NEW ISSUE — BOOK-ENTRY

(See "Book-Entry Only System" under *The Bonds*)

In the opinion of Bond Counsel, under existing law, (i) assuming continuing compliance by the Commonwealth of Puerto Rico with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (ii) the Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. Interest on the Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects, see the discussion under *Tax Matters* herein.

$530,910,993.15
Commonwealth of Puerto Rico

$475,000,000 Public Improvement Bonds of 2000
$55,910,993.15 Public Improvement Refunding Bonds, Series 2000
(General Obligation Bonds)

Dated: March 15, 2000* Due: July 1, as shown below

The Bonds are issuable as registered bonds without coupons in denominations of $5,000 or any multiple thereof ($5,000 maturity amount or any multiple thereof in the case of the Capital Appreciation Bonds). Interest on the Bonds (other than the Capital Appreciation Bonds) will be payable July 1, 2000 (representing 106 days' interest) and each January 1 and July 1 thereafter. Interest on the Capital Appreciation Bonds will be compounded on January 1 and July 1 of each year, commencing July 1, 2000 and will be payable only at maturity. Certain of the Bonds are subject to redemption prior to maturity as set forth herein, the earliest possible date of redemption being July 1, 2005. See *The Bonds*.

The Bonds are general obligations of the Commonwealth of Puerto Rico. The good faith, credit and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal of and interest on the Bonds. The Constitution of Puerto Rico provides that public debt of the Commonwealth, including the Bonds, constitutes a first claim on available Commonwealth revenues.

$475,000,000 Public Improvement Bonds of 2000

Maturity July 1,	Amount	Interest Rate	Yield	Maturity July 1,	Amount	Interest Rate	Yield
2001	$ 7,370,000	4½ %	4.30%	2011	$11,870,000†	5⅛ %	5.18%
2002	7,700,000†	4½	4.43	2012	12,480,000†	5¼	5.25
2003	8,045,000†	5	4.53	2013	13,135,000†	5¼	5.33
2004	8,450,000†	5	4.63	2014	13,825,000†	5⅜	5.40
2005	8,870,000†	4.70	4.73	2015	14,570,000†	5.40	5.47
2006	9,290,000†	4.80	4.83	2016	15,355,000†	5¾	5.47**
2007	9,735,000†	5¼	4.93	2017	16,235,000†	5¾	5.52**
2008	10,245,000†	5	5	2018	17,170,000†	5¾	5.57**
2009	10,760,000†	5	5.05	2019	18,160,000†	5¾	5.64**
2010	11,295,000†	5.10	5.10	2020	19,200,000†	5¾	5.69**
				2021	20,305,000†	5¾	5.73**

$110,935,000† 5¾% Term Bonds due July 1, 2026—Yield: 5.81%
$100,000,000 6% Term Bonds due July 1, 2029—Yield: 6.06%

$55,910,993.15 Public Improvement Refunding Bonds, Series 2000

Maturity July 1,	Amount	Interest Rate	Yield
2019	$29,200,000†	5⅝ %	5.68%
2020	22,635,000†	5.70	5.71

$4,075,993.15† Capital Appreciation Bonds due July 1, 2019—Yield: 5.80%

(plus accrued interest where applicable)

The Bonds are offered for delivery when, as and if issued and accepted by the Underwriters subject to the approval of legality by Squire, Sanders & Dempsey L.L.P., Bond Counsel and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Pietrantoni Méndez & Alvarez LLP, San Juan, Puerto Rico. It is expected that settlement for the Bonds will occur in New York, New York, on or about April 5, 2000.

Goldman, Sachs & Co.
Morgan Stanley Dean Witter
Bear, Stearns & Co. Inc.
PaineWebber Incorporated
Merrill Lynch & Co.
Salomon Smith Barney
JP Morgan & Co.
Raymond James & Associates Inc.
Prudential Securities
Samuel A. Ramirez & Co., Inc.

March 17, 2000

* Capital Appreciation Bonds dated their date of delivery.

** Yield to 7/1/2010 call date.

† Insured by MBIA Insurance Corporation.

Commonwealth of Puerto Rico

Governor

PEDRO ROSSELLÓ

Members of the Cabinet

ANGEL MOREY
Chief of Staff

ANGEL MOREY
Secretary of State

ANGEL ROTGER SABAT
Secretary of Justice

XENIA VÉLEZ SILVA
Secretary of the Treasury

VÍCTOR FAJARDO
Secretary of Education

AURA GONZÁLEZ
Secretary of Labor and Human Resources

CARMEN FELICIANO DE MELECIO
Secretary of Health

MIGUEL A. MUÑOZ MUÑOZ
Secretary of Agriculture

SERGIO GONZÁLEZ QUEVEDO
Secretary of Transportation and Public Works

XAVIER ROMEU
Secretary of Economic Development and Commerce

ANGIE VARELA
Secretary of Family Affairs

CARLOS O. GONZÁLEZ SÁNCHEZ
Secretary of Housing

DANIEL PAGÁN ROSA
Secretary of Natural and Environmental Resources

JOSÉ A. ALICEA
Secretary of Consumer Affairs

ERIC R. LABRADOR ROSA
Secretary of Sports and Recreation

ZOÉ LABOY ALVARADO
Secretary of Corrections and Rehabilitation

PEDRO TOLEDO
Commissioner of Protection and Public Safety

Legislative Officers

CHARLIE RODRÍGUEZ
President, Senate

EDISON MISLA ALDARONDO
Speaker, House of Representatives

Fiscal Officers

JORGE E. APONTE HERNÁNDEZ
Director, Office of Management and Budget

LOURDES M. ROVIRA
President, Government Development Bank for Puerto Rico

Others

JOSÉ R. CABALLERO MERCADO
President, Planning Board

No dealer, broker, sales representative or other person has been authorized by the Commonwealth 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 Commonwealth 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 Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been obtained from the Commonwealth, MBIA Insurance Corporation 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 of the Commonwealth since the date hereof. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS OFFERED HEREBY AND THE COMMONWEALTH'S OUTSTANDING GENERAL OBLIGATION BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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$530,910,993.15

Commonwealth of Puerto Rico

$475,000,000 Public Improvement Bonds of 2000
$55,910,993.15 Public Improvement Refunding Bonds, Series 2000

(General Obligation Bonds)

INTRODUCTORY STATEMENT

This Official Statement of the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico"), which includes the cover page and the appendices, provides certain information in connection with the sale of $475,000,000 Commonwealth of Puerto Rico Public Improvement Bonds of 2000 (the "Public Improvement Bonds") and $55,910,993.15 Commonwealth of Puerto Rico Public Improvement Refunding Bonds, Series 2000 (the "Refunding Bonds" and, together with the Public Improvement Bonds, the "Bonds"). The Public Improvement Bonds maturing July 1 of the years 2002 through and including 2026 and all of the Refunding Bonds (collectively, the "Insured Bonds") will be insured by separate financial guaranty insurance policies (the "MBIA Bond Insurance Policies") issued by MBIA Insurance Corporation ("MBIA Insurance"). The $4,075,993.15 Refunding Bonds maturing on July 1, 2019 are being issued as capital appreciation bonds (the "Capital Appreciation Bonds").

The Public Improvement Bonds are being issued under the provisions of Act No. 153 of the Legislature of Puerto Rico, approved July 16, 1999 ("Act No. 153"), and pursuant to a resolution authorizing the issuance of the Public Improvement Bonds (the "Public Improvement Bond Resolution") adopted by the Secretary of the Treasury and approved by the Governor of Puerto Rico on March 17, 2000. The Refunding Bonds are being issued under the provisions of Act No. 2 of the Legislature of Puerto Rico, approved October 10, 1985, and Joint Resolution No. 57 of the Legislature of Puerto Rico, approved July 12, 1993 (collectively, "Act No. 2" and, together with Act No. 153, the "Act") and pursuant to a resolution authorizing the issuance of the Refunding Bonds (the "Refunding Bond Resolution" and, together with the Public Improvement Bond Resolution, the "Bond Resolution") adopted by the Secretary of the Treasury and approved by the Governor of Puerto Rico on March 17, 2000.

