Series F Settlement Date are conditioned upon the Authority having tendered performance of its obligations under such contract with respect to the settlement of the Series F Bonds, including, without limitation, the delivery of an opinion, dated the Series F Settlement Date, of Bond Counsel in substantially the form included in *Appendix III* hereto, and the delivery of a letter from each of Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Rating Services, a division of The McGraw-Hill Companies Inc. ("S&P") confirming that they have rated the Series F Bonds (regardless of the level of such ratings). Delivery of the Series F Bonds is further contingent upon the delivery of certain certificates, reports, and legal opinions, and the satisfaction of other conditions as of the Series F Settlement Date. Events which may prevent those conditions from being satisfied include, among others, (i) changes in law affecting the Authority, the validity or enforceability of the 1998 Resolution, the Series F Bonds, or the tax-exempt status of the interest thereon as described herein and (ii) litigation which may be threatened or filed with a court of appropriate jurisdiction affecting the issuance of or security for the Series F Bonds.

The Underwriters may terminate the Series F Purchase Contract without liability therefor by notification to the Authority at any time on or after the execution of the Series F Purchase Contract and on or prior to the Series F Settlement Date under certain limited conditions set forth therein, including, but not limited to the failure of the Authority to certify, to the best knowledge of the Authority, that no default in any material obligation of the Authority under the 1968 Resolution or the 1998 Resolution shall have occurred as of the Series F Settlement Date.

During the period of time between the date of this Official Statement and the issuance and delivery of the Series F Bonds (the "Delayed Delivery Period"), certain information contained in the Official Statement could change in a material respect. In any such event, the Authority has agreed to provide an updated or supplemental Official Statement to the Underwriters not more than 25 nor less than 10 days prior to the Series F Settlement Date. Any changes in such information will not permit the Underwriters to terminate the Series F Purchase Contract unless the change is an event described under "Termination of Series F Purchase Contract" below. In addition to the risks described elsewhere in this Official Statement, purchasers of the Series F Bonds are subject to certain additional risks, some of which are described below.

Ratings Risk

No assurances can be given that the ratings assigned to the Series F Bonds on the Series F Settlement Date will not be different from those currently assigned to senior long-term debt obligations of the Authority. See *Ratings*.

Secondary Market Risk

The Underwriters are not obligated to make a secondary market in the Series F Bonds and no assurances can be given that a secondary market will exist for the Series F Bonds during the Delayed Delivery Period. Purchasers of the Series F Bonds should assume that the Series F Bonds will be illiquid throughout the Delayed Delivery Period.

Market Value Risk

The market value of the Series F Bonds as of the Series F Settlement Date may be affected by a variety of factors including, without limitation, general market conditions; the ratings on the Series F Bonds, if any; the financial condition and operations of the Authority and federal and State income tax and other laws. The market value of the Series F Bonds on the Series F Settlement Date could be greater or less than the agreed purchase price therefor by the initial purchasers thereof, and the difference could be substantial. Neither the Authority nor the Underwriters make any representation as to the market price of the Series F Bonds as of the Series F Settlement Date.

Tax Law Risks

Subject to the additional conditions of settlement described under "Conditions of Settlement" below, the Series F Purchase Contract obligates the Authority to deliver and the Underwriters to acquire the Series F Bonds if the Authority delivers an opinion of Bond Counsel substantially in the form included in *Appendix III*. Although the delivery

of such opinion of Bond Counsel is dependent on, among other matters, the facts and circumstances at the time of such delivery and the provisions of the Internal Revenue Code of 1986, as amended (the "Code") and other applicable law as then in effect, there are or may be a variety of changes or proposed changes in Federal tax laws or regulations or judicial interpretations thereof which could adversely affect generally the market value of tax-exempt securities similar to the Series F Bonds but would not prevent the delivery of an approving opinion of Bond Counsel. In such event, the Underwriters would be required to accept delivery of the Series F Bonds. Conditions to the delivery of the opinion of Bond Counsel and certain other matters are more fully described herein under *Tax Exemption*.

Conditions of Settlement

The settlement and the issuance of the Series F Bonds will not require further Board action by the Authority. The settlement documents include, among other items, the opinion of Bond Counsel in substantially the form set forth in *Appendix III* hereto and certain opinions of Bond Counsel (see "Tax Law Risks" above), and Underwriters' Counsel, and a certificate of the Authority as to the completeness and accuracy of this Official Statement or of an updated or supplemented Official Statement (the "Updated Official Statement") relating to the Series F Bonds, which the Series F Purchase Contract requires the Authority to prepare and furnish to the Underwriters under the circumstances described in "Settlement" above, as such Updated Official Statement may have been supplemented and amended to the Series F Settlement Date.

Termination of Series F Purchase Contract

The Underwriters may terminate the Series F Purchase Contract by notification to the Authority, at any time on or prior to the Series F Settlement Date, if (a) as a result of any legislation, regulation, ruling, order, release, court decision or judgment, or action by the United States Department of the Treasury, the Internal Revenue Service, or the Securities and Exchange Commission, either issued, effective, adopted, or proposed, (i) Bond Counsel cannot issue an opinion to the effect set forth above under "Tax Law Risks" above or (ii) the offering or sale of the Series F Bonds would be in violation of any provision of the Securities Act of 1933, as amended (the "1933 Act"), the Securities Exchange Act of 1934, as amended, or the Trust Indenture Act of 1939, as amended, or the offering or sale of the Series F Bonds would be subject to registration under the 1933 Act or similar federal law; (b) for any other reason Bond Counsel cannot deliver the opinion referenced above; (c) the Authority fails to certify, to the best knowledge of the Authority, that no default in any material obligation of the Authority under the 1968 Resolution or 1998 Resolution shall have occurred as of the Series F Settlement Date; or (d) any of Moody's or S&P shall fail to rate the Series F Bonds as of the Series F Settlement Date.

ASSUMING ALL CONDITIONS TO THE ISSUANCE OF THE SERIES F BONDS AND THE UNDERWRITERS' OBLIGATION TO PURCHASE THE SERIES F BONDS ARE SATISFIED OR WAIVED, THE UNDERWRITERS WILL BE OBLIGATED TO TAKE DELIVERY OF AND PAY FOR THE SERIES F BONDS UPON THE ISSUANCE THEREOF ON THE SERIES F SETTLEMENT DATE IRRESPECTIVE OF THE OCCURRENCE OF ANY EVENT OR FACTOR THAT ADVERSELY AFFECTS THE MARKET VALUE OF THE SERIES F BONDS, INCLUDING ANY ADVERSE DEVELOPMENT WITH RESPECT TO THE AUTHORITY'S RESULTS OF OPERATIONS, FINANCIAL CONDITION OR BUSINESS PROSPECTS.

THE 2002 BONDS

Description of the 2002 Bonds

General

The 2002 Bonds will be issued as registered bonds without coupons, will be dated, will bear interest at the rates, will be payable at the times, and will mature on the dates and in the principal amounts set forth on the inside cover of this Official Statement. Principal of and premium, if any, and interest on the 2002 Bonds will be payable in the manner described below in "Book-Entry Only System" under *The 2002 Bonds*. The 2002 Bonds are subject to redemption as described below under "Redemption Provisions".

Redemption Provisions

Optional Redemption

All the Series D Bonds, and the Series E Bonds maturing on July 1, 2024, may be redeemed on or after July 1, 2012 at the option of the Authority from any available moneys (other than moneys deposited in the 1998 Senior Bond Sinking Fund in respect of an Amortization Requirement) on any date either in whole or in part (in such order of maturities as the Authority may direct) at a price of 100% of the principal amount of the Bonds to be redeemed plus accrued interest to the redemption date.

Mandatory Redemption

The Series D Bonds 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 Series D Bonds (less the amount of bonds retired by purchase from moneys in the 1998 Senior Bond Sinking Fund) from moneys in the 1998 Senior Bond Sinking Fund at par plus accrued interest in the years and amounts set forth below:

Year	Amortization Requirements for Series D Bonds due July 1,				
	2027	2032	2036	2038	2041
2024	\$ 9,140,000				
2025	18,520,000				
2026	19,445,000				
2027	37,885,000*				
2028		\$39,780,000			
2029		41,765,000			
2030		43,860,000			
2031		46,050,000			
2032		24,865,000*			
2033			\$26,105,000		
2034			27,510,000		
2035			28,990,000		
2036			60,060,000*		
2037				\$63,285,000	
2038				66,605,000*	
2039					\$70,110,000
2040					37,365,000
2041					39,515,000*
Average life (years)	24.41	28.27	33.26	35.91	38.19

*Maturity.

If during any fiscal year the total principal amount of Series D Bonds of a particular maturity retired by purchase or redemption exceeds the Amortization Requirement for such Series D Bonds for such year, the Amortization Requirement for such Series D Bonds shall be reduced for subsequent fiscal years in amounts aggregating such excess as shall be determined by the Authority.

Notice of Redemption

Notice of redemption of the 2002 Bonds shall be given not less than 30 days prior to the redemption date by first-class mail, postage prepaid, to The Depository Trust Company ("DTC"), New York, New York (or if the book-entry only system has been discontinued as described below, to the registered owners of the 2002 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 2001 Bond or any defect in such notice will not affect the redemption of any other 2002 Bond 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 2002 Bonds or portions thereof to be redeemed, together with interest to the redemption date, shall be held by the 1998 Fiscal Agent for such payment, then interest on such 2002 Bonds or portions thereof shall cease to accrue.

Selection of 2002 Bonds to be Redeemed

If less than all of the 2002 Bonds of any one maturity shall be called for redemption, the particular 2002 Bonds or portions thereof to be redeemed shall be selected by the 1998 Fiscal Agent in such manner as it in its discretion may determine to be appropriate and fair.

Security for the Senior Transportation Revenue Bonds

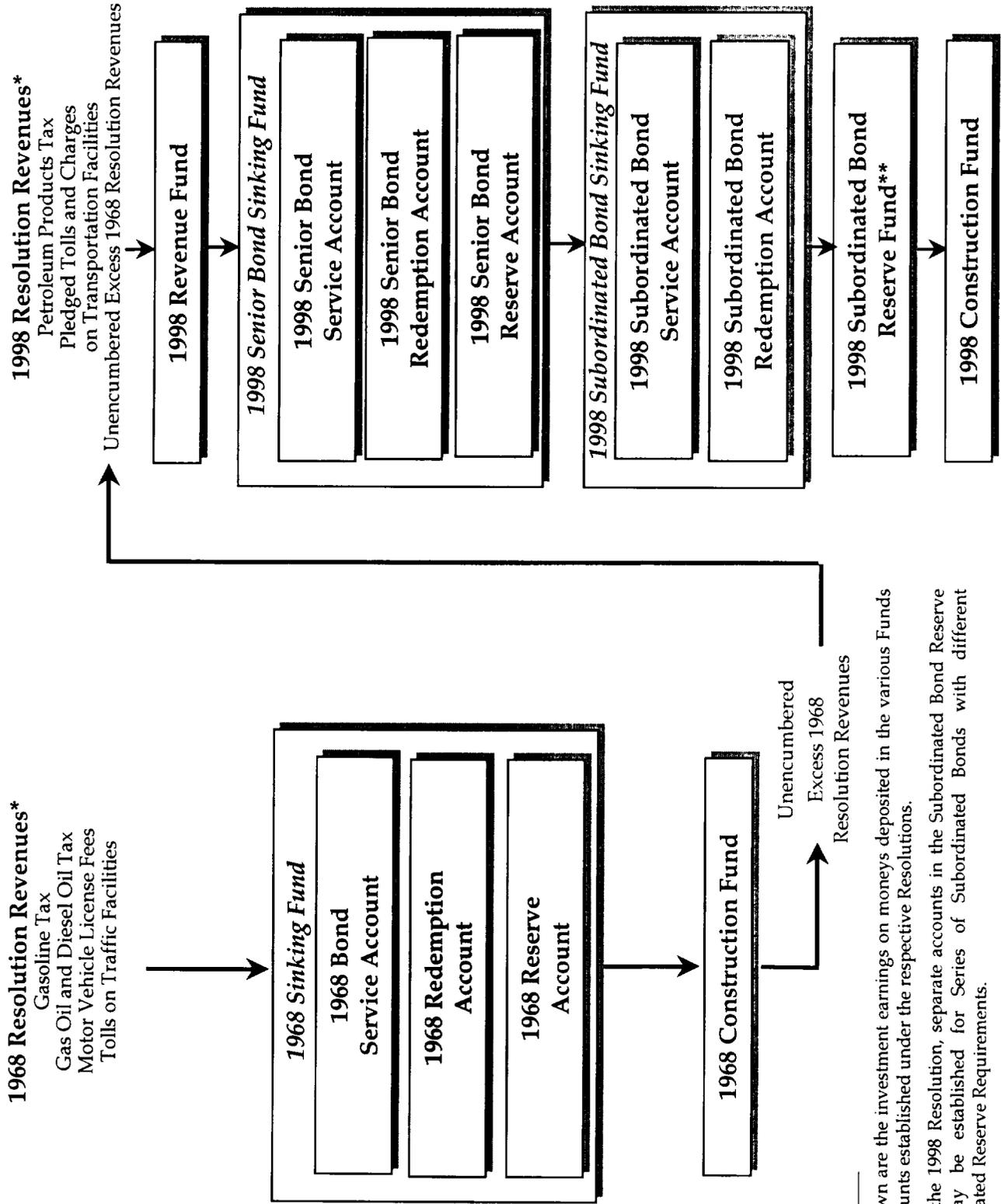
Pledged Revenues

The 2002 Bonds, the outstanding Senior Transportation Revenue Bonds and any additional Senior Transportation Revenue Bonds issued under the 1998 Resolution are payable solely from, and secured by a pledge of, the 1998 Resolution Revenues and all other moneys held for the credit of the 1998 Senior Bond Sinking Fund, which includes the 1998 Senior Bond Service Account, the 1998 Senior Bond Redemption Account and the 1998 Senior Bond Reserve Account. Under certain circumstances described below, unencumbered moneys in the 1998 Construction Fund or the 1998 Subordinated Bond Sinking Fund derived from 1998 Resolution Revenues may be used to pay debt service on the Senior Transportation Revenue Bonds, if moneys in the 1998 Senior Bond Service Account or the 1998 Senior Bond Redemption Account are insufficient therefor, prior to applying moneys in the 1998 Senior Bond Reserve Account. Moneys in the 1998 Construction Fund are expected to be pledged by the Authority for the payment of the TIFIA Loan (as defined below). See "Additional Bonds—TIFIA Loan" under *The 2002 Bonds*.

1998 Resolution Revenues. The 1998 Resolution Revenues consist of: (i) all excise taxes on crude oil, unfinished oil and derivative products ("petroleum products"), up to \$120 million per fiscal year, imposed by Puerto Rico and allocated to the Authority by Act No. 34 of the Legislature of Puerto Rico approved July 16, 1997, as amended ("Act No. 34"), which amended Subtitle B of Act No. 120 of the Legislature of Puerto Rico, approved October 31, 1994, as amended (the "1994 Code"); (ii) the tolls and other charges imposed by the Authority for the use of Toll Facilities (other than Existing Toll Facilities Revenues prior to the repeal and cancellation of the 1968 Resolution); (iii) the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico allocates to the Authority in the future and which the Authority pledges to the payment of Transportation Revenue Bonds; (iv) investment earnings on deposit to the credit of funds and accounts established under the 1998 Resolution, except for the 1998 Construction Fund; and (v) prior to the repeal and cancellation of the 1968 Resolution, any unencumbered 1968 Resolution Revenues (as described below) remaining on deposit in the 1968 Construction Fund after payment or provision for payment of debt service and required reserves on the outstanding Highway Revenue Bonds (the "Excess 1968 Resolution Revenues") and, after said repeal and cancellation, all 1968 Resolution Revenues. 1998 Resolution Revenues do not include excise taxes on petroleum products which may be levied or collected from time to time other than the amount of such taxes described in this paragraph unless allocated to the Authority and pledged by the Authority to the payment of Transportation Revenue Bonds. The excise tax on petroleum products imposed by the 1994 Code and allocated to the Authority by Act No. 34 is a different tax from the excise tax on gasoline and gas oil and diesel oil imposed by the 1994 Code and allocated to the Authority, as discussed below.

Under certain circumstances relating to the termination of the Authority's private concession agreement for the Teodoro Moscoso Bridge, the Excess 1968 Resolution Revenues would be encumbered for the benefit of the holders of the Authority's Special Facility Revenue Bonds issued to finance the Teodoro Moscoso Bridge and would be required to be applied to the payment of debt service on such bonds prior to the application of such revenues to the payment of debt service on the Transportation Revenue Bonds. See the fifth paragraph in "Teodoro Moscoso Bridge" under *Transportation System Revenues and Expenditures*. Under the 1998 Resolution, the Authority has covenanted not to encumber, withdraw or pledge any Excess 1968 Resolution Revenues deposited in the 1968 Construction Fund except in the limited circumstance of the Authority's taking over operation of the Teodoro Moscoso Bridge and except for the transfer of Excess 1968 Resolution Revenues to the 1998 Revenue Fund.

Flow of Funds Under 1968 Resolution and 1998 Resolution



*Not shown are the investment earnings on moneys deposited in the various Funds and Accounts established under the respective Resolutions.

**Under the 1998 Resolution, separate accounts in the Subordinated Bond Reserve Fund may be established for Series of Subordinated Bonds with different Subordinated Reserve Requirements.

1968 Resolution Revenues. The 1968 Resolution Revenues consist of: (i) the gross receipts of the current \$0.16 per gallon excise tax on gasoline and \$0.04 of the current \$0.08 per gallon excise tax on gas oil and diesel oil imposed by Puerto Rico 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 the 1994 Code (the remaining \$0.04 per gallon excise tax has been allocated to the Metropolitan Bus Authority by Act No. 39 of July 19, 1997); (ii) the gross receipts derived from the \$15 per vehicle increase of annual motor vehicle license fees imposed by Puerto Rico and allocated to the Authority by Act No. 9 of the Legislature of Puerto Rico, approved August 12, 1982 ("Act No. 9"); (iii) Existing Toll Facilities Revenues; and (iv) investment earnings on deposits to the credit of funds and accounts established under the 1968 Resolution, except for the 1968 Construction Fund. 1968 Resolution Revenues do not include gasoline taxes, gas oil and diesel oil taxes, and motor vehicle license fees which may be levied or collected from time to time other than the amounts of the taxes and fees described in this paragraph unless allocated to the Authority and pledged by the Authority to the payment of Highway Revenue Bonds or Transportation Revenue Bonds, as the case may be.

Commitment Not to Reduce Taxes and Fees. The Commonwealth has agreed and committed in the 1994 Code that it will not reduce the gasoline tax below \$0.16 per gallon, the tax on gas oil and diesel oil below \$0.04 per gallon or the tax on petroleum products below the tax rates in effect on July 16, 1997 (as described below), and that it will not reduce the amount of any such taxes allocated to the Authority until all obligations of the Authority, including the Highway Revenue Bonds and the Transportation Revenue 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 Highway Revenue Bonds and the Transportation Revenue Bonds, so long as the proceeds of such fees remain pledged to the payment of such obligations.

Special Fund. Under the 1994 Code and Act No. 9, the proceeds of the taxes and license fees allocated to the Authority are deposited by the Department of the Treasury in a special fund (the "Special Fund") in favor of the Authority. In accordance with the Constitution of Puerto Rico, the proceeds of 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 all other Commonwealth revenues are insufficient therefor. The Commonwealth has never applied the proceeds of such taxes or license fees 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 "Debt" in the Commonwealth Report.

Flow of Funds. Moneys in the Special Fund are transferred by the Department of the Treasury to the Authority at least monthly. Upon receipt of such moneys, the Authority makes the deposits described below. The chart on the preceding page illustrates the flow of such moneys into the various funds and accounts established under the 1968 Resolution and the 1998 Resolution. The chart is provided only as a summary of the flow of funds under the 1968 Resolution and the 1998 Resolution, and does not purport to be complete. Reference is made to *Summary of Certain Provisions of the 1968 Resolution* and *Summary of Certain Provisions of the 1998 Resolution*, which should be read in conjunction herewith.

Upon receipt of any moneys constituting 1998 Resolution Revenues (other than investment earnings), including moneys in the Special Fund constituting 1998 Resolution Revenues received from the Department of the Treasury, the Authority is required under the 1998 Resolution to deposit such moneys into the 1998 Revenue Fund. In addition, the Authority is required to deposit monthly into the 1998 Revenue Fund all Excess 1968 Resolution Revenues. The Authority is required to withdraw monthly from the 1998 Revenue Fund and deposit into the 1998 Senior Bond Service Account and the 1998 Senior Bond Redemption Account the respective equal monthly amounts necessary to provide for the payment of principal of and interest and premium, if any, on the Senior Transportation Revenue Bonds and deposit to the 1998 Senior Bond Reserve Account the amount necessary, if any, to replenish the 1998 Senior Bond Reserve Account. Any remaining 1998 Resolution Revenues (other than investment earnings) are then required to be deposited monthly (in the respective equal monthly amounts) into the 1998 Subordinated Bond Service Account and the 1998 Subordinated Bond Redemption Account to provide for the payment of principal of and interest and premium, if any, on the Subordinated Transportation Revenue Bonds and thereafter, into the 1998 Subordinated Bond Reserve Fund, as required. Any remaining 1998 Resolution Revenues are then deposited into the 1998 Construction Fund and are available to the Authority for any of the authorized purposes of the Authority, but subject to the payment of certain operation and maintenance expenses and repair, renewal and replacement costs, as required by the 1998 Resolution. See *Summary of Certain Provisions of the 1998 Resolution*. Once all outstanding Highway Revenue Bonds are paid or

deceased and the 1968 Resolution is repealed and canceled, all revenues of the Authority formerly constituting 1968 Resolution Revenues will be deposited upon receipt by the Authority into the 1998 Revenue Fund for application as described above.

Upon receipt of any moneys constituting 1968 Resolution Revenues, including moneys in the Special Fund constituting 1968 Resolution Revenues received from the Department of the Treasury, the Authority is required under the 1968 Resolution to deposit such moneys in equal monthly amounts into the 1968 Bond Service Account and the 1968 Redemption Account to provide for the payment of principal of and interest and premium, if any, on the Highway Revenue Bonds and in the amounts necessary for the required deposits to the 1968 Reserve Account. Any remaining 1968 Resolution Revenues (other than investment earnings) are deposited into the 1968 Construction Fund to be applied to authorized purposes of the Authority. See *Summary of Certain Provisions of the 1968 Resolution*. Pursuant to the 1998 Resolution, all such 1968 Resolution Revenues deposited in the 1968 Construction Fund, to the extent not encumbered by the Authority, must be withdrawn monthly and transferred to the 1998 Revenue Fund for application as described above. See *Summary of Certain Provisions of the 1998 Resolution*. Under certain circumstances relating to the termination of the concession agreement for the Teodoro Moscoso Bridge, such Excess 1968 Resolution Revenues would be encumbered for the benefit of the holders of the Authority's Special Facility Revenue Bonds issued to finance the Teodoro Moscoso Bridge and would have to be applied by the Authority for the payment of debt service on such bonds. See the fifth paragraph in "Teodoro Moscoso Bridge" under *Transportation System Revenues and Expenditures*. Under the 1998 Resolution, the Authority has agreed not to encumber or withdraw or pledge any 1968 Resolution Revenues deposited in the 1968 Construction Fund except in the limited circumstance of the Authority's taking over operation of the Teodoro Moscoso Bridge and except for the transfer of Excess 1968 Resolution Revenues to the 1998 Revenue Fund.

Replenishment of Reserve Accounts. Under the 1994 Code, if moneys in the 1968 Reserve Account, 1998 Senior Bond Reserve Account or any accounts established in the 1998 Subordinated Bond Reserve Fund (collectively, the "Reserve Accounts") are applied to cover a deficiency in the amounts necessary for payment of the principal of and interest on the Highway Revenue Bonds, Senior Transportation Revenue Bonds or Subordinated Transportation Revenue Bonds, respectively, the amounts used from any of the applicable Reserve Accounts to cover said deficiency shall be reimbursed to the Authority from the first amounts received in the next fiscal year or subsequent years by the Commonwealth derived from (i) any other taxes which may then be in effect on any other fuel or propellant which is used, among other purposes, to propel highway vehicles, and (ii) any remaining portion of the gasoline tax and petroleum products tax then in effect. The proceeds of said other taxes and the remainder of the gasoline tax and petroleum products tax to be used to reimburse the applicable Reserve Accounts are not deposited in the General Fund of the Commonwealth when collected, but are deposited instead in the Special Fund for the benefit of the Authority, and, subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico, used to reimburse said Reserve Accounts. In the 1998 Resolution, the Authority covenants to apply any such reimbursement received first to replenish the 1968 Reserve Account, then to replenish the 1998 Senior Bond Reserve Account, and finally to replenish any accounts in the 1998 Subordinated Bond Reserve Fund.

The 2002 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.

Neither the 1968 Resolution nor the 1998 Resolution contains events of default or provides for the acceleration of the maturities of the Highway Revenue Bonds or the Transportation Revenue Bonds.

1998 Senior Bond Reserve Account

The 1998 Resolution establishes a 1998 Senior Bond Reserve Account, the moneys in which are to be applied to the payment of interest on the Senior Transportation Revenue Bonds, and maturing principal of serial Senior Transportation Revenue Bonds whenever moneys in the 1998 Senior Bond Service Account are insufficient for such purpose and thereafter for the purpose of making deposits to the credit of the 1998 Senior Bond Redemption Account to satisfy any Amortization Requirements for the term Senior Transportation Revenue Bonds whenever 1998 Resolution Revenues are insufficient for such purpose. The 1998 Resolution provides, however, that before the moneys in the 1998 Senior Bond Reserve Account are used to cover any insufficiency in the 1998 Senior Bond Service Account or the 1998 Senior Bond Redemption Account, the 1998 Fiscal Agent shall cover such insufficiency by first withdrawing from the

1998 Construction Fund any unencumbered 1998 Resolution Revenues deposited therein and, to the extent such moneys are insufficient to cover said deficiency, by withdrawing moneys on deposit in the 1998 Subordinated Bond Service Account and 1998 Subordinated Bond Redemption Account. Moneys in the 1998 Construction Fund have been pledged by the Authority for the payment of the TIFIA Loan described below. See "Additional Bonds-TIFIA Loan" under *The 2002 Bonds*.

The Authority covenants to accumulate and maintain in the 1998 Senior Bond Reserve Account an amount equal to the lesser of the maximum annual Principal and Interest Requirements for any fiscal year on all outstanding Senior Transportation Revenue Bonds and 10% of the original principal amount of each Series of Senior Transportation Revenue Bonds outstanding (the "Reserve Requirement"). The Reserve Requirement will be \$162,479,331 upon the issuance of the 2002 Bonds, and such amount will be on deposit in the 1998 Senior Bond Reserve Account following the issuance of the 2002 Bonds. The 1998 Resolution permits any increase in the Reserve Requirement to be funded over not more than 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 1998 Resolution* below.

Excess moneys in the 1998 Senior Bond Reserve Account may be retained in such Reserve Account, may be applied to the payment of outstanding notes issued by the Authority to finance temporarily any Transportation Facilities or outstanding Senior Transportation Revenue Bonds to be refunded or may be transferred to the 1998 Senior Bond Service Account, the 1998 Senior Bond Redemption Account, or the 1998 Construction Fund, as directed by the Authority.

If the moneys in the 1998 Senior Bond Reserve Account are used to cover any deficiency in the 1998 Senior Bond Service Account or the 1998 Senior Bond Redemption Account, the 1994 Code provides that the 1998 Senior Bond Reserve Account shall be reimbursed, subject to the provisions of the Constitution of Puerto Rico relating to payment of Commonwealth debt and to the prior reimbursement of the 1968 Reserve Account, as discussed above under "Pledged Revenues-Replenishment of Reserve Accounts" under *The 2002 Bonds*, from the first proceeds received by the Commonwealth in the next fiscal year or years derived from (i) any remaining portion of the gasoline tax and petroleum products tax 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 2002 Bonds do not constitute public debt.

The proceeds of the gasoline tax, the gas oil and diesel oil tax, the petroleum products tax and the motor vehicle license fees allocated to the Authority by the 1994 Code and Act No. 9 are available Commonwealth 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 1994 Code and Act No. 9, such taxes and license 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. Tolls and other fees and charges collected by the Authority and investment earnings are not available Commonwealth taxes and revenues.

The Commonwealth has never applied taxes or license 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 the Commonwealth Report.

Under the provisions of Act No. 39 of the Legislature of Puerto Rico, 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 Special Fund for the Amortization of General Obligations Evidenced by Bonds and Promissory Notes (the "Commonwealth Redemption Fund"). As of the date of this Official Statement, the amount on deposit in the Commonwealth Redemption Fund complied with such requirement. 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 2002 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 of Puerto Rico 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, petroleum products taxes and license fees, which are allocated to the Authority as described above, are not included as internal revenues for the purpose of calculating the debt limit, although they are available for the payment of debt service.

On December 21, 1995, Puerto Rico Aqueduct and Sewer Authority issued \$400,340,000 Puerto Rico Aqueduct and Sewer Authority Refunding Bonds, guaranteed by the Commonwealth (the "PRASA Guaranteed Bonds"). On January 1, 1997, the Commonwealth began to make payments of debt service on the PRASA Guaranteed Bonds under the full faith and credit guarantee of the Commonwealth. The amounts paid by the Commonwealth under the PRASA Guaranteed Bonds are taken into account for purposes of computing the above described 15% constitutional debt limitation.

Information about the Commonwealth public sector debt and debt service requirements for Commonwealth general obligation bonds and Commonwealth guaranteed debt appear in *Public Sector Debt of the Commonwealth* in the Commonwealth Report.

On June 7, 2001, the Commonwealth authorized the issuance, on a delayed basis, of \$501,565,000 aggregate principal amount of its Public Improvement Refunding Bonds, Series 2002 (the "Commonwealth Forward Delivery Bonds"). The Commonwealth Forward Delivery Bonds have been sold and will be delivered in April of 2002. A portion of the proceeds of the Commonwealth Forward Delivery Bonds will be invested in guaranteed investment contracts instead of United States Treasury obligations. The bonds to be refunded with the proceeds of such guaranteed investment contracts will be treated as outstanding for purposes of the 15% debt limitation.

Future maximum annual debt service for the Commonwealth's currently outstanding general obligation debt is \$626,113,289 in the fiscal year ending June 30, 2003.¹ See "Debt Service Requirements for Commonwealth General Obligation Bonds" under *Public Sector Debt of the Commonwealth* in the Commonwealth Report. Debt service for the PRASA Guaranteed Bonds paid during fiscal 2001 (including for this purpose debt service payments due July 1, 2001) was \$33,473,102. The sum of those amounts (\$659,586,392) is equal to 9.94% of \$6,634,417,500, which is the average of the adjusted internal revenues for the prior two fiscal years ended June 30, 2001.

Upon the issuance of the Commonwealth Forward Delivery Bonds in April 2002, the percentage referred to in the last sentence of the preceding paragraph will be 10.51%. If all of the bonds being refunded with proceeds of the Commonwealth Forward Delivery Bonds invested in guaranteed investment contracts were deemed not to be outstanding, such percentage would be 7.85%.

Additional Bonds

Highway Revenue Bonds. The Authority has covenanted in the 1998 Resolution that it will not issue additional Highway Revenue Bonds except bonds maturing no later than July 1, 2036, which are issued (i) to refund outstanding Highway Revenue Bonds in order to achieve debt service savings or (ii) in exchange for the outstanding \$136,187,196 (including accretion of capital appreciation bonds) Special Facility Revenue Bonds issued by the Authority under a separate trust agreement to finance the construction of the Teodoro Moscoso Bridge, as required under the concession

¹Future maximum annual debt service will be \$663,603,802 in the fiscal year ending June 30, 2003 after giving effect to the issuance of the Commonwealth Forward Delivery Bonds and the refunding of the bonds refunded thereby, as discussed under "Pro Forma Public Sector Debt" in *Public Sector Debt of the Commonwealth* in the Commonwealth Official Statement.

agreement relating to such Bridge. See the last paragraph in "Teodoro Moscoso Bridge" under *Transportation System Revenues and Expenditures*. The issuance of such Highway Revenue Bonds must meet the tests for the issuance of such bonds under the 1968 Resolution, which tests are more fully described in "Issuance of Additional Bonds" under *Summary of Certain Provisions of the 1968 Resolution*.

Senior Transportation Revenue Bonds. The Authority may issue additional Senior Transportation Revenue Bonds under the 1998 Resolution to provide funds for any lawful purpose of the Authority, including the payment of all or any part of the cost of Transportation Facilities (including the payment of any outstanding notes of the Authority issued for the purpose of paying all or a part of such cost); provided that the 1998 Resolution Revenues for any 12 consecutive months of the 15 months immediately preceding the issuance of such Senior Transportation Revenue Bonds (adjusted to take into account for such entire 12 months moneys allocated to and pledged by the Authority to the payment of the Transportation Revenue Bonds under legislation enacted and toll rate revisions made effective on or prior to the date of delivery of such bonds and tolls from Toll Facilities to be financed from the proceeds of such bonds) are not less than 150% of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all outstanding Senior Transportation Revenue Bonds and the additional Senior Transportation Revenue Bonds then to be issued and not less than 100% of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all outstanding Transportation Revenue Bonds (including Subordinated Transportation Revenue Bonds) and the additional Senior Transportation Revenue Bonds then to be issued.

The Authority may also issue additional Senior Transportation Revenue Bonds to refund all or any part of the outstanding Senior Transportation Revenue Bonds of any Series without satisfying such requirement, provided that the Authority certifies that the maximum annual Principal and Interest Requirements on the Senior Transportation Revenue Bonds to be outstanding after the issuance of such additional Senior Transportation Revenue Bonds will be equal to or less than the maximum annual Principal and Interest Requirements on the Senior Transportation Revenue Bonds outstanding prior to the issuance of the additional Senior Transportation Revenue Bonds. See "Issuance of Additional Bonds" under *Summary of Certain Provisions of the 1998 Resolution*.

Any additional Senior Transportation Revenue Bonds issued under the 1998 Resolution will be on a parity with the outstanding Senior Transportation Revenue Bonds and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the 1998 Resolution.

Subordinated Transportation Revenue Bonds. The Authority may issue Subordinated Transportation Revenue Bonds under the 1998 Resolution to pay all or any part of the cost of any highway project or transit project eligible for financial assistance under federal legislation, provided that the 1998 Resolution Revenues for any 12 consecutive months of the 15 months immediately preceding the issuance of such Subordinated Transportation Revenue Bonds (adjusted to take into account for such entire 12 months moneys allocated to and pledged by the Authority to the payment of the Transportation Revenue Bonds under legislation enacted and toll rate changes made effective on or prior to delivery of such bonds and tolls from Toll Facilities to be financed from the proceeds of such bonds) are not less than 125% of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all outstanding Transportation Revenue Bonds and the Subordinated Transportation Revenue Bonds then to be issued.

The Authority may also issue Subordinated Transportation Revenue Bonds to refund all or any part of the outstanding Subordinated Transportation Revenue Bonds of any Series without satisfying such requirement, provided that the Authority certifies that the maximum Principal and Interest Requirements on the Subordinated Transportation Revenue Bonds to be outstanding after the issuance of such additional Subordinated Transportation Revenue Bonds will be equal to or less than the maximum annual Principal and Interest Requirements on the Subordinated Transportation Revenue Bonds outstanding prior to the issuance of the additional Subordinated Transportation Revenue Bonds. See "Issuance of Additional Bonds" under *Summary of Certain Provisions of the 1998 Resolution*.

In December 1997, the Authority entered into a Cooperative Agreement with the Federal Highway Administration ("FHWA"), the Federal Transit Administration ("FTA") and the Department that provides for the establishment of a State Infrastructure Bank ("SIB") under the provisions of Section 350 of the National Highway System Designation Act of 1995, which bank was capitalized 80% by federal capitalization grants and 20% by matching Authority funds. The SIB has been used to provide various forms of financial assistance to the Authority to finance eligible highway and transit projects.

In August 1998 the Authority issued its 1998 SIB Bonds in the principal amount of \$75,050,000 under the 1998 Resolution. The reserve account in the Subordinated Bond Reserve Fund established as part of the security for the 1998 SIB Bonds is entitled to the benefits of an agreement with the SIB under which agreement the 1998 Fiscal Agent is authorized and directed to request funds from the depository institution holding the SIB moneys (currently Government Development Bank), up to the full amount on deposit in the SIB, in the event it is necessary to apply moneys in such account in the Subordinated Bond Reserve Fund to pay debt service on the 1998 SIB Bonds. The Authority's obligation to repay any amounts drawn under the agreement with the SIB also will be secured by a lien on 1998 Resolution Revenues subordinate to the lien securing the Senior Transportation Revenue Bonds. See "Sinking Fund" under *Summary of Certain Provisions of the 1998 Resolution*.

TIFIA Loan. On August 4, 2000, the Authority obtained a \$300 million loan (the "TIFIA Loan") from the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998, as amended, to finance a portion of the cost of construction of the Tren Urbano project. See "Operating Expenses and Capital Expenditures— Construction Improvement Program" under *Transportation System Revenues and Expenditures*.

The TIFIA Loan bears interest at a annual rate of 5.74% payable semi-annually and matures on July 1, 2035. During the first seven years of the TIFIA Loan the Authority is only required to pay interest. Principal is payable annually, commencing in the eighth year. The Authority may prepay the TIFIA Loan, in whole or in part, at any time without penalty.

The TIFIA Loan is subordinate to the Authority's Highway Revenue Bonds and Transportation Revenue Bonds and is secured by, and is payable only to the extent of, amounts available in the 1998 Construction Fund after any payments required in connection with such senior bonds, and certain operation and maintenance expenses and repair, renewal and replacement costs, as required by the 1998 Resolution, are made. The TIFIA Loan is subject to acceleration upon the occurrence of a default thereunder. Upon an acceleration of the TIFIA Loan, moneys on deposit in the 1998 Construction Fund consisting of 1998 Resolution Revenues of the Authority, after satisfaction of the Authority's monthly operation and maintenance responsibilities (see "Operating Expenses and Capital Expenditures" under *Transportation System Revenues and Expenditures*), would be applied to pay off the TIFIA Loan prior to application for any other purpose.

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 will act as securities depository for the 2002 Bonds. The 2002 Bonds will be issued as fully registered bonds in the name of Cede & Co. (DTC's partnership nominee) or such other nominee as may be requested by an authorized representative of DTC. One fully registered 2002 Bond will be issued for each maturity of each series of the 2002 Bonds in the aggregate principal amount of such maturity and will be deposited with DTC.

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

Purchases of the 2002 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2002 Bonds on DTC's records. The ownership interest of each actual purchaser of a 2002 Bond

(a "Beneficial Owner") will in turn be recorded in the Direct or Indirect Participants' records. Beneficial Owners will not receive written confirmations from DTC of their purchases, but Beneficial Owners are expected to receive written confirmation 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 2002 Bonds will be accomplished by entries made on the books of Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in 2002 Bonds except in the event that use of the book-entry system for the 2002 Bonds is discontinued.

To facilitate subsequent transfers, all 2002 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. The deposit of 2002 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2002 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2002 Bonds are credited, which 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 will be sent to Cede & Co. If less than all of the 2002 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the 2002 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2002 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 2002 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the 2002 Bonds will be made to DTC or to such other nominee as may be requested by DTC. DTC's practice is to credit Direct Participants' accounts on 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 Authority, or the 1998 Fiscal Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to DTC is the responsibility of the Authority or the 1998 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 2002 Bonds at any time by giving reasonable notice to the Authority or the 1998 Fiscal Agent. Under such circumstances, in the event that a successor securities depository is not obtained, definitive 2002 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 2002 Bonds will also be printed and delivered.

Payments and Transfers

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

The Authority and the 1998 Fiscal Agent will have no responsibility or obligation to such Direct Participants, Indirect Participants, or the persons for whom they act as nominees with respect to the payments to or the providing of notice for the Direct Participants, the Indirect Participants, or the Beneficial Owners. Payments made to DTC or its nominee shall satisfy the obligations of the Authority to the extent of such payments.

For every transfer of the 2002 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

Discontinuance of Book-Entry Only System

In the event that such book-entry only system is discontinued for the 2002 Bonds, the following provisions will apply to the 2002 Bonds: principal of the 2002 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 1998 Fiscal Agent in New York, New York. Interest on the 2002 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 1998 Resolution. The 2002 Bonds will be issued only as registered bonds without coupons in authorized denominations. The transfer of the 2002 Bonds will be registrable and the 2002 Bonds may be exchanged at the principal corporate trust office of the 1998 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.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series D Bonds and Series E Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy (the "Policy") for the Series D Bonds maturing on July 1 of the years 2027 and 2032 and the Series E Bonds maturing on July 1 of the years 2011 through 2023, inclusive (the "Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as *Appendix V* to this Official Statement.

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

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2001, Financial Security's total policy holders' surplus and contingency reserves were approximately \$1,526,197,000 and its total unearned premium reserve was approximately \$784,712,000 in accordance with statutory accounting principles. At September 30, 2001, Financial Security's total shareholders' equity was approximately \$1,670,116,000 and its total net unearned premium reserve was approximately \$646,496,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Insured Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc., 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Insured Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

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 is a separate entity from the Department for purposes of financing and constructing Puerto Rico's transportation 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 has adopted a long-range master plan for development of the transportation infrastructure necessary to foster and sustain Puerto Rico's economic growth and a five-year Construction Improvement Program to implement that plan. As required by the 1968 Resolution and the 1998 Resolution, the Authority supplements the master plan as necessary and annually updates the five-year Construction Improvement Program. See "Operating Expenses and Capital Expenditures-Construction Improvement Program" under *Transportation System Revenues and Expenditures*.

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 and other transportation facilities owned, operated or constructed by it; the ability to set tolls and other charges for the use of the highway and other transportation facilities; and the power to issue bonds, notes or other obligations. The Authority plans and manages the construction of all major projects relating to Puerto Rico's transportation system, undertakes major repairs and maintains the tollways. The Department maintains Puerto Rico's highway system, other than the tollways, and undertakes construction of smaller projects. The Authority will also be responsible for the maintenance and operation of the Tren Urbano and, in connection therewith, has entered into a five-year agreement with a private company for such operation and maintenance. See "Operating Expenses and Capital Expenditures-Operation and Maintenance-Tren Urbano" under *Transportation System Revenues and Expenditures*.

The Authority made a revision of the highway classification system during fiscal year 1999. A new functional classification was implemented which includes the following categories: primary, primary urban, secondary, and tertiary.

As of December 31, 2000, Puerto Rico had 4,604 miles of highway system and 10,268 miles of local streets and adjacent roads. The highway system comprises 228 miles of primary urban system highways and 379 miles of primary system highways, which are the more important inter-regional traffic routes and include the Luis A. Ferré (PR-52), the De Diego (PR-22), PR-53 and Martínez Nadal (PR-20) tollways, 954 miles of secondary system highways serving the needs of intra-regional traffic and 3,043 miles of tertiary highways and roads and public housing development roads serving local, intra-regional traffic.

In August 1990, the Authority Act was amended to empower the Authority to enter into concession agreements, subject to approval by a government board of adjudications, with private parties for the design, construction, operation and maintenance of highway projects. Such projects, to be owned by the Authority and the Commonwealth, could be financed by such private parties by the imposition of tolls or otherwise. To date, the only highway facility subject to a private concession agreement is the Teodoro Moscoso Bridge, which spans the San José Lagoon from San Juan to Carolina. See "Teodoro Moscoso Bridge" under *Transportation System Revenues and Expenditures*.

In March 1991, the Authority Act was further amended to authorize the Authority to work with and implement policies established by the Secretary for the purpose of developing a multi-modal transportation system for the Commonwealth to alleviate traffic congestion. In line with this expanded power, the Authority undertook the planning, design, construction and operation of the Tren Urbano. See "Operating Expenses and Capital Expenditures-Construction Improvement Program-Tren Urbano" under *Transportation System Revenues and Expenditures*.

Organization

To carry out its responsibilities to develop Puerto Rico's transportation system, the Authority is organized into the Executive Director's Office, which provides overall management of the Authority, and the offices of three Deputy Executive Directors, each of whom reports to the Executive Director. The Deputy Executive Director for Infrastructure oversees the Planning Area, which is responsible for the development of the Construction Improvement 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 Area, which acquires necessary easements and rights-of-way for Authority

projects; and the Construction Area, which supervises and inspects the construction work performed by the Authority's contractors. The Deputy Executive Director for Administration and Finance oversees the Finance Area, which is responsible for the financial affairs of the Authority, including budgetary services; the Human Resources Area, which provides personnel services; the Administration Area, which provides administrative support to the Authority; and the Information Technologies Area, which oversees computer operations. The Deputy Executive Director for Traffic and Toll Operations oversees all aspects of the operation, maintenance, and repair of the Martínez Nadal (PR-20), the Luis A. Ferré, De Diego and PR-53 tollways. 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 Mr. José M. Izquierdo. Mr. Izquierdo was appointed Secretary by the Governor of Puerto Rico in January 2001. Prior to his appointment as Secretary, Mr. Izquierdo was a partner in the engineering consulting firm of Izquierdo, Rueda and Associates for 15 years. Mr. Izquierdo received a B.S. degree and a master's degree in civil engineering with a concentration in structural engineering from the University of Puerto Rico, Mayagüez Campus.

The Executive Director of the Authority, who oversees the Authority's operations, is Dr. Fernando E. Fagundo. Mr. Fagundo was appointed Executive Director by the Secretary in August 2001. Prior to joining the Authority, Dr. Fagundo was Engineering Director of the engineering consulting firm of CSA Group and a professor of structural engineering at the University of Florida in Gainesville, Florida. Dr. Fagundo received a B.S. degree in civil engineering as well as a master's degree in civil engineering from the University of Puerto Rico and a Ph.D. in structural engineering from Cornell University.

The Authority retains the firm of Roy Jorgensen Associates, Inc. as independent Traffic Engineers to carry out certain responsibilities under the 1968 Resolution and the 1998 Resolution. These include an annual evaluation of the Authority's master plan and Construction Improvement Program for capital improvements and the maintenance activities of the Department and the Authority with respect to Puerto Rico's highway system. The Authority employs Ernst & Young LLP 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 (787) 721-8787.

Employee Relations

As of June 30, 2001, the Authority employed 2,642 persons, of whom 531 were professionals, 758 were office workers and 1,353 were field supervisors and laborers. Of the total employees, 1,649 were regular permanent employees and 993 were temporary employees. The Authority believes that relations with its employees are good.

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 1,141 of the Authority's 1,649 regular employees, has been certified for collective bargaining purposes. The current collective bargaining agreement expires on June 30, 2005.

TRANSPORTATION SYSTEM REVENUES AND EXPENDITURES

Revenues

Various factors affect the level of 1968 Resolution Revenues and 1998 Resolution Revenues available to the Authority, including, in particular, general economic conditions, the supply and cost of crude oil and gasoline and other oil-derived fuels. These factors have an impact on motor vehicle usage and fuel consumption and are discussed further below. In addition, decisions by the Authority as to the types and level of charges it may impose for the use of its Transportation Facilities will affect the amount of moneys available to the Authority for its authorized purposes.

Sources of 1998 Resolution Revenues

Petroleum Products Tax. On July 16, 1997, the 1994 Code was amended by Act No. 34 to allocate to the Authority, beginning on July 16, 1997, the total amount of excise taxes, up to \$120 million per fiscal year, imposed by the Commonwealth on petroleum products (which includes crude oil, unfinished oil and derivative products). The tax is imposed on any petroleum product introduced, consumed, sold or transferred in Puerto Rico. The petroleum products tax rate varies on a monthly basis according to an index price of crude oil determined by the Department of the Treasury (based on the market price of crude oil quoted in certain markets specified in the 1994 Code), as follows:

Index Price of Crude Oil (per barrel)	Rate of Tax (\$ per barrel)
\$0.01 to \$16.00	\$6.00
\$16.01 to \$24.00	5.00
\$24.01 to \$28.00	4.00
\$28.01 and higher	3.00

The following table presents the number of barrels of crude oil on which the petroleum products tax was imposed, the average annual tax rate (per barrel) and the total taxes collected by the Department of the Treasury in each fiscal year since fiscal 1987 (the first full fiscal year in which the tax was collected).

COLLECTIONS OF PETROLEUM PRODUCTS TAX

Fiscal Year Ended June 30,	Number of Barrels Taxed (million)	Average Annual Tax Rate* (\$ per barrel)	Total Tax Collected (\$ million)
1987	23.67	\$4.91	\$119.90
1988	22.13	4.41	98.54
1989	25.11	5.00	128.23
1990	22.74	4.91	112.79
1991	26.80	4.16	112.17
1992	24.07	5.00	120.37
1993	26.09	5.00	130.47
1994	28.27	5.42	152.91
1995	27.90	5.00	139.59
1996	31.55	5.00	157.74
1997	32.29	4.92	158.74
1998	32.20	5.33	171.64
1999	31.70	6.00	190.10
2000	32.20	4.50	144.80
2001	34.30	3.50	120.00

* The average annual tax rate is the arithmetic average of the monthly tax rate determined by the Department of the Treasury during such fiscal year. The total tax collected is the actual amount of tax collected during the fiscal year. Due to the monthly fluctuations in the tax rate, the total tax collected is different from the result produced from multiplying the number of barrels taxed by the average annual tax rate.

Source: Department of the Treasury and the Authority.

In the current fiscal year, total petroleum product taxes collected through October 31, 2001 were \$44 million. The Department of the Treasury expects to collect an additional \$102 million for the remainder of the current fiscal year resulting in total collections of \$146.0 million for fiscal year 2002. The Department of the Treasury estimates that approximately 36.5 million barrels of oil will be taxed during fiscal year 2002, at an estimated average tax rate of

\$4.00 per barrel. The decrease in total petroleum products taxes collected during fiscal 2001 was caused by the sharp increase in crude oil prices which resulted in a lower tax rate per barrel being applied. The Authority is not affected by reductions in collections of these taxes unless such collections fall below \$120 million in a fiscal year.

The 1994 Code authorizes the Authority to pledge the entire amount of petroleum products tax allocated to the Authority (not to exceed \$120 million in any fiscal year) to the payment of the principal of and interest on bonds and other obligations of the Authority or for any other lawful purpose of the Authority. The Authority has pledged the petroleum products tax receipts to the holders of the Transportation Revenue Bonds (including the 2002 Bonds), but such pledge is subject to the Constitution of Puerto Rico, which permits the Commonwealth to apply such tax receipts to the payment of certain Commonwealth debts to the extent other Commonwealth moneys are insufficient therefor. See "Security for the Senior Transportation Revenue Bonds-Prior Payment of Full Faith and Credit Obligations of the Commonwealth" under *The 2002 Bonds*. The Commonwealth has agreed and committed in the 1994 Code not to eliminate or reduce the rates of excise tax on petroleum products in effect on July 16, 1997 (set forth above) and the amount of such taxes allocated to the Authority until all obligations of the Authority secured by the pledge thereof (including the 2002 Bonds), together with the interest thereon, are fully paid. Any petroleum product tax collected in excess of \$120 million per fiscal year is not required to be allocated to the Authority and is not pledged by the Authority to the holders of Transportation Revenue Bonds.

Petroleum products taxes are collected by the Department of the Treasury. All taxes collected, up to \$11 million per month, are deposited in the Special Fund and transferred on a monthly basis to the Authority during the first eleven months of the fiscal year, subject to the \$120 million ceiling. If the total amount of the taxes collected by the Department of the Treasury and transferred to the Authority in any month is less than \$11 million, such deficiency must be made up by the Department of the Treasury with the amount of such taxes in excess of \$11 million which were collected in any prior month or which may be collected in any subsequent month of the same fiscal year.

Tolls and Other Charges. The Authority is authorized to impose tolls and other charges on its Transportation Facilities. Until the 1968 Resolution is repealed and canceled, all Existing Toll Facilities Revenues will constitute 1968 Resolution Revenues and are pledged to the payment of the Transportation Revenue Bonds only to the extent they are Excess 1968 Resolution Revenues. Upon the repeal and cancellation of the 1968 Resolution, the Existing Toll Facilities Revenues will constitute 1998 Resolution Revenues and will be pledged to the payment of the Transportation Revenue Bonds.

The Authority is not pledging the fare box revenues of Tren Urbano to the payment of the Transportation Revenue Bonds or the Highway Revenue Bonds.

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 Transportation 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 Transportation 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.

Excess 1968 Resolution Revenues. Before the repeal and cancellation of the 1968 Resolution, the Excess 1968 Resolution Revenues (which consist of all unencumbered 1968 Resolution Revenues remaining after payment of debt service and required reserves on the outstanding Highway Revenue Bonds) are included as 1998 Resolution Revenues. After the payment or defeasance of all Highway Revenue Bonds and the repeal and cancellation of the 1968 Resolution, all 1968 Resolution Revenues will become 1998 Resolution Revenues. The Authority may not repeal and cancel the 1968 Resolution so long as the termination option under the Teodoro Moscoso Bridge concession remains in effect. See the fifth paragraph in "Teodoro Moscoso Bridge" under *Transportation System Revenues and Expenditures*. The sources of the 1968 Resolution Revenues are discussed below.

Investment Earnings. Moneys held for the credit of the 1998 Senior Bond Service Account, the 1998 Senior Bond Redemption Account, the 1998 Subordinated Bond Service Account and the 1998 Subordinated Bond 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 1998 Senior Bond Reserve Account and each account in the 1998 Subordinated Bond Reserve Fund 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 1998 Senior Bond Reserve Account and each account in the 1998 Subordinated Bond Reserve Fund shall be invested in Investment Obligations which mature not later than the final maturity date of any Senior Transportation Revenue Bonds outstanding. Income from investments of moneys held for the credit of the 1998 Construction Fund is not considered 1998 Resolution Revenues under the 1998 Resolution.

Sources of 1968 Resolution Revenues

General. The major sources of the Authority's 1968 Resolution Revenues are the gasoline tax and the gas oil and diesel oil tax allocated to the Authority pursuant to the 1994 Code, the motor vehicle license fee allocated to the Authority pursuant to Act No. 9 and the toll charges on the Authority's existing tollways, including tolls collected on any extension thereof however financed. In fiscal 2001, 1968 Resolution Revenues were derived 48% from gasoline taxes, 35% from toll charges, 8% from motor vehicle license fees, 6% from gas oil and diesel oil taxes and 3% from investment earnings. See "Historical Revenues" below.

Gasoline and Gas Oil Taxes. The 1994 Code currently imposes a \$0.16 per gallon tax on gasoline and an \$0.08 per gallon tax on gas oil and diesel oil, provides for the deposit of the entire \$0.16 tax on gasoline and \$0.04 of the tax on gas oil and diesel oil in the Special Fund and authorizes the Authority to pledge such amounts to the payment of the principal of and interest on its bonds and other obligations or for any other lawful purpose of the Authority. The Authority has pledged such tax receipts to the holders of the Highway Revenue 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 Senior Transportation Revenue Bonds-Prior Payment of Full Faith and Credit Obligations of the Commonwealth" under *The 2002 Bonds*. The Authority has also pledged such tax receipts to the holders of the Transportation Revenue Bonds, subject to the prior application of such tax receipts to the payment of debt service on Highway Revenue Bonds and the maintenance of a reserve therefor. The Commonwealth has agreed and committed in the 1994 Code that the tax on gasoline will not be reduced below \$0.16 per gallon and the tax on gas oil and diesel oil will not be reduced below \$0.04 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 2002 Bonds), together with the interest thereon, are fully paid. Gasoline taxes and gas oil and diesel oil taxes which may be levied or collected from time to time other than the amounts of the taxes and fees described in this paragraph are not required to be allocated to the Authority or pledged by the Authority to the holders of the Highway Revenue Bonds or the Transportation Revenue Bonds.

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

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

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 for the deposit of the proceeds of the \$15 increase in the 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 gasoline and gas and diesel oil taxes described above, the Authority has pledged such license fees to the holders of the Highway Revenue Bonds and, subject to the prior application of such fees to the payment of debt service on Highway Revenue Bonds and the maintenance of a reserve therefor, the Authority has also pledged such fees to the holders of the Transportation Revenue Bonds. Under Act No. 9, 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.

Tolls on Existing Tollways. Until the 1968 Resolution is repealed and canceled, all tolls collected on the Authority's existing tollways, including tolls collected on any extension thereof financed with Transportation Revenue

Bonds (the Existing Toll Facilities Revenues), will constitute 1968 Resolution Revenues. As such, they will be pledged to the payment of the Highway Revenue Bonds and, subject to the prior application of such toll revenues to the payment of debt service on the Highway Revenue Bonds and the maintenance of a reserve therefor, will be additionally pledged to the payment of Transportation Revenue Bonds.

Under the 1968 Resolution, the Authority has covenanted not to reduce or eliminate any tolls and other charges for the use of Traffic Facilities if such tolls and other charges have been taken into account in the calculation of 1968 Resolution Revenues for purposes of satisfying the tests for the issuance of additional bonds under the 1968 Resolution and if the 1968 Resolution Revenues for any 12 consecutive months out of the immediately preceding 15 months prior to the proposed adjustment, after adjusting such revenues for the proposed decrease in tolls, would have been less than 150% of the maximum Principal and Interest Requirements for any fiscal year thereafter for all Highway Revenue Bonds then outstanding. See "Issuance of Additional Bonds" under *Summary of Certain Provisions of the 1968 Resolution*. Such tolls and other charges have been taken into account for satisfying such additional bonds' test under the 1968 Resolution.

Notwithstanding the provisions in the 1968 Resolution relating to the reduction or elimination of tolls, under the 1998 Resolution the Authority has covenanted that it will not reduce any tolls or other charges imposed for the use of its Toll Facilities unless the 1998 Resolution Revenues received by the Authority for any 12 consecutive months out of the 15 months immediately prior to such reduction (adjusted to give effect for such entire 12 months to moneys allocated to and pledged by the Authority to the payment of the Transportation Revenue Bonds under legislation enacted and toll rate changes made effective on or prior to the effective date of any such toll reduction, and tolls from Toll Facilities which have begun operations or been removed from operation during such 12 months) is at least equal to 150% and 100% of the maximum Principal and Interest Requirements for any fiscal year thereafter for all Senior Transportation Revenue Bonds then outstanding and for all Transportation Revenue Bonds then outstanding, respectively. See "Miscellaneous Covenants" under *Summary of Certain Provisions of the 1998 Resolution*.

Tolls are currently imposed on the Luis A. Ferré tollway (PR-52), which extends 67 miles from San Juan to Ponce, the De Diego tollway (PR-22), which extends 52.3 miles from San Juan to Arecibo, and PR-53, which will connect Fajardo and Salinas upon its completion, a distance of 57 miles. Approximately 36 miles of PR-53 have been completed. The Luis A. Ferré tollway has four toll stations in the northerly direction and three toll stations in the southerly direction, and the total minimum toll for a vehicle making a round-trip between San Juan and Ponce is currently \$3.65. An extension of the Luis A. Ferré tollway bypassing Ponce includes a toll station with a minimum toll of \$0.50. The De Diego tollway has six toll stations, and the total minimum toll for a vehicle passing through all six stations is \$2.40. PR-53 currently has five toll stations with a total minimum toll of \$1.55. The Martínez Nadal tollway (PR-20), which was inaugurated in July 2000, extends 7.7 miles, connects PR-2 with PR-1 at the La Muda sector near Caguas and has one toll station with a minimum toll of \$0.50. The Authority expects to inaugurate the first toll stations of the PR-5 tollway (which connects PR-2 to PR-199, Las Cumbres) in fiscal 2003 and the Eastern Corridor tollway (described under the heading "Highway Construction" under "Operating Expenses and Capital Expenditures—Construction Improvement Programs") during fiscal 2005, with minimum tolls of \$0.50 and \$1.00, respectively.

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 a lease contract that expires on June 30, 2002. This lease contract provides 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. The 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. This tollway security system has virtually eliminated uncollected tollway revenues.

The Authority is currently evaluating the acquisition of a highway-speed electronic toll collection system and expects to award a contract for installation of such system by the end of fiscal 2003. The new system would be implemented and financed by one or more private sector firms. The new technology, which employs radio transmissions from transponder-equipped vehicles to plaza-mounted antennas and video systems for violation enforcement, is intended to significantly increase vehicle throughput at toll plazas without costly infrastructure expansion, which should result in reduced travel time and increased convenience for customers. Direct benefits to the Authority include reduced cost of

toll collection, enhanced auditing capabilities, additional payment option offering and receipt of toll payments in advance.

The Authority's tollway revenues have always exceeded its tollway operation and maintenance expenses. Tollway revenues and expenses for fiscal 2001 were \$125.7 million and \$39.8 million, respectively, compared to \$120.5 million and \$37.5 million, respectively, for fiscal 2000.

Investment Earnings. Moneys held for the credit of the 1968 Bond Service Account and the 1968 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 1968 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 1968 Reserve Account shall be invested in Investment Obligations which mature not later than the final maturity date of any Highway Revenue Bonds outstanding. Income from investments of moneys held for the credit of the 1968 Construction Fund is not considered 1968 Resolution Revenues under the 1968 Resolution.

Historical Revenues

The following table presents the Authority's revenues for each of the five fiscal years ended June 30, 1997 to June 30, 2001, inclusive and for the first four months of fiscal years 2001 and 2002. Under the 1998 Resolution, the Excess 1968 Resolution Revenues representing unencumbered funds in the 1968 Construction Fund must be deposited monthly in the 1998 Revenue Fund and are available for the payment of debt service on Transportation Revenue Bonds, for required deposits to the reserve accounts established thereunder and for other authorized purposes under the 1998 Resolution. See "Security for the Senior Transportation Revenue Bonds-Pledged Revenues" under *The 2002 Bonds*.

HISTORICAL REVENUES

	Fiscal Year Ended June 30					First Four Months of Fiscal Year	
	1997	1998	1999	2000 ⁽¹⁾	2001 ⁽¹⁾	2001	2002
	(dollars in thousands)						
Gasoline taxes ⁽¹⁾	\$163,580	\$174,632	\$168,397	\$176,737	\$169,782	\$ 56,637	\$ 58,372
Gas oil and diesel oil taxes ⁽²⁾	16,552	17,888	20,711	22,520	20,491	6,446	6,872
Subtotal	\$180,132	\$192,520	\$189,108	\$199,257	\$190,273	\$ 63,083	\$ 65,244
Motor vehicle license fees	26,533	28,532	28,089	28,996	29,772	9,344	9,643
Subtotal	\$206,665	\$221,052	\$217,197	\$228,253	\$220,045	\$ 72,427	\$ 74,887
Toll receipts	103,708	108,803	116,030	120,524	125,695	41,506	43,279
Investment income	16,127	18,310	14,314	16,852	10,260	2,079	2,897
Total 1968 Resolution Revenues	\$326,500	\$348,165	\$347,541	\$365,629	\$356,000	\$116,012	\$121,063
Debt service on Highway Revenue Bonds	\$188,454	\$183,433	\$180,787	\$181,988	\$181,727	\$ 60,576	\$ 60,452
Excess 1968 Resolution Revenues ⁽⁴⁾	\$138,046	\$164,732	\$166,754	\$183,641	\$174,273	\$ 55,436	\$ 60,611
Petroleum Products Tax	-	120,000	120,000	120,000	120,000	44,000	44,000
Investment income	-	900	3,840	5,069	7,456	2,871	3,354
Total 1998 Resolution Revenues	-	\$285,632	\$290,594	\$308,710	\$301,729	\$102,307	\$107,965

(1) Excludes \$10.2 million, \$10.3 million and \$2.7 million for fiscal years 1999, 2000 and 2001, respectively, in delinquent taxes owed by one taxpayer.