Under the Act, the good faith, credit and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal of and interest on the Bonds. The Constitution of Puerto Rico provides that public debt of the Commonwealth, including the Bonds, constitutes a first claim on available Commonwealth revenues.

This Official Statement includes the cover page, the Appendices and the Comprehensive Annual Financial Report of the Commonwealth for the fiscal year ended June 30, 1999 prepared by the Department of the Treasury (the "Commonwealth's Annual Financial Report"), which includes the general purpose financial statements of the Commonwealth for the fiscal year ended June 30, 1999, together with the independent auditor's report thereon, dated January 14, 2000, of Deloitte & Touche LLP, certified public accountants, which is incorporated herein by reference. The Commonwealth's Annual Financial Report has been filed by the Commonwealth with each nationally recognized municipal securities information repository ("NRMSIR"). Any appendix of an Official Statement of the Commonwealth or of any instrumentality of the Commonwealth containing the Commonwealth's Annual Financial Report filed with each NRMSIR and the Municipal Securities Rulemaking Board (the "MSRB") or any other document containing the Commonwealth's Annual Financial Report filed with each NRMSIR after the date hereof and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document. Any statement contained herein or in any of the above described documents incorporated herein by reference shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Commonwealth will provide without charge to any person to whom this Official Statement is delivered, on the written or oral request of such person, a copy of the Commonwealth's Annual Financial Report incorporated herein by reference. Requests 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 to Director-General Obligations Division, Government Development Bank for Puerto Rico, P.O. Box 42001, San Juan, PR 00940, telephone number (787) 722-7060.

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

OVERVIEW

The following is a summary of certain information regarding the Commonwealth contained in the Commonwealth of Puerto Rico Financial Information and Operating Data Report dated March 1, 2000 (the "Commonwealth Report"), attached hereto as Appendix I. This summary does not purport to be complete and is qualified in its entirety by reference to more detailed information appearing in the Commonwealth Report, which should be read in its entirety.

Puerto Rico is located approximately 1,600 miles southeast of New York City. Its population was estimated to be 3,851,500 in fiscal 1999. Puerto Rico's constitutional status is that of an unincorporated territory of the United States and the ultimate source of power over Puerto Rico, pursuant to the territorial clause of the Federal Constitution, is the United States Congress. The United States and Puerto Rico share a common defense, market, currency and citizenship. The Government of Puerto Rico exercises virtually the same control over its internal affairs as is exercised by the state governments of each of the fifty states over their respective internal affairs, with similar separation of powers among the executive, legislative and judicial branches. The official languages of Puerto Rico are Spanish and English.

Economic Trends

Puerto Rico has enjoyed sixteen years of uninterrupted economic expansion. Almost every sector of the economy has participated in this expansion and record levels of employment have been achieved. Factors contributing to this expansion include government-sponsored economic development programs, periodic declines in the exchange value of the United States dollar, increases in the level of federal transfers, the relatively low cost of borrowing and, until recently, low oil prices.

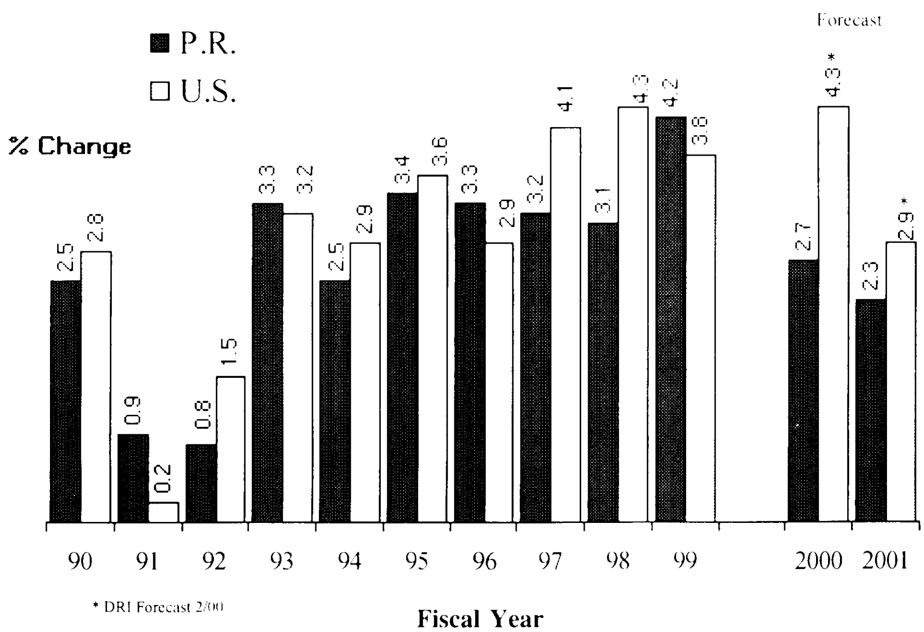
Gross product in fiscal 1995 was $28.5 billion ($26.0 billion in 1992 prices) and in fiscal 1999 was $38.2 billion ($29.8 billion in 1992 prices). This represents an increase in gross product of 34.4% from fiscal 1995 to 1999 (14.8% in 1992 prices). Since fiscal 1985, personal income, both aggregate and per capita, has increased consistently each fiscal year. In fiscal 1999, aggregate personal income was $37.2 billion ($33.0 billion in 1992 prices) and personal income per capita was $9,674 ($8,571 in 1992 prices). The difference in the statistics of 1992 prices for gross product and personal income is attributable to the difference in the price deflators used for each.

Average employment increased from 1,051,000 in fiscal 1995, to 1,147,000 in fiscal 1999. Average unemployment decreased from 13.8% in fiscal 1995, to 12.5% in fiscal 1999, the lowest annual unemployment rate in more than two decades. According to the Labor Department's Household Employment Survey, during fiscal 1999, total employment increased 0.9% over fiscal 1998. Total monthly employment averaged 1,147,000 in fiscal 1999, compared to 1,137,400 in fiscal 1998. The seasonally adjusted unemployment rate for January 2000 was 11.9%.

According to the Labor Department's Household Employment Survey, during the first seven months of fiscal 2000, total employment increased 0.4% over the same period in fiscal 1999. Total monthly employment averaged 1,138,600 during the first seven months of fiscal 2000, compared to 1,134,400 in the same period in fiscal 1999.

The Planning Board's gross product forecast for fiscal 2000, made in October 1999, projected an increase of 2.7% over fiscal 1999 and an increase of 2.3% for fiscal 2001. The performance of the economy during fiscal 2000 and 2001 will be affected principally by the performance of the United States economy and by the increase in oil prices and, to a lesser extent, by the level of interest rates. Since Puerto Rico is heavily dependent on oil imports for its energy needs, if the level of oil prices remain at their current high level for a long period of time, that could have an adverse effect on the level of economic activity in Puerto Rico during the remainder of fiscal 2000 and during fiscal 2001.

Real GNP Growth Rate



Puerto Rico has a diversified economy with the manufacturing and services sectors comprising the principal sectors. Manufacturing is the largest sector in terms of gross domestic product. According to the Planning Board's preliminary figures, in fiscal 1999 manufacturing generated $26.3 billion, or 43.8%, of gross domestic product and accounted for 13.9% of total employment; as compared with fiscal 1998, when it generated $22.8 billion, or 42.3%, of gross domestic product and accounted for 14.2% of total employment. See "Economic Performance by Sector" under *The Economy* in the Commonwealth Report. Manufacturing in Puerto Rico is now more diversified than during the earlier phases of its industrial development and includes several industries less prone to business cycles. In the last two decades, industrial development has tended to be more capital intensive and more dependent on skilled labor. This gradual shift in emphasis is best exemplified by the heavy investment in the pharmaceutical, scientific instruments, computers, microprocessors, medical products and electrical products industries in Puerto Rico over the last decade. One of the factors assisting the development of the manufacturing sector has been the tax incentives offered by the federal and Puerto Rico governments. Federal legislation enacted in 1996, however, which amended Internal Revenue Code Section 936, phased out the federal tax incentives during a ten-year period. See "Tax Incentives—Sections 30A and 936 of the Code" under *The Economy* in the Commonwealth Report.