(2) Excludes \$1.4 million, \$1.5 million and \$28,000 for the fiscal years 1999, 2000 and 2001, respectively, in delinquent taxes owed by one taxpayer.

(3) The amounts shown for fiscal years 2000 and 2001 include the collection of delinquent taxes from prior years.

(4) Under the 1998 Resolution, the Authority has covenanted not to encumber or withdraw or pledge any Excess 1968 Resolution Revenues deposited in the 1968 Construction Fund (other than for transfer to the 1998 Revenue Fund) except in the limited circumstance of the Authority's taking over operation of the Teodoro Moscoso Bridge. See "Teodoro Moscoso Bridge," below.

The Authority's 1968 Resolution Revenues have risen at a compound annual rate of 2.2% during the period from fiscal 1997 through fiscal 2001. If all tax payments due had been received on time, the compound annual rate of growth would have been 2.4%. The increase in the amount of 1968 Resolution Revenues during this period is attributable primarily to the growth in tax collections and toll receipts.

Gasoline taxes, which accounted for approximately 48% of 1968 Resolution Revenues for fiscal 2001, experienced a compound annual increase of 1.1% during this five-year period. The growth in gasoline taxes is attributable principally to increases in consumption. The number of vehicles in Puerto Rico increased from 2.2 million to 2.5 million from fiscal 1997 to fiscal 2001. The growth in gas oil and diesel oil tax receipts reflects, among other factors, a rise in the consumption of gas oil and diesel oil subject to tax.

One taxpayer (which was responsible for the delinquent taxes referred to in the table above) is currently in arrears in its payment to the Department of the Treasury of the petroleum products, gasoline and gas and diesel oil taxes. This taxpayer recently filed for bankruptcy. As of December 1, 2001 the total amount of past due taxes payable to the Authority by this taxpayer were approximately \$7.8 million of gasoline taxes and \$1.07 million of gas and diesel oil taxes for periods prior to July 1, 2001 and approximately \$3 million of gasoline taxes and \$0.1 million of gas and diesel oil taxes for periods after July 1, 2001. The Department of the Treasury does not anticipate that the amount of delinquent taxes owed by this taxpayer (excluding interest and penalties) will increase because its right to introduce and sell gasoline and diesel products under a bond has been revoked and the taxpayer must now pay the applicable taxes before these products may be distributed in Puerto Rico. The portion of the delinquent tax payments allocated to the Authority will be distributed to the Authority upon receipt by the Department of the Treasury.

Motor vehicle license fees accounted for approximately 8% of annual 1968 Resolution Revenues for fiscal 2001. Beginning in fiscal 1997, fee collections have risen at a compound annual rate of 2.9% through fiscal 2001. The number of licensed taxable vehicles grew from nearly 1.8 million in fiscal 1997 to approximately 2.0 million in fiscal 2001.

Toll receipts rose at a compound annual rate of 4.9% during the period from fiscal 1997 through fiscal 2001. Toll receipts have grown as a percentage of total 1968 Resolution Revenues over the last five fiscal years and comprised approximately 35% of total 1968 Resolution Revenues for fiscal 2001. The increase in toll receipts from fiscal 1997 through fiscal 2001 corresponded principally to the growing number of vehicles using these roads, and the expansion of the tollway network. The number of paying vehicles which used the tollways rose from 176.9 million in fiscal 1997 to 267.2 million in fiscal 2001.

The foregoing discussion of past revenue growth is not intended to be predictive of future revenue growth. In particular, the Authority is anticipating that two new toll facilities, PR-5 and the Eastern Corridor (discussed below), will be coming into service prior to fiscal 2005. The revenues allocated to the Authority from the petroleum products tax are capped at \$120 million in each fiscal year. Economic conditions in Puerto Rico, as well as the price of oil and petroleum products and the levels of automobile registration and usage, will affect the Authority's revenues in the future.

Projected 1968 Resolution Revenues and 1998 Resolution Revenues

The following table presents the Authority's estimates of 1968 Resolution Revenues for each of the five fiscal years ending June 30, 2002 to June 30, 2006 and its estimates of 1998 Resolution Revenues expected to be available for the payment of debt service on the Transportation Revenue Bonds, including the 2002 Bonds, together with debt service coverage for each of the five fiscal years ending June 30, 2002 to 2006, inclusive, after taking into account the issuance of the 2002 Bonds. The projected 1968 Resolution Revenues and 1998 Resolution Revenues shown below are based on tax rates and allocations to the Authority now in effect and debt service on Highway Revenue Bonds currently outstanding. Such projections are subject to periodic review and may be adjusted to reflect such factors as changes in general economic conditions, in the demand for gasoline and other petroleum products and in the levels of automobile registration and usage. The estimates of 1998 Resolution Revenues expected to be available for the payment of debt service on Transportation Revenue Bonds assumes that the Excess 1968 Resolution Revenues will not be applied to the payment of debt service on the Authority's Special Facility Revenue Bonds issued to finance the Teodoro Moscoso Bridge. See the fifth paragraph in "Teodoro Moscoso Bridge" under *Transportation System Revenues and Expenditures*. The projections are based on assumptions which the Authority believes to be reasonable; however, there is no assurance that the projections will prove to be accurate.

PROJECTED REVENUES AND DEBT SERVICE COVERAGE*

	Fiscal Year Ending June 30				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
1968 Resolution Revenues:	(dollars in thousands)				
Gasoline taxes	\$181,260	\$176,570	\$180,740	\$183,460	\$186,170
Gas oil and diesel oil taxes	<u>22,366</u>	<u>21,500</u>	<u>21,800</u>	<u>22,100</u>	<u>22,500</u>
Subtotal	\$203,626	\$198,070	202,540	205,560	208,670
Motor vehicle license fees	<u>30,630</u>	<u>31,490</u>	<u>32,340</u>	<u>33,200</u>	<u>34,060</u>
Subtotal	\$234,256	\$229,560	234,880	238,760	242,730
Toll receipts	131,790	137,990	144,310	150,750	157,300
Investment income	<u>9,500</u>	<u>14,700</u>	<u>15,700</u>	<u>14,200</u>	<u>13,300</u>
Total 1968 Resolution Revenues	<u>\$375,546</u>	<u>\$382,250</u>	<u>\$394,890</u>	<u>\$403,710</u>	<u>\$413,330</u>
Debt Service on Highway Revenue Bonds	\$177,400	\$150,558	\$159,918	\$159,953	\$145,319
Excess 1968 Resolution Revenues	<u>\$198,146</u>	<u>\$231,692</u>	<u>\$234,972</u>	<u>\$243,757</u>	<u>\$268,011</u>
1998 Resolution Revenues:					
Petroleum Products Tax	\$120,000	120,000	120,000	120,000	120,000
Eastern Corridor Toll Receipts ⁽¹⁾	—	—	—	19,910	25,800
Excess 1968 Resolution Revenues	198,146	231,692	234,972	243,757	268,011
Investment income	<u>8,000</u>	<u>11,000</u>	<u>11,000</u>	<u>13,000</u>	<u>13,000</u>
Total 1998 Resolution Revenues ..	<u>\$326,146</u>	<u>\$362,692</u>	<u>\$365,972</u>	<u>\$396,667</u>	<u>\$426,811</u>
Debt service on the Senior Transportation Revenue Bonds ⁽²⁾	\$116,150	\$149,817	\$150,806	\$150,814	\$191,420
Coverage ratio ⁽³⁾	2.81	2.42	2.43	2.63	2.23
Additional bonds test, Senior Transportation Revenue Bonds ⁽⁴⁾	2.01	2.23	2.25	1.98	2.13
Total 1998 Resolution Revenues available to pay Subordinated Transportation Revenue Bonds⁽⁵⁾	\$209,996	\$212,875	\$215,166	\$245,853	\$235,391
Debt Service on the Subordinated Transportation Revenue Bonds ⁽⁶⁾	\$ 3,795	\$ 3,795	\$ 3,795	\$ 3,795	\$ 3,795
Coverage Ratio ⁽⁷⁾	55.34	56.09	56.70	64.78	62.03
Aggregate Revenues ⁽⁸⁾	\$503,546	\$513,250	\$525,890	\$556,620	\$572,130
Aggregate Debt Service ⁽⁹⁾	\$297,345	\$304,170	\$314,519	\$314,562	\$340,534
Aggregate Coverage Ratio ⁽¹⁰⁾	1.69	1.69	1.67	1.77	1.68

* Assumes that all taxes will be collected on the due date. The amounts shown for fiscal 2002 assume that \$7.8 million of delinquent gasoline taxes and \$1.1 million of delinquent gas oil and diesel oil taxes owed as of the end of fiscal 2001 will be collected during 2002. The delinquent taxpayer has filed for bankruptcy and no assurance can be made that such delinquent taxes will in fact be collected.

⁽¹⁾ Projected toll receipts for the Eastern Corridor tollway are based upon estimates developed by the Authority's senior management.

⁽²⁾ Reflects the issuance of the 2002 Bonds and the refunding of \$125.6 million of Highway Revenue Bonds (Series V) with a portion of the proceeds of the 2002 Bonds. Also assumes the issuance of additional Transportation Revenue Bonds in June 2005 in the principal amount of approximately \$470 million at an average interest rate of 7% per annum with a 30-year final maturity.

⁽³⁾ Equals ratio of Total 1998 Resolution Revenues to debt service on the Senior Transportation Revenue Bonds for the fiscal year in question.

⁽⁴⁾ This test uses as its denominator maximum annual debt service on all Senior Transportation Revenue Bonds outstanding under the 1998 Resolution (including the Senior Transportation Revenue Bonds then proposed to be issued) and as its numerator the 1998 Resolution Revenues of the Authority for the fiscal year in question.

⁽⁵⁾ Represents Total 1998 Resolution Revenues less debt service on Senior Transportation Revenue Bonds.

⁽⁶⁾ Debt service on 1998 Subordinated Transportation Revenue Bonds.

⁽⁷⁾ Equals ratio of Total 1998 Resolution Revenues available to pay Subordinated Transportation Revenue Bonds to debt service on the Subordinated Transportation Revenue Bonds for the fiscal year in question.

⁽⁸⁾ Represents the sum of Total 1968 Resolution Revenues and Total 1998 Resolution Revenues (less Excess 1968 Resolution Revenues) for the fiscal year in question.

⁽⁹⁾ Represents the sum of Highway Revenue Bonds debt service and Transportation Revenue Bonds debt service for the fiscal year in question.

⁽¹⁰⁾ Aggregate Revenues divided by Aggregate Debt Service, excluding debt service on the TIFIA Loan. Annual debt service for the TIFIA Loan is be approximately \$17.2 million (interest only) per year during the first seven years, and approximately \$22.0 million per year during the remaining twenty-eight years.

Total 1968 Resolution Revenues and 1998 Resolution Revenues for the period from fiscal 2002 through fiscal 2006 are projected by the Authority to grow at a compound annual rate of 2.4% and 7%, respectively. The projected growth in gasoline tax revenues is based on econometric models prepared for the Authority by Applied Research, an independent firm, which project increases in disposable income in Puerto Rico. The Authority has found such projections to be the most reliable indicator of future growth in gasoline tax receipts. The Authority's projections of growth in its other revenues is based on historic trends and, in the case of toll revenues, on the additional receipts expected from the growth in traffic and the opening of new toll plazas.

In fiscal years 1997, 1998 and 2000 the Authority's actual revenues exceeded the Authority's projected revenues for such fiscal year. In fiscal 1999 actual revenues fell below the Authority's projections due to one taxpayer's failure to pay the taxes due on time, as discussed above. In fiscal 2001 actual revenues fell below the Authority's projections due to the unanticipated downturn in the U.S. and Puerto Rico economies experienced during the second half of fiscal 2001.

Operating Expenses and Capital Expenditures

Operation and Maintenance- Highway Facilities

The Department has the responsibility for maintaining Puerto Rico's highway system, except for the Luis A. Ferré (PR-52), the De Diego (PR-22), PR-53 and the Martínez Nadal (PR-20) 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 of Puerto Rico. On occasion the Authority advances funds to pay the costs of emergency repairs which are the responsibility of the Department. It is subsequently reimbursed for these advances. To the extent funds are not provided by the Legislature, the Authority has agreed under the 1998 Resolution that it will pay from available moneys in the 1998 Construction Fund the costs of maintenance of the Traffic Facilities financed with proceeds of Highway Revenue Bonds and Transportation Revenue Bonds. The 1998 Resolution requires the Authority to pay from available moneys in the 1998 Construction Fund (and not from moneys in the 1968 Construction Fund) the costs of any necessary repairs to, or renewals or replacements of, Traffic Facilities financed with proceeds of Highway Revenue Bonds and Transportation Revenue Bonds, as recommended by the Transportation Engineers.

The Authority's operation and maintenance expenses payable from available moneys in the 1998 Construction Fund consist of the expenses of operating and maintaining the tollways and related roads and, upon completion, the Tren Urbano. Under the 1998 Resolution, these expenses are payable from available moneys in the 1998 Construction Fund after payment of debt service on the Highway Revenue Bonds and Transportation Revenue Bonds and any required deposits to the 1998 Senior Bond Reserve Account and the accounts in the 1998 Subordinated Bond Reserve Fund. Other expenses of the Authority, including its administration costs, are included in the Construction Improvement Program and are capitalized.

The following table sets forth the annual maintenance expenses paid by the Department for non-toll highways and the annual tollway operation and maintenance expenses paid by the Authority from unencumbered moneys in the 1968 Construction Fund and (after the 1998 Resolution was adopted) the 1998 Construction Fund, for each of the five fiscal years ended June 30, 2001. The table also sets forth the Authority's projections of annual highway maintenance expenses to be paid by the Department for non-toll highways and projected annual tollway operation and maintenance expenses to be paid by the Authority from unencumbered moneys in the 1998 Construction Fund for the five fiscal years ending June 30, 2006.

**HIGHWAY FACILITIES
OPERATION AND MAINTENANCE EXPENSES**

<u>Fiscal Year Ended June 30</u>	<u>Department</u>	<u>Authority</u>		<u>Total</u>
	<u>Non-Toll Highway Maintenance⁽¹⁾</u>	<u>Tollway Maintenance</u>	<u>Tollway Operation</u>	
		(in thousands)		
1997	\$ 27,932	\$ 13,943	\$ 12,994	\$ 26,937
1998	27,416	15,080	13,919	28,999
1999	28,000	16,871	15,573	32,444
2000	28,382	20,259	17,258	37,517
2001	30,177	21,130	18,720	39,850
2002 ^(m)	30,000	21,060	19,440	40,500
2003 ^(m)	31,200	21,060	19,440	40,500
2004 ^(m)	32,400	21,060	19,440	40,500
2005 ^(m)	33,770	22,000	19,500	41,500
2006 ^(m)	35,160	22,000	19,500	41,500

^(m) Projected.

⁽¹⁾ The Authority contributed to the Department \$12.4 million for fiscal 1997, \$13.8 million for fiscal 1998, \$10 million for fiscal 1999, \$5 million for fiscal 2000 and \$5 million for fiscal 2001 for maintenance of the Puerto Rico highway system. For fiscal years 2002 to 2006 the projected contribution is \$5 million per year.

In certain years, emergency repairs to the highway system have been necessary, particularly as a result of storm or flood damage. 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 and the Authority generally have been reimbursed from the Federal Emergency Management Agency for some of the costs of such repairs attributable to federally designated disaster areas. The Legislature of Puerto Rico also appropriates funds from time to time for emergency repairs by the Department in addition to amounts appropriated for maintenance.

The Traffic Engineers under the 1968 Resolution and 1998 Resolution conduct an annual evaluation of the level of maintenance of the highway system. In their most recent evaluation completed in July 2001, the Traffic Engineers found that the current level of maintenance was generally adequate. The projected maintenance budgets for the next five fiscal year period show annual increases of 3.8% to 4.2% per year for non-toll roads, with the exception of fiscal year 2002. For fiscal year 2000, the Authority incurred a higher increase in tollway maintenance expense than what it had experienced in prior years due to the purchase of equipment that was not capitalized. For fiscal 2001 and subsequent years, the Authority has increased the amounts budgeted for tollway maintenance to reflect an expanded tollway network and increased levels of maintenance. The Traffic Engineers believe that the Authority's maintenance program represents an adequate level of maintenance to preserve the investment and provide an acceptable level of service. The results of the Traffic Engineers' most recent maintenance evaluation are summarized in the letter of the Traffic Engineers included as *Appendix II*.

Operation and Maintenance - Tren Urbano

The Authority has entered into a Systems and Test Track Turnkey Contract (the "STTT Contract") with the Siemens Transit Team ("STT"), comprised of Siemens Transportation Partnership Puerto Rico, S.E., Alternate Concepts, Inc. and Juan R. Requena and Associates, covering, among other things, the operations and maintenance of the Tren Urbano. For a more detailed discussion of the scope of the STTT Contract, see "Construction Improvement Program-Tren Urbano" below. The operations portion of the contract is for an initial term of five years with an option by the Authority to extend the term for an additional five years. Under the STTT Contract, STT is responsible for operating and maintaining the Tren Urbano and is entitled to receive for such services an annual base compensation, which is subject to an inflation adjustment for changes in the cost of labor (based on the changes to consumer price index) and materials (based on the changes to producer price index). The base compensation does not include the cost of insurance and electricity which is paid separately by the Authority. In addition, STT is entitled to receive incentive compensation based on meeting certain operating and maintenance performance measures.

The table below shows the Authority's estimate of the annual operating and maintenance expenses of the Tren Urbano for the first ten years of service. These estimates are based upon the terms of the STTT Contract and include an inflation adjustment and the Authority's estimate of the cost of insurance and electricity.

<u>Year of Service*</u>	<u>Estimated Annual Operation and Maintenance Cost (in millions)</u>
1	\$51.8
2	53.9
3	56.1
4	58.4
5	60.7
<u>Option Period</u>	
6	63.2
7	65.7
8	68.3
9	71.9
10	73.9

*Based on twelve full months of operation starting from the date when the system opens for service.

The Authority projects that the annual net operating costs of the Tren Urbano, after deducting expected operating revenues from operating and maintenance costs, will increase gradually during the first ten years of operation from \$33.1 million to \$37.0 million per year. This estimate is based, among other factors, on an annual average daily ridership of 115,000 passengers by the year 2010, and an initial ridership in the first full year of operation of 64% of the ridership expected for 2010, which ridership growing for each year of operation. The costs of operating Tren Urbano will be covered by available moneys in the 1998 Construction Fund.

Construction Improvement Program

As required by the 1968 Resolution and the 1998 Resolution, the Authority has developed a master plan to serve as the basis for the long-range planning of Puerto Rico's transportation facilities, which it supplements as necessary. To implement the plan, the Authority prepares a five-year Construction Improvement Program which is updated annually. The Authority has focused its current Construction Improvement Program on constructing the Tren Urbano and improving the primary urban highway facilities, while also addressing the most essential needs of secondary and tertiary roads. The Authority has also included in its Construction Improvement Program the cost of repairs, renewals and replacements to the highway system, plans for dealing with urban congestion and for local improvements, and certain capitalized expenditures.

The following table presents the Authority's current Construction Improvement Program for the five fiscal years ending June 30, 2006 and the sources of funds required to finance such program. The Construction Improvement 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. The Authority's projections assume no changes in the statutory taxes and license fees currently allocated to the Authority, see the table entitled "Projected Revenues and Debt Service Coverage" above, and that the Authority will not be required to assume the payment of the Special Facility Revenue Bonds relating to the Teodoro Moscoso Bridge. See "Teodoro Moscoso Bridge" below.

CONSTRUCTION IMPROVEMENT PROGRAM

Fiscal Year Ending June 30
(in thousands)

	2002	2003	2004	2005	2006	Total
Sources of Funds:						
Internally generated funds ¹⁾	\$149,109	\$158,057	\$108,554	\$125,967	\$131,781	\$ 673,468
Federal aid for highways	50,000	50,000	60,000	110,000	110,000	380,000
Federal aid for Tren Urbano ²⁾	265,693	120,000	123,446	38,409	50,500	598,048
External financing ³⁾	194,551	379,875	365,892	94,934	46,343	1,081,595
Total	<u>\$659,353</u>	<u>\$707,932</u>	<u>\$657,892</u>	<u>\$369,310</u>	<u>\$338,624</u>	<u>\$2,733,111</u>
Uses of Funds:						
Design	\$ 38,459	\$ 20,335	\$ 9,668	\$ 111	\$ 16,077	\$ 84,670
Rights of way	50,153	45,116	26,650	7,640	18,560	148,119
Construction	202,819	292,110	377,895	243,150	183,487	1,299,461
Capitalized expenditures	101,000	101,000	101,000	80,000	70,000	453,000
Tren Urbano ⁴⁾	266,922	249,371	142,659	38,409	50,500	747,861
Total	<u>\$659,353</u>	<u>\$707,932</u>	<u>\$657,892</u>	<u>\$369,310</u>	<u>\$338,624</u>	<u>\$2,733,111</u>

¹⁾ Includes funds on hand, current revenues available after provision for debt service and reserve requirements for Bonds and tollway maintenance and operating expenses and investment income. To the extent such funds are held in the 1968 Construction Fund, the holders of the special facility revenue bonds issued by the Authority to finance the Teodoro Moscoso Bridge have a claim on such funds in certain circumstances. See "Teodoro Moscoso Bridge" below.

²⁾ See the discussion of the Authority's FTA Funding Grant Agreement with the United States Department of Transportation in "Tren Urbano" below.

³⁾ Includes short term financing, net proceeds of borrowing.

⁴⁾ Includes \$88.9 million of the cost of the Minillas Extension (as defined below), the construction of which is contingent upon the commitment of federal funds for this project.

In the five-year period from fiscal 1997 through fiscal 2001 the Authority expended approximately \$3.4 billion on the Construction Improvement Program. The current Construction Improvement Program projects an expenditure of about \$2.7 billion from fiscal 2002 through fiscal 2006, of which 27% represents the costs of the Tren Urbano. The current Construction Improvement Program includes \$88.9 million attributable to the cost of constructing a portion the Minillas Extension (as defined below) to Tren Urbano, the construction of which is contingent upon the availability of federal funds for this project. It also includes \$89.11 million attributable to the cost of constructing the Eastern Corridor tollway, which is also subject to certain contingencies discussed below. The Construction Improvement Program assumes that the \$165 million in federal funds currently being withheld by the federal government will be released as discussed below under "Tren Urbano".

The Authority's internally generated funds available to finance its current Construction Improvement Program consist primarily of 1998 Resolution Revenues remaining after payment of debt service for the Highway Revenue Bonds and Transportation Revenue Bonds, provision of reserve requirements for the Highway Revenue Bonds and the Transportation Revenue Bonds and payment of expenses for operating and maintaining the tollways as well as the Tren Urbano (as to the latter, beginning during the second quarter of fiscal 2004 when it is expected to become operational). Such internally generated funds are estimated to aggregate approximately \$673.5 million during the five-year period from fiscal 2002 through fiscal 2006, including investment income, which is estimated at approximately \$123.4 million for the five-year period.

The current Construction Improvement Program contemplates new construction borrowings, in addition to the 2002 Bonds, aggregating approximately \$470 million of principal to produce \$428 million of net proceeds from fiscal 2002 to fiscal 2006.

Tren Urbano. The largest single project included in the Authority's current Construction Improvement Program is Tren Urbano, a new-start mass transit project for the San Juan metropolitan region. The initial phase of Tren Urbano consists of approximately 17 km. of trackway, running from Bayamón to Santurce, via Río Piedras and Hato Rey, and sixteen stations. The project also includes the construction of a maintenance and storage facility. The initial phase of

the project is scheduled to be fully operational by September 2003. The Minillas Extension would add 1.6 km. of trackway running to the Minillas sector of Santurce and would be completed by 2010.

Tren Urbano is being constructed under seven separate design/build contracts. Siemens Transit Team, comprised of Siemens Transportation Partnership Puerto Rico, S.E. ("Siemens"), Alternate Concepts, Inc., and Juan R. Requena and Associates, is the contractor under the STTT Contract, the largest of these contracts, with a value of approximately \$662 million as of November 30, 2001. The STTT Contract includes: (i) the design and construction of two stations and a 2.6 km. test track; (ii) the design, procurement and installation of all systems for the project, such as the trackway, the train control system, and the communications system; (iii) the design and manufacturing of the vehicles; (iv) the design and construction of the maintenance and storage facility; (v) the responsibility for design and construction coordination among the several civil contracts; and (vi) operating Tren Urbano for a period of five years, with an additional five-year option exercisable by the Authority. The other six design/build contracts for the design and construction of all remaining stations and guideways had an aggregate value of \$806 million as of November 30, 2001. Total aggregate construction costs for the first phase of Tren Urbano (excluding the Minillas Extension described below), including contingency amounts and right-of-way and administrative costs is estimated to be \$2.036 billion, of which \$1.493 billion had been incurred through June 30, 2001. As of October 2001, the construction of the first phase of Tren Urbano was 86% complete.

Various contractors working on the Tren Urbano project have presented claims and scope changes to the Authority amounting to approximately \$220 million. The single largest claim, which was presented by Siemens, is in the amount of approximately \$150 million. Most of the claims relate to cost overruns or damages allegedly suffered because of delays in the design and construction of the project. The Authority is negotiating with the various contractors to resolve these claims. The Authority's estimate of the total cost required to complete the project of \$2.036 billion includes a contingency for the aggregate amount the Authority estimates it may be required to pay to resolve these claims based on its past experience in resolving similar claims. No assurance can be given, however, that these claims will be resolved for the amounts estimated by the Authority or that the estimated cost of completing the Tren Urbano project will not increase as a result of resolving these claims or of the occurrence of other unforeseen contingencies.

To manage the Tren Urbano project, the Authority established the Tren Urbano Office. The Tren Urbano Office includes Authority staff, local and mainland design firms experienced in transit projects and local infrastructure projects, and financial and legal advisors. The Tren Urbano Office provides overall direction and management for the project. The office oversees all engineering and construction activities for the project, and is responsible for scheduling, budgeting, contract administration, risk management and quality assurance. Design review is provided by a consortium of design firms that includes Daniel, Mann, Johnson and Mendenhall and Frederick R. Harris Inc. Construction oversight is provided by experienced Authority personnel and mainland consultants experienced in large transit projects.

The Tren Urbano was designated as one of four national turnkey demonstration projects by the FTA. In March 1996, the Authority entered into a Full Funding Grant Agreement with the FTA for the project in the amount of \$307 million. Through October 31, 2001, \$38.2 million had been disbursed under the Agreement. As of such date, the FTA was withholding disbursement of approximately \$105 million that were otherwise payable to the Authority under the Agreement until such time as various construction and management issues cited in FTA reports were corrected. An additional \$60 million in other federal funds was being withheld for similar reasons. The Authority believes that the issues cited in the FTA's reports have been addressed and that the retained funds should be released to the Authority by April 2002. On August 4, 2000, the Authority entered into the TIFIA Loan, the proceeds of which were used to pay eligible project costs incurred and to be incurred in connection with Tren Urbano. The balance of federal aid for the Tren Urbano will come from moneys provided through the FTA by FHWA under certain formula programs established by federal law. While the Authority cannot assure the amount or timing of federal funds for the project, if federal funds are received slower or in a lesser amount than currently projected, the Authority will adjust the timing or scope of the remainder of its Construction Improvement Program, utilize lines of credit for interim funding or adjust its borrowing schedule, as necessary, to accommodate any such changes.

The Tren Urbano was designed in order to provide flexibility for future extensions. The Authority has completed preliminary engineering work and an environmental impact analysis for a 2 kilometer extension northward to the Minillas area of Santurce, a major residential, commercial and governmental section of San Juan (the "Minillas

Extension"). As originally conceived, the Minillas Extension was to be 100% underground and had an estimated cost of \$562 million. The Authority is currently exploring less costly alternatives to the Minillas Extension, including overground alternatives to the more costly underground system. The Authority does not anticipate that it will proceed with the Minillas Extension unless it can secure matching federal Funds for at least 80% of construction costs. In any event, the Authority does not anticipate commencing construction of the Minillas Extension prior to fiscal year 2005. For planning purposes, the Construction Improvement Program for fiscal years 2005 and 2006 includes \$88.9 million for a portion of the cost of construction of the Minillas Extension.

The size and complexity of the Tren Urbano project continues to present challenges related to the coordination among the several design/build contractors, as well as traditional construction risk factors. The Authority believes that it has made adequate provision for these factors in estimating the total cost required to complete the project. As with all of the projects contained in the Authority's Construction Improvement Program, the timetable and expenditure forecasts for the Tren Urbano are subject to change. Unforeseen circumstances could result in delays or cost escalations not currently provided for in the Authority's projections.

Highway Construction. Highway construction projects included by the Authority in its current Construction Improvement Program are designed to enhance the economic development of Puerto Rico. Projects include new highway construction, principally of primary roads and tollways, and construction of improvements designed to alleviate the traffic congestion of the San Juan metropolitan area as well as to provide access to the proposed Port of the Americas, a superport on the southern region of the Island, which the Governor of Puerto Rico has announced the government intends to commence to construct during the next four years. It also includes reconstruction of existing highways, a bridge program and installation of safety features and other projects.

The Authority's Construction Improvement Program includes the investment of approximately \$89.11 million for the construction of a tollway from Carolina to Canóvanas, which is in addition to the approximately \$130 million previously incurred with respect to this tollway. As formerly conceived, this tollway was known as PR-66. On April 19, 2000, the construction of PR-66 was permanently halted pursuant to an order of the Puerto Rico Supreme Court issued in an action filed by a group of citizens seeking review of the Puerto Rico Environmental Quality Board ("EQB") decision approving the final environmental impact statement prepared by the Authority for PR-66. As a result of the Court's order, the Authority was forced to terminate all construction contracts relating to PR-66. Prior to it being halted, the Authority had incurred approximately \$130 million in the construction of PR-66. An additional \$42 million in claims have been brought against the Authority by contractors related to the termination of construction contracts which contained liquidated damages clauses.

The Authority has reconceived the original PR-66 project taking into account the environmental and other concerns raised by various citizen groups and, on November 29, 2001, submitted a new environmental impact statement for the complete tollway. As reconceived, this tollway is now called the Eastern Corridor and consists of a 9-mile four lane tollway from Carolina to Canóvanas. The conversion into an expressway of the section of PR-3 from Canóvanas to Río Grande is also under study. The cost of any such conversion is not included in the current Construction Improvement Program and, if undertaken, would be financed after fiscal year 2006. The Eastern Corridor is expected to reduce vehicular congestion on highway PR-3 between the San Juan metropolitan area and the eastern region of the Island. Hearings before the Puerto Rico Planning Board are expected to take place on January 17 and 18, 2002. While no assurance can be given regarding the outcome or timing of the permitting process, the Authority is projecting that construction on the Eastern Corridor will commence in June of 2002 and that the tollway will be finished by the end of fiscal 2004.

Other major highway projects include the construction of sections of PR-53 from Yabucoa Maunabo and the design of the section that will complete the tollway from Maunabo to Guayama, the construction of the section of PR-10 from Utuado-Adjuntas, the conversion into an expressway of the section of PR-2 from Mayagüez to Ponce to service the proposed transshipment port to be known as "Port of Las Américas," the widening of sections of PR-22 and the construction of new sections from Arecibo to Aguadilla to connect it to PR-2, the construction of the PR-5 tollway connecting PR-2 to Las Cumbres Avenue and the conversion of portions of PR-1, PR-2 in San Juan into an expressway.

The Authority receives aid for highway construction from the FHWA and the FTA. Such aid is recorded as related costs which are billed to the FHWA and the FTA, regardless of the year of appropriation. In fiscal years ended 1999, 2000 and 2001, such aid amounted to \$65.2 million, \$83.7 million and \$63.6 million, respectively.

Federal aid for highway construction is received under a number of federal programs, including those directed to 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 Puerto Rico. 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 2002 depending on the program. Federal highway legislation has liberalized certain types of federal highway aid and granted more flexibility to the states, including Puerto Rico, in the use of such aid in highway or other transportation projects. No assurance can be given that the level of federal highway aid will be maintained at the levels projected in the above table. In the event of material reductions in such aid, the Construction Improvement Program will be appropriately adjusted in the absence of internally generated funds, external financing or other sources of funds shown in the above table available to offset any such reductions.

The federal government conducts periodic audits of the federal aid it provides to the Authority to ascertain that funds are being expended consistently with the 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 under the 1968 Resolution and the Transportation Engineers under the 1998 Resolution, if different, annually review the Construction Improvement 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 Construction Improvement Program is a reasonable response to the immediate and short-term transportation needs and is generally consistent with the Authority's long-range transportation master plan. 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 II*.

Teodoro Moscoso Bridge

In furtherance of its expanded powers to enter into concession agreements with private companies, the Authority entered into a concession agreement with Autopistas de Puerto Rico y Compañía, S.E. ("APR") for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge, a bridge spanning the San José Lagoon from San Juan to Carolina. Pursuant to the concession agreement, APR is obligated to operate and maintain the bridge for a term of 35 years, subject to extension or to earlier termination. The bridge opened in February 1994 at a cost of approximately \$109.5 million. The bridge does not constitute a Traffic Facility under the 1968 Resolution or a Transportation Facility under the 1998 Resolution.

Construction of the bridge was financed through the issuance by the Authority of its Special Facility Revenue Bonds in the principal amount of \$116,752,769 (the "Special Facility Bonds"). The proceeds of such 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. APR's obligation in respect of the Special Facility Bonds is payable solely from the net toll revenues of the bridge, after payment of current operating expenses. As of October 31, 2001, the principal amount of Special Facility Bonds (including accretion on capital appreciation bonds) was \$136,187,196.

Under the concession agreement, the Authority is required to replace APR with a new concessionaire or assume APR's obligation to pay the Special Facility Bonds upon the occurrence, among other things, of APR payment defaults or traffic using the bridge not meeting traffic levels specified in the concession agreement (based on traffic projections prepared in connection with the construction of the bridge).

Since operations commenced, traffic using the bridge has been less than the levels specified in the concession agreement. As a result, APR currently has the right, but not the obligation, to terminate the concession agreement and require the Authority to assume APR's obligations to pay the Special Facility Bonds. While the aggregate volume of traffic during the bridge's first four years of operation was significantly less than certain minimum levels specified in the concession agreement, the traffic has, however, generally increased. For the first six months of calendar 2001, the actual volume of traffic was 95% of the agreement's specified minimum level for such period. During calendar 2000, the actual volume of traffic was 98% of the agreement's specified minimum level compared to 102% during 1999, 93% during 1998, 85% during 1997, 76% during 1996, 69% during 1995 and 62% during 1994. The Authority does not currently expect APR to terminate the concession agreement.

If the concession is terminated by APR, the Authority would be required to assume the obligation to pay principal of and interest on the Special Facility 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 cover any such insufficiency with unencumbered moneys in the 1968 Construction Fund (available pursuant to clause (4) of the third paragraph under "Sinking Fund" in *Summary of Certain Provisions of the 1968 Resolution*). The Authority has further agreed that, upon the occurrence of any 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 1968 Construction Fund moneys and has further agreed that until such insufficiency is cured, such unencumbered 1968 Construction Fund moneys will be subject to the lien and pledge in favor of the holders of the Special Facility Bonds.

The Authority has further agreed that, after its assumption of the obligation to repay the Special Facility Bonds, it will use its best efforts to issue additional Highway Revenue Bonds under Section 208 of the 1968 Resolution to the extent permitted by said Section and exchange the Special Facility Bonds for such additional Highway Revenue Bonds so issued or redeem any such outstanding Special Facility Bonds. Under the 1998 Resolution the Authority has agreed that any bonds issued to redeem the Special Facility Bonds would be Senior Transportation Revenue Bonds.

DEBT

Authority Debt

The outstanding debt of the Authority as of January 1, 2002, as adjusted for the issuance of the 2002 Bonds and the refunding of the Refunded Bonds, is as follows:

	<u>As of January 1, 2002⁽¹⁾</u>	<u>As Adjusted by the Issuance of the Series D and Series E Bonds⁽²⁾</u> (in thousands)	<u>As Further Adjusted by the Issuance of the Series F Bonds⁽³⁾</u>
Highway Revenue Bonds ⁽⁴⁾	\$2,098,150	\$2,098,150	\$1,972,510
Senior Transportation Revenue Bonds	1,655,927	2,354,422	2,473,037
Subordinated Transportation Revenue Bonds	75,050	75,050	75,050
Outstanding Notes ⁽⁵⁾	272,907	-	-
TIFIA Loan	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
Total	<u>\$4,402,034</u>	<u>\$4,827,622</u>	<u>\$4,820,597</u>

(1) In the case of capital appreciation bonds, includes accretion through January 1, 2002.

(2) Adjusted to exclude the bonds refunded thereby.

(3) Adjusted to exclude the bonds refunded thereby.

(4) Includes \$3,225,000 Highway Revenue Bonds sold to the Farmers Home Administration. Does not include the Special Facility Bonds issued by the Authority in April 1992 to finance the Teodoro Moscoso Bridge. See "Teodoro Moscoso Bridge" under *Highway System Revenues and Expenditures*.

(5) Notes payable to Government Development Bank for interim financing for certain capital improvements. The outstanding balance of the notes, which the Authority estimates will amount to approximately \$300,000,000 on the date of delivery of the Series D Bonds, will be repaid in full from a portion of the proceeds of the Series D Bonds.

Principal and Interest Requirements

The Principal and Interest Requirements for the outstanding Highway Revenue Bonds and Transportation Revenue Bonds and the 2002 Bonds as of the date hereof for each of the fiscal years 2002 through 2041 are set forth in the following table:

Year Ending June 30	Principal and Interest Requirements*				
	Outstanding Highway Revenue Bonds and Transportation Revenue Bonds ⁽¹⁾	Series D and Series E Bonds	Series F Bonds	All 2002 Bonds	Total Debt Service
2002	\$274,794,822	\$21,067,303	5 1,483,048	\$22,550,351	\$297,345,172
2003	239,404,846	52,668,256	12,097,013	64,765,269	304,170,115
2004	248,765,021	52,668,256	13,085,513	65,753,769	314,518,790
2005	248,804,067	52,668,256	13,089,513	65,757,769	314,561,836
2006	234,165,577	52,668,256	15,800,013	68,468,269	302,633,846
2007	234,026,215	52,668,256	15,905,763	68,574,019	302,600,233
2008	227,245,622	52,668,256	24,759,263	77,427,519	304,673,141
2009	227,240,397	52,668,256	24,756,513	77,424,769	304,665,166
2010	227,296,462	52,668,256	24,752,025	77,420,281	304,716,743
2011	220,042,000	74,448,256	10,072,425	84,520,681	304,562,681
2012	220,052,587	84,515,356	-	84,515,356	304,567,944
2013	220,055,037	84,512,881	-	84,512,881	304,567,919
2014	239,398,875	66,360,581	-	66,360,581	305,759,456
2015	239,399,987	66,361,206	-	66,361,206	305,761,194
2016	236,798,500	67,775,456	-	67,775,456	304,573,956
2017	228,605,575	75,962,481	-	75,962,481	304,568,056
2018	239,026,950	61,937,231	-	61,937,231	300,964,181
2019	239,209,838	55,067,931	-	55,067,931	294,277,769
2020	239,193,333	55,063,181	-	55,063,181	294,256,515
2021	216,864,230	55,068,006	-	55,068,006	271,932,237
2022	196,843,311	55,064,656	-	55,064,656	251,907,968
2023	149,605,307	55,066,206	-	55,066,206	204,671,513
2024	149,599,874	55,064,906	-	55,064,906	204,664,780
2025	149,598,167	55,067,894	-	55,067,894	204,666,061
2026	149,603,673	55,066,894	-	55,066,894	204,670,567
2027	132,134,064	72,534,644	-	72,534,644	204,668,708
2028	132,134,668	72,535,394	-	72,535,394	204,670,062
2029	123,361,831	72,531,394	-	72,531,394	195,893,225
2030	126,219,906	72,538,144	-	72,538,144	198,758,050
2031	126,224,244	72,535,144	-	72,535,144	198,759,388
2032	149,706,644	49,047,644	-	49,047,644	198,754,288
2033	149,707,225	49,044,394	-	49,044,394	198,751,619
2034	149,708,456	49,046,250	-	49,046,250	198,754,706
2035	149,713,969	49,047,588	-	49,047,588	198,761,556
2036	120,196,375	78,559,375	-	78,559,375	198,755,750
2037	64,831,900	78,556,150	-	78,556,150	143,388,050
2038	64,833,575	78,553,688	-	78,553,688	143,387,263
2039	-	78,561,925	-	78,561,925	78,561,925
2040	-	41,785,600	-	41,785,600	41,785,600
2041	-	41,787,113	-	41,787,113	41,787,113

* Totals may not add up due to rounding.

⁽¹⁾ Includes \$3,225,000 Highway Revenue Bonds sold to the Farmers Home Administration, which mature in the year 2020. Does not include the Special Facility Bonds issued by the Authority in April 1992 to finance the Teodoro Moscoso Bridge. See "Teodoro Moscoso Bridge" under *Transportation System Revenues and Expenditures*. The interest on certain variable rate Highway Revenue Bonds (Series W), issued in August 1993 has been calculated on the basis of the fixed interest rate payable by the Authority under a related interest rate swap agreement as permitted by the 1968 Resolution. The interest on certain variable rate Senior Transportation Revenue Bonds (Series A) has been calculated on the basis of the fixed interest rate payable by the Authority under a related interest rate swap agreement as permitted by the 1998 Resolution. Adjusted to exclude debt service on the Refunded Bonds.

⁽²⁾ Interest shown in fiscal year 2002 is net of accrued interest.

Upon the issuance of the 2002 Bonds, the remaining average life of the Highway Revenue Bonds, the Transportation Revenue Bonds and the 2002 Bonds will be approximately 20.5 years.

SUMMARY OF CERTAIN PROVISIONS OF THE 1968 RESOLUTION

The following are brief summaries of certain provisions of the 1968 Resolution. Such statements do not purport to be complete and reference is made to the 1968 Resolution, copies of which are available from the Authority or the 1968 Fiscal Agent. The 1968 Resolution, the Highway Revenue Bonds issued thereunder and the 1968 Resolution Revenues are referred to in this summary as the "Resolution", the "Bonds" and "Revenues", respectively. The Authority proposes to amend the 1968 Resolution as described in *Summary of Certain Provisions of the Proposed Supplemental Resolution*.

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 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.

"1968 Fiscal Agent" means the bank or trust company appointed by the Authority and acting as fiscal agent whether original or successor pursuant to the provisions of the Resolution.

"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 1968 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 clause (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 1968 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 or any successors thereto and S&P 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 or any successors thereto and S&P 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 1968 Fiscal Agent), insurance company, or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation, which agreement is secured by any one or more of the securities described in clause (i) or (ii) above, provided that the 1968 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 or any successors thereto and S&P 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 or any successors thereto and S&P or any successors thereto.

"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; provided, however, that if the Authority has notified the 1968 Fiscal Agent that a Swap agreement is in effect in respect of such Variable Rate Bonds, then for all purposes of this paragraph the interest rate on such Variable Rate Bonds shall be the Swap rate under such Swap agreement.

(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 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;

(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 or any successors thereto or S&P 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 1968 Reserve Account in any of the three highest rating categories (without regard to any gradation within any such category) of either Moody's or any successors thereto or S&P 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 the credit of the 1968 Reserve Account in any of the three highest rating categories (without regard to any gradation within any such category) of either Moody's or any successors thereto or S&P or any successors thereto.

"1968 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 (determined on the basis of their initial offering prices to the public).

"1968 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 issued under the provisions of the Resolution; provided that written notice of such pledge has been delivered to S&P, Moody's and any 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.

"Swap agreement" means an agreement between the Authority and a Swap party whereby the Swap party agrees to pay to the Authority amounts calculated on the basis of all or a portion of the interest on Variable Rate Bonds at or prior to the times such interest is due and payable in consideration of the Authority's payment to the Swap party of amounts set forth in the Swap agreement.

"Swap party" means a person who is party to a Swap agreement and whose senior obligations are rated at the time of the execution and delivery of such Swap agreement in one of the three highest rating categories (without regard to gradations within a category) by (i) S&P or its successor and (ii) Moody's or its successor.

"Swap rate" means the fixed rate per annum on the principal amount of Variable Rate Bonds covered by a Swap agreement equal to the percentage derived by dividing (i) the sum of the amounts in the last twelve months paid by the Authority in respect of interest on such bonds and to the Swap party less the amount paid to the Authority by the Swap party by (ii) such principal amount of Variable Rate Bonds; provided, however, that if such Swap agreement has been in effect for less than twelve months, such percentage shall be multiplied by 360 divided by the number of days between the effective date of such Swap agreement and the date of calculation determined on the basis of 30-day month; provided,

further, that if no amount has been paid under the Swap agreement, the Swap rate shall be deemed to be the fixed rate per annum contracted to be paid by the Authority to the Swap party.

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

“Traffic Facilities” means any of the following facilities for which Bonds shall be issued under the Resolution the cost of which facilities paid from the proceeds of such Bonds 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 “1968 Sinking Fund”). The “1968 Bond Service Account”, “1968 Redemption Account” and “1968 Reserve Account” are created within the 1968 Sinking Fund. (Section 401).

The moneys in each Account are held by the 1968 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 1968 Fiscal Agent as follows:

(1) To the 1968 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 1968 Bond Service Account;

(2) To the 1968 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 1968 Sinking Fund;

(3) To the 1968 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 1968 Reserve Requirement; provided, however, that such deposits shall only be made to the extent necessary to make the amount then in the 1968 Reserve Account equal to the 1968 Reserve Requirement; provided, further, that in the event of an increase in the 1968 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 1968 Revenues remaining after making the deposits referred to above shall be deposited to the credit of the 1968 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 1968 Reserve Account, or in substitution for all or a portion of the moneys then on deposit in the 1968 Reserve Account, the Authority may deposit into the 1968 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 1968 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 1968 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 1968 Redemption Account shall be applied to the retirement of Bonds as follows:

(a) Subject to the provisions of paragraph (c) below, the 1968 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 1968 Sinking Fund. The 1968 Fiscal Agent shall pay the interest accrued on such Bonds to the date of delivery thereof from the 1968 Bond Service Account and the purchase price from the 1968 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 1968 Fiscal Agent shall call for redemption on each interest payment date on which Bonds are subject to redemption from moneys in the 1968 Sinking Fund such amount of Bonds then subject to redemption as, with the redemption premium, if any, will exhaust the 1968 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 1968 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 1968 Sinking Fund and if the 1968 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 1968 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 1968 Construction Fund. (Section 403).

Moneys in the 1968 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 1968 Bond Service Account shall be insufficient for such purpose and thereafter for the purpose of making deposits to the credit of the 1968 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 1968 Reserve Account shall be transferred to the 1968 Construction Fund, the 1968 Bond Service Account or the 1968 Redemption Account, as directed by the Authority. (Section 404).

1968 Construction Fund

Moneys in the 1968 Construction Fund may be used for any authorized purpose of the Authority, including, prior to the adoption of the 1998 Resolution, 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 1968 Construction Fund there shall be filed with the 1968 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 1968 Fiscal Agent shall withdraw from the 1968 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 1968 Fiscal Agent shall also at any time at the written direction of the Authority transfer any part of the moneys in the 1968 Construction Fund to the credit of the 1968 Redemption Account. (Section 405).

As a result of the adoption of the 1998 Resolution and so long as the Authority shall have Transportation Revenue Bonds outstanding thereunder, the Authority may not withdraw, expend, pledge or otherwise encumber moneys held to the credit of the 1968 Construction Fund whether for the purpose of satisfying the Authority's priorities construction program or otherwise, except for the payment over to the 1998 Resolution as described in the third sentence of the fourth paragraph under "Summary of Certain Provisions of the 1998 Resolution-Sinking Funds" and except with respect to obligations with respect to the Teodoro Moscoso Bridge. See "Summary of Certain Provisions of the 1998 Resolution-Miscellaneous Covenants--Relating to the 1968 Resolution".

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, except as described in the next sentence, 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 1968 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. Notwithstanding the foregoing, the Authority may not repeal the Resolution so long as the termination option with respect to the Teodoro Moscoso Bridge concession remains in effect. See Fifth paragraph in "Teodoro Moscoso Bridge" under *Transportation System Revenues and Expenditures*. Under the terms of the 1998 Resolution, all such surplus and balances are required upon the repeal and cancellation of the Resolution to be transferred to the 1998 Revenue Fund.

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 irrevocable instructions to call such Bond for

redemption, (b) there shall have been deposited 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 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 in trust of moneys or such time deposits or Government Obligations required by clause (b) of this paragraph has been made 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 1968 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

As a result of the adoption of the 1998 Resolution and so long as the Authority shall have Transportation Revenue Bonds outstanding thereunder, the purposes for which additional Bonds may be issued are limited to refunding other Bonds for debt service savings and to exchange Bonds for Special Facility Bonds. See "Additional Bonds-Highway Revenue Bonds" under *The 2002 Bonds* above in this Official Statement.

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 1968 Reserve Account and to pay any costs of issuance of such Bonds. (Sections 208 and 209).

Before such Bonds shall be authenticated and delivered, there shall be filed with the 1968 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 1968 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 1968 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).

As a result of the adoption of the 1998 Resolution and so long as the Authority shall have Transportation Revenue Bonds outstanding thereunder, the ability of the Authority to reduce tolls or other charges imposed by it for the use of its Toll Facilities is further restricted as described herein under "Summary of Certain Provisions of the 1998 Resolution--Miscellaneous Covenants--Level of Tolls and Other Charges".

Any increase in the 1968 Reserve Requirement resulting from the issuance of such additional Bonds may be satisfied by equal deposits of 20% of such increase into the 1968 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).

As a result of the adoption of the 1998 Resolution and so long as the Authority shall have Transportation Revenue Bonds outstanding thereunder, the Authority may not incur any indebtedness nor create or suffer to be created any lien, pledge, assignment, encumbrance or charge upon the Existing Toll Facilities or the Existing Tax and Fee Revenues ranking equally with or prior to the Bonds.

Investment of Funds

Moneys held for the credit of the 1968 Bond Service Account and the 1968 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 1968 Construction Fund and the 1968 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 1968 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 1968 Construction Fund shall be retained to the credit of said Fund;

(b) investment earnings on moneys on deposit to the credit of the 1968 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 1968 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 1968 Construction Fund, the 1968 Bond Service Account or the 1968 Redemption Account, as the Authority shall direct; and

(c) investment earnings on moneys on deposit to the credit of the 1968 Bond Service Account and the 1968 Redemption Account shall be transferred to the 1968 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 1968 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

As a result of the adoption of the 1998 Resolution and so long as the Authority shall have Transportation Revenue Bonds outstanding thereunder, the ability of the Authority to amend the Resolution will be limited. See "Miscellaneous Covenants-Relating to the 1968 Resolution" in *Summary of Certain Provisions of the 1998 Resolution*.

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).

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 1968 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 Construction Improvement 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 1968 Construction Fund or from the Revenues thereafter deposited to the credit of the 1968 Construction Fund pursuant to the Resolution. (Section 604). **As a result of the adoption of the 1998 Resolution and so long as the Authority shall have Transportation Revenue Bonds outstanding thereunder, the Authority's obligations under this paragraph will be payable from moneys in the 1998 Construction Fund instead of the 1968 Construction Fund.**

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 Construction Improvement 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 Construction Improvement 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 be 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 1968 Construction Fund which have not theretofore been encumbered for other purposes, and moneys which are thereafter deposited to the credit of the 1968 Construction Fund pursuant to the Resolution shall first be applied for such purpose. (Section 605). **As a result of the adoption of the 1998 Resolution and so long as the Authority shall have Transportation Revenue Bonds outstanding thereunder, the Authority's obligations under this paragraph will be payable from moneys in the 1998 Construction Fund instead of the 1968 Construction Fund.**

SUMMARY OF CERTAIN PROVISIONS OF THE PROPOSED SUPPLEMENTAL RESOLUTION

The following is a brief summary of certain provisions of a resolution proposing to amend the 1968 Resolution, which resolution will be adopted when the consent of the owners of 100% of the Highway Revenue Bonds has been obtained. Such statements do not purport to be complete and reference is made to the proposed supplemental resolution, copies of which are available from the Authority or the 1968 Fiscal Agent. See "Modifications" in *Summary of Certain Provisions of the 1968 Resolution* for limitations as to the ability of the Authority to modify the 1968 Resolution further. The 1968 Resolution, the Highway Revenue Bonds issued thereunder and the 1968 Resolution Revenues are referred to in this summary as the "Resolution", the "Bonds" and "Revenues", respectively.

The proposed 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 a supplemental resolution 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.

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.

SUMMARY OF CERTAIN PROVISIONS OF THE 1998 RESOLUTION

The following are brief summaries of certain provisions of the 1998 Resolution. Such statements do not purport to be complete and reference is made to the 1998 Resolution, copies of which are available from the Authority or the 1998 Fiscal Agent. For the purposes of this summary, the term "senior bonds" shall refer to Senior Transportation Revenue Bonds; the term "Subordinated Transportation Revenue Bonds" shall refer to "Subordinated Transportation Revenue Bonds"; and the term "bonds" shall refer to "Transportation Revenue Bonds"; as those terms are used in this Official Statement.

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 Bond from the date of original issuance to the date of computation or the Interest Commencement Date, as the case may be, such interest to accrue at the rate set forth in the resolution providing for the issuance of said Bond, but not exceeding the maximum rate permitted by law, compounded periodically at the times provided for in such resolution.

"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, earlier redemption or other payment date therefor, all as so provided by said 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 following 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.

"Cost of Transportation Facilities" or "cost of Transportation Facilities" means the cost of acquisition and construction of Transportation Facilities and the cost of all labor, materials, machinery and equipment, the cost of all lands, property, rights, easements and franchises acquired, interest prior to and during construction and for any additional period authorized by law if so provided by, and subject to any limitations in, the resolution authorizing the issuance of a Series of bonds, the cost of engineering and legal services, preliminary surveys, or plans and specifications, expenses of administration properly chargeable to such construction or acquisition, legal, architectural and engineering expenses and fees, the cost of audits and of preparing and issuing the bonds, fees and expenses of the 1998 Fiscal Agent and consultants, financing charges, taxes or other governmental charges lawfully assessed during construction, claims arising in connection with construction, premiums on insurance in connection with construction, premiums for bond insurance, interest rate insurance or insurance assuring availability of the amounts required to be on deposit in the Senior Bond Reserve Account or any account in the Subordinated Bond Reserve Fund, any amounts required to be deposited in the Senior Bond Reserve Account or any account in the Subordinated Bond Reserve Fund, initial set-up fees and annual fees for any Credit Facility or Liquidity Facility and tender agent fees and fees payable for remarketing bonds supported by any Credit Facility or Liquidity Facility during such period, as may be specified in the resolution authorizing the issuance of such Series of bonds and all other items of expense not elsewhere in this definition specified, incident to the financing or construction of any Transportation Facilities and the placing of the same in operation.

"Existing Tax and Fee Revenues" means (1) the proceeds of the sixteen cents a gallon tax imposed on gasoline and one-half of the eight cents per gallon tax imposed on gas oil and diesel oil imposed by Subtitle B of Act No. 120, approved October 31, 1994, as amended, and allocated to the Authority by Act No. 223 of November 30, 1995, as

amended, and by said Act's predecessor statutes and (2) the proceeds of the \$15 increase per vehicle of annual motor vehicle license fees imposed by the Commonwealth and allocated to the Authority by Act. No. 9, approved August 12, 1982.

"Existing Toll Facilities Revenues" means the tolls or other charges imposed by the Authority for the use of any Traffic Facilities financed in whole or in part by the issuance of 1968 Resolution Bonds, including any extensions, betterments or improvements to such Facilities however financed or otherwise paid for.

"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 principal of and the interest on which are unconditionally guaranteed by, the United States Government, (ii) bonds, debentures or notes issued by any of the following Federal Agencies: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Banks, Export-Import Bank of the United States, Government National Mortgage Association or Federal Land Banks, (iii) obligations issued or guaranteed by an agency of the United States of America or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress, (iv) 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) of this definition 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, and (v) evidences of ownership of proportionate interests in future interest or principal payments on obligations specified in clauses (i), (ii), (iii) and (iv) of this definition held by a bank (including the 1998 Fiscal Agent) or trust company as custodian 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.

"Interest Commencement Date" means, with respect to any particular Capital Appreciation and Income Bonds, the date specified in the resolution providing for 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.

"Investment Obligations" means:

- (i) Government Obligations,
- (ii) direct and general obligations of any state or territory of the United States of America to the payment of the principal of and interest on which the full faith and credit of such state or territory is pledged, provided that such obligations are rated, on the date of investment therein, in any of the three highest rating categories (without regard to any gradations within any such category) by both Moody's or any successors thereto and S&P or any successors thereto,
- (iii) bankers' acceptances, certificates of deposit or time deposits of any bank or national banking association (including the 1998 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, 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, 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 1998 Fiscal Agent has a perfected first security interest in the collateral and that such collateral is held free and clear of claims by third parties,
- (iv) any repurchase, reverse repurchase or investment agreement with any bank or trust company organized under the laws of any state of the United States or the Commonwealth or any national banking association (including the 1998 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 1998 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,

(v) obligations, whether or not insured, issued by any state or territory of the United States, or any political subdivision, agency or instrumentality thereof which are rated, on the date of investment therein, in one of the three highest rating categories (without regard to any gradations within any such category) by both Moody's or any successors thereto and S&P or any successors thereto.

(vi) participating shares in a mutual fund or investment pool for local government investment; provided that the investments of such mutual fund or investment pool are rated in one of the three highest rating categories (without regard to any gradations within any such category) by both Moody's or any successors thereto, and S&P or any successors thereto.

(vii) (1) shares of stock in a corporation rated in the highest rating category by Moody's or any successors thereto and S&P or any successors thereto (without regard to gradations within such category) that (A) is a regulated investment company within the meaning of Section 851(a) of the Internal Revenue Code of 1986, as amended, and, meets the requirements of Section 852(a) of said Code for the calendar year; (B) invests all of its assets in obligations described in clauses (i) and (ii) above; and (C) has at least 98% of (I) its gross income derived from interest on, or gain from the sale of or other disposition of, such obligations or (II) the weighted average of its assets is represented by investments in such obligations or (2) money market accounts of the 1998 Fiscal Agent or any state or federally chartered bank, banking association, trust company or subsidiary trust company that is rated or whose parent state bank is rated in the highest short-term rating category or in one of the two highest long-term rating categories by Moody's or any successors thereto and S&P or any successors thereto (without regard to any gradations within such category), and

(viii) any other obligations permitted under the laws of the Commonwealth which are rated, or which are issued by issuers which are rated, on the date of investment therein, in any of the three highest rating categories (without regard to any gradations within any such category) by both Moody's or any successors thereto and S&P or any successors thereto, or which are collateralized by such Investment Obligations.

"Mass Transit Facilities" means the equipment, omnibus facilities, rail facilities, and real property, constituting or to constitute part of, or used or reasonably anticipated to be used in connection with the operation of, any mass transportation facility or system, and related services operated by the Authority directly or by contract, lease or other arrangements entered into by the Authority, as the foregoing may from time to time be augmented or diminished.

"1968 Resolution Bonds" means all bonds issued under the 1968 Resolution.

"Principal and Interest Requirements" means for any fiscal year, as applied to the bonds of any Series issued under the provisions of the 1998 Resolution, the sum of:

(i) the amount required to pay the interest on all outstanding bonds of such Series which is payable after July 31 in such fiscal year and on or before July 31 in the following fiscal year,

(ii) the amount required to pay the principal of the serial bonds of such Series then outstanding which is payable after July 31 in such fiscal year and on or before July 31 in the following fiscal year, and

(iii) the Amortization Requirement for the term bonds of such Series for such fiscal year.

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

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

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

(c) the interest rate on bonds issued with a variable, adjustable, convertible or similar rate of interest shall be the greater of (A)(1) the average rate of interest on such bonds for the preceding twelve months or such shorter period that such bonds shall have been outstanding, or (2) if such bonds had not been outstanding prior to the date of calculation, the rate of interest on such bonds on the date of calculation and (B) the lesser of the maximum rate then permitted by law and the maximum rate permitted on such bonds by the resolution authorizing the issuance thereof; provided, however, that if the Authority has notified the 1998 Fiscal Agent that a Swap agreement is in effect in respect of such bonds, then for all purposes of this paragraph, except for the purpose of determining the required deposits to the Senior Bond Sinking Fund or the Subordinated Bond Sinking Fund described in "Sinking Funds" below, the interest rate on such bonds shall be the Swap rate under such Swap agreement; and if such Swap rate is a variable rate, the interest rate on such bonds (except for the purpose specified above in this paragraph) shall be the average Swap rate for the preceding twelve months or such shorter period that the Swap agreement has been in effect, or if such Swap agreement has not been in effect prior to the date of calculation, the Swap rate on the date of calculation;

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

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

(f) in the case of bonds (A) which are expected to be repaid from the proceeds of bonds or other indebtedness or (B) on which interest is payable periodically and for which twenty-five percent (25%) or more of the principal amount matures during any one year and for which no Amortization Requirements have been established, the debt service requirements of the bonds may be excluded and in lieu thereof the bonds shall be treated, for purposes of the computation of Principal and Interest Requirements, as debt securities having a comparable federal tax status as such bonds, maturing in substantially equal annual payments of principal and interest over a period of not more than thirty (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 issued on the date of issuance of the bonds and issued by issuers having a credit rating, issued by Moody's or any successors thereto or S&P 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.

"Reserve Account Insurance Policy" means an insurance policy, surety bond or other acceptable evidence of insurance, which policy, bond or other evidence of insurance constitutes an unconditional senior obligation of a municipal bond insurer whose policy or bond results in the rating of municipal obligations secured by such policy or bond, at the time of deposit to the credit of the Reserve Account, in either of the two highest rating categories (without regard to any gradations within either such category) of either Moody's or any successors thereto or S&P or any successors thereto.

“Reserve Account Letter of Credit” means an irrevocable, transferable letter of credit, which letter of credit constitutes an unconditional senior obligation of a banking association, bank or trust company or branch thereof whose letter of credit results in the rating of municipal obligations secured by such letter of credit, at the time of deposit to the credit of the Reserve Account, in either of the two highest categories (without regard to any gradations within either such category) of either Moody’s or any successors thereto or S&P or any successors thereto and any agreement of the type referred to in the definition of “Subordinated Reserve Requirement”.

“Revenues” means all moneys received by the Authority on account of the crude oil tax allocated to the Authority by Act No. 34, approved July 16, 1997, as amended, all Existing Tax and Fee Revenues upon the repeal and cancellation of the 1968 Resolution, any tolls or other charges imposed by the Authority for the use of any of the Toll Facilities other than Existing Toll Facilities Revenues received by the Authority prior to the repeal and cancellation of the 1968 Resolution, the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico 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 1998 Resolution, and investment earnings on deposits to the credit of funds and accounts established under the 1998 Resolution, except for the 1998 Construction Fund.

“Senior Reserve Requirement” with respect to the senior bonds means the lesser of (i) the maximum Principal and Interest Requirements for any fiscal year on account of the outstanding senior bonds and (ii) ten (10%) percent of the original principal amount of each Series of senior bonds outstanding determined on the basis of their initial offering prices to the public.

“Subordinated Reserve Requirement” with respect to any Series of Subordinated Transportation Revenue Bonds means that amount fixed from time to time by resolution of the Authority as the amount required to be held to the credit of a separate account in the Subordinated Bond Reserve Fund corresponding to such Series. For purposes of determining the amount on deposit to the credit of any such separate account, any agreement between the 1998 Fiscal Agent and a financial institution serving as the depository institution of the Commonwealth state infrastructure bank (or other similar fund) created by virtue of Section 350 of the National Highway System Designation Act of 1995, as amended (23 U.S.C. Section 101), or any similar federal legislation, pursuant to which agreement such depository institution irrevocably agrees to provide funds to the 1998 Fiscal Agent for deposit to the credit of any separate account in the Subordinated Bond Reserve Fund shall be treated as satisfying the applicable Subordinated Reserve Requirement to the extent of the maximum amount of funds so available to be provided to the 1998 Fiscal Agent for deposit to the credit of such separate account.