The services sector, which includes hotel and related services and currently accounts for approximately 50.4% of total employment, generated $22.2 billion, or 37.1%, of Puerto Rico's gross domestic product in fiscal 1999, as compared with $20.5 billion, or 38.1%, of gross domestic product in fiscal 1998.

Growth in construction contributed to increased economic activity in fiscal 1999. The growth in the construction industry was evidenced by a nominal increase of 23.9% in construction investment for fiscal 1999 over fiscal 1998. Tourism continues to make a significant contribution to economic activity. More than 4.2 million visitors spent $2.1 billion in Puerto Rico in fiscal 1999. San Juan has become the largest home port for cruise ships in the Caribbean and the second largest home port for cruise ships in the world. Twenty-four U.S. and international airlines offer scheduled service to and from San Juan, and two major U.S. airlines use San Juan as a hub for their intra-Caribbean operations. This reflects the importance of Puerto Rico as a tourist destination and as a transportation hub in the Caribbean.

Fiscal Management

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

Section 7 of Article VI of the Constitution of Puerto Rico provides that "The appropriations made for any fiscal year shall not exceed the total revenues, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided by law."

Since fiscal 1990, the complete financial statements of the Commonwealth have been audited. The financial statements of the Commonwealth for fiscal 1999 were audited by Deloitte & Touche LLP, whose report thereon is dated January 14, 2000. For a summary of the Commonwealth's significant accounting policies, see Note 1 to the Commonwealth's general purpose financial statements included in the Commonwealth's Annual Financial Report. Preparation of the audited financial statements of the Commonwealth involves the collection and combination of audited financial statements from 50 separate reporting entities.

Debt Management

The Constitution of Puerto Rico limits the amount of general obligation debt that can be issued. The Commonwealth's policy has been and continues to be to maintain the level of such debt within a prudent range below the constitutional limitation. See "Debt Limitation" under *The Bonds*.

Historically, the Commonwealth has maintained a fiscal policy which provides for a prudent relationship between the growth of public sector debt and the growth of the economic base required to service that debt. During fiscal 1996, 1997 and 1998, however, public sector debt increased at a rate greater than the growth of gross product due to an increase in the amount of debt incurred to finance certain key infrastructure projects, which are important to the development of the economy and are expected to produce long term economic benefits, and debt incurred to refinance outstanding debt to enable Puerto Rico to benefit from the historically low levels of interest rates and realize debt service savings. From fiscal 1996 to 1999, public sector debt increased 28.7% while gross product increased 25.9%. During fiscal 1999, public sector debt increased 1.6% while gross product increased 9.2%. One of the reasons why the growth in public sector debt during fiscal 1999 was much lower than in prior fiscal years is that during fiscal 1999 $756 million principal amount of bonds of the Telephone Authority were defeased in connection with the sale to a private company of a controlling interest in Puerto Rico Telephone Company. Without such defeasance, public sector debt would have grown 5.2% during fiscal

1999. The trend of higher levels of growth of public sector debt relative to the growth in gross product is expected to continue during the next few fiscal years as the level of public sector capital investment remains high. See "Trends of Public Sector Debt" under *Debt* and "Economic Performance by Sector - Construction" under *The Economy* in the Commonwealth Report.

As of December 31, 1999, outstanding short-term debt, relative to total debt, was 11.2%.

PLAN OF FINANCING

The Public Improvement Bonds

The net proceeds of the Public Improvement Bonds will be deposited in (i) the 2000 Public Improvements Fund established under Act No. 153 to carry out the capital improvement programs authorized by the Legislature, including but not limited to highways and transportation facilities, aqueduct and sewer facilities, schools, health and social welfare facilities, agricultural and tourism facilities, park and other recreation facilities, flood control and solid waste facilities, housing, municipal projects, and other governmental projects, and (ii) the Extraordinary Maintenance Fund established under Act No. 66 of the Legislature of Puerto Rico, approved August 14, 1991, to carry out the dredging and maintenance of Lake Carraizo, in the amounts specified under "Sources and Uses of Funds."

The Refunding Bonds

The Refunding Bonds will be issued under the provisions of Act No. 2 for the purpose of providing funds for the purchase and cancellation of the following Commonwealth of Puerto Rico Public Improvement Bonds and Public Improvement Refunding Bonds (collectively, the "Refunded Bonds"), the owners of which have agreed to tender for purchase such Refunded Bonds on or before the date of delivery of the Bonds:

Refunded Bonds	Amount to be Purchased	Interest Rate	Maturity Date July 1,
Public Improvement Refunding Bonds, Series 1998	$61,940,000	4.50%	2023
Public Improvement Bonds of 1998	1,000,000	4.875%	2023
Public Improvement Bonds of 1999	2,550,000	4.75%	2023
Total	$65,490,000		

The purchase and cancellation of the Refunded Bonds will permit the Commonwealth to realize debt service savings on its general obligation bonds. The net proceeds of the Refunding Bonds will be applied for the payment of the purchase price of the Refunded Bonds. Upon the purchase and cancellation of the Refunded Bonds, the Refunded Bonds will cease to be outstanding under the terms of their respective authorizing resolutions, and under Act No. 2, will be deemed not to be outstanding for the purpose of applying the debt limitation under Section 2 of Article VI of the Commonwealth's Constitution.

Sources and Uses of Funds

Sources:

Principal amount of the Bonds	$530,910,993.15
Accrued Interest	1,634,277.01
Net original issue discount	(748,033.60)
Total sources	$531,797,236.56

Uses:

Deposit into the 2000 Public Improvements Fund	$443,606,316.35
Deposit into the Extraordinary Maintenance Fund	23,750,000.00
Purchase of Refunded Bonds	54,646,416.15
Deposit into the Redemption Fund (as defined below)	1,634,277.01
Underwriting discount, municipal bond insurance premium, purchasing agent fee, and legal, printing, and other financing expenses	8,160,227.05
Total uses	$531,797,236.56

THE BONDS

General

The Bonds will be dated, will bear interest at such rates (or have such yields in the case of the Capital Appreciation Bonds), payable at such times, and will mature on the dates and in the principal amounts (except with respect to the Capital Appreciation Bonds) set forth on the cover page of this Official Statement. The Bonds are subject to redemption at the times and at the prices set forth below in "Redemption."

The Capital Appreciation Bonds and the interest thereon will be payable only at maturity in an amount (the "Accreted Value") equal to the original principal amount of such Bonds plus interest from their dated date, compounded semi-annually. The Accreted Value per $5,000 maturity amount of each Capital Appreciation Bond, on the date of delivery and on each January 1 and July 1, commencing July 1, 2000, is shown in Appendix IV. The Accreted Value of the Capital Appreciation Bonds on any other date is calculated on the assumption that such Accreted Value increases in equal daily amounts, on the basis of a year of twelve 30-day months, up to the Accreted Value on the next January 1 or July 1, as appropriate.

Book-Entry Only System

The following information concerning The Depository Trust Company ("DTC"), New York, New York and DTC's book-entry system has been obtained from DTC. Neither the Commonwealth nor the Underwriters take any responsibility for the accuracy thereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other nominee as may be requested by an authorized representative of DTC. One fully registered Bond will be issued for each maturity of the Public Improvement Bonds and the Refunding Bonds, each 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of a 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 Bonds will be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

Redemption notices will be sent to Cede & Co. If less than all of the 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 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Commonwealth as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 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 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 Commonwealth, or Banco Popular de Puerto Rico as paying agent and registrar (the "Registrar"), 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 Commonwealth or the Registrar, 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 Bonds at any time by giving reasonable notice to the Commonwealth or the Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, definitive Bonds are required to be printed and delivered.

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

Payments and Transfers

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

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

Discontinuance of the Book-Entry Only System

In the event that the book-entry only system is discontinued, the following provisions will apply: principal of and redemption premium, if any, on the Bonds shall be payable in lawful money of the United States of America at the principal office of the Registrar in San Juan, Puerto Rico. Interest on the Bonds (except for the interest on the Capital Appreciation Bonds, which interest is payable at maturity of such Bonds) will be payable by check mailed to the respective addresses of the registered owners determined as of the applicable record date thereof provided in the Bond Resolution as shown on the registration books of the Commonwealth maintained by the Registrar. The Bonds will be issued only as registered Bonds without coupons in denominations of $5,000 or any multiple thereof (except for the Capital Appreciation Bonds, which will be issued as fully registered bonds in denominations of $5,000 maturity amounts and multiples thereof). The transfer of the Bonds will be registrable and they may be exchanged at the corporate trust office of the Registrar in San Juan, Puerto Rico, upon the payment of any taxes or other governmental charges required to be paid with respect to such transfer or exchange.

Authorization

Section 2 of Article VI of the Constitution of the Commonwealth provides that the power of the Commonwealth to contract and to authorize the contracting of debts shall be exercised as determined by the Legislature. Pursuant to this power, the Legislature enacted the Act, which authorizes the issuance of the Bonds.

Redemption

Optional Redemption of Public Improvement Bonds. At the option of the Secretary of the Treasury and upon at least 30 days' notice, the Public Improvement Bonds maturing on July 1, 2011 through and including July 1, 2021 and on July 1, 2026, are subject to redemption, from any moneys that may be available for that purpose (other than from moneys set aside in respect of an amortization requirement), prior to maturity, on or after July 1, 2010, either in whole or in part, on any date, as directed by the Secretary of the Treasury, at the principal amount of the Public Improvement Bonds to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

At the option of the Secretary of the Treasury and upon at least 30 days' notice, the Public Improvement Bonds maturing on July 1, 2029 are subject to redemption, from any moneys that may be available for that purpose (other than from moneys set aside in respect of an amortization requirement), prior to maturity, on or after July 1, 2005, either in whole or in part, on any date, as directed by the Secretary of the Treasury, at the redemption prices (expressed as a percentage of principal amount) set forth in the table below, together with accrued interest to the date fixed for redemption:

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

The Public Improvement Bonds maturing on or prior to July 1, 2010 are not subject to redemption prior to maturity.

Optional Redemption of Refunding Bonds. At the option of the Secretary of the Treasury and upon at least 30 days' notice, the Refunding Bonds (other than the Capital Appreciation Bonds) are subject to redemption, from any moneys that may be available for that purpose (other than from moneys set aside in respect of an amortization requirement), prior to maturity, on or after July 1, 2010, either in whole or in part, on any date, as directed by the Secretary of the Treasury, at the principal amount of the Refunding Bonds to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

The Capital Appreciation Bonds are not subject to redemption prior to maturity.

Mandatory Redemption. The term Public Improvement Bonds maturing July 1, 2026 and July 1, 2029 are subject to redemption to the extent of the respective amortization requirements therefor set forth below (less the amount applied to the purchase of any such Bonds and otherwise subject to adjustment as described below), upon at least 30 days' notice, on July 1, 2022 and on July 1, 2026, respectively, and on July 1 in each year thereafter at a redemption price of par plus accrued interest to the dates fixed for redemption:

July 1	Amortization Requirements for Term Bonds due July 1	
	2026	2029
2022	$21,475,000	
2023	22,710,000	
2024	24,015,000	
2025	25,395,000	
2026	17,340,000*	$ 9,515,000
2027		28,420,000
2028		30,130,000
2029		31,935,000*
Average life (years)	24.2	28.1

*Maturity.

If the amount of the term Public Improvement Bonds purchased or redeemed pursuant to an amortization requirement during any fiscal year exceeds the amount of the amortization requirement for such Public Improvement Bonds for such fiscal year, the amortization requirement for such Public Improvement Bonds may be decreased for such subsequent fiscal years and in such amounts aggregating the amount of such excess as the Secretary of the Treasury shall determine.

Notice and Effect of Redemption of Bonds

Any redemption of the Bonds, either in whole or in part, shall be made upon at least thirty (30) days' prior notice by mail to DTC or, if the book-entry only system as described above has been discontinued, by first class mail, postage prepaid, to all registered owners in the manner and under the terms and conditions provided in the Bond Resolution. On the date designated for redemption, notice having been given as provided in the Bond Resolution and moneys for payment of the principal of and redemption premium, if any, and accrued interest on the Bonds or portions thereof so called for redemption being held by the Registrar, interest on the Bonds or portions thereof so called for redemption shall cease to accrue. Subject to certain provisions of the Bond Resolution, Bonds and portions of Bonds which have been duly called for redemption under the provisions of the Bond Resolution, or with respect to which irrevocable instructions to call for redemption or to pay at maturity have been given, and for the payment of the principal of and redemption premium, if any, and the accrued interest on which sufficient moneys or investments permitted by law shall be held in separate trust for the owners of the Bonds or portions thereof to be paid or redeemed, shall not be deemed to be outstanding under the Bond Resolution, and the registered owners thereof shall have no rights in respect thereof except to receive payment of the principal thereof and the redemption premium, if any, and the accrued interest thereon from said separate trust.

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

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

Security

Provision for Payment of Public Debt

The Act provides that the good faith, credit and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal of and interest on the Bonds issued under the provisions of the Act. The Secretary of the Treasury is authorized and directed under the Act to pay the principal of and interest on the Bonds as the same become due and payable from any funds available for such purpose with the Department of the Treasury in the fiscal year in which such payment is due. The provisions contained in the Act regarding the payment of the principal of and interest on the Bonds are considered to be a continuous appropriation for the Secretary of the Treasury to make such payments, even though no specific appropriations are made for such purposes. Such payments are required to be made pursuant to the provisions of the laws of the Commonwealth that regulate the disbursement of public funds.

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

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

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

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

Special Fund for General Obligation Debt Service

Act No. 83 of the Legislature of Puerto Rico, approved August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exempt from taxation. The proceeds of said tax are credited to the Special Fund for the Amortization and Redemption of General Obligations Evidenced by Bonds and Promissory Notes (the "Redemption Fund"), for application to the payment of general obligation bonds and notes of the Commonwealth.

Act No. 39 of the Legislature of Puerto Rico, approved May 13, 1976, as amended ("Act No. 39"), requires the Secretary of the Treasury to transfer each month from available funds of the Commonwealth to the Redemption Fund such amounts which together with certain funds otherwise deposited therein will be equal to the sum of one-sixth of the interest to be paid in the next six months and one-twelfth of the principal to be paid or required to be amortized within the next twelve months on all bonds and notes of the Commonwealth for which its full faith and credit are pledged as the same become due and for which the guaranty of the Commonwealth has been exercised. Moneys in the Redemption Fund are held in trust by Government Development Bank. Act No. 39 provides that the obligation of the Secretary of the Treasury to make the above transfers is cumulative, and the amount of any deficiency in any month shall be added to the amount of transfers required in future months until such deficiency has been fully paid. On February 29, 2000, the amount on deposit in the Redemption Fund was $209,821,158, which was the required amount.

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

Payment Record

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

Debt Limitation

Section 2 of Article VI of the Constitution of Puerto Rico provides that direct obligations of the Commonwealth evidenced by full faith and credit bonds or notes shall not be issued if the amount of the principal of and interest on such bonds and notes and on all such bonds and notes theretofore issued which is payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceeds 15% of the average annual revenues raised under the provisions of Commonwealth legislation and covered into the Treasury of Puerto Rico (hereinafter "internal revenues") in the two fiscal years preceding the then current fiscal year. Section 2 of Article VI does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded. Internal revenues consist principally of income taxes, property taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Treasury of Puerto Rico, and motor vehicle fuel taxes and license fees, which are allocated to the Highway Authority, are not included as internal revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service.

On December 21, 1995, 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. In fiscal 1999 the Commonwealth appropriated funds to help make debt service payments on $24,320,000 outstanding principal amount of Puerto Rico Housing Bank and Finance Agency Special Obligation Refundings Bonds (Series H), which are guaranteed by the Commonwealth and have a final maturity of October 1, 2001 (the "Housing Bank Guaranteed Bonds"). The amount paid by the Commonwealth under the PRASA Guaranteed Bonds and the Housing Bank Guaranteed Bonds will be taken into account for purposes of computing the above described 15% constitutional debt limitation.