“Swap agreement” means an agreement between the Authority and a Swap party whereby the Swap party agrees to pay to the Authority amounts calculated on the basis of all or a portion of the interest on bonds issued under the 1998 Resolution with a variable, adjustable, convertible or similar rate of interest at or prior to the times such interest is due and payable in consideration of the Authority’s payment to the Swap party of amounts set forth in the Swap agreement.

“Swap party” means a person who is party to a Swap agreement and whose senior obligations are rated at the time of the execution and delivery of such Swap agreement in one of the three highest rating categories (without regard to any gradations within any such category) by (i) S&P or its successors and (ii) Moody’s or its successors.

“Swap rate” means the fixed rate per annum on the principal amount of bonds issued under the 1998 Resolution with a variable, adjustable, convertible or similar rate of interest covered by a Swap agreement equal to the percentage derived by dividing (i) the sum of the amounts in the last twelve months paid by the Authority in respect of interest on such bonds and to the Swap party less the amount paid to the Authority by the Swap party by (ii) such principal amount of bonds; provided, however, that if such Swap agreement has been in effect for less than twelve months, such percentage shall be multiplied by 360 divided by the number of days between the effective date of such Swap agreement and the date of calculation determined on the basis of 30-day months;

“Toll Facilities” means any Traffic Facilities for the use of which the Authority imposes tolls.

“Traffic Facilities” means any of the following facilities for which 1968 Resolution Bonds or bonds or other obligations shall be issued by the Authority under the provisions of the 1998 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 1998 Resolution or the 1968 Resolution:

- (i) 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;
- (ii) parking lots and structures and other facilities necessary or desirable in connection with parking, loading or unloading of all kinds of vehicles or vessels; and
- (iii) all property rights, easements, and interests therein necessary or desirable for the construction, maintenance, control, operation or development of such traffic facilities.

“Transportation Engineers” means the engineer or engineers or engineering firms or corporations at the time employed by the Authority under the provisions of the 1998 Resolution.

“Transportation Facilities” means all Traffic Facilities, all Mass Transit Facilities, and any other highway, road, transportation or other facilities or undertakings permitted from time to time by the enabling act for which bonds or other obligations shall be issued by the Authority under the provisions of the 1998 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 1998 Resolution.

Sinking Funds

The 1998 Resolution creates the “Puerto Rico Highway and Transportation Authority Transportation Revenue Bonds Interest and Sinking Fund” (the “Senior Bond Sinking Fund”). The “Senior Bond Service Account”, “Senior Bond Redemption Account” and “Senior Bond Reserve Account” are created within the Senior Bond Sinking Fund. (Section 401).

The 1998 Resolution also creates the “Puerto Rico Highway and Transportation Authority Subordinated Transportation Revenue Bonds Interest and Sinking Fund” (the “Subordinated Bond Sinking Fund”). The “Subordinated Bond Service Account,” and “Subordinated Bond Redemption Account” are created within the Subordinated Bond Sinking Fund. (Section 401).

The 1998 Resolution also creates the “Puerto Rico Highway and Transportation Authority Subordinated Transportation Revenue Bonds Reserve Fund” (the “Subordinated Bond Reserve Fund”). The Authority may establish one or more accounts in the Subordinated Bond Reserve Fund to correspond to Series of Subordinated Transportation Revenue Bonds with different Subordinated Reserve Requirements. (Section 401).

The 1998 Resolution also creates the “Puerto Rico Highway and Transportation Authority Transportation Revenue Fund” (the “Revenue Fund”). The Authority has covenanted that all Revenues (except investment earnings on deposits to the credit of the funds and accounts established under the 1998 Resolution) will be deposited when received to the credit of the Revenue Fund. Until the outstanding 1968 Resolution Bonds have been paid or provision has been made for their payment and the repeal and cancellation of the 1968 Resolution, the Authority shall on or before the last day of the month during which the 2002 Bonds shall be issued and on or before the 25th day of each month thereafter withdraw from the 1968 Construction Fund and transfer to the credit of the Revenue Fund all unencumbered moneys held for the credit of the 1968 Construction Fund (herein “unencumbered 1968 Construction Fund moneys”), such transfer to be made on the books of the Authority as of the close of the preceding month. (Section 401).

The moneys in each Fund or Account are held by the 1998 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 1998 Resolution. (Section 401).

All Revenues (other than investment earnings), Excess 1968 Resolution Revenues and any other funds of the Commonwealth allocated to the Authority for the payment of principal of and interest on any bonds, are withdrawn monthly from the Revenue Fund and deposited with the 1998 Fiscal Agent as follows:

(1) to the Senior Bond Service Account, an amount equal to 1/6th of the amount of interest payable on all senior 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 of such Series until the amount in the Senior Bond Service Account equals the amount of interest payable on such interest payment date and the amount of such principal installment; but the amount so deposited on account of the interest in each month after the delivery of the senior 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 Senior Bond Service Account;

(2) to the Senior Bond Redemption Account, an amount equal to 1/12th of the Amortization Requirement for such fiscal year for the term bonds of each Series of senior bonds 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 Senior Bond Sinking Fund;

(3) to the Senior Bond 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 Senior Reserve Requirement; but such deposits shall only be made to the extent necessary to make the amount then in the Senior Bond Reserve Account equal to the Senior Reserve Requirement; and provided, further, that in the event of an increase in the Senior Reserve Requirement due to the issuance of additional Series of senior bonds, such increase will be funded by deposits in each of the five (5) years, commencing in the fiscal year in which such additional Series of senior bonds is issued, of 20% of such increase in the Senior Reserve Requirement;

(4) to the Subordinated Bond Service Account, an amount equal to one-sixth (1/6) of the amount of interest payable on all Subordinated Transportation Revenue Bonds of each Series on the interest payment date next succeeding and an amount equal to one-twelfth (1/12) of the next maturing installment of principal of such serial bonds of such Series until the amount in the Subordinated Bond Service Account equals the amount of interest payable on such interest payment date and the amount of such principal installment; but the amount so deposited on account of interest in each month after the delivery of the Subordinated Transportation Revenue 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 with the 1998 Fiscal Agent to the credit of the Subordinated Bond Service Account;

(5) to the Subordinated Bond Redemption Account, an amount equal to one-twelfth (1/12) of the Amortization Requirement for such fiscal year for the term bonds of each Series of Subordinated Transportation Revenue Bonds then outstanding plus one-twelfth (1/12) 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 Subordinated Bond Sinking Fund;

(6) to each separate account within the Subordinated Bond Reserve Fund, such amount, if any, of any balance remaining after making the deposits described under paragraph (1) through (5) above (allocated pro rata to each account on the basis of the corresponding Subordinated Reserve Requirements) at least equal to the respective deposit requirements corresponding to each such account established by the Authority; but no such deposits to any such account described under this paragraph will be made in any month if the amount then to the credit of such account shall be equal to the applicable Subordinated Reserve Requirement; and provided, further, that notwithstanding the above, in the event that any Subordinated Reserve Requirement increases on account of the issuance of additional Series of Subordinated Transportation Revenue Bonds, the Authority may provide for equal annual deposits as will ensure that the applicable Subordinated Reserve Requirement will be met not earlier than the end of a five year period following the issuance of such Series of Subordinated Transportation Revenue Bonds; and

(7) the balance remaining after making the deposits referred to above shall be deposited to the credit of the 1998 Construction Fund for use by the Authority for any of its authorized purposes, subject to the provisions of Sections 604 and 605 of the 1998 Resolution. (Section 401).

The requirements specified in paragraphs (1) through (6) above are cumulative. (Section 401).

The Authority further covenants that any other funds which it receives from the Commonwealth or any other source to make up any deficiencies in the amounts needed to pay the principal of and interest on any bonds issued under the provisions of the 1968 Resolution and the 1998 Resolution will be applied for such purpose first to make up any deficiencies in the amounts needed to pay the principal and interest on any 1968 Resolution Bonds and then to make up any such deficiencies needed to pay such principal of and interest on the senior bonds and then the Subordinated Transportation Revenue Bonds. (Section 401).

When the 1968 Resolution is repealed and cancelled, all moneys (other than those held for the redemption or payment of 1968 Resolution Bonds), including obligations purchased as an investment of such moneys will be withdrawn from the 1968 Construction Fund and 1968 Sinking Fund and deposited into the Revenue Fund. (Section 402).

Moneys in the Senior Bond Redemption Account shall be applied to the retirement of senior bonds as follows:

(a) Subject to the provisions of paragraph (c) below, the 1998 Fiscal Agent shall endeavor to purchase outstanding senior 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 Senior Bond Sinking Fund. The 1998 Fiscal Agent shall pay the interest accrued on such bonds to the date of delivery thereof from the Senior Bond Service Account and the purchase price from the Senior Bond 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 senior bonds.

(b) Subject to the provisions of paragraph (c) below, the 1998 Fiscal Agent shall call for redemption on each date on which senior bonds are subject to redemption from moneys in the Senior Bond Sinking Fund on the forty-fifth day prior to such redemption date such amount of senior bonds then subject to redemption as, with the redemption premium, if any, will exhaust the Senior Bond Redemption Account as nearly as may be; but not less than \$50,000 principal amount of senior bonds shall be called for redemption at any one time.

(c) Moneys in the Senior Bond Redemption Account shall be applied to the purchase or redemption of senior bonds in the following order:

First, the term bonds of each Series of senior bonds, 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; but if none of the term bonds of a Series of senior bonds shall be subject to redemption from moneys in the Senior Bond Sinking Fund and if the 1998 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 Senior Bond 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 senior 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 of senior bonds 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 senior bonds, any balance shall be applied to the retirement of serial senior bonds of each Series in proportion to the aggregate principal amount of each such Series originally issued.

All expenses in connection with such purchase or redemption shall be paid from the 1998 Construction Fund. (Section 404).

Moneys in the Senior Bond Reserve Account shall be used for the purpose of paying interest on the senior bonds and maturing principal of serial senior bonds whenever and to the extent that the moneys held for the credit of the Senior Bond Service Account shall be insufficient for such purpose and thereafter for the purpose of making deposits to the credit of the Senior Bond Redemption Account whenever and to the extent that the Revenues or other moneys deposited to the credit of the Revenue Fund are insufficient for such purpose; but prior to making any withdrawal from the Senior Bond Reserve Account, the 1998 Fiscal Agent shall withdraw first available unencumbered moneys in the 1998 Construction Fund and then any moneys held to the credit of the Subordinated Bond Redemption Account and then any moneys held to the credit of the Subordinated Bond Service Account in respect of the principal of any Subordinated Transportation Revenue Bonds and finally any other moneys held to the credit of the Subordinated Bond Service Account and transfer all such money so withdrawn to the Senior Bond Service Account or the Senior Bond Redemption Account in the respective amounts necessary to cure any insufficiencies in said Accounts. (Sections 405, 409 and 411).

Moneys held in the Subordinated Bond Service Account and Subordinated Bond Redemption Account will be applied to the payment of Subordinated Transportation Revenue Bonds' debt service in the same manner as moneys in the Senior Bond Service Account and the Senior Bond Redemption Account are applied to the payment of senior bonds' debt service, subject to the provisions employing moneys in the Subordinated Bond Sinking Fund to address insufficiencies in the Senior Bond Sinking Fund described in the previous paragraph. (Sections 406, 407, 411).

Money held for the credit of each account in the Subordinated Bond Reserve Fund shall be used for the purpose of paying interest on each Series of Subordinated Transportation Revenue Bonds and maturing principal of serial Subordinated Transportation Revenue Bonds of each such Series to which such account relates whenever and to the extent that the moneys held for the credit of the Subordinated Bond Service Account shall be insufficient for such purpose and thereafter for the purpose of making deposits to the credit of the Subordinated Bond Redemption Account whenever and to the extent that the Revenues or other moneys deposited to the credit of the Revenue Fund are insufficient for such purpose. (Section 408).

The Authority may deposit into the Senior Bond Reserve Account or any account in the Subordinated Bond Reserve Fund, a Reserve Account Insurance Policy or a Reserve Account Letter of Credit in an amount equal to all or a portion of the applicable reserve requirement, 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 in the applicable reserve account which cannot be otherwise cured. 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 Senior Bond Reserve Account or any account in the Subordinated Bond Reserve Fund from Revenues, funds in the amount of the disbursement made under such Reserve Account Insurance Policy or Reserve Account Letter of Credit, and any moneys held in any such reserve account may be applied for such purpose. (Sections 401, 405, 408).

1998 Construction Fund

Before any payment or withdrawal shall be made from moneys in the 1998 Construction Fund there shall be filed with the 1998 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 Transportation Facilities or for other authorized purposes. Upon receipt of such certificate the 1998 Fiscal Agent shall withdraw from the 1998 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 1998 Fiscal Agent shall also at any time at the written direction of the Authority transfer any part of the unencumbered moneys in the 1998 Construction Fund to the credit of any account in the Senior Bond Sinking Fund and shall make the transfers to the Senior Bond Service Account and Senior Bond Redemption Account to cure deposit deficiencies therein as described above. (Section 409).

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 rights, title and interest of the 1998 Fiscal Agent under the 1998 Resolution shall cease, terminate and become void, and such bonds shall cease to be entitled to any lien, benefit or security under the 1998 Resolution. In such event, the Authority shall repeal and cancel the 1998 Resolution and may apply any surplus in the Senior Bond Sinking Fund, Subordinated Bond Sinking Fund and all balances remaining in any other fund and accounts other than moneys held for the redemption or payment of bonds to any lawful purposes of the Authority.

Any outstanding bond shall be deemed to have been paid within the meaning and with the effect expressed in the 1998 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, when (a) in case such bond has been called for redemption or the Authority shall have given to the 1998 Fiscal Agent irrevocable instructions to call such bond for redemption, (b) there shall have been deposited with the 1998 Fiscal Agent Government Obligations the principal of and interest on which are sufficient, without any reinvestment thereof, 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) if such bond does not mature and is not to be redeemed within the next succeeding sixty (60) days, the Authority shall have given the 1998 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 Government Obligations required by clause (b) of this paragraph has been made with the 1998 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 1998 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 1998 Fiscal 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. (Section 1001).

Issuance of Additional Bonds

Senior bonds may be issued under and secured by the 1998 Resolution, subject to the conditions hereinafter described, at any time or times for any lawful purpose of the Authority. (Sections 208 and 209).

Before such bonds shall be delivered, there shall be filed with the 1998 Fiscal Agent, among other things, a certificate signed by the Executive Director not earlier than thirty (30) days prior to the delivery date of such bonds setting forth:

(i) the amount of Revenues received by the Authority and until the outstanding 1968 Resolution Bonds have been paid or provision has been made for their payment and the repeal and cancellation of the 1968 Resolution, the amount of Excess 1968 Resolution Revenues deposited to the credit of the Revenue Fund in each of the fifteen (15) months immediately preceding the month in which such certificate is signed, adjusted (I) to give effect to legislation enacted on or prior to the date of delivery of such bonds that would have increased the Revenues or the amounts of Excess 1968 Resolution Revenues deposited to the credit of the Revenue Fund as aforesaid if such legislation (x) had been in effect throughout such fifteen (15) months, (y) allocates additional moneys to the Authority and (z) expressly permits the Authority to pledge to the payment of the bonds issued under the provisions of the 1998 Resolution or the 1968 Resolution until the 1968 Resolution Bonds have been paid or provision has been made for their payment and the repeal and cancellation of the 1968 Resolution and the Authority has expressly pledged such additional moneys to such payment on or prior to such date of delivery and (II) to reflect the moneys which would have been received if (A) the schedule of tolls in effect on the date of delivery of such bonds had been in effect and (B) the Toll Facilities

to be financed in whole or part with the proceeds of such bonds had been in operation throughout such fifteen (15) months,

(ii) the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all senior bonds theretofore issued under the provisions of the 1998 Resolution and then outstanding and the senior bonds then requested to be delivered, and

(iii) the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all senior bonds and Subordinated Transportation Revenue Bonds theretofore issued under the provisions of the 1998 Resolution and then outstanding and the senior bonds then requested to be delivered; and

(iv) the percentage derived by dividing the amount in item (i) above for any twelve consecutive months by the amount in item (ii) above; and

(v) the percentage derived by dividing the amount in item (i) above for any twelve consecutive months by the amount in item (iii) above. (Section 208).

The 1998 Fiscal Agent may only deliver such additional senior bonds if the percentages shown in item (iv) and item (v) are not less than 150% and 100%, respectively. (Section 208).

The Authority need not deliver said certificate in connection with the issuance of senior bonds issued for the purpose of refunding senior bonds of any Series if the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of the senior bonds to be outstanding after the issuance of such refunding senior bonds shall be equal to or less than the maximum Principal and Interest Requirements for any fiscal year thereafter on account of the senior bonds outstanding prior to the issuance of such refunding senior bonds. (Section 209).

Subordinated Transportation Revenue Bonds may be issued under and secured by the 1998 Resolution, subject to the conditions described below, at any time or times for the purpose of paying the cost of any Transportation Facilities falling within the definition of "Federal-aid highway" or "capital projects" under Section 101 of Title 23 and Section 5302 of Title 49, respectively, of the United States Code, as such definitions may be amended from time to time, or qualifying for any other federal transportation assistance for the defraying (directly or indirectly) of such cost. (Section 210).

Before Subordinated Transportation Revenue Bonds shall be delivered, there shall be filed with the 1998 Fiscal Agent, among other things, a certificate signed by the Executive Director not earlier than thirty (30) days prior to the delivery date of such Subordinated Transportation Revenue Bonds indicating that the percentage derived by dividing (a) the amount of Revenues and Excess 1968 Resolution Revenues determined in the same manner as specified in clause (i) above by (b) the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all senior bonds and Subordinated Transportation Revenue Bonds theretofore issued under the provisions of the 1998 Resolution and then outstanding and the Subordinated Transportation Revenue Bonds then requested to be delivered is not less than 125%. (Section 210).

Refunding Subordinated Transportation Revenue Bonds may be issued only to refund other Subordinated Transportation Revenue Bonds of any Series. The Authority need not deliver said certificate in connection with the issuance of refunding Subordinated Transportation Revenue Bonds if the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of the Subordinated Transportation Revenue Bonds to be outstanding after the issuance of such refunding Subordinated Transportation Revenue Bonds shall be equal to or less than the maximum Principal and Interest Requirements for any fiscal year thereafter on account of the Subordinated Transportation Revenue Bonds outstanding prior to the issuance of such refunding Subordinated Transportation Revenue Bonds. (Section 211).

Other Indebtedness

The Authority will not incur any indebtedness nor create or suffer to be created any lien, pledge, assignment, encumbrance or charge upon the Revenues ranking equally with or prior to the senior bonds issued under the 1998

Resolution, except the lien and charge of the senior bonds secured by the 1998 Resolution, or ranking equally with the Subordinated Transportation Revenue Bonds except the lien and charge of the Subordinated Transportation Revenue Bonds secured by the 1998 Resolution. Any other indebtedness incurred by the Authority after the effective date of the 1998 Resolution under documents not in effect on the effective date of the 1998 Resolution shall contain a statement that such indebtedness is junior, inferior and subordinate in all respects to the bonds. For purposes of the above limitation on incurrence of indebtedness, indebtedness shall not be deemed to include contracts entered into in the ordinary course of business, agreements to repay advances received from the Federal government or agreements to repay (to the extent drawn) all or a portion of the stated amount drawn under any Credit Facility, Liquidity Facility, Reserve Account Letter of Credit or Reserve Account Insurance Policy. Nothing in the 1998 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 1998 Resolution is to be construed as preventing the Authority from financing any facilities authorized by the act creating the Authority, as amended, by the issuance of bonds or other obligations which are not secured under the provisions of the 1998 Resolution. (Section 1101).

Investment of Funds

Moneys held for the credit of the Revenue Fund, Senior Bond Service Account, Senior Bond Redemption Account, Subordinated Bond Service Account, and Subordinated Bond 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 1998 Construction Fund, Senior Bond Reserve Account and each account in the Subordinated Bond Reserve Fund 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 said Fund or Accounts will be required for the purposes intended. Amounts on deposit in the Senior Bond Reserve Account and each account in the Subordinated Bond Reserve Fund shall be invested in Investment Obligations which mature not later than the final maturity date of any senior bonds or Subordinated Transportation Revenue Bonds outstanding, as the case may be. (Section 502).

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

(a) Investment earnings on moneys on deposit to the credit of the Senior Bond Service Account, the Senior Bond Redemption Account, the Subordinated Bond Service Account, the Subordinated Bond Redemption Account and the 1998 Construction Fund shall be transferred to the credit of or retained in the 1998 Construction Fund; but the Authority may elect to have such investment earnings remain to the credit of the Senior Bond Service Account, the Senior Bond Redemption Account, the Subordinated Bond Service Account or the Subordinated Bond Redemption Account to fund the next payment of principal of, Amortization Requirements for and interest on the senior bonds or the Subordinated Transportation Revenue Bonds, in which event the Authority shall receive a credit against the amounts required to be deposited in said Accounts as applicable;

(b) Investment earnings on moneys on deposit to the credit of the Senior Bond Reserve Account and each account in the Subordinated Bond Reserve Fund shall be retained in said accounts at any time that the respective amounts on deposit to the credit of said accounts is less than the Senior Reserve Requirement or the corresponding Subordinated Reserve Requirement, as applicable; and

(c) Investment earnings on moneys on deposit to the credit of the Revenue Fund shall be retained therein. (Section 502).

In computing the amount in any Fund or Account created pursuant to the provisions of the 1998 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 1998 Resolution and the valuation of the investments of such amount shall be performed by the 1998 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 1998 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 1998 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 1998 Resolution or to add to the covenants and agreements of the Authority in the 1998 Resolution or to surrender any right or power reserved to or conferred upon the Authority, or to amend the conditions, limitations and restrictions on the issuance of Subordinated Transportation Revenue Bonds or the covenants and agreements relating to the Subordinated Transportation Revenue Bonds (as shall not adversely affect the interests of the holders of any senior bonds) as may be required to enable the Authority to comply with the provisions of any federal legislation, rules or regulations or court decisions or orders relating to the receipt by the Authority of grants or other assistance from the United States Government. (Section 801).

The holders of not less than a majority in aggregate principal amount of the senior bonds and of the Subordinated Transportation Revenue Bonds then outstanding and affected thereby shall have the right to consent to and approve the adoption of such resolution or resolutions supplemental to the 1998 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 1998 Resolution or in any supplemental resolution; but nothing contained in the 1998 Resolution shall permit, or be construed as permitting, without consent of the holders of all bonds affected thereby, (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 1998 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, or (f) a change in the subordination provisions. (Section 802).

If at any time the Authority determines that it is necessary or desirable to adopt any supplemental resolution for any of the purposes of the above paragraph, the 1998 Fiscal Agent at the expense and request of the Authority shall cause notice of the proposed adoption of such supplemental resolution to be mailed, first class, postage prepaid, to all bondholders and to Government Development Bank for Puerto Rico. 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 1998 Fiscal Agent for inspection by all bondholders. The 1998 Fiscal Agent shall not, however, be subject to any liability to any bondholder by reason of its failure to cause such notice to be mailed, and any such failure shall not affect the validity of such supplemental resolution when consented to and approved. (Section 802).

Whenever, at any time within one year after the date of the mailing of such notice, the Authority shall obtain an instrument or instruments in writing purporting to be executed by the holders of not less than a majority in aggregate principal amount of the senior bonds and of the Subordinated Transportation Revenue 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 1998 Fiscal Agent a certificate signed by the Executive Director that the holders of such required percentages 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 a majority in aggregate principal amount of the affected senior bonds and of the affected Subordinated Transportation Revenue 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 1998 Resolution, the 1998 Resolution shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the 1998 Resolution of the Authority, the 1998 Fiscal Agent and all holders of bonds then outstanding shall thereafter be determined, exercised and enforced in all respects under the provisions of the 1998 Resolution as so modified and amended. (Section 803).

Miscellaneous Covenants

Master Plan. The Authority covenants that the master plan for the construction of required Transportation Facilities in Puerto Rico will be supplemented periodically as necessary and that the five-year Construction Improvement Program will be updated each year to cover the Transportation 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 1968 Resolution Bonds and all Transportation Facilities financed by the Authority in whole or in part by bonds under the provisions of the 1998 Resolution are not provided by the Commonwealth, the Authority will pay such costs from unencumbered funds then on deposit in the 1998 Construction Fund or from the Revenues or unencumbered 1968 Construction Fund moneys thereafter deposited to the credit of the 1998 Construction Fund pursuant to the 1998 Resolution and not from funds then on deposit or thereafter deposited to the credit of the 1968 Construction Fund. (Section 604).

The Authority further covenants that it will cause an annual general evaluation to be made by the Transportation Engineers of the level of maintenance of all Traffic Facilities and Transportation Facilities financed in whole or in part by the issuance of bonds under the provisions of, respectively, the 1968 Resolution and the 1998 Resolution, which Facilities shall be, in the judgment of the Authority and of the Traffic Engineers, material to the overall system of Transportation Facilities of the Authority. (Section 604).

The Authority further covenants that it will operate or cause to be operated the Toll Facilities, any Mass Transit Facilities and all other Transportation Facilities that it may from time to time operate or cause to be operated in an efficient and economical manner, that it will at all times maintain or cause to be maintained such Transportation Facilities in good repair and in sound operating condition and that it will make or cause to be made all necessary repairs, renewals and replacements thereto. (Section 604).

Annual Report of Traffic Engineers. The Authority covenants that it will cause the Transportation Engineers to prepare a report each year promptly after the completion of their general evaluation of the level of maintenance, repair and operating condition of the Transportation Facilities 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 Construction Improvement 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 Construction Improvement Program, and (ii) their findings as to whether those Traffic Facilities have been maintained in good repair, working order and sound operating 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 Facilities are necessary, the Authority shall promptly cause the same to be restored to a condition of good repair and to sound operating condition, 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 1998 Construction Fund which have not theretofore been encumbered for other purposes, and

moneys which are thereafter deposited to the credit of the 1998 Construction Fund pursuant to the 1998 Resolution shall first be applied for such purpose. No funds then on deposit or thereafter deposited to the credit of the 1968 Construction Fund shall be applied for such purpose. (Section 605).

Relating to the 1968 Resolution. The Authority covenants that immediately upon the repeal and cancellation of the 1968 Resolution, all Existing Tax and Fee Revenues and Existing Toll Revenues shall be pledged to the payment of the principal of and premium, if any, and interest on the bonds issued under the provisions of the 1998 Resolution to the same extent and with the same effect as the pledge of Revenues and other moneys deposited to the credit of the Revenue Fund. (Section 601).

The Authority further covenants that it will cause the 1968 Resolution to be repealed and cancelled at the earliest practicable date. The Authority further covenants that, except for the proposed supplemental resolution described in *Summary of Certain Provisions of the Proposed Supplemental Resolution*, it will not adopt any resolution supplemental to the 1968 Resolution for the purpose of granting to or conferring upon the 1968 Fiscal Agent for the benefit of the holders of the bonds issued under the 1968 Resolution any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon such holders or the 1968 Fiscal Agent, or for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the 1968 Resolution, or for the purpose of extending the maturity of any 1968 Resolution Bond or creating a lien upon or a pledge of revenues ranking prior to or on a parity with the lien or pledge created by the 1968 Resolution. Nothing shall prevent the Authority from adopting a resolution supplemental to the 1968 Resolution to cure any ambiguity or formal defect or omission in the 1968 Resolution. (Section 609).

The Authority covenants that so long as any 1968 Resolution Bonds are outstanding under the provisions of the 1968 Resolution it will cause to be made the deposits to the credit of the 1968 Construction Fund required by the 1968 Resolution. The Authority further covenants that except for any withdrawals required to be made as set forth in the third sentence of the fourth paragraph of "Sinking Funds" above, it will not withdraw, expend, pledge or otherwise encumber moneys held to the credit of the 1968 Construction Fund whether for the purpose of satisfying the Authority's Construction Improvement Program or otherwise, except for the satisfying the Authority's obligations under Section 513 of that certain trust agreement, dated as of April 1, 1992, by and between the Authority and Banco Santander Puerto Rico, successor trustee. See, "Teodoro Moscoso Bridge" under *Transportation System Revenues and Expenditures* above in this Official Statement (Section 610).

Use of Revenues. The Authority covenants and agrees that, so long as any of the bonds secured by the 1968 Resolution shall be outstanding, none of the Revenues will be used for any purpose other than as provided in the 1968 Resolution and the 1998 Resolution, and that no contract or contracts will be entered into or any action taken by which the rights of the 1998 Fiscal Agent or of the bondholders might be impaired or diminished. (Section 611).

Additional 1968 Resolution Bonds. The Authority covenants that so long as any bonds shall be outstanding under the provisions of the 1998 Resolution it will not issue additional 1968 Resolution Bonds which mature after July 1, 2036 and except for (a) refunding bonds and (b) bonds issued for the purpose of meeting the obligations of the Authority under Section 11.4(b) of that certain Concession Agreement for the Final Design, Construction, Operation and Maintenance of a Privatized Transportation Facility, dated December 20, 1991, as amended, by and between the Authority and Autopistas de Puerto Rico y Compañía, S.E. relating to its obligations in respect of the Teodoro Moscoso Bridge. See, "Teodoro Moscoso Bridge" under *Transportation System Revenues and Expenditures* above in this Official Statement (Section 612).

Swap Agreements. The Authority covenants that it will not enter into a Swap agreement unless it first delivers copies of the proposed Swap agreement to S&P and Moody's and any other rating agency then rating the bonds. (Section 613).

Level of Tolls and Other Charges. Notwithstanding any provisions in the 1968 Resolution enabling the Authority to reduce tolls or other charges, the Authority covenants that it will not reduce the tolls or other charges imposed by it for the use of its Toll Facilities unless, as of the effective date of such reduction, the Authority delivers to the 1998 Fiscal Agent a certificate, signed by the Executive Director of the Authority not earlier than thirty (30) days prior to the effective date of such reduction, setting forth:

(i) the amount of Revenues received by the Authority and, until the outstanding 1968 Resolution Bonds have been paid or provision has been made for their payment and the repeal and cancellation of the 1968 Resolution, the amount of Excess 1968 Resolution Revenues deposited to the credit of the Revenue Fund in each of the fifteen (15) months immediately preceding the month in which such certificate is signed, adjusted (I) to give effect to legislation enacted on or prior to the effective date of such reduction that would have increased the Revenues or the amounts deposited to the credit of the Revenue Fund from the 1968 Construction Fund as aforesaid if such legislation (x) had been in effect throughout such fifteen (15) months, (y) allocates additional moneys to the Authority and (z) expressly permits the Authority to pledge to the payment of the bonds issued under the provisions of the 1998 Resolution or the 1968 Resolution until the 1968 Resolution Bonds have been paid or provision has been made for their payment and the repeal and cancellation of the 1968 Resolution and the Authority has expressly pledged such additional moneys to such payment on or prior to such date of delivery and (II) to reflect the moneys which would have been received if (A) the schedule of tolls in effect on such effective date had been in effect and (B) any Toll Facilities which have commenced operation or been removed from operation during such fifteen (15) months either had been in operation or not operating, throughout such fifteen (15) months,

(ii) the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all senior bonds theretofore issued under the provisions of the 1998 Resolution and then outstanding, and

(iii) the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all senior bonds and all Subordinated Transportation Revenue Bonds theretofore issued under the provisions of the 1998 Resolution and then outstanding and

it shall appear from such certificate that the percentages derived by dividing the sum of the amounts shown in item (i) of such certificate for any twelve (12) consecutive months by the amount shown in item (ii) of said certificate and by the amount shown in item (iii) of said certificate, shall not be less than one hundred fifty per centum (150%) and one hundred per centum (100%), respectively. (Section 614).

Rights of Bond Insurer

Financial Security, as insurer of the Insured Bonds, has been granted certain rights (including the right to vote with respect to amendment to the 1998 Resolution *in lieu* of Owners of Insured Bonds) and has obtained certain covenants from the Authority, including to provide notice of certain events and to obtain Financial Security's consent before certain actions are taken. The Authority has also agreed that, unless Financial Security agrees otherwise, the Authority will limit the securities it may use to defease Insured Bonds to certain enumerated securities, which constitute a subset of those permitted by the 1998 Resolution. (Resolution No. 2002-04)

TAX EXEMPTION

Opinion of Bond Counsel

In the opinion of Hawkins, Delafield & Wood, Bond Counsel, under the provisions of the Acts of Congress now in force and under existing statutes and court decisions (i) interest on the 2002 Bonds is excluded from gross income for Federal income tax purposes, and (ii) interest on the 2002 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectation made by the Authority and others in connection with the 2002 Bonds, and Bond Counsel has assumed compliance by the Authority with the covenant referred to below.

In addition, in the opinion of Bond Counsel, under existing statutes and court decisions, the 2002 Bonds, and the interest thereon, are exempt from state, Commonwealth of Puerto Rico and local income taxation.

Bond Counsel expresses no opinion regarding any other Federal, state, Commonwealth or local tax consequences with respect to the 2002 Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the 2002 Bonds, or under state, Commonwealth or local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2002 Bonds in order that interest on the 2002 Bonds be and remain excluded from gross income for Federal income tax purposes. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2002 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the 2002 Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply, with certain applicable requirements of the Code to assure the exclusion of interest on the 2002 Bonds from gross income for Federal income tax purposes.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the 2002 Bonds. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2002 Bonds.

Prospective owners of the 2002 Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. Interest on the 2002 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of an Offered Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the 2002 Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity of underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of 2002 Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement. Bond Counsel further is of the opinion that, for any 2002 Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owner of the Discount Bond under the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the 2002 Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state, Commonwealth and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires an Offered Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Offered Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Offered Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state, Commonwealth and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Possible Government Action

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. In addition, the Internal Revenue Service has established an expanded audit program for tax-exempt bonds. There can be no assurance that legislation enacted or proposed or an audit initiated by the Internal Revenue Service after the issue date of the 2002 Bonds will not have an adverse effect on the tax-exempt status or market price of the 2002 Bonds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series D Bonds and Series E Bonds from the Authority at an aggregate discount of \$6,693,689.03 from the initial offering prices of such bonds set forth or derived from information set forth on the inside cover pages hereof. The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series F Bonds from the Authority at an aggregate discount of \$682,881.63 from the initial offering prices of the Series F 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 Series D and Series E Bonds if any Series D or Series E Bonds are purchased. The obligation of the Underwriters to purchase the Series F Bonds is subject to certain conditions precedent, and may be terminated, as described in "Delayed Delivery of the Series F Bonds" under *Financing Plan*. The Underwriters will be obligated to purchase all the Series F Bonds if any such Series F Bonds are purchased. The 2002 Bonds may be offered and sold to certain dealers (including dealers depositing 2002 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.

Lehman Brothers Inc. ("Lehman"), a managing underwriter, has entered into a written agreement with BBVA Capital Markets of Puerto Rico, Inc. ("BBVA Capital"), pursuant to which BBVA Capital has agreed to cooperate in connection with Lehman's provision of underwriting and investment banking services to the Authority with respect to the 2002 Bonds. Pursuant to this arrangement, the existence of which has been disclosed to the Authority and Government Development Bank, BBVA Capital will be entitled to receive a portion of Lehman's actual net profits, if any, in connection with the underwriting of the 2002 Bonds. Other similar agreements with respect to the sharing of underwriting net profits have been entered into and disclosed to the Authority and Government Development Bank by the following Underwriters: Morgan Stanley & Co. Incorporated and Popular Securities, Inc.; Banc of America Securities LLC and Oriental Financial Services Corporation; Goldman, Sachs & Co. and FirstBank Puerto Rico; Merrill

Lynch & Co. and Santander Securities Corporation; ABN Amro Financial Services, Inc. and Prudential Securities Incorporated; and First Union National Bank and Doral Securities, Inc.

VERIFICATION

Causey Demgen & Moore will verify, from the information provided to them, the mathematical accuracy as of the respective dates of closing of the Series E Bonds and Series F Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in such schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the Refunded Bonds (see *Plan of Financing*), and (ii) the computations of yield on both the securities and the 2002 Bonds contained in such schedules used by Bond Counsel in its determination that interest on the 2002 Bonds is excluded from gross income for federal income tax purposes. Causey Demgen & Moore will express no opinion on the assumptions provided to them, nor as to the exclusion from gross income for Federal income tax purposes of the interest on the 2002 Bonds.

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 2002 Bonds or in any way contesting or affecting the validity of the 2002 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 1998 Resolution or the 1968 Resolution or the existence or powers of the Authority.

The Authority is involved as defendant in various legal proceedings arising in the normal course of its business. Many of these proceedings involve claims against the Authority based on breach of contract, claims for additional compensation under construction contracts, claims for damages from automobile accidents allegedly caused by alleged defects in highway construction or maintenance and challenges to public bidding procedures conducted by the Authority, among others. The Authority and its General Counsel do not believe that liability from any such 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.

One of these proceedings involves a lawsuit filed by APR against the Authority seeking monetary damages in the amount of \$200 million. As discussed under "Operating Expenses and Capital Expenditures - Construction Improvement Program - Highway Construction", PR-66 was a proposed tollway from the metropolitan San Juan area to Canóvanas. PR-66 was one of two projects which the Authority originally intended to have designed, built, operated and maintained by APR through concession agreements. In February 1997, the Authority decided to design, construct, operate and maintain PR-66 as a government project instead of as a private concession. In connection therewith, APR filed a lawsuit against the Authority seeking, among others, monetary damages for lost profits in the amount of \$200 million. The case is presently pending resolution of the issue of whether APR is entitled to recover lost profits from the Authority. Based on the opinion of its legal counsel, while the Authority cannot predict the outcome of this or any other litigation, the Authority does not expect the outcome of the APR lawsuit to have a material adverse effect on its 1998 Resolution Revenues, its 1968 Resolution Revenues or its operations or financial condition.

LEGAL MATTERS

The forms of opinions of Hawkins, Delafield & Wood, New York, New York, Bond Counsel, are set forth in *Appendix III* to this Official Statement. Certain legal matters will be passed upon for the Underwriters by Pietrantonio Méndez & Alvarez LLP, San Juan, Puerto Rico.

LEGAL INVESTMENT

The 2002 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 2002 Bonds offered hereby. As financial advisor, Government Development Bank participated in the selection of the Underwriters of the 2002 Bonds. Certain of the Underwriters have been selected by Government Development Bank to serve from time to time as underwriters of its obligations and the obligations of the Commonwealth, its instrumentalities and public corporations. Certain of the Underwriters or their affiliates participate in other financial transactions with Government Development Bank.

RATINGS

Moody's and S&P have given the 2002 Bonds ratings of "Baa1" and "A", respectively. These ratings do not reflect the Financial Security Policy. Moody's and S&P have given the Insured Bonds ratings of "Aaa" and "AAA", 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 2002 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 2002 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 2002 Bonds.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the requirements of Rule 15c2-12, as amended (the "Rule"), promulgated by the Securities and Exchange Commission ("SEC"), the Commonwealth and the Authority, as specifically stated hereinbelow, will agree to the following:

1. Each of the Authority and the Commonwealth will agree to file within 305 days after the end of each fiscal year beginning with its fiscal year ending on June 30, 2002, with each NRMSIR and with any Commonwealth state information depository ("SID"), core financial information and operating data for the prior fiscal year, including (i) its audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data (including financial information and operating data) on the Authority and the Commonwealth, as the case may be, and information as to revenues, expenditures, financial operations and indebtedness of the Authority and the Commonwealth, as the case may be, in each case, generally found or incorporated by reference in this Official Statement; and

2. The Authority will agree to file, in a timely manner, with each NRMSIR or with the MSRB and with any SID, notice of any failure to comply with paragraph 1 above and of the occurrence of any of the following events with respect to the 2002 Bonds if, in the judgment of the Authority or its agent, such event is material:

- a. principal and interest payment delinquencies;
- b. non-payment related defaults;
- c. unscheduled draws on debt service reserves reflecting financial difficulties;
- d. unscheduled draws on credit enhancements reflecting financial difficulties;
- e. substitution of credit or liquidity providers, or their failure to perform;
- f. adverse opinions or events affecting the tax-exempt status of the 2002 Bonds;
- g. modifications to rights of the holders (including Beneficial Owners) of the 2002 Bonds;
- h. bond calls;
- i. defeasances;
- j. release, substitution, or sale of property securing repayment of the Series 2002 Bonds; and
- k. rating changes.

With respect to the following events:

Events (d) and (e). For a description of the 2002 Bonds, see *The 2002 Bonds*. The Authority does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the 2002 Bonds, unless the Authority applies for or participates in obtaining the enhancement.

Event (f). For information on the tax status of the 2002 Bonds, see *Tax Exemption*.

Event (h). The Authority does not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if (i) the terms, dates and amounts of redemption are set forth in detail in this Official Statement under "Description of the 2002 Bonds -- Redemption Provisions -- Mandatory Redemption" under *The 2002 Bonds*, (ii) the only open issue is which 2002 Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Bondholders as required under the terms of the 2002 Bonds and the 1998 Resolution, and (iv) public notice of the redemption is given pursuant to Securities Exchange Act of 1934 Release No. 34-23856 of the SEC, even if the originally scheduled amounts are reduced by prior optional redemptions or purchases of 2002 Bonds.

The Commonwealth expects to provide the information described in paragraph (1) above by delivering its first bond official statement that includes its financial statements for the preceding fiscal year or, if no such official statement is issued by the 305-day deadline, by delivering its Comprehensive Annual Financial Report by such deadline and a supplemental report containing other information to the extent necessary to provide the information described in paragraph 1 by such deadline.

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

The Authority may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above whether or not, such other events are material with respect to the 2002 Bonds, but the Authority does not undertake to provide any such notice of the occurrence of any event, except those events, if material, listed above.

The Commonwealth and the Authority acknowledge that their respective undertakings pursuant to the Rule described above are intended to be for the benefit of the Beneficial Owners of the 2002 Bonds, and shall be enforceable by any such Beneficial Owners; provided that the right to enforce the provisions of their respective undertakings shall be limited to a right to obtain specific enforcement of the Authority's or the Commonwealth's obligations hereunder.

No Beneficial Owner may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the foregoing covenants (the "Covenants") or for any remedy for breach thereof, unless such Beneficial Owner shall have filed with the Authority and the Commonwealth written notice of any request to cure such breach, and the Authority or the Commonwealth, as applicable, shall have refused to comply within a reasonable time. All Proceedings shall be instituted only in a Commonwealth court located in the Municipality of San Juan for the equal benefit of all Beneficial Owners of the outstanding 2002 Bonds benefitted by the Covenants, and no remedy shall be sought or granted other than specific performance of any of the Covenants at issue. Moreover, Proceedings filed by Beneficial Owners against the Commonwealth may be subject to the sovereign immunity provisions of Sections 2 and 2A of Act No. 104, approved June 29, 1955, as amended (32 L.P.R.A. §3077 and §3077a), which governs the scope of legal actions against the Commonwealth, substantially limits the amount of monetary damages that may be awarded against the Commonwealth and provides certain notice provisions, the failure to comply with which may further limit any recovery.

The Covenants may only be amended if:

(1) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority or the Commonwealth, or type of business conducted; the Covenants, as amended, would have complied with the requirements of the Rule at the time of award of the 2002 Bonds, after taking into account any amendments or change in circumstances; and the amendment does not materially impair the interest of Beneficial Owners, as determined by parties unaffiliated with the Authority or the Commonwealth; or

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

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

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

MISCELLANEOUS

The foregoing references to and summaries of certain provisions of the 1968 Resolution, 1998 Resolution, the various acts and the 2002 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 the audited financial statements of the Authority for the fiscal year ended June 30, 2001 with comparative totals for the fiscal year ended June 30, 2000, together with the report of Ernst & Young LLP (*Appendix I*), the letter of the Traffic Engineers (*Appendix II*), the proposed forms of opinions of Bond Counsel (*Appendix III*), the form of Delayed Delivery Contract (*Appendix IV*) and a specimen of the Financial Security Policy (*Appendix V*).

This Official Statement incorporates by reference the Commonwealth Report and the Commonwealth Financial Statements and the Supplement. The Commonwealth Report has been filed by the Commonwealth with the MSRB and with each NRMSIR as *Appendix I* to the Commonwealth Official Statement. The Commonwealth Financial Statements have been filed by the Commonwealth with each NRMSIR as part of the Comprehensive Annual Financial Report of the Commonwealth for the fiscal year ended June 30, 2000. The Supplement has been filed with the MSRB and each NRMSIR.

Any official statement of the Commonwealth or of any instrumentality of the Commonwealth filed with each NRMSIR and the MSRB or any other document which supplements or amends the Commonwealth Report or the Commonwealth Financial Statements filed with the MSRB or with each NRMSIR after the date hereof and prior to the termination of the initial offering of the 2002 Bonds shall be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document. Any statement contained herein or in any of the above described documents incorporated herein by reference shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Commonwealth will provide without charge to any person to whom this Official Statement is delivered, on the written or oral request of such person, a copy of the Commonwealth Report and the Commonwealth Financial Statements incorporated by reference herein. Requests for such document should be directed to Director-New York Office, Government Development Bank for Puerto Rico, 140 Broadway, 38th Floor, New York, N.Y. 10005, telephone number (212) 422-6420 or (212) 422-6422, or to Director-General Obligations Division, Government Development Bank for Puerto Rico, P.O. Box 42001, Santurce, PR 00940, telephone number (787) 722-7060.

A copy of the Commonwealth Report, the Commonwealth Financial Statements and the Supplement may be obtained by contacting a NRMSIR. The address of each NRMSIR is set forth in *Continuing Disclosure* above.

The financial statements of the Authority included in *Appendix I* and the Commonwealth Financial Statements have been audited by Ernst & Young LLP and Deloitte & Touche LLP, San Juan, Puerto Rico, respectively, as set forth in their respective reports therein. The prospective financial information included in this Official Statement has been prepared by, and is the responsibility of the management of the Authority. Ernst & Young LLP and Deloitte & Touche LLP have neither examined nor compiled the prospective financial information, and accordingly, Ernst & Young LLP and Deloitte & Touche LLP do not express an opinion or any other form of assurance with respect thereto. The Ernst & Young LLP report included in *Appendix I* to this Official Statement relates to the historical financial information of the Authority. Such report does not extend to the prospective financial information and should not be read to do so. The information in the Commonwealth Report was supplied by certain officials of the Commonwealth or certain of its agencies or instrumentalities, in their respective official capacities, or was obtained from publications of the Commonwealth or certain of its agencies or instrumentalities, and is incorporated by reference in this Official Statement on the authority of such officials or the authority of such publications as public official documents, respectively. The information pertaining to DTC was supplied by DTC. The information appearing under Bond Insurance and *Appendix V* was supplied by Financial Security. The remaining information set forth in this Official Statement, except the information appearing in *Underwriting, Appendix II, Appendix III, Appendix IV*, and the Commonwealth Financial Statements, 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 Underwriters have agreed to file this Official Statement with each NRMSIR and with the MSRB.

**PUERTO RICO HIGHWAY AND
TRANSPORTATION AUTHORITY**

By: /s/ Fernando E. Fagundo
Executive Director

Audited Financial Statements

Puerto Rico Highway and Transportation Authority

June 30, 2001

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Report of Independent Auditors

Hon. José M. Izquierdo Encarnación, Secretary
Commonwealth of Puerto Rico
Department of Transportation and Public Works

We have audited the accompanying financial statements of the Puerto Rico Highway and Transportation Authority (the Authority) as of and for the year ended June 30, 2001 as listed in the 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 auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 statement 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 the Puerto Rico Highway and Transportation Authority at June 30, 2001, and the results of its operations and the cash flows of its proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 14, 2001 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



September 14, 2001

Stamp No. 1733621
affixed to
original of
this report.

Puerto Rico Highway and Transportation Authority
 Combined Balance Sheet - All Fund Types and Account Groups
 June 30, 2001 with comparative totals at June 30, 2000

	<u>Governmental Fund Types</u>		<u>Proprietary</u>
	<u>Debt</u>	<u>Capital</u>	<u>Fund Type</u>
	<u>Services</u>	<u>Projects</u>	<u>Enterprise</u>
			<u>Fund</u>
Assets			
Cash and cash equivalents	\$ 73,181,672	\$ 33,276,488	-
Cash and investments with trustee	489,585,513	53,525,970	-
Receivables (net of allowance for estimated uncollectible amounts of \$37,545,903):			
Puerto Rico Treasury Department	162,629	-	-
Federal grants	-	6,930,131	-
Accrued interest and other	2,976,236	6,366,152	-
Advances to governmental entities for constructions projects	-	10,979,716	-
Prepaid expenses and other assets	-	1,901,588	-
Property and equipment	-	-	\$ 7,313,629
Construction in progress	-	-	1,493,114,020
Amount available for retirement of general long-term debt	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-
Amount to be provided for payment of line of credit	-	-	-
Amount to be provided for payment of loan agreement	-	-	-
Amount to be provided for payment of vacation and sick leave	-	-	-
Amount to be provided for payment of claims and judgments	-	-	-
Total assets	\$565,906,050	\$112,980,045	\$1,500,427,649

Account Groups		Totals	
General Fixed Assets	General Long-term debt	(Memorandum Only) 2001	2000
-	-	\$106,458,160	\$ 116,201,497
-	-	543,111,483	829,039,973
-	-	162,629	9,536,441
-	-	6,930,131	44,813,472
-	-	9,342,389	12,095,292
-	-	10,979,716	12,057,430
-	-	1,901,588	1,909,339
\$60,369,933	-	67,683,562	66,203,758
-	-	1,493,114,020	1,193,726,850
-	\$ 388,759,380	388,759,380	379,041,716
-	3,439,207,669	3,439,207,669	3,523,182,283
-	40,787,860	40,787,860	269,999,583
-	300,000,000	300,000,000	-
-	15,232,712	15,232,712	18,194,356
-	18,000,000	18,000,000	18,000,000
<u>\$60,369,933</u>	<u>\$4,201,987,621</u>	<u>\$6,441,671,298</u>	<u>\$6,494,001,990</u>

Puerto Rico Highway and Transportation Authority
 Combined Balance Sheet - All Fund Types and Account Groups
 June 30, 2001 with comparative totals at June 30, 2000

	<u>Governmental Fund Types</u>		<u>Proprietary</u>
	<u>Debt</u>	<u>Capital</u>	<u>Fund Type</u>
	<u>Service</u>	<u>Projects</u>	<u>Enterprise</u>
			<u>Fund</u>
Liabilities and Fund Equity			
Liabilities:			
Accrued interest payable	\$100,621,670	-	-
Matured bonds	76,525,000	-	-
Accounts payable	-	\$ 69,046,303	\$ 85,831,518
Amount retained from contractors	-	10,726,822	55,443,708
Other liabilities	-	2,896,860	3,544
Accrued legal claims	-	-	-
Accrued vacation and sick leave	-	6,143,575	-
Line of credit	-	-	-
Loan principal	-	-	-
Loan interest payable	-	70,767	-
Bonds payable:			
Term bonds	-	-	-
Serial bonds	-	-	-
Capital appreciation bonds	-	-	-
Total liabilities	<u>177,146,670</u>	<u>88,884,327</u>	<u>141,278,770</u>
Fund equity:			
Investment in general fixed assets	-	-	-
Contributed capital	-	-	1,359,148,879
Fund balances:			
Reserved for advances	-	10,979,716	-
	-	10,979,716	-
Unreserved	388,759,380	13,116,002	-
Total fund balance	<u>388,759,380</u>	<u>24,095,718</u>	-
Total fund equity	<u>388,759,380</u>	<u>24,095,718</u>	<u>1,359,148,879</u>
<hr/>			
Total liabilities and fund equity	<u>\$565,906,050</u>	<u>\$112,980,045</u>	<u>\$1,500,427,649</u>

See accompanying notes.

Account Groups		Totals (Memorandum Only)	
General Fixed Assets	General Long-term debt	2001	2000
\$ -	\$ -	\$100,621,670	\$ 86,267,744
-	-	76,525,000	70,935,000
-	-	154,877,821	109,219,052
-	-	66,170,530	53,716,160
-	-	2,900,404	3,519,964
-	18,000,000	18,000,000	18,000,000
-	15,232,712	21,376,287	20,544,831
-	40,787,860	40,787,860	269,999,583
-	300,000,000	300,000,000	-
-	-	70,767	-
-	2,668,830,000	2,668,830,000	2,668,830,000
-	1,112,210,000	1,112,210,000	1,188,735,000
-	46,927,049	46,927,049	44,658,999
-	4,201,987,621	4,609,297,388	4,534,426,332
60,369,933	-	60,369,933	57,508,705
-	-	1,359,148,879	1,137,269,636
-	-	10,979,716	12,057,430
-	-	10,979,716	12,057,430
-	-	401,875,382	752,739,887
-	-	412,855,098	764,797,317
60,369,933	-	1,832,373,910	1,959,575,658
<u>\$60,369,933</u>	<u>\$4,201,987,621</u>	<u>\$6,441,671,298</u>	<u>\$6,494,001,990</u>

Puerto Rico Highway and Transportation Authority

Combined Statement of Revenues, Expenditures and Changes in
Fund Balance - All Governmental Fund Types

Year ended June 30, 2001 with comparative totals for the year ended June 30, 2000

	Governmental Fund Types			Totals (Memorandum Only)	
	General	Debt Service	Capital Projects	2001	2000
Revenues:					
Excise taxes:					
Gasoline	\$ -	\$169,782,206	\$ -	\$169,782,206	\$ 176,737,461
Diesel oil	-	20,491,248	-	20,491,248	22,519,978
Crude oil	-	120,000,000	-	120,000,000	120,000,000
Vehicle license fees	-	29,772,129	-	29,772,129	28,996,477
Toll fares	-	125,694,514	-	125,694,514	120,524,243
Grants:					
Federal government	-	-	50,670,111	50,670,111	73,521,184
Commonwealth of Puerto Rico, municipalities and other	-	-	602,160	602,160	22,436,479
Interest income	-	17,715,939	13,054,459	30,770,398	29,120,984
Other	452,824	-	-	452,824	880,262
Total revenues	452,824	483,456,036	64,326,730	548,235,590	594,737,068
Other financing sources/(uses):					
Net proceeds from bond issuance	-	-	-	-	572,211,896
Gain of redemption of bonds	-	-	-	-	3,473,104
Proceeds from credit line advances	-	-	40,787,860	40,787,860	327,326,684
Payment of credit line advances	-	-	-	-	(152,732,933)
Proceeds from loan agreement	-	-	30,000,417	30,000,417	-
Net increase (decrease) in fair value of investments	-	9,380,685	-	9,380,685	(4,089,184)
Transfers from/(to) other funds	43,412,865	(32,416,938)	(27,141,686)	(16,145,759)	(15,591,381)
Total revenues and other financing sources/(uses)	43,865,689	460,419,783	107,973,321	612,258,793	1,325,335,254
Expenditures:					
Toll highways administration and maintenance	39,849,827	-	-	39,849,827	37,517,373
Acquisition of operating property and equipment	4,015,862	-	-	4,015,862	4,356,682
Expenditures for traffic facilities	-	-	452,020,215	452,020,215	469,003,756
Other	-	-	687,261	687,261	256,742
Issuance of bonds	-	-	-	-	18,994,484
Redemptions of bonds:					
Serial bonds	-	76,525,000	-	76,525,000	70,935,000
Term bonds	-	-	-	-	14,311,896
Interest	-	213,758,260	16,925,728	230,683,988	194,493,616
Total expenditures	43,865,689	290,283,260	469,633,204	803,782,153	809,869,550
Excess (deficiency) of revenues and other financing sources/(uses) over/(under) expenditures	-	170,136,523	(361,659,883)	(191,523,360)	515,465,704
Fund balances at beginning of year	-	379,041,716	385,755,601	764,797,317	413,915,462
Residual equity transfers	-	(160,418,859)	-	(160,418,859)	(164,583,849)
Fund balances at end of year	\$ -	\$388,759,380	\$ 24,095,718	\$412,855,098	\$ 764,797,317

See accompanying notes.

Puerto Rico Highway and Transportation Authority

Combined Statement of Revenues, Expenditures
and Changes in Fund Balance

Budget and Actual - All Governmental Fund Types (Budgetary Basis)

Year ended June 30, 2001

	Budget (Cash Basis)	Actual (Cash Basis)	Variance Favorable (Unfavorable)
Revenues:			
Excise taxes and vehicle license fees	\$354,800,000	\$349,419,395	\$ (5,380,605)
Toll fares	125,400,000	125,694,514	294,514
Grants:			
Federal Government	227,200,000	59,692,530	(167,507,469)
Commonwealth of Puerto Rico, municipalities and other	1,000,000	602,160	(397,840)
Interest and other revenue	34,700,000	33,976,125	(723,875)
Total revenues	<u>743,100,000</u>	<u>569,384,724</u>	<u>(173,715,276)</u>
Other financing sources/(uses):			
Proceeds from loan agreement	30,000,000	30,000,417	417
Proceeds from credit line advances	49,300,000	40,787,860	(8,512,140)
Total revenues and other financings sources/(uses)	<u>822,400,000</u>	<u>640,173,001</u>	<u>(182,226,999)</u>
Expenditures:			
Construction, equipment and administrative	488,400,000	436,546,008	51,853,992
Toll highways administration and maintenance	41,800,000	39,849,827	1,950,173
Redemption of bonds:			
Serial bonds	-	70,935,000	(70,935,000)
Term bonds	-	-	-
Interest	306,900,000	216,330,067	90,569,933
Advances to Department of Transportation and Public Works	7,000,000	5,000,000	2,000,000
Metrobus administrative and operating expenses	17,000,000	16,145,759	854,241
Transfers to proprietary fund	324,700,000	160,418,859	164,281,141
Total expenditures	<u>1,185,800,000</u>	<u>945,225,520</u>	<u>240,574,480</u>
Excess (deficiency) of revenues and other financing sources/(uses) expenditures over/ (under) expenditures	(363,400,000)	(305,052,519)	(58,347,481)
Funds carried forward from prior year	363,400,000	-	363,400,000
Fund balance at beginning of year	-	944,562,051	(944,562,051)
Fund balance at end of year	<u>\$ -</u>	<u>\$ 639,509,532</u>	<u>\$(639,509,532)</u>

See accompanying notes.

Puerto Rico Highway and Transportation Authority

Statement of Revenues, Expenses and Changes
in Retained Earnings - Enterprise Fund

Year ended June 30, 2001

Operating revenues - user charges	\$ 2,346,576
Operating expenses:	
General and administrative	18,492,335
Depreciation	<u>1,381,424</u>
Operating loss	<u>(17,527,183)</u>
Transfers from other funds	<u>16,145,759</u>
Net loss	<u>(1,381,424)</u>
Depreciation on fixed assets acquired by contributed capital	<u>1,381,424</u>
Retained earnings at end of year	<u><u>\$ -</u></u>

See accompanying notes.

Puerto Rico Highway and Transportation Authority
Statement of Cash Flows - Enterprise Fund
Year ended June 30, 2001

Operating activities	
Cash received from customers	\$ 2,346,576
Cash paid for services	<u>(18,492,335)</u>
Net cash used in operating activities	<u>(16,145,759)</u>
Investing activities	
Investment in Tren Urbano	<u>(252,121,589)</u>
Net cash used in investing activities	<u>(252,121,589)</u>
Financing activities	
Contributed capital	252,121,589
Transfers from other funds	<u>16,145,759</u>
Net cash provided by financing activities	<u>268,267,348</u>
Cash and cash equivalents at end of year	<u><u>\$ -</u></u>

See accompanying notes.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements

June 30, 2001

1. Organization and Significant Accounting Policies

The Puerto Rico Highway and Transportation Authority (the 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 with the Commonwealth Secretary of the Department of Transportation and Public Works (DTPW). 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 and 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. Residual equity transfers are non-recurring transfers of equity between funds. These transfers are accounted for as expenditures or revenues to the fund balance or other capital accounts.

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 are accounted for as fund liabilities if there are available financial resources as of June 30.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Governmental Fund Types (continued)

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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 Authority has one proprietary fund, the Enterprise Fund, which is used to account for operations that are financed through user charges and management has decided that determination of net income is appropriate. Residual equity transfers have been received from the Debt Service Fund to cover for the deficit in the operations of the Enterprise Fund.

The Tren Urbano Fund is used to account for the costs incurred for the development of a mass rail transportation project (Tren Urbano). Tren Urbano is classified as an enterprise fund since, upon completion of construction and commencement of operations, the primary focus of the Tren Urbano will be on net income and capital maintenance.

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 for 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 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 litigation which is recorded in the long-term debt account group.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Basis of Accounting (continued)

The accrual basis of accounting is used by proprietary funds. Under the accrual basis, revenues are recorded when earned, and expenses are recorded as liabilities when 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, funds must be expended for the specific purpose or project before any amount will be paid to the Authority; therefore, revenues are recognized based upon the costs recorded. In the other, funds are virtually unrestricted as to purpose of cost 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 is met.

The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* (GASB No. 20). In adopting GASB No. 20, the Authority elected not to apply all Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued after November 30, 1989.

Cash Equivalents

The Authority considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. As of June 30, 2001, cash equivalents consisted of time deposits and repurchase agreements.

Investments

The Authority reports investments at fair value in the balance sheet and the changes in the fair value of investments in the statement of revenues, expenditures and changes in fund balance.

Advances to the Department of Transportation and Public Works

The Authority periodically advances funds to DTPW to carry out its participation in the construction program of the Authority. Also, the Authority makes contributions to DTPW for the maintenance program carried out by DTPW. A reservation of fund balance is provided for balances advanced to DTPW, because the reimbursement is over a long-term period.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Property and Equipment

Property and equipment purchases 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 an estimated useful life of 12 years. Depreciation on equipment acquired from contributed capital is reflected as a reduction of contributed capital.

Project costs incurred on the Tren Urbano project are recorded at cost in the proprietary fund. Funds provided by the Authority are recorded as residual equity transfers in the accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types. Funds provided by the Authority for the project, as well as grants provided by the Federal Government, are recorded as contributed capital in the proprietary fund.

Capital expenditures for infrastructure are not capitalized in the General Fixed Assets Account Group. Unaudited cumulative infrastructure expenditures through June 30, 2001 follow:

	<u>Unaudited</u>
Balance at June 30, 2000	\$7,327,798,552
Plus: expenditures during the year ended June 30, 2001	<u>452,020,215</u>
Balance at June 30, 2001	<u><u>\$7,779,818,767</u></u>

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 only payable if the regular employee resigns and has more than 10 years of employment, or retires and takes a pension. Maximum permissible accumulation for sick leave 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 and the long-term debt account group.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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.

Totals Memorandum Only

Totals columns in the accompanying financial 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 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 the financial statements are presented under generally accepted accounting principles (GAAP). The actual results of operations presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - All Governmental Fund Types are in accordance with the budgetary basis of accounting to provide a meaningful comparison of actual with budget.

The Authority uses the following 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 (the Secretary) a proposed operating budget for the fiscal year commencing the following 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 budgetary basis of accounting and GAAP are:

1. Revenues are recorded when payments are received (budgetary), as opposed to when susceptible to accrual (GAAP).

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Budgetary Data (continued)

2. Expenditures are recorded when payments are made (budgetary) as opposed to when the liability is incurred (GAAP).
3. Advances to governmental entities for construction projects are recorded when paid (budgetary) 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 and fund balance at end-of-year from the GAAP basis to the budgetary basis are as follows (in thousands):

	Excess of Revenues over Expenditures	Fund Balance at End-of-Year
GAAP Basis	\$(191,523,360)	\$412,855,098
Adjustments:		
Accounts receivable, accrued interest and other	12,846,164	(27,414,865)
Accounts payable and accrued liabilities	14,091,864	88,884,327
Matured interest and bonds payable	19,943,921	177,146,665
Residual equity transfer from Debt Service Fund	(160,418,859)	-
Gain on bonds redemption	-	(3,473,104)
Other	7,751	(8,488,589)
	<u>7,751</u>	<u>(8,488,589)</u>
Per Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types (Budgetary)	<u>\$(305,052,519)</u>	<u>\$639,509,532</u>

Amounts advanced to DTPW and transfers to the proprietary fund transferred in excess of the budgeted amounts do not require formal budget revisions.