After giving effect to the issuance of the Bonds and the purchase and cancellation of the Refunded Bonds, future maximum annual debt service for the Commonwealth's outstanding general obligation debt is $526,430,000 in the fiscal year ending June 30, 2001. Debt service for the PRASA Guaranteed Bonds and the Housing Bank Guaranteed Bonds paid by the Commonwealth during fiscal 1999 (including for this purpose debt service payments due July 1, 1999) was $33,530,000 and $1,300,000, respectively. See "Debt Service Requirements for Commonwealth General Obligation Bonds and Certain Guaranteed Debt" under *Public Sector Debt of the Commonwealth*, below. The sum of those amounts ($561,260,000) is equal to 9.5% of $5,929,216,000, which is the average of the adjusted internal revenues for the fiscal year ended June 30, 1998 and the adjusted internal revenues for the fiscal year ended June 30, 1999.

Maturity Limitation

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

BOND INSURANCE

The MBIA Bond Insurance Policies

The following information has been furnished by MBIA Insurance for use in this Official Statement. Reference is made to *Appendix III* for a specimen of the MBIA Bond Insurance Policies.

The MBIA Bond Insurance Policies unconditionally and irrevocably guarantee the full and complete payment required to be made by or on behalf of the Commonwealth to the Registrar or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Bond Insurance Policies shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Insured Bonds pursuant to a final judgement by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The MBIA Bond Insurance Policies do not insure against loss of any prepayment premium which may at any time be payable with respect to any Insured Bond. The MBIA Bond Insurance Policies do not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The MBIA Bond Insurance Policies also do not insure against nonpayment of principal of or interest on the Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Registrar or any other paying agent for the Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA Insurance from the Registrar or any owner of an Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA Insurance on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Insured Bonds or presentment of such other proof of ownership of the Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Insured Bonds as are paid by MBIA Insurance, and appropriate instruments to effect the appointment of MBIA Insurance as agent for such owners of the Insured Bonds in any legal proceeding related to payment of insured amounts on the Insured Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Registrar payment of the insured amounts due on such Insured Bonds, less any amount held by the Registrar for the payment of such insured amounts and legally available therefor.

MBIA Insurance is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA Insurance. MBIA Insurance is domiciled in the State of New York and licensed to do business in, and subject to regulation under the laws of, all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA Insurance has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA Insurance, changes in control and transactions among affiliates. Additionally, MBIA Insurance is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

As of December 31, 1998, MBIA Insurance had admitted assets of $6.5 billion (audited), total liabilities of $4.2 billion (audited), and total capital and surplus of $2.3 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 1999, MBIA

Insurance had admitted assets of $6.9 billion (unaudited), total liabilities of $4.5 billion (unaudited), and total capital and surplus of $2.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Copies of the MBIA Insurance's year end financial statements prepared in accordance with statutory accounting practices are available without charge from MBIA Insurance. A copy of the Annual Report on Form 10-K of the Company is available from MBIA Insurance or the Securities and Exchange Commission. The address of MBIA Insurance is 113 King Street, Armonk, New York 10504. The telephone number of MBIA Insurance is (914) 273-4545.

Moody's Investors Service ("Moody's") rates the financial strength of MBIA Insurance "Aaa".

Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's") rates the financial strength of MBIA Insurance "AAA".

Fitch IBCA, Inc., rates the financial strength of MBIA Insurance "AAA".

Each rating of MBIA Insurance should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA Insurance and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Insured Bonds, and such ratings may be subject to revisions or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market prices of the Insured Bonds. MBIA Insurance does not guaranty the market prices of the Insured Bonds nor does it guaranty that the ratings on the Insured Bonds will not be revised or withdrawn.

PUBLIC SECTOR DEBT OF THE COMMONWEALTH

Pro Forma Public Sector Debt

The following table presents a summary of the public sector debt of the Commonwealth as of December 31, 1999 and as adjusted for the issuance of the Bonds and the purchase and cancellation of the Refunded Bonds. The table should be read in conjunction with the information set forth in *Debt* in *Appendix I.*

Puerto Rico
Public Sector Debt*
(in thousands)

	December 31, 1999	As Adjusted
Puerto Rico direct debt	$ 5,252,763	$ 5,718,184
Municipal debt	1,356,689	1,356,689
Public corporations debt		
Puerto Rico guaranteed debt	399,400	399,400
Debt supported by Puerto Rico appropriations or taxes	9,738,801	9,738,801
Other non-guaranteed debt	6,038,927	6,038,927
Total public corporations debt	16,177,128	16,177,128
Total public sector debt	$22,786,580	$23,252,001

* For a complete recital of all notes to this table, see "Public Sector Debt" under *Debt* in *Appendix I.*

Source: Government Development Bank.

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

The following table presents debt service requirements for: (i) general obligation bonds of the Commonwealth outstanding on December 31, 1999, excluding the Refunded Bonds; (ii) the Bonds; (iii) all general obligation bonds of the Commonwealth, adjusted to include the issuance of the Bonds and the purchase and cancellation of the Refunded Bonds; and (iv) the PRASA Guaranteed Bonds. See "Commonwealth Guaranteed Debt" in *Appendix I*. With respect to other debt of Aqueduct and Sewer Authority, see *Public Corporations* in *Appendix I*. Debt service requirements for each fiscal year, as shown in the following table, include principal and interest due on July 1 immediately following the close of such fiscal year. The table does not include the debt service on the Housing Bank Guaranteed Bonds, which have a final maturity of October 1, 2001, a portion of which is being paid from Commonwealth appropriations. Annual debt service on such bonds for the bond years ending October 1, 2000 and October 1, 2001 are $13,250,225 and $13,249,048, respectively.

Puerto Rico
Debt Service Requirements*
(in thousands)

Fiscal Year Ending June 30	Total Debt Service Prior to Issuance of Bonds(1)	Debt Service on Bonds(2)	Adjusted Debt Service(3) Principal	Adjusted Debt Service(3) Interest	Adjusted Debt Service(3) Total	Aqueduct and Sewer Authority Bonds Debt Service	Grand Total
2000 ...	$ 373,130	$ 8,662	$ 243,590	$ 138,201	$ 381,791	$ 33,509	$ 415,300
2001 ...	489,643	36,787	257,731	268,698	526,430	33,473	559,903
2002 ...	480,062	36,785	259,824	257,024	516,848	33,542	550,389
2003 ...	480,180	36,784	194,314	322,650	516,964	32,745	549,709
2004 ...	444,823	36,787	166,550	315,060	481,609	30,125	511,735
2005 ...	441,258	36,784	242,947	235,096	478,043	30,127	508,170
2006 ...	416,241	36,787	205,793	247,235	453,028	30,121	483,149
2007 ...	395,985	36,786	181,279	251,492	432,771	30,126	462,897
2008 ...	334,225	36,785	156,623	214,387	371,010	30,131	401,141
2009 ...	315,967	36,788	167,365	185,391	352,755	30,123	382,879
2010 ...	316,041	36,785	179,230	173,596	352,826	29,984	382,810
2011 ...	315,548	36,784	188,502	163,830	352,332	29,928	382,260
2012 ...	308,503	36,786	198,965	146,324	345,289	30,127	375,416
2013 ...	290,831	36,785	191,720	135,896	327,616	30,128	357,744
2014 ...	270,167	36,786	162,423	144,530	306,952	30,125	337,077
2015 ...	270,351	36,788	169,835	137,304	307,138	30,126	337,264
2016 ...	270,280	36,786	176,880	130,186	307,066	30,121	337,187
2017 ...	270,452	36,783	185,922	121,313	307,235	30,122	337,356
2018 ...	270,358	36,784	194,120	113,023	307,143	30,126	337,269
2019 ...	207,417	78,232	198,701	86,949	285,650	30,125	315,774
2020 ...	229,001	57,775	218,250	68,526	286,776	0	286,776
2021 ...	210,275	33,851	187,200	56,927	244,127	0	244,127
2022 ...	188,229	33,854	174,600	47,483	222,083	0	222,083
2023 ...	164,948	33,854	160,140	38,662	198,802	0	198,802
2024 ...	141,444	33,853	144,935	30,362	175,297	0	175,297
2025 ...	118,187	33,852	129,450	22,590	152,040	0	152,040
2026 ...	93,804	33,852	111,920	15,736	127,656	0	127,656
2027 ...	64,656	33,849	88,590	9,915	98,505	0	98,505
2028 ...	31,028	33,854	59,680	5,201	64,881	0	64,881
2029 ...	0	33,851	31,935	1,916	33,851	0	33,851
Total	$8,203,035	$1,111,480	$5,229,011	$4,085,504	$9,314,515	$614,934	$9,929,448

* Totals may not add due to rounding.