2. Debt Service Fund

Debt service fund revenue is generated from gasoline and diesel oil excise taxes, certain motor vehicles license fees, certain crude oil excise taxes and toll charges which are deposited with a Fiscal Agent, as described in Note 5. The Fiscal Agent withholds the amounts necessary for the Authority's debt service requirements on the revenue bonds and transfers the excess to the General, Capital Projects and Enterprise Funds.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

3. Cash, Cash Equivalents and Investments

Cash and cash equivalents at June 30, 2001 consisted of the following:

Cash held by the Puerto Rico Department of the Treasury	\$ 68,281,301
Repurchase agreements	44,365,855
Restricted cash held by escrow agents	15,391,436
Puerto Rico State Infrastructure Bank deposits	2,112,455
Cash in banks	3,577,492
	<hr/>
	133,728,539
Less checks issued in excess of bank balance	27,270,379
	<hr/>
	<u>\$106,458,160</u>

Cash with the Department of the Treasury is uninsured and uncollateralized. The repurchase agreements consist of Notes from the U.S and Puerto Rico Government and collateralized mortgage obligations. These investments are held in the Authority's name.

Restricted cash amounting to \$2,980,236 represents funds held in an escrow fund under an agreement with the U.S. Army Corps of Engineers (the Agreement). Under terms of the Agreement, the Authority is required to maintain escrow funds to secure performance in connection with a mitigation plan related to a construction project. The escrow funds will be released as performance is demonstrated. Restricted cash amounting to \$12,411,200 represents funds held in an escrow account pursuant to a concession agreement with Autopistas de Puerto Rico y Compañía S.E. (see Note 9).

Puerto Rico State Infrastructure Bank (the SIB) deposits represent funds held by the Government Development Bank for Puerto Rico (GDB) related to the establishment of a State Infrastructure Bank account, which is dedicated solely to providing loans or other forms of financial assistance consistent with the National Highway System Designation Act of 1995. The SIB was created on June 12, 1998 pursuant to a Cooperative Agreement among the Federal Highway Administration (FHWA) and the Federal Transit Administration of the United States Department of Transportation (FTA), and the Puerto Rico Department of Transportation and Public Works (DTPW). Under the agreement the DTPW established the SIB and designated the Authority as custodian and GDB as trustee of the SIB funds. The SIB is funded by a matching share agreement whereby on or before the date on which the Authority receives a Federal payment, the Authority must deposit an amount equaling at least 25 percent of such payment. These time deposits are held in the Authority's name.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

3. Cash, Cash Equivalents and Investments (continued)

The bank balance is covered by federal depository insurance or collateral. In this account checks are issued in excess of the bank balance, and subsequent deposits are made from cash transfers to cover such checks.

The Authority is authorized to deposit funds only in institutions approved by the Department of the Treasury and such deposits should be maintained in separate accounts in the name of the Authority. Resolutions 68-18 and 98-06 (the Bond Resolutions) require that funds in the Debt Service Fund be held by the fiscal agent (The Chase Manhattan Bank, N.A.) in trust and applied as provided in the Bond Resolutions. The law governing the Authority does not limit the type of securities in which the Authority may invest. However, funds 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 Resolutions. Accordingly, as permitted by the Bond Resolutions, cash and investments with trustee in the Debt Service Fund amounting to \$489,585,513 at June 30, 2001 consist of Notes from the U.S. Government and Agencies. As per the matching share agreement with FHWA, the SIB reserve consists of \$15,010,735 of principal and \$872,904 of interest, which are included in the Debt Service Fund at June 30, 2001. These investments are held in the Authority's name.

Investments in the Capital Projects Fund may be made in Investment Obligations, as defined in the Bond Resolutions. Investment Obligations include time deposits of any bank, which are either issued by a bank with combined capital and surplus of at least \$50 million, or collateralized by securities in direct obligations of the United States Government or guaranteed by the United States Government. Accordingly, as permitted by the Bond Resolutions, investments in the Capital Projects Fund, amounting to \$53,525,970 at June 30, 2001 consist of certain U.S. Government guaranteed by the U.S. Government maintained pursuant to an investment agreement with Trinity Funding Company, LLC, expiring on January 1, 2002. These investments are held in the Authority's name.

A summary of changes in the investments recorded in the Capital Projects Fund related to the SIB funds at June 30, 2001 are as follow:

Balance as of June 30, 2000	\$ 64,182,023
Interest revenue	3,734,446
Construction expenditures	<u>(14,390,499)</u>
Balance as of June 30, 2001	<u>\$ 53,525,970</u>

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

3. Cash, Cash Equivalents and Investments (continued)

A summary of changes in the investments recorded in the Debt Service Fund related to the SIB funds at June 30, 2001 are as follows:

	Reserve Account	Interest
Balance as of June 30, 2000	\$15,010,735	\$1,239,551
Interest revenue	-	872,904
	\$15,010,735	\$2,112,445
Balance as of June 30, 2001	\$15,010,735	\$2,112,445

4. General Fixed Assets

A summary of changes in property and equipment recorded in the General Fixed Assets Account Group for the year ended June 30, 2001 follows:

	Balance June 30, 2000	Additions	Retirements	Balance June 30, 2001
Property and equipment:				
Land	\$ 1,090,000	\$ -	\$ -	\$ 1,090,000
Machinery and equipment	42,866,144	3,295,858	1,154,634	45,007,368
Buildings	13,552,561	720,004	-	14,272,565
	\$57,508,705	\$4,015,862	\$1,154,634	\$60,369,933
	\$57,508,705	\$4,015,862	\$1,154,634	\$60,369,933

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

5. Bonds Payable

Resolutions No. 68-18 and No. 98-06 (the Bond Resolutions) of the Authority authorize the issuance of revenue bonds to obtain funds to accelerate the construction of traffic facilities. Bonds outstanding under the Bond Resolutions at June 30, 2001 were as follows:

	Issue Date	Original Amount	Maturing July 1	Interest Rate	Outstanding Amount
Term bonds:					
Subordinated Bonds	July 15, 1998	\$ 58,060,000	2018-2028	5.00	\$ 58,060,000
A	February 15, 1998	818,045,000	2028-2038	4.75-5.00	800,260,000
B	May 15, 2000	386,625,000	2026-2039	6.05-6.23	386,625,000
V	June 4, 1992	123,585,000	2007-2018	5.75-6.63	123,585,000
W	July 15, 1993	292,090,000	2013-2020	5.62-5.72	292,090,000
X	July 15, 1993	288,565,000	2013-2021	5.62-5.72	288,565,000
Y	April 9, 1996	677,045,000	2011-2036	5.00-6.25	677,045,000
Z	April 9, 1996	42,600,000	2018	5.63	42,600,000
		<u>\$2,686,615,000</u>			<u>\$2,668,830,000</u>
Serial bonds:					
Subordinated Bonds	July 15, 1998	\$ 16,990,000	2008-2014	5.25	\$ 16,990,000
A	February 15, 1998	271,730,000	1999-2014	3.90-5.50	247,260,000
B	May 15, 2000	174,180,000	2001-2027	4.65-6.50	174,180,000
C	May 15, 2000	14,880,000	2029	6.00	14,880,000
Q	October 1, 1990	32,525,000	1992-2003	6.40-7.70	-
R	November 1, 1990	19,115,000	1992-2002	6.20-7.25	-
V	June 4, 1992	9,960,000	2000-2005	3.50-5.88	4,710,000
W	July 15, 1993	24,700,000	2009	MCS	24,700,000
	July 15, 1993	46,750,000	2010	FLOATS	46,750,000
	July 15, 1993	46,750,000	2006-2010	RITES	46,750,000
X	July 15, 1993	228,695,000	1994-2022	2.85-5.10	188,075,000
	July 15, 1993	66,150,000	2010	FLOATS	56,790,000
	July 15, 1993	66,150,000	2003-2010	RITES	56,790,000
Y	April 9, 1996	213,190,000	1997-2022	5.0-6.25	166,905,000
Z	April 9, 1996	142,440,000	1996-2016	4.0-6.25	140,630,000
FMHA-C	January 27, 1981	4,510,000	1983-2020	5.00	3,325,000
Total serial bonds		<u>\$1,378,715,000</u>			<u>\$1,188,735,000</u>
Less serial bonds payable on July 1, 2001					<u>76,525,000</u>
Serial bonds payable thereafter					1,112,210,000
Capital appreciation bonds:					
CAPS	Feb. 15, 1998	<u>\$ 39,868,740</u>	2015-2018	4.95-5.075	<u>46,927,049</u>
Total bonds payable after July 1, 2001					<u>\$3,827,967,049</u>

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

5. Bonds Payable (continued)

During fiscal year 2000, the Authority issued the Transportation Revenue Bonds (Series B) (Series B Bonds) and Transportation Revenue Refunding Bonds (Series C) (Series C Bonds). The bond proceeds of Series B were used to finance or refinance a portion of the costs of Tren Urbano and various highway projects included in the Authority's Priorities Construction Program, including the payment of a portion of \$420,566,000 principal amount of notes issued to finance such costs initially held by GDB, make a deposit to the 1998 Senior Bond Reserve Account, and pay costs of issuance of the Series B Bonds. The bond proceeds of Series C were used to cancel \$17,785,000 aggregate principal amount of the Authority's Transportation Revenue Bonds (Series A) due on July 1, 2038 bearing interest at 4.75%, to make a deposit to the 1998 Senior Bond Reserve Account and to pay for the costs of issuance of the Series C Bonds.

A summary of the net proceeds of the Series B Bonds and Series C Bonds and application of the proceeds follows:

	Series B	Series C
Principal amount of 2000 Subordinated Bonds	\$560,805,000	\$14,880,000
Plus:		
Accrued interest	2,096,505	57,040
Less:		
Underwriter's discount	4,324,228	105,735
Original issue discount	10,807,840	340,752
Net proceeds	\$547,769,437	\$14,490,553
Application of net proceeds:		
GDB line of credit repayment	\$150,566,000	\$ -
Deposit to construction fund	354,458,273	-
Purchase price of defeased bonds	-	14,311,896
Deposit to Debt Service Reserve fund	37,260,818	98,380
Cost of issuance	1,102,841	23,237
Insurance payment	2,285,000	-
Accrued interest	2,096,505	57,040
Total	\$547,769,437	\$14,490,553

A summary of the Series B Bonds and Series C Bonds issued during fiscal year 2000 follows:

Term Bonds:	
Various Fixed Rate	\$386,625,000
Serial Bonds	
Fixed Rate	14,880,000
Various Fixed Rate	174,180,000
	189,060,000
Total	\$575,685,000

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

5. Bonds Payable (continued)

The Variable Rate Serial Bonds bear interest rates from 4.65% to 6.50% and mature from 2001 to 2027. The Fixed Rate Serial Bond bear interest rate of 6.00% and mature on 2029, and the Variable Rate Term Bonds bear interest from 5.88% to 6.00% and mature from 2026 to 2039. Interest on the Term Bonds and Serial Bonds will be payable on each January 1 and July 1.

The 2000 Bonds maturing after July 1, 2010, other than the 2000 Bonds maturing on July 1, 2026, may be redeemed on or after July 1, 2010 at the option of the Authority from any available moneys (other than moneys deposited in the 1998 Senior Bond Sinking Fund in respect of an Amortization Requirement) on any date either in whole or in part (in such order of maturities as the Authority may direct) at the following prices (expressed as percentages of the principal amount) plus accrued interest to the redemption date:

<u>Period During Which Redeemed</u>	<u>Redemption Price</u>
July 1, 2010 through June 30, 2011	101%
July 1, 2011 and thereafter	100

The 2000 Bonds maturing on July 1, 2026 may be redeemed on or after July 1, 2005 at the option of the Authority from any available moneys (other than moneys deposited in the 1998 Senior Bond Sinking Fund in respect of an Amortization Requirement) on any date either in whole or in part at the following prices (expressed as percentages of the principal amount) plus accrued interest to the redemption date:

<u>Period During Which Redeemed</u>	<u>Redemption Price</u>
July 1, 2005 through June 30, 2006	101%
July 1, 2006 and thereafter	100

Puerto Rico Highway and Transportation Authority
Notes to Financial Statements (continued)

5. Bonds Payable (continued)

During fiscal year 1999, the Authority issued the Subordinated Transportation Revenue Bonds (Series 1998) (Puerto Rico State Infrastructure Bank (SIB)) (the 1998 Subordinated Bonds). The bond proceeds have been used to finance or refinance a portion of the costs of construction facilities included in the Authority's current Priorities Construction Program that are eligible for financial assistance under U.S. legislation.

A summary of the net proceeds of the 1998 Subordinated Bonds and application of the proceeds follows:

Principal amount of 1998 Subordinated Bonds	\$75,050,000
Less:	
Cost of issuance	1,083,802
Original issue discount	<u>1,006,198</u>
Net proceeds	<u>\$72,960,000</u>
Application of net proceeds:	
Deposit to construction fund	<u>\$72,960,000</u>

A summary of the 1998 Subordinated Bonds issued during fiscal year 2000 follows:

Term Bonds:	
Fixed Rate	\$58,060,000
Serial Bonds	<u>16,990,000</u>
	<u>\$75,050,000</u>

The Fixed Rate Term Bonds bear interest rates of 5% and mature from 2018 to 2028. The Serial Bonds bear interest rates of 5.25% and mature from 2008 to 2014. Interest on the Term Bonds and Serial Bonds will be payable on each January 1 and July 1.

The principal of and interest on the 1998 Subordinated Bonds maturing on July 1 of the years 2008 through 2014 and 2018 are insured by a municipal bond insurance policy issued by MBIA Insurance Corporation.

Puerto Rico Highway and Transportation Authority
Notes to Financial Statements (continued)

5. Bonds Payable (continued)

The 1998 Subordinated Bonds maturing after July 1, 2008 may be redeemed on or after July 1, 2008 at the option of the Authority at the following prices (expressed as percentages of the principal amount) plus accrued interest to the redemption date:

Redemption Date	Redemption Price
July 1, 2008	101 %
January 1, 2009	100 3/4
July 1, 2009	100 1/2
January 1, 2010	100 1/4
July 1, 2010 and thereafter	100

During fiscal year 1998, the Authority issued the Senior Transportation Revenue Bonds Series A (the Series A Bonds). A summary of the Series A Bonds issued during fiscal year 1998 follows:

Term Bonds:	
Fixed Rate	\$ 618,045,000
Variable Rate	200,000,000
	818,045,000
Serial Bonds	271,730,000
Capital Appreciation Bonds	39,868,740
	\$1,129,643,740

The Fixed Rate Term Bonds bear interest rates of 4.75% to 5% and mature from 2028 to 2038. The Variable Rate Term Bonds mature on July 1, 2028. In connection with the issuance of the Variable Rate Term Bonds, on March 19, 1998 the Authority entered into an Interest Rate Swap Agreement expiring on July 1, 2028. Under the terms of the Swap Agreement the Authority will pay a fixed interest rate of 4.7075%. The Serial Bonds bear interest rates of 3.9% to 5.5% and mature from 1999 to 2014. The Capital Appreciation Bonds (CAPS) bear interest rates of 4.95% to 5.075% and mature from 2015 to 2018. Interest on the Term Bonds and Serial Bonds are payable on each January 1 and July 1. Interest on CAPS will be payable at maturity in amounts equal to the original principal amounts of such bonds plus interest from their issue dates, compounded semi-annually. The maturity values for the CAPS will be \$101,000,000.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

5. Bonds Payable (continued)

The principal of and interest on the Series A Bonds maturing on July 1 of the years 2004 through 2028 are insured by a municipal bond insurance policy issued by Ambac Assurance Corporation.

The Series A Term Bonds maturing on July 1, 2028 and issued in the original principal amount of \$114,360,000 and the bonds maturing on July 1, 2038 and issued in the original principal amount of \$250,000,000 at the time outstanding may be redeemed on or after July 1, 2008 at the option of the Authority at the following prices (expressed as percentages of the principal amount) plus accrued interest to the redemption date:

<u>Period during which redeemed</u>	<u>Redemption Price</u>
July 1, 2008 through June 30, 2009	101 %
July 1, 2009 through June 30, 2010	100 1/2
July 1, 2010 and thereafter	100

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

5. Bonds Payable (continued)

The Series A Term Bonds maturing on July 1, 2038 in the original principal amount of \$253,685,000 at the time outstanding may be redeemed on or after July 1, 2018 at the option of the Authority at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, without premium.

The Variable Rate Term Bonds may be redeemed prior to their maturity at the option of the Authority at the following prices (expressed as percentages of the principal amount) plus accrued interest to the redemption date for the periods indicated:

Original Length of Fixed Rate Period (Years)	Commencement of Redemption Period	Redemption Price
More than 12 years	July 1, 2007	101.5% declining by 0.5% on each succeeding July 1 until reaching 100% and thereafter 100%
More than 10 years but not more than 12 years	July 1, 2005	101.5% declining by 0.5% on each succeeding July 1 until reaching 100% and thereafter 100%
More than 8 years but not more than 10 years	July 1, 2003	101.5% declining by 0.5% on each succeeding July 1 until reaching 100% and thereafter 100%
More than 6 years but not more than 8 years	July 1, 2001	101.5% declining by 0.5% on each succeeding July 1 until reaching 100% and thereafter 100%
More than 4 years but not more than 6 years	July 1, 2000	101.5% declining by 0.5% on each succeeding July 1 until reaching 100% and thereafter 100%
More than 3 years but not more than 4 years	July 1, 2000	100.5% declining to 100% on next July 1 and thereafter 100%

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

5. Bonds Payable (continued)

During fiscal year 1996, the Authority issued Series Y and Series Z Bonds. A portion of the Series Y term bonds amounting to \$67,300,000 were issued as Cap RITES. The Cap RITES Bonds will accrue interest from the date of the initial delivery through July 1, 1999 (the Scheduled Conversion Date) at a rate equal to 5.73% per annum (the Set Rate) plus the amount, if positive, obtained by subtracting 4.5% (the Level Rate) from the Variable Rate, subject to the application of the Maximum Cap RITES Rate of 11.48% per annum (the Maximum Cap RITES Rate) and thereafter at 6.25% per annum (the Constant Rate). Owners of the Cap RITES Bonds may elect on any business day prior to the applicable Scheduled Conversion Date to convert the interest to the Constant Rate.

The principal of and interest on the Series Y Bonds maturing between the years 2001 through 2009, 2011 and 2012 and the principal and interest of the Series Z Bonds maturing between 2001 and 2015 are insured by a municipal bond insurance policy issued by MBIA Insurance Corporation. The principal and interest on the Series Y Bonds maturing in the years 2015, 2016 and 2021 and the principal and interest on the Series Z Bonds maturing in 2016 and 2018 will be insured by a municipal bond insurance policy issued by Financial Security Assurance Inc.

The Series Y Bonds at the time outstanding maturing after July 1, 2014, other than the bonds maturing July 1, 2021 and 2036, may be redeemed on or after July 1, 2006 at the option of the Authority at the following prices (expressed as percentages of the principal amount):

<u>Period during which redeemed</u>	<u>Redemption Price</u>
July 1, 2006 through June 30, 2007	101 1/2%
July 1, 2007 through June 30, 2008	100 3/4
July 1, 2008 and thereafter	100

The Series Y Bonds maturing July 1, 2036 may be redeemed on or after July 1, 2016 at the option of the Authority at a redemption price equal to the principal amount, plus accrued interest, without premium. The Series Z Bonds are not subject to optional redemption.

During fiscal year 1994, the Authority issued Series W and X and entered into an Interest Swap Agreement (the Swap Agreement). Under the terms of the Swap Agreement, which expires in July 1, 1999, the Authority will pay fixed interest rates on the \$101,730,000 bonds at rates ranging from 2.8% to 3.769%.

A portion of the Series W Bonds were delivered as Multiple Component Securities (MCS) which allow the investors to receive the separate payments of all or a portion of the principal and interest on fixed coupon bonds. Potential MCS components include principal only, interest only, floating rate, inverse floating rate, and combinations thereof. Regardless of the combination on any MCS, the Authority will pay a Linked Fixed Rate of 9%.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

5. Bonds Payable (continued)

A portion of the Series W and Series X were issued as Residual Interest Tax-Exempt (RITES) and as Floating Auction Tax-Exempt (FLOATs) Securities. FLOAT/RITES are variable securities consisting of a dutch-auction based floater (FLOATs) and a companion inverse floater (RITES) that together produce fixed-rate interest payments for the Authority ranging from 5.20% to 5.55%.

The 1993 Bonds, other than the MCS, the FLOAT/RITES, and the bonds maturing on July 1, 2013 and 2015, may be redeemed on or after July 1, 2003 at the option of the Authority at the following prices (expressed as percentages of the principal amount):

<u>Period during which redeemed</u>	<u>Redemption Price</u>
July 1, 2003 through June 30, 2004	101 1/2%
July 1, 2004 through June 30, 2005	100 3/4
July 1, 2005 and thereafter	100

The FLOATs may be redeemed on or after July 1, 2003 at the option of the Authority at a redemption price equal to the principal amount, plus accrued interest, without premium.

The RITES may be redeemed on or after July 1, 2003 at the option of the Authority at the following prices (expressed as percentages of the principal amount):

<u>Period during which redeemed</u>	<u>Redemption Price</u>
July 1, 2003 through June 30, 2004	103 %
July 1, 2004 through June 30, 2005	100 1/2
July 1, 2005 and thereafter	100

The bonds issued prior to fiscal year 1994 do not contain early redemption provisions or variable interest rates.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

5. Bonds Payable (continued)

Changes in term and serial bonds during fiscal year 2001, were as follows:

	Outstanding Beginning-of- Year	Issued	Refunded	Redeemed	Outstanding End-of-Year
Term	\$2,668,830,000	\$ -	\$ -	\$ -	\$2,668,830,000
Serial	1,188,735,000	-	-	76,525,000	1,112,210,000
CAPS	44,658,999	2,268,050	-	-	46,927,049
	<u>\$3,902,223,999</u>	<u>\$2,268,050</u>	<u>\$ -</u>	<u>\$ 76,525,000</u>	<u>\$3,827,967,049</u>

The outstanding revenue bonds as of June 30, 2001 require future payments of principal and interest as follows:

Year ending June 30	Principal	Interest	Total
2002	\$ 82,030,000	\$ 205,266,681	\$ 287,296,681
2003	63,395,000	201,013,561	264,408,561
2004	76,965,000	196,798,676	273,763,676
2005	81,180,000	193,624,350	274,804,350
2006	73,685,000	191,228,072	264,913,072
Thereafter	<u>3,450,712,049</u>	<u>3,193,049,636</u>	<u>6,643,761,685</u>
	<u>\$3,827,967,049</u>	<u>\$4,180,980,976</u>	<u>\$8,008,948,025</u>

The bonds are secured by a pledge of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes, a maximum of \$11 million monthly, up to \$120 million annually, derived from excise taxes over crude oil and its derivatives, \$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, proceeds of any tolls or other charges which the Authority may impose for the use of any of its traffic facilities and certain investment earnings. The proceeds of the gasoline tax, the gas oil and diesel oil tax, the crude 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 license 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 not applied these revenues for such payments.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

5. Bonds Payable (continued)

The Bond Resolutions further provide that receipts of pledged revenues (other than investment earnings) 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 on the next succeeding interest payment date and an amount equal to 1/12th of the next maturing installment 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. In the case of variable rate bonds, the actual interest on such bonds is deposited monthly with the Fiscal Agent.
- B. To the Redemption Account in an amount equal to 1/12th of the amortization requirement (as defined in the Bond Resolutions) 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 in an amount equal to the lesser of the maximum principal and interest requirements (as defined in the Bond Resolutions) for any fiscal year on all outstanding bonds and 10% of the original principal 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 funds 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 funds 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 other taxes which may then be in effect on any other fuels or propellants which are used, among other purposes, to propel highway vehicles, and (ii) any remaining portion of the tax on gasoline and gas oil and diesel oil then in effect.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

5. Bonds Payable (continued)

- D. Under Resolution No. 98-06, after making the required deposits specified in paragraphs A., B. and C., funds shall be deposited to the Subordinated Bond Service Account in an amount equal to 1/6th of the amount of interest payable on all subordinate bonds of each series on the next succeeding interest payment date and an amount equal to 1/12th of the next maturing installment of any serial subordinated bonds; provided, however, that the amount so deposited on account of the interest in each month after the delivery of the subordinated 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 Subordinated Bond Service Account.
- F. Under Resolution No. 98-06, to the Subordinated 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 of subordinated bonds 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 Subordinated Sinking Fund.
- E. Under Resolution No. 98-06, funds shall be deposited to the Subordinated Reserve Account in an amount, if any, equal to any balance remaining after making the deposits described in paragraphs A. to E. above, at least equal to the respective deposit requirements corresponding to each such account established by the Authority; provided, however, that no such deposits to any such account shall be made in any month if the amount then to the credit of such account shall be equal to the applicable Subordinated Reserve requirement (as defined in the Bond Resolution); and provided, further, that notwithstanding the above, in the event that any Subordinated Reserve requirement shall have increased on account of the issuance of additional series of subordinated bonds, the Authority may provide for equal annual deposits and will ensure that the applicable Subordinated Reserve requirement be met not earlier than the end of a five year period following the issuance of such series of subordinated bonds.
- H. Any revenues remaining after making the deposits referred to above shall be deposited in the Construction Fund for use by the Authority for any of its authorized purposes.

Under Resolution No. 68-18 the requirements specified in paragraphs A., B. and C. above are cumulative. Under Resolution No. 98-06 requirements from A. to F. are cumulative.

The Authority further covenants that any other funds which it receives from the Commonwealth or any other source to make up any deficiencies in the amounts needed to pay the principal of and interest on any bonds issued under the provisions of the Bond Resolutions will be applied first to any 1968 Resolution bonds, then to the senior bonds and then to the subordinated bonds.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

5. Bonds Payable (continued)

The following analysis summarizes the cash transactions during the year ended June 30, 2001 in the Debt Service Accounts (in thousands):

	Bond Service Account	Redemption Account	Reserve Account	Subordinated Reserve Account	Total Debt Service Fund
Balance at June 30, 2000	\$143,638	\$ -	\$296,009	\$15,011	\$454,658
Increases:					
Revenues transferred	289,700	-	10,453	-	300,153
Investment income	2,969	-	13,373	-	16,342
Transfer from other debt service account	-	-	6,794	-	6,794
	<u>436,307</u>	<u>-</u>	<u>326,629</u>	<u>15,011</u>	<u>777,947</u>
Decreases:					
Bond principal payments	70,935	-	-	-	70,935
Bond interest payments	199,404	-	-	-	199,404
Transfer to construction fund	-	-	11,228	-	11,228
Transfer to other debt service account	6,794	-	-	-	6,794
	<u>277,133</u>	<u>-</u>	<u>11,228</u>	<u>-</u>	<u>288,361</u>
Balance at June 30, 2001	<u>\$159,174</u>	<u>\$ -</u>	<u>\$315,401</u>	<u>\$15,011</u>	<u>\$489,586</u>

The Bond Resolutions provide that additional bonds may be issued for the purpose of providing funds for completing payment of the cost of any traffic facilities, including Tren Urbano, 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 temporarily finance the costs of the traffic facilities for which such bonds are to be issued, and for refunding at or prior to their maturity or maturities all of the outstanding bonds of any series, or a portion thereof. However, the Authority must comply with certain requirements included in the Bond Resolutions related to revenues and maximum amounts of principal and interest prior to any additional bond issuance.

Nothing in the Bond Resolutions is to be construed as preventing the Authority from financing any facilities authorized by the Act that created the Authority, as amended, through the issuance of bonds or other obligations which are not secured under the provisions of the Bond Resolutions.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

5. Bonds Payable (continued)

The outstanding balances as of June 30, 2001 and 2000 of the bond issues defeased by the Authority are as follows:

	2001	2000
Series Q	-	\$148,325,000
Series R	-	49,880,000
Series S	\$140,000,000	140,000,000
Series T	285,000,000	285,000,000
Series Y	20,000,000	20,000,000
	<u>\$445,000,000</u>	<u>\$643,205,000</u>
Total outstanding defeased Bond issues		

6. Credit Agreement

On May 23, 2001, the Authority entered into a line of credit agreement amounting to \$120,000,000 with the Government Development Bank. The line of credit has a variable interest rate measured at the per annum daily average rate for the lender's outstanding commercial paper notes. Interest is payable on a monthly basis. The principal shall be paid on July 1, 2002, date in which the agreement expires. As of June 30, 2001 approximately \$40,787,860 was outstanding. Accrued interest related to the line of credit amounted to approximately \$70,767 as of June 30, 2001.

On August 4, 2000, the Authority entered into a loan agreement of \$300,000,000 with FTA pursuant to the Transportation Infrastructure Finance and Innovation Act, as amended. The proceeds of the loan were used to cancel the outstanding balance of a line of credit amounting to \$269,999,583 with GDB in connection with the Tren Urbano project. The loan has a fixed interest rate of 5.74%. Interest is payable each July 1 and January 1 beginning January 1, 2001 and principal is payable each July 1, beginning July 1, 2007. The loan matures on July 1, 2035.

7. Retirement Plan

The Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of, the Commonwealth of Puerto Rico. All regular employees of the Authority under age 55, at the date of employment, become members of the System as a condition of their employment.

The System provides retirement, death and disability benefits pursuant to Act 447, approved on May 15, 1951, as amended, which became effective on January 1, 1952. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

7. Retirement Plan (continued)

Participants 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 or at age 65 with 10 years of service if hired after April, 1990, are entitled to an annual benefit, payable monthly for life.

The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of average compensation.

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. Participants who 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.

No benefit is payable if the participant receives a refund of his accumulated contributions.

Commonwealth Law Number 447 of 1951, as amended, requires employees hired on or before March 31, 1990 to contribute 5.775 percent for the first \$550 of their monthly gross salary and 8.275 percent for the salary in excess of \$550. The contribution for employees hired after April 1, 1990 is 8.275 percent of their gross salary. The Authority is required to contribute 9.275 percent of the participants' gross salaries. The contribution requirement for the year ended June 30, 2001 was approximately \$8,033,000, which consisted of approximately \$4,330,000 from the Authority and \$3,703,000 from employees. The payroll for employees covered by the System for the year ended June 30, 2001 was approximately \$46,683,000 and the Authority's total payroll cost was approximately \$80,934,000. For the two preceding fiscal years the Authority contributed \$4,357,000 and \$4,200,000, respectively, which represented all required contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension program (System 2000).

System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, may elect either to stay in the defined benefit plan or transfer to the new program. Employees joining the government on or after January 1, 2000, will only be allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

7. Retirement Plan (continued)

of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employers' contributions (9.275% of the employee's salary) will be used to fund the current plan.

System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

Additional information on the System is provided in its financial statements for the year ended June 30, 1998, a copy of which can be obtained from Mrs. Marisol Marchand, Administrator, Employees' Retirement System of the Government of Puerto and its Instrumentalities, PO Box 42003 Minillas Station, Santurce, P.R. 00940.

The Authority has a labor union contract that provides all union employees who work for the Authority upon retirement with the following lump-sum bonus payable at the retirement date computed as follows:

<u>Years worked</u>	<u>Amount</u>
10-15 years	\$140 per year of service
16-20	\$170 per year of service
21-25	\$185 per year of service
26-30	\$195 per year of service

In addition, management employees have similar benefits under the same conditions granted to labor union personnel, as follows:

<u>Years worked</u>	<u>Amount</u>
10-15 years	\$150 per year of service
16-20	\$180 per year of service
21-25	\$200 per year of service
26-30	\$220 per year of service

8. Enterprise Funds

The Authority maintains separate enterprise funds to account for the operations of the Metrobus system and the Tren Urbano project. The Metrobus system consists of bus operations which are conducted by a private company. The Tren Urbano project will be a mass rail transportation project.