(1) Debt service requirements on all general obligation bonds outstanding on December 31, 1999, excluding the Refunded Bonds.

(2) Debt service requirements on the Public Improvement Bonds and the Refunding Bonds.

(3) Debt service requirements on all general obligation bonds outstanding, adjusted to include the issuance of the Bonds and the purchase and cancellation of the Refunded Bonds. The interest paid on January 1, 2000 was excluded from this table.

Sources: Government Development Bank and Department of the Treasury.

TAX MATTERS

In the opinion of Bond Counsel, under existing law, (i) interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations; and (ii) the Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. Bond Counsel will express no opinion as to any other tax consequences regarding the Bonds.

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

The Code prescribes a number of qualifications and conditions for the interest on state and local obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance in order for the interest to be and continue to be so excluded from the date of issuance. Noncompliance with these requirements by the Commonwealth may cause the interest on the Bonds to be included in gross income for federal income tax purposes and thus to be subject to federal income tax retroactively to their date of issuance. The Commonwealth has covenanted, to the extent permitted by the Constitution and the laws of the Commonwealth, to take the actions required of it for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. Bond Counsel is not aware of any provision of the Constitution or laws of the Commonwealth that would prevent the Commonwealth from complying with the requirements of the Code.

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

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

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

Purchasers of the Bonds at other than their original issuance at the respective prices indicated on the cover should consult their own tax advisers regarding other tax considerations, such as the consequences of market discount.

From time to time, there are legislative proposals pending in Congress that, if enacted, could alter or amend one or more of the federal tax matters described in this Official Statement or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal may be enacted or whether, if enacted, it would apply to obligations (such as the Bonds) issued prior to enactment.

Capital Appreciation Bonds and Discount Bonds

The Public Improvement Bonds maturing in July 1 of the years 2005, 2006, 2009, 2011, 2013, 2014, 2015, 2026 and 2029 and the Refunding Bonds (collectively, the "Discount Bonds"), are being offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount or, in the case of the Capital Appreciation Bonds, the Accreted Value at maturity), over the "issue price" of such Bonds. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner) in the manner used in computing the accreted values on the Capital Appreciation Bonds. The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excludable from the owner's gross income for federal income tax purposes to the same extent and subject to the same considerations discussed above as to other interest on the Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. A purchaser of a Discount Bond at its issue price in the initial public offering who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond. Owners of Discount Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID properly accruable in any period with respect to such Discount Bonds and as to other federal tax consequences and the treatment of OID for state, Commonwealth and local tax purposes.

Premium Bonds

The Public Improvement Bonds maturing in July 1 of the years 2001 through 2004, 2007, and the years 2016 through 2021 (collectively, the "Premium Bonds") are being offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield must be determined on the basis of the earliest call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes upon the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond at its issue price in the initial offering who holds such Premium Bond to maturity (or, in the case of a callable Premium Bond, the earliest call date that results in the lowest yield on that bond) will realize no gain or loss upon the retirement of that Premium Bond. Owners of Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of bond premium properly accruable in any period with respect to the Premium Bonds and as to other federal tax consequences and the treatment of bond premium for state, Commonwealth and local tax purposes.

LEGAL MATTERS

The proposed forms of opinions of Squire, Sanders & Dempsey L.L.P., Bond Counsel, are set forth in *Appendix II* to this Official Statement. Certain legal matters will be passed upon for the Underwriters by Pietrantoni Méndez & Alvarez LLP, San Juan, Puerto Rico.

LEGAL INVESTMENT

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

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Bonds from the Commonwealth at an aggregate discount of $3,974,333.63 from the initial offering prices of the Bonds. The obligations of the Underwriters are subject to certain conditions precedent, and they will be obligated to purchase all the Bonds, if any Bonds are purchased. The Underwriters may offer to sell the Bonds to certain dealers and others at prices lower than the initial public offering prices. The offering prices may be changed, from time to time, by the Underwriters.

Goldman, Sachs & Co. ("GS"), a managing underwriter, has entered into a written agreement with First Bank Puerto Rico ("First Bank"), a bank organized under the laws of the Commonwealth, pursuant to which First Bank has agreed to act as a consultant to GS in connection with GS's provision of underwriting and investment banking services to the Commonwealth with respect to the Bonds. Pursuant to this agreement, the existence of which has been disclosed to the Commonwealth and Government Development Bank, First Bank will be entitled to receive a portion of GS's actual net profits, if any, in connection with the underwriting of the Bonds.

Morgan Stanley & Co. Incorporated ("Morgan Stanley"), a managing underwriter, has entered into a written agreement with Popular Securities, Inc. a subsidiary of Popular, Inc. ("Popular Securities"), pursuant to which Popular Securities has agreed to cooperate in connection with Morgan Stanley's provision of underwriting and investment banking services to the Commonwealth with respect to the Bonds. Pursuant to this arrangement, the existence of which has been disclosed to the Commonwealth and Government Development Bank, Popular Securities will be entitled to receive a portion of Morgan Stanley's actual net profits, if any, in connection with the underwriting of the Bonds.

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), a managing underwriter, has entered into a written agreement with Santander Securities Corporation of Puerto Rico ("Santander Securities"), a subsidiary of Banco Santander, S.A., pursuant to which Santander Securities has agreed to cooperate in connection with Merrill Lynch's provision of underwriting and investment banking services to the Commonwealth with respect to the Bonds. Pursuant to this arrangement, the existence of which has been disclosed to the Commonwealth and Government Development Bank, Santander Securities will be entitled to receive a portion of Merrill Lynch's actual net profits, if any, in connection with the underwriting of the Bonds.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

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

RATINGS

Moody's and Standard & Poor's have given the Bonds ratings of Baa1 and A, respectively. These ratings do not reflect the MBIA Bond Insurance Policies. Moody's and Standard & Poor's are expected to give the Insured Bonds ratings of Aaa and AAA, respectively. 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 Commonwealth and the 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 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 Bonds.

CONTINUING DISCLOSURE

In accordance with the requirements of Rule 15c2-12, as amended (the "Rule"), promulgated by the Securities and Exchange Commission (the "SEC"), the Commonwealth has covenanted in the Bond Resolution for the benefit of the Beneficial Owners (as defined in such Bond Resolution and generally the tax owners of the Bonds):

1. to file within 305 days after the end of each fiscal year commencing with the fiscal year ending June 30, 2000, with each NRMSIR and with any Commonwealth state information depository ("SID"), core financial information and operating data for the prior fiscal year, including (i) the Commonwealth's audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data (including financial information and operating data) on the Commonwealth and its revenues, expenditures, financial operations and indebtedness generally found in this Official Statement; and

2. to file, in a timely manner, with each NRMSIR or with the MSRB and with any Commonwealth SID, notice of any failure of the Commonwealth to comply with paragraph 1 above and of the occurrence of any of the following events with respect to the Bonds, if 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 Bonds;
   g. modifications to rights of the holders (including Beneficial Owners) of the Bonds;
   h. Bond calls;
   i. defeasances;
   j. release, substitution, or sale of property securing repayment of the Bonds; and
   k. rating changes.

Event (c) is included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers, dated September 19, 1995. However, event (c) may not be applicable, since the terms of the Bonds do not provide for "debt service reserves". For a description of the Bonds, see *The Bonds*. In addition, with respect to the following events:

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

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

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

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

As of March 1, 2000, there is no Commonwealth SID, and the name and address of each NRMSIR is: Bloomberg Municipal Repositories, 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; Muller Data, 395 Hudson Street, 3rd Floor, New York, New York 10014, Attn: Municipal Disclosure; and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024.

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

The Commonwealth acknowledges that its undertaking pursuant to the Rule described above is intended to be for the benefit of the Beneficial Owners of the Bonds, and shall be enforceable by any such Beneficial Owners; provided that the right to enforce the provisions of its undertaking shall be limited to a right to obtain specific enforcement of the Commonwealth's obligations 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 Commonwealth written notice of any request to cure such breach, and the Commonwealth shall have refused to comply within a reasonable time. All Proceedings shall be instituted only in a Commonwealth court located in the Municipality of San Juan, Puerto Rico for the equal benefit of all Beneficial Owners of the outstanding 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 Section 2 of Act No. 104, approved June 29, 1955, as amended (32 L.P.R.A. §3077 and §3077a), which governs the scope of legal actions against the Commonwealth, substantially limits the amount of monetary damages that may be awarded against the Commonwealth and provides certain notice provisions, the failure to comply with which may further limit any recovery.

The Covenants may only be amended if:

(1) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Commonwealth, or type of business conducted; the Covenants, as amended, would have complied with the requirements of the Rule at the time of award of

the Bonds, after taking into account any amendments or change in circumstances; and the amendment does not materially impair the interest of Beneficial Owners, as determined by persons unaffiliated with the Commonwealth; or

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

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

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

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

MISCELLANEOUS

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

Appended to and constituting a part of this Official Statement is the Commonwealth Report *(Appendix I)*, the proposed forms of opinions of Bond Counsel *(Appendix II)*, a specimen insurance policy of MBIA Insurance *(Appendix III)* and the table of Accreted Values *(Appendix IV)*.

The information set forth in this Official Statement and incorporated herein by reference, except for information pertaining to DTC and MBIA Insurance and the information appearing in *Underwriting*, was supplied by certain officials of the Commonwealth or certain of its agencies or instrumentalities, in their respective official capacities, or was obtained from publications of the Commonwealth or certain of its agencies or instrumentalities, and is included or incorporated by reference in this Official Statement on the authority of such officials or the authority of such publications as public official documents. The information pertaining to DTC was supplied by DTC. The information under Bond Insurance and Appendix III was supplied by MBIA Insurance.

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

COMMONWEALTH OF PUERTO RICO

By: /s/ Xenia Vélez Silva
Secretary of the Treasury

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APPENDIX I

COMMONWEALTH OF PUERTO RICO

Financial Information and Operating Data Report
March 1, 2000

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COMMONWEALTH OF PUERTO RICO

Financial Information and Operating Data Report
March 1, 2000

Geographic Location and Demography

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

According to the United States Census Bureau, the population of Puerto Rico was approximately 3,522,000 in 1990, compared to 3,196,520 in 1980. According to estimates of the Planning Board, the population of Puerto Rico increased to 3,851,500 in fiscal 1999. As of 1990, the population of San Juan, the island's capital and largest city, was approximately 437,000.

Relationship with the United States

Puerto Rico was discovered by Columbus in 1493 and shortly thereafter the island was conquered and settled by the Spaniards. It remained a Spanish possession for four centuries.

Puerto Rico came under United States sovereignty pursuant to the Treaty of Paris, signed on December 10, 1898, which ended the Spanish-American War. Puerto Ricans became citizens of the United States in 1917, with the approval of the Jones Act by the United States Congress. In 1950, after a long evolution toward greater self-government, Congress enacted Public Law 600 which provided that the existing political, economic and fiscal relationship between Puerto Rico and the United States would remain the same, but Puerto Rico would be authorized to draft and approve its own Constitution, guaranteeing a republican form of government. The Constitution was drafted by a popularly elected constitutional convention, approved in a special referendum by the people of Puerto Rico, amended and ratified by the United States Congress, and subsequently approved by the President of the United States. Puerto Rico's constitutional status is that of a territory of the United States and, pursuant to the territorial clause of the Federal Constitution, the ultimate source of power over Puerto Rico is the United States Congress. The relationship between the United States and Puerto Rico is referred to herein as commonwealth status.

Puerto Rico exercises virtually the same control over its internal affairs as do the fifty states; it differs from the states, however, in its relationship with the federal government. The people of Puerto Rico are citizens of the United States but do not vote in national elections. They are represented in Congress by a Resident Commissioner who has a voice in the House of Representatives and limited voting power. Most federal taxes, except those such as Social Security taxes, are not levied in Puerto Rico. No federal income tax is collected from Puerto Rico residents on income earned in Puerto Rico, except for certain federal employees who are subject to taxes on their salaries. Income earned by Puerto Rico residents from sources outside of Puerto Rico, however, is subject to federal income tax. Federal excise taxes on shipments of alcoholic beverages from Puerto Rico and other rum producing countries (which were at $11.30 per gallon through October 1, 1998, and thereafter at $10.50 per gallon) and other taxes on shipments of tobacco products from Puerto Rico to the mainland are returned to the Treasury of Puerto Rico. Recent legislation increases to $13.25 per gallon during a thirty month period the amount of federal excise taxes on distilled spirits that are returned to the Treasury of Puerto Rico.

The official languages of Puerto Rico are Spanish and English. Although the culture of Puerto Rico is mostly Hispanic, a considerable intermingling of Hispanic and United States cultures has occurred.

On February 26, 1997 legislation was introduced in the U.S. House of Representatives (the "Political Status Act") proposing a mechanism to settle permanently the political relationship between Puerto Rico and the United States, either through full self-government (e.g., statehood or independence, including, as an alternative, free association via a bilateral treaty) or continued commonwealth status. Under the proposed legislation, failure to settle on full self-government after completion of the referenda process provided therein would result in retention of the current commonwealth status. On March 19, 1997, similar legislation was introduced in the U.S. Senate. On March 4, 1998, the U.S. House of Representatives voted in favor of the Political Status Act. The Senate, however, failed to act upon the Political Status Act prior to the end of the Congressional session.

Pursuant to legislation approved by the Puerto Rico Legislature, a local plebiscite was held on December 13, 1998 in which voters expressed their preference among the following four generally recognized political status options: statehood, independence, free association, and the existing commonwealth status. Voters were also allowed to vote for "none" of these four options in a space provided therefor in the ballot. The results of the plebiscite were as follows:

	Votes	Percentage
Option 1 (Existing Commonwealth)	993	0.1
Option 2 (Free Association)	4,536	0.3
Option 3 (Statehood)	728,157	46.5
Option 4 (Independence)	39,838	2.5
None of the above	787,900	50.3
Others (Null and void; blank)	4,846	0.3

Any change in the existing commonwealth status would require an Act of Congress.

Governmental Structure

The Constitution of the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico") provides for the separation of powers of the executive, legislative, and judicial branches of government. The Governor is elected every four years. The Legislature consists of a Senate and a House of Representatives, the members of which are elected for four-year terms. The highest court within the local jurisdiction is the Supreme Court of Puerto Rico. Decisions of the Supreme Court of Puerto Rico may be appealed to the Supreme Court of the United States under the same terms and conditions as decisions from state courts. Puerto Rico constitutes a District in the Federal Judiciary and has its own United States District Court. Decisions of this court may be appealed to the United States Court of Appeals for the First Circuit and from there to the Supreme Court of the United States.

Governmental responsibilities assumed by the central government of Puerto Rico are similar in nature to those of the various state governments. In addition, the central government assumes responsibility for local police and fire protection, education, public health and welfare programs, and economic development.