Puerto Rico Highway and Transportation Authority
Notes to Financial Statements (continued)

8. Enterprise Funds (continued)

The following summarizes the components of the enterprise funds included in the Combined Balance Sheet - All Fund Types and Account Groups:

	Metrobus	Tren Urbano	Total
Due from Federal Government	\$ -	\$ -	\$ -
Property and equipment, net of accumulated depreciation of \$9,307,248	7,313,629	-	7,313,629
Construction in progress	-	1,493,114,020	1,493,114,020
	<u>\$ 7,313,629</u>	<u>\$1,493,114,020</u>	<u>\$1,500,427,649</u>
Liabilities	\$ 3,268	\$ 141,272,502	\$ 141,278,770
Contributed capital:			
Federal government	9,865,439	335,886,556	345,751,995
Authority's funds	6,752,170	1,015,954,962	1,022,707,132
Accumulated deficit	(9,307,248)	-	(9,307,248)
	<u>\$ 7,313,629</u>	<u>\$1,493,114,020</u>	<u>\$1,500,427,649</u>

The Federal contributions related to the Tren Urbano fund during the year ended June 30, 2001 amounted to \$62,841,808. During 2001, there were no Federal contributions related to Metrobus.

All the revenues and expenses shown in the Statement of Revenues, Expenses and Changes in Retained Earnings - Enterprise Fund are attributable to the Metrobus operations.

During 2001 the Authority made a residual equity transfer of \$160,418,859 to the Tren Urbano fund.

Puerto Rico Highway and Transportation Authority
Notes to Financial Statements (continued)

9. Commitments and Contingent Liabilities

Construction

As of June 30, 2001, the Authority had commitments for approximately \$790,130,129 related to construction contracts.

Leases

The Authority has various noncancellable operating leases for office space with the Puerto Rico Public Buildings Authority and other lessors, the latest of which expires in 2090. The rental expenditure for the year ended June 30, 2001 was approximately \$1,492,000. Future rental payments as of June 30, 2001 under these leases are as follows:

2002	\$1,492,000
2003	1,492,000
2004	1,234,000
2005	1,230,000
2006	1,217,000
Thereafter	<u>2,395,000</u>
 Total minimum payments required	 <u><u>\$9,060,000</u></u>

Litigation

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 agreements, 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.

Special Revenue Facility Bonds

In March 1992, the Authority issued Special Facility Revenue Bonds amounting to approximately \$117 million for the purpose of facilitating the construction of a toll bridge which traverses the San Jose Lagoon between the municipalities of San Juan and Carolina.

Puerto Rico Highway and Transportation Authority

Notes to Financial Statements (continued)

9. Commitments and Contingent Liabilities (continued)

Litigation (continued)

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 build/transfer/operate concession agreement for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge (the Bridge). The initial term of this agreement is 35 years. Under certain circumstances, the Concession Agreement may be terminated and the Authority is then 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 Bridge. The outstanding debt (including accrued interest) and the sinking fund balances at June 30, 2001 amounted to approximately \$134,745,826 and \$3,538,348, respectively.

Metrobus

In connection with the responsibilities of the Authority for mass transportation systems, the Metrobus project was developed. The project consists of bus operations which are conducted by a private company under an agreement expiring in June 2003.

The contract for the operation of the Metrobus Project provides for fixed payments to the operator. Operators' compensation is based on monthly payments amounting to one-twelfth of the total annual operating costs. Tollfares, which are retained by the operator, are reduced from such payments based on tollfare estimates. In addition, the Operator has various incentive fees for meeting or exceeding various performance standards.

Federal Assistance Programs

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" or to compliance audits by grantor agencies. The resolution of certain previously identified questioned costs has not occurred. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

Tren Urbano Project Claims

As part of the Authority's Tren Urbano project, a number of contractors have presented claims amounting to approximately \$290,000,000. These claims are at various stages of analysis to reach a final resolution.

From this amount, approximately \$65,000,000 has been categorized as merited claims. Therefore, these amounts were included as accounts payable in the proprietary fund. The effect of the resolution of these claims, if any, in future years would be to increase the amounts being capitalized for the Tren Urbano project and increase the accounts payable in the proprietary fund.

Puerto Rico Highway and Transportation Authority
Notes to Financial Statements (continued)

10. Subsequent Event

On August 28, 2001 the Board of Directors of GDB approved an increase in the line of credit agreement by \$205 million for a total amount of \$325 million. The increase in the line of credit is to finance the construction programs and improvements of the Authority. The line of credit expires on July 1, 2004 and the interest rate will be the monthly variable interest plus 125 basis points.

During July 2001 the Authority agreed with FTA to comply with various construction requirements related to the Tren Urbano in order to request and receive a reimbursement of approximately \$165 million of eligible expenses from FTA.

Report of Independent Auditors on Compliance and Internal Control Over Financial Reporting in Accordance with Government Auditing Standards

Hon. Jose M. Izquierdo Encarnación, Secretary
Commonwealth of Puerto Rico
Department of Transportation and Public Works

We have audited the financial statements of Puerto Rico Highway and Transportation Authority (the Authority) as of and for the year ended June 30, 2001, and have issued our report thereon dated September 14, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

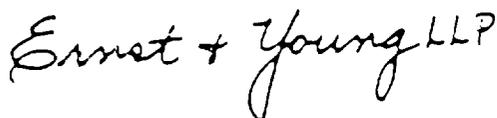
Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority in a separate letter dated September 14, 2001.

This report is intended solely for the information and use of the Authority's management, the U.S. Department of Transportation and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



September 14, 2001

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affixed to original
of this report.

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January 10, 2002

Dr. Fernando E. Fagundo Fagundo, Executive Director
Puerto Rico Highway and Transportation Authority
P.O. Box 42007
San Juan, Puerto Rico 00940-2007

Dear Dr. Fagundo:

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 the Construction Improvement Program. Our study was conducted in accordance with Resolution No. 68-18, adopted June 13, 1968, as amended, and Resolution No. 98-06, adopted February 26, 1998. Results of the study are documented in our Final Report, entitled "Maintenance Evaluation and Program Review – 2000-2001", dated September 2001.

Based on our field inspections, we find that the overall level of maintenance has generally been adequate to preserve the investment and provide an acceptable level of service. Maintenance work methods and levels of service are in general conformance to widely accepted maintenance practices in transportation and public works agencies in North America.

We have reviewed the 5-year Construction Improvement Program for Fiscal Years 2001-2002 to 2005-2006. In our opinion, the program is a reasonable response to the immediate and short-term transportation needs of the Commonwealth and is generally consistent with the Authority's long-range transportation master plan. Funding for the program appears to be adequate, based on revenue projections that have been reasonably accurate in the past and provide a sound basis for determining the size of future programs.

Please let us know if you need any additional information.

Sincerely,



William C. Grenke
Senior Vice President

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FORMS OF OPINIONS OF BOND COUNSEL

Upon the respective delivery dates of the Authority's 2002 Bonds, Series D, E and F, Hawkins, Delafield & Wood, New York, New York, as Bond Counsel to the Authority for such Bonds, proposes to render its final approving opinions in substantially the following forms:

Closing Date

Hon. José Izquierdo
Secretary of Transportation and Public Works
San Juan, Puerto Rico

Dear Sir:

We have examined (a) Act No. 74 of the Legislature of Puerto Rico, approved June 23, 1965, as amended ("Act No. 74"), creating Puerto Rico Highways and Transportation Authority (hereinafter sometimes called the "Authority"), as a body corporate and politic constituting a public corporation and government instrumentality of the Commonwealth of Puerto Rico, (b) the Puerto Rico Internal Revenue Code of 1994 (Subtitle B of Act No. 120 of the Legislature of Puerto Rico, approved October 31, 1994, as amended among other things by Act No. 34 of the Legislature of Puerto Rico, approved July 16, 1997, as amended), which allocated (1) 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 (the "Allocated Gasoline Tax Proceeds") and (2) the proceeds (up to \$120 million per fiscal year) of the tax imposed on crude oil, unfinished oil and derivative products (the "Allocated Crude Oil Tax Proceeds") to the Authority for use for its corporate purposes, (c) 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 "Allocated Additional License Fees"), to the Authority for use for its corporate purposes and (d) Reorganization Plan No. 6 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 (a) Resolution No. 68-18, adopted on June 13, 1968, as amended (the "1968 Resolution"), with respect to the Highway Revenue Bonds (hereinafter mentioned), and (b) Resolution No. 98-06, adopted on February 26, 1998, as amended (the "1998 Resolution"), together with a resolution adopted on January 25, 2002, with respect to the bonds (the "Series D Bonds") described below and other proofs submitted relative to the authorization, sale and issuance of

\$700,855,000

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
TRANSPORTATION REVENUE BONDS
(SERIES D)**

Maturing in such principal amounts, subject to redemption, dated, and bearing interest at the rates, all as set forth in said resolution adopted on January 25, 2002.

The Internal Revenue Code of 1986, as amended (the "Code") establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series D Bonds in order that interest on the Series D Bonds be and remain excluded from gross income for Federal income tax purposes under the Code. The Authority has covenanted to comply with applicable requirements of the Code.

In rendering the opinions set forth in paragraph 9 below, we have relied on certain representations, certifications of fact, and statements of reasonable expectation made by the Authority and others in connection with the Bonds, and we have assumed compliance by the Authority with the covenant referred to above and the applicable requirements of the Code.

We have also examined one of said Series D Bonds as executed and authenticated.

From such examination we are of the opinion that:

- (1) Act No. 74, the Puerto Rico Internal Revenue Code of 1994, the Vehicle and Traffic Law of Puerto Rico and Reorganization Plan No. 6 of 1971 are valid.
- (2) Said proceedings have been validly and legally taken.
- (3) Said Series D Bonds have been duly authorized and issued to pay the cost of constructing various highway and mass transit projects included in the Authority's current Construction Improvement Program and to make a deposit to the 1998 Senior Bond Reserve Account of the Interest and Sinking Fund hereinafter mentioned.
- (4) The Authority has heretofore issued various series of Highway Revenue Bonds under and in compliance with the provisions of the 1968 Resolution. The 1968 Resolution provides for the issuance of additional Highway Revenue Bonds under the conditions and limitations therein set forth, and the Authority has covenanted in the 1998 Resolution to limit the issuance of such additional Highway Revenue Bonds.
- (5) The 1998 Resolution provides for the issuance of bonds on a parity with said Series D Bonds, including certain bonds previously issued under the 1998 Resolution and additional bonds to be issued under the 1998 Resolution, under the conditions, limitations and restrictions therein set forth (said previously issued parity bonds, the Series D Bonds and such additional parity bonds being herein called the "Senior Transportation Revenue Bonds") for any lawful purpose of the Authority and for the purpose of refunding any bonds issued by the Authority under the 1998 Resolution and any other obligations of the Authority, including outstanding Highway Revenue Bonds. In addition, the 1998 Resolution provides for the issuance of bonds subordinate to the Senior Transportation Revenue Bonds as to their lien on the revenues and other moneys of the Authority, as described below, under the conditions, limitations and restrictions and for the purposes set forth therein (the Senior Transportation Revenue Bonds and such bonds subordinate thereto being herein collectively called the "Transportation Revenue Bonds").
- (6) The 1998 Resolution provides for the creation of a special fund designated "Puerto Rico Highways and Transportation Authority Transportation Revenue Fund" (the "Revenue Fund"), and, subject to the limitations of the next two paragraphs, for the deposit to the credit of said special fund of all moneys received by the Authority (a) from the Allocated Crude Oil Tax Proceeds, (b) from the Allocated Gasoline Tax Proceeds, (c) from the Allocated Additional License Fees, (d) from any tolls or other charges imposed by the Authority for the use of any Toll Facilities (other than Existing Toll Facilities Revenues received by the Authority prior to the repeal and cancellation of the 1968 Resolution) (as such terms are defined in the 1998 Resolution) and (e) from the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority and which the Legislature of Puerto Rico expressly authorizes the Authority to pledge to the payment of the principal of and interest on bonds or other obligations issued

by the Authority and which are pledged by the Authority to the payment of the principal of and interest on Transportation Revenue Bonds issued under the provisions of the 1998 Resolution.

The Allocated Gasoline Tax Proceeds, the Allocated Crude Oil Tax Proceeds and the Allocated Additional License Fees, 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 on 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.

The 1968 Resolution provides for the prior deposit to the credit of a special fund designated "Puerto Rico Highways and Transportation Authority Construction Fund" (herein called the "1968 Construction Fund") of the Allocated Gasoline Tax Revenues, the Allocated Additional License Fees and all Existing Toll Facilities Revenues, after the required deposits of such moneys have been made to the credit of the Puerto Rico Highways and Transportation Authority Highway Revenue Bonds Interest and Sinking Fund. In the 1998 Resolution, the Authority has covenanted (i) to withdraw monthly from the 1968 Construction Fund and deposit to the credit of the Revenue Fund until the outstanding Highway Revenue Bonds have been paid or provision has been made for their payment and the repeal and cancellation of the 1968 Resolution, all unencumbered moneys held to the credit of the 1968 Construction Fund and (ii) except for the foregoing withdrawal and any encumbrances on the moneys in the 1968 Construction Fund existing on the date of adoption of and as provided in the 1998 Resolution, not further to encumber or otherwise withdraw or pledge any such available moneys in the 1968 Construction Fund.

(7) Said Series D Bonds are valid and binding special obligations of the Authority payable solely from the special fund created by the 1998 Resolution and designated "Puerto Rico Highways and Transportation Authority Transportation 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 moneys held to the credit of the Revenue Fund, together with any other funds of the Commonwealth of Puerto Rico allocated to and received by the Authority and available under the 1998 Resolution for the payment of principal of and interest on the Senior Transportation Revenue Bonds, to pay the principal of and interest on all Senior Transportation Revenue Bonds (including said Series D Bonds) issued under the provisions of the 1998 Resolution as the same may become due and payable and to create and maintain a reserve therefor. Said Interest and Sinking Fund is pledged to and charged with the payment of the principal of and the interest on all Senior Transportation Revenue Bonds (including said Series D Bonds) issued by the Authority under the provisions of the 1998 Resolution.

(8) Said Series D 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 said Series D Bonds are payable only out of the revenues and other moneys of or allocated to the Authority, to the extent provided in the 1998 Resolution.

(9) Under the provisions of the Acts of Congress now in force and under existing regulations and judicial decisions, (i) interest on said Series D Bonds is excluded from gross income for Federal income tax purposes, and (ii) said Series D Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation.

Interest on said Series D Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

We express no opinion regarding any other Federal, state, Commonwealth of Puerto Rico or local tax consequences with respect to the Series D Bonds. Furthermore, we express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than this firm on the exclusion from gross income for Federal income tax purposes of interest on the Series D Bonds, or under state, Commonwealth of Puerto Rico or local tax law.

We render our opinions under existing statutes and court decisions as of the issue date, and assume no obligation to update our opinions after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise.

Very truly yours,

[To be signed: Hawkins, Delafield & Wood]

Closing Date

Hon. José Izquierdo
Secretary of Transportation and Public Works
San Juan, Puerto Rico

Dear Sir:

We have examined (a) Act No. 74 of the Legislature of Puerto Rico, approved June 23, 1965, as amended (“Act No. 74”), creating Puerto Rico Highways and Transportation Authority (hereinafter sometimes called the “Authority”), as a body corporate and politic constituting a public corporation and government instrumentality of the Commonwealth of Puerto Rico, (b) the Puerto Rico Internal Revenue Code of 1994 (Subtitle B of Act No. 120 of the Legislature of Puerto Rico, approved October 31, 1994, as amended among other things by Act No. 34 of the Legislature of Puerto Rico, approved July 16, 1997, as amended), which allocated (1) 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 (the “Allocated Gasoline Tax Proceeds”) and (2) the proceeds (up to \$120 million per fiscal year) of the tax imposed on crude oil, unfinished oil and derivative products (the “Allocated Crude Oil Tax Proceeds”) to the Authority for use for its corporate purposes, (c) 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 “Allocated Additional License Fees”), to the Authority for use for its corporate purposes and (d) Reorganization Plan No. 6 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 (a) Resolution No. 68-18, adopted on June 13, 1968, as amended (the “1968 Resolution”), with respect to the Highway Revenue Bonds (hereinafter mentioned), and (b) Resolution No. 98-06, adopted on February 26, 1998, as amended (the “1998 Resolution”), together with a resolution adopted on January 25, 2002, with respect to the bonds (the “Series E Bonds”) described below and other proofs submitted relative to the authorization, sale and issuance of

\$284,405,000

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
TRANSPORTATION REVENUE REFUNDING BONDS
(SERIES E)**

Maturing in such principal amounts, subject to redemption, dated, and bearing interest at the rates, all as set forth in said resolution adopted on January 25, 2002.

The Internal Revenue Code of 1986, as amended (the "Code") establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series E Bonds in order that interest on the Series E Bonds be and remain excluded from gross income for Federal income tax purposes under the Code. The Authority has covenanted to comply with applicable requirements of the Code.

In rendering the opinions set forth in paragraph 9 below, we have relied on certain representations, certifications of fact, and statements of reasonable expectation made by the Authority and others in connection with the Bonds, and we have assumed compliance by the Authority with the covenant referred to above and the applicable requirements of the Code.

We have also examined one of said Series E Bonds as executed and authenticated.

From such examination we are of the opinion that:

(1) Act No. 74, the Puerto Rico Internal Revenue Code of 1994, the Vehicle and Traffic Law of Puerto Rico and Reorganization Plan No. 6 of 1971 are valid.

(2) Said proceedings have been validly and legally taken.

(3) Said Series E Bonds have been duly authorized and issued to refund a portion of the Authority's bonds and to make a deposit to the 1998 Senior Bond Reserve Account of the Interest and Sinking Fund hereinafter mentioned.

(4) The Authority has heretofore issued various series of Highway Revenue Bonds under and in compliance with the provisions of the 1968 Resolution. The 1968 Resolution provides for the issuance of additional Highway Revenue Bonds under the conditions and limitations therein set forth, and the Authority has covenanted in the 1998 Resolution to limit the issuance of such additional Highway Revenue Bonds.

(5) The 1998 Resolution provides for the issuance of bonds on a parity with said Series E Bonds, including certain bonds previously issued under the 1998 Resolution, under the conditions, limitations and restrictions therein set forth (said previously issued parity bonds, the Series E Bonds and such additional parity bonds being herein called the "Senior Transportation Revenue Bonds") for any lawful purpose of the Authority and for the purpose of refunding any bonds issued by the Authority under the 1998 Resolution and any other obligations of the Authority, including outstanding Highway Revenue Bonds. In addition, the 1998 Resolution provides for the issuance of bonds subordinate to the Senior Transportation Revenue Bonds as to their lien on the revenues and other moneys of the Authority, as described below, under the conditions, limitations and restrictions and for the purposes set forth therein (the Senior Transportation Revenue Bonds and such bonds subordinate thereto being herein collectively called the "Transportation Revenue Bonds").

(6) The 1998 Resolution provides for the creation of a special fund designated "Puerto Rico Highways and Transportation Authority Transportation Revenue Fund" (the "Revenue Fund"), and, subject to the limitations of the next two paragraphs, for the deposit to the credit of said special fund of all moneys received by the Authority (a) from the Allocated Crude Oil Tax Proceeds, (b) from the Allocated Gasoline Tax Proceeds, (c) from the Allocated Additional License Fees, (d) from any tolls or other charges imposed by the Authority for the use of any Toll Facilities (other than Existing Toll Facilities Revenues received by the Authority prior to the repeal and cancellation of the 1968 Resolution) (as such terms are defined in the 1998 Resolution) and (e) from the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority and which the Legislature of Puerto Rico expressly authorizes the Authority to pledge to the payment of the principal of and interest on bonds or other obligations issued

by the Authority and which are pledged by the Authority to the payment of the principal of and interest on Transportation Revenue Bonds issued under the provisions of the 1998 Resolution.

The Allocated Gasoline Tax Proceeds, the Allocated Crude Oil Tax Proceeds and the Allocated Additional License Fees, 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 on 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.

The 1968 Resolution provides for the prior deposit to the credit of a special fund designated "Puerto Rico Highways and Transportation Authority Construction Fund" (herein called the "1968 Construction Fund") of the Allocated Gasoline Tax Revenues, the Allocated Additional License Fees and all Existing Toll Facilities Revenues, after the required deposits of such moneys have been made to the credit of the Puerto Rico Highways and Transportation Authority Highway Revenue Bonds Interest and Sinking Fund. In the 1998 Resolution, the Authority has covenanted (i) to withdraw monthly from the 1968 Construction Fund and deposit to the credit of the Revenue Fund until the outstanding Highway Revenue Bonds have been paid or provision has been made for their payment and the repeal and cancellation of the 1968 Resolution, all unencumbered moneys held to the credit of the 1968 Construction Fund and (ii) except for the foregoing withdrawal and any encumbrances on the moneys in the 1968 Construction Fund existing on the date of adoption of and as provided in the 1998 Resolution, not further to encumber or otherwise withdraw or pledge any such available moneys in the 1968 Construction Fund.

(7) Said Series E Bonds are valid and binding special obligations of the Authority payable solely from the special fund created by the 1998 Resolution and designated "Puerto Rico Highways and Transportation Authority Transportation 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 moneys held to the credit of the Revenue Fund, together with any other funds of the Commonwealth of Puerto Rico allocated to and received by the Authority and available under the 1998 Resolution for the payment of principal of and interest on the Senior Transportation Revenue Bonds, to pay the principal of and interest on all Senior Transportation Revenue Bonds (including said Series E Bonds) issued under the provisions of the 1998 Resolution as the same may become due and payable and to create and maintain a reserve therefor. Said Interest and Sinking Fund is pledged to and charged with the payment of the principal of and the interest on all Senior Transportation Revenue Bonds (including said Series E Bonds) issued by the Authority under the provisions of the 1998 Resolution.

(8) Said Series E 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 said Series E Bonds are payable only out of the revenues and other moneys of or allocated to the Authority, to the extent provided in the 1998 Resolution.

(9) Under the provisions of the Acts of Congress now in force and under existing regulations and judicial decisions, (i) interest on said Series E Bonds is excluded from gross income for Federal income tax purposes, and (ii) said Series E Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation.

Interest on said Series E Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

We express no opinion regarding any other Federal, state, Commonwealth of Puerto Rico or local tax consequences with respect to the Series E Bonds. Furthermore, we express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than this firm on the exclusion from gross income for Federal income tax purposes of interest on the Series E Bonds, or under state, Commonwealth of Puerto Rico or local tax law.

We render our opinions under existing statutes and court decisions as of the issue date, and assume no obligation to update our opinions after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise.

Very truly yours,

[To be signed: Hawkins, Delafield & Wood]

by the Authority and which are pledged by the Authority to the payment of the principal of and interest on Transportation Revenue Bonds issued under the provisions of the 1998 Resolution.

The Allocated Gasoline Tax Proceeds, the Allocated Crude Oil Tax Proceeds and the Allocated Additional License Fees, 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 on 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.

The 1968 Resolution provides for the prior deposit to the credit of a special fund designated "Puerto Rico Highways and Transportation Authority Construction Fund" (herein called the "1968 Construction Fund") of the Allocated Gasoline Tax Revenues, the Allocated Additional License Fees and all Existing Toll Facilities Revenues, after the required deposits of such moneys have been made to the credit of the Puerto Rico Highways and Transportation Authority Highway Revenue Bonds Interest and Sinking Fund. In the 1998 Resolution, the Authority has covenanted (i) to withdraw monthly from the 1968 Construction Fund and deposit to the credit of the Revenue Fund until the outstanding Highway Revenue Bonds have been paid or provision has been made for their payment and the repeal and cancellation of the 1968 Resolution, all unencumbered moneys held to the credit of the 1968 Construction Fund and (ii) except for the foregoing withdrawal and any encumbrances on the moneys in the 1968 Construction Fund existing on the date of adoption of and as provided in the 1998 Resolution, not further to encumber or otherwise withdraw or pledge any such available moneys in the 1968 Construction Fund.

(7) Said Series F Bonds are valid and binding special obligations of the Authority payable solely from the special fund created by the 1998 Resolution and designated "Puerto Rico Highways and Transportation Authority Transportation 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 moneys held to the credit of the Revenue Fund, together with any other funds of the Commonwealth of Puerto Rico allocated to and received by the Authority and available under the 1998 Resolution for the payment of principal of and interest on the Senior Transportation Revenue Bonds, to pay the principal of and interest on all Senior Transportation Revenue Bonds (including said Series F Bonds) issued under the provisions of the 1998 Resolution as the same may become due and payable and to create and maintain a reserve therefor. Said Interest and Sinking Fund is pledged to and charged with the payment of the principal of and the interest on all Senior Transportation Revenue Bonds (including said Series F Bonds) issued by the Authority under the provisions of the 1998 Resolution.

(8) Said Series F 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 said Series F Bonds are payable only out of the revenues and other moneys of or allocated to the Authority, to the extent provided in the 1998 Resolution.

(9) Under the provisions of the Acts of Congress now in force and under existing regulations and judicial decisions, (i) interest on said Series F Bonds is excluded from gross income for Federal income tax purposes, and (ii) said Series F Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation.

Interest on said Series F Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

We express no opinion regarding any other Federal, state, Commonwealth of Puerto Rico or local tax consequences with respect to the Series F Bonds. Furthermore, we express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than this firm on the exclusion from gross income for Federal income tax purposes of interest on the Series F Bonds, or under state, Commonwealth of Puerto Rico or local tax law.

We render our opinions under existing statutes and court decisions as of the issue date, and assume no obligation to update our opinions after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise.

Very truly yours,

[To be signed: Hawkins, Delafield & Wood]

FORM OF DELAYED DELIVERY CONTRACT

, 2002

Salomon Smith Barney Inc.
Municipal Securities Division
390 Greenwich Street, 2nd Floor
New York, New York 10013

Re: \$118,615,000 Puerto Rico Highway and Transportation Authority Transportation Revenue Refunding Bonds (Series F) (the "Series F Bonds")

Ladies and Gentlemen:

The undersigned (the "Purchaser") hereby agrees to purchase from Salomon Smith Barney Inc. ("Salomon Smith Barney"), when, as, and if issued and delivered to Salomon Smith Barney by Puerto Rico Highway and Transportation Authority (the "Issuer") and Salomon Smith Barney agrees to sell to the Purchaser

<u>Par Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>CUSIP Number</u>	<u>Yield</u>
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in aggregate principal amount of the above-referenced Series F Bonds described by the Issuer under the Preliminary Official Statement dated January 14, 2002 and offered by the Issuer under the Official Statement dated January 25, 2002 (as updated or supplemented) (the "Official Statement"), receipt and review of copies of which (including without limitation the section entitled "FINANCING PLAN" therein) is hereby acknowledged at a purchase price, at the interest rates, principal amounts, and maturity dates shown above, and on the further terms and conditions set forth in this Delayed Delivery Contract.

The Purchaser hereby purchases and agrees to accept delivery of such Series F Bonds from Salomon Smith Barney through the Depository Trust Company ("DTC") on April 3, 2002, or, in the event market conditions preclude delivery of securities generally (including the Series F Bonds) on such date, then on the first business day thereafter (not to exceed seven business days) that market conditions allow delivery of the Series F Bonds either through DTC or in physical form (the "Settlement Date").

Payment for the Series F Bonds which the Purchaser has agreed to purchase on the Settlement Date shall be made to Salomon Smith Barney or to its order on the Settlement Date upon delivery to the Purchaser of the Series F Bonds then to be purchased by the Purchaser.

Upon issuance by the Issuer of the Series F Bonds and purchase thereof by Salomon Smith Barney, the obligation of the Purchaser to take delivery hereunder shall be unconditional except in the event that between the date of this Delayed Delivery Contract and the Settlement Date, (a) as a result of any legislation, regulation, ruling order, release, court decision or judgment or action by the U.S. Congress, Department of the Treasury, Internal Revenue Service, or Securities and Exchange Commission (or comparable agencies in the Commonwealth of Puerto Rico), either issued, effective, adopted, or proposed, (i) Bond Counsel is not able to render its opinion substantially in the form included in Appendix III to the Official Statement; or (ii) the offering or sale of the Series F Bonds would be in violation of any provision of the Securities Act of 1933, as amended (the "1933 Act"), the Securities Exchange Act of 1934, as amended, or the Trust Indenture Act of 1939, as amended, or the offering or sale of the Series F Bonds would be subject to registration under the 1933 Act or similar federal law; (b) if for any other reason, Bond Counsel is not able to render its opinion substantially in the form included in Appendix III to the Official Statement; (c) the Authority fails to certify, to the best knowledge of the Authority, that no default in any material obligation of the Authority under the 1968 Resolution or the 1998 Resolution (as those terms are defined in the Official Statement) shall have occurred as of the

Settlement Date; or (d) the Series F Bonds are not rated by Moody's Investors Service and Standard & Poor's Ratings Group on the Settlement Date.

The Purchaser represents and warrants that, as of the date of this Delayed Delivery Contract, the Purchaser is not prohibited from purchasing the Series F Bonds hereby agreed to be purchased by it under the laws of the jurisdiction to which the Purchaser is subject.

This Delayed Delivery Contract will inure to the benefit of and be binding upon the parties hereto and their respective successors, but will not be assignable by either party without the written consent of the other.

The Purchaser acknowledges that Salomon Smith Barney is entering into an agreement with the Issuer to purchase the Series F Bonds in reliance in part on the performance by the Purchaser of its obligations hereunder.

The Purchaser agrees that it will at all times satisfy the minimum initial and maintenance margin requirements of Regulation T of the Board of Governors of the Federal Reserve System, Rule 431 of the New York Governors of the Federal Reserve System, Rule 431 of the New York Stock Exchange, Inc., and any other margin regulations applicable to Salomon Smith Barney.

This Delayed Delivery Contract may be executed by either of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

It is understood that the acceptance by Salomon Smith Barney of any Delayed Delivery Contract (including this one) is in Salomon Smith Barney's sole discretion and that, without limiting the foregoing, acceptances of such contracts need not be on a first-come, first-served basis. If this Delayed Delivery Contract is acceptable to Salomon Smith Barney, it is requested that Salomon Smith Barney sign the form of acceptance below and mail or deliver one of the counterparts hereof to the Purchaser at its address set forth below. This will become a binding contract between Salomon Smith Barney and the Purchaser when such counterpart is so mailed or delivered by Salomon Smith Barney. This Delayed Delivery Contract does not constitute a customer confirmation pursuant to Rule G-15 of the Municipal Securities Rulemaking Board.

The Issuer shall be deemed a third party beneficiary of this Delayed Delivery Contract.

This Delayed Delivery Contract shall be construed and administered under the laws of the State of New York.

Purchaser
Address
Telephone

By:
Name:
Title:

Accepted:
SALOMON SMITH BARNEY INC.

Name:
Title:



**FINANCIAL
SECURITY
ASSURANCE®**

APPENDIX V

**MUNICIPAL BOND DEBT SERVICE
RESERVE INSURANCE POLICY**

ISSUER:

BONDS: \$ _____ in aggregate principal amount of

Policy No.: -R

Effective Date:

Premium: \$

Termination Date:

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

Financial Security will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Issuer as appropriate, who may submit an amended Notice of Nonpayment. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy. Upon such payment, Financial Security shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to Financial Security by or on behalf of the Issuer. Within three Business Days of such reimbursement, Financial Security shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall Financial Security incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that Financial Security has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Insurance Agreement" means the

Insurance Agreement dated as of the effective date hereof in respect of this Policy, as the same may be amended or supplemented from time to time. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed \$ [21]. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document.

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

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

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be cancelled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____

Authorized Officer

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

(212) 826-0100

Form 501 NY (6/90)

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