Pedro Rosselló was sworn in as Governor of Puerto Rico on January 2, 1993. He was re-elected for a second four year term in the November 1996 elections and sworn in again as Governor of Puerto Rico on January 2, 1997. He obtained a medical degree from Yale University in 1970, after completing his undergraduate studies at Notre Dame University in 1966. He specialized in General and Pediatric Surgery at Harvard University. In 1985, he was appointed Director of San Juan's Health Department, a position which he held for three years. As a member of the New Progressive Party, he was the party's candidate for Resident Commissioner to the United States Congress in 1988. In 1991, he was elected President of the New Progressive Party.

Xenia Vélez Silva, Secretary of the Treasury, took office on November 20, 1997. She is a graduate of the University of Puerto Rico, where she obtained a bachelor's degree in Business Administration and a Juris Doctor degree. Prior to her appointment, she was a partner in a San Juan law firm, where she practiced tax law.

Jorge E. Aponte Hernández, Director of the Office of Management and Budget, took office in January 1993. In November 1996, he was re-appointed by the Governor to continue in his position. He is a certified public accountant and a graduate of the University of Puerto Rico, where he obtained a bachelor's degree in Business Administration and Accounting. Prior to his appointment, he worked for twenty years as an accountant and auditor for various accounting firms.

Lourdes M. Rovira, President of Government Development Bank for Puerto Rico ("Government Development Bank" or "GDB"), took office in October 1998. She is a graduate of the University of Puerto Rico, where she obtained a bachelor's degree in Business Administration. Ms. Rovira had served as Executive Vice President of GDB since early 1997 and prior thereto had occupied the position of Principal. Prior to her appointment at GDB in 1996, Ms. Rovira had been the Chief Financial Officer of the University of Puerto Rico system.

Political Trends

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

	1980	1984	1988	1992	1996
New Progressive Party	47.3%	45.5%	45.8%	49.9%	51.1%
Popular Democratic Party	47.0	48.5	48.7	45.9	44.5
Puerto Rico Independence Party	5.4	3.9	5.4	4.2	3.8
Others	0.3	2.1	0.1	--	0.6

With the results of the 1996 election, control of the executive and legislative branches continued under the New Progressive Party. The composition of the Senate and House by the several political parties is as follows:

	Senate	House
New Progressive Party	19	37
Popular Democratic Party	8	16
Puerto Rico Independence Party	1	1
	28	54

The next general election (gubernatorial, municipal, and legislative) in Puerto Rico will be held in November 2000. Voter participation in Puerto Rico is substantially higher than in the United States, averaging 85% since 1972.

THE ECONOMY

General

The Government of Puerto Rico has established policies and programs directed at developing the manufacturing and service sectors (with emphasis on the tourism industry) of the economy and expanding and modernizing the island's infrastructure. Domestic and foreign investment has been stimulated by selective tax exemption, development loans, and other financial and tax incentives. Infrastructure expansion and modernization have been to a large extent financed by bonds and notes issued by the Commonwealth, its public corporations and municipalities. Economic progress has been aided by significant increases in the levels of education and occupational skills of the island's population.

The economy of Puerto Rico is fully integrated with that of the United States mainland. During fiscal 1999, approximately 87% of Puerto Rico's exports went to the United States mainland, which was also the source of approximately 60% of Puerto Rico's imports. In fiscal 1999, Puerto Rico experienced an $9.6 billion positive merchandise trade balance.

The dominant sectors of the Puerto Rico economy are manufacturing and services. The manufacturing sector has experienced a basic change over the years as a result of increased emphasis on higher wage, high technology industries, such as pharmaceuticals, electronics, computers, microprocessors, professional and scientific instruments, and certain high technology machinery and equipment. The services sector, including finance, insurance, real estate, wholesale and retail trade, and hotel and related services, also plays a major role in the economy. It ranks second only to manufacturing in contribution to the gross domestic product and leads all sectors in providing employment.

Fiscal 1995 to 1999

Puerto Rico's more than decade-long economic expansion continued throughout the five-year period from fiscal 1995 through fiscal 1999. Almost every sector of the economy participated, and record levels of employment were achieved. Factors behind this expansion included government-sponsored economic development programs, periodic declines in the exchange value of the United States dollar, increases in the level of federal transfers, the relatively low cost of borrowing and low oil prices.

Gross product in fiscal 1995 was $28.5 billion ($26.0 billion in 1992 prices) and gross product in fiscal 1999 was $38.2 billion ($29.8 billion in 1992 prices). This represents an increase in gross product of 34.4% from fiscal 1995 to 1999 (14.8% in 1992 prices).

Since fiscal 1985, personal income, both aggregate and per capita, has increased consistently each fiscal year. In fiscal 1999, aggregate personal income was $37.2 billion ($33.0 billion in 1992 prices) and personal income per capita was $9,674 ($8,571 in 1992 prices). The difference in the statistics of 1992 prices for gross product and personal income is attributable to the difference in the price deflators used for each.

Personal income includes transfer payments to individuals in Puerto Rico under various social programs. Total federal payments to Puerto Rico, which include transfers to local government entities and expenditures of federal agencies in Puerto Rico, in addition to federal transfer payments to individuals, are lower on a per capita basis in Puerto Rico than in any state. Transfer payments to individuals in fiscal 1999 were $8.1 billion, of which $5.3 billion, or 65.4%, represented entitlements to individuals who had previously performed services or made contributions under programs such as Social Security, Veterans' Benefits, Medicare and U.S. Civil Service retirement pensions.

According to the Labor Department's Household Employment Survey, average employment increased from 1,051,000 in fiscal 1995, to 1,147,000 in fiscal 1999. Average unemployment decreased from 13.8% in fiscal 1995, to 12.5% in fiscal 1999.

The following table shows the gross product for the five fiscal years ended June 30, 1999.

Puerto Rico

Gross Product

	1995	1996	1997	1998	1999(p)
Gross product — $ millions	$28,452	$30,357	$32,343	$35,021	$38,229
Real gross product — $ millions (1992 prices)	25,968	26,816	27,728	28,596	29,801
Annual percentage increase in real gross product (1992 prices)	3.4%	3.3%	3.4%	3.1%	4.2%
U.S. annual percentage increase in real gross product (1992 prices)(1)	2.9%	2.7%	3.6%	3.7%	3.8%

(p) Preliminary.
(1) Restated to correspond to Puerto Rico's fiscal year ending June 30.

Sources: Planning Board and Data Resources Inc.

Since the 1950's the Planning Board has prepared a complete set of macroeconomic measures like those prepared for the United States by the Bureau of Economic Analysis ("BEA") of the Department of Commerce. In contrast with the BEA, which computes the economic accounts on a quarterly basis, the Planning Board computes the economic accounts on an annual basis. Like the BEA, the Planning Board revises the macroeconomic numbers on a regular basis. The Planning Board has always classified the latest annual numbers as preliminary until they are revised and made final in conjunction with the release of the new data each year. At present, all macroeconomic accounts for fiscal 1999 are preliminary until the revised figures are released.

Fiscal 2000

According to the Labor Department's Household Employment Survey, during the first seven months of fiscal 2000, total employment increased 0.4% over the same period in fiscal 1999. Total monthly employment averaged 1,138,600 during the first seven months of fiscal 2000, compared to 1,134,400 in the same period in fiscal 1999.

The Planning Board's gross product forecast for fiscal 2000, made in October 1999, projected an increase of 2.7% over fiscal 1999 and an increase of 2.3% for fiscal 2001.

Economic Development Program - New Economic Model

The Government of Puerto Rico has developed and is implementing a new economic development program which is based on the premise that the private sector should provide the primary impetus for economic development and growth. This new program, referred to as the New Economic Model, promotes changing the role of the government from one of a provider of most basic services, to that of a facilitator for private sector initiatives, and encourages private sector investment by reducing government-imposed regulatory constraints.

The New Economic Model contemplates the development of initiatives that will foster private investment in, and private management of, sectors that are served more efficiently and effectively by private enterprise. One of the initiatives that has already been implemented is the adoption of a new tax code intended to expand the tax base, reduce top personal and corporate tax rates and simplify the tax system. Another initiative consists of improving and expanding Puerto Rico's infrastructure to facilitate private sector development and growth, such as the construction of the water pipeline and cogeneration facilities described below and the construction of a light rail system for the San Juan metropolitan area.

The New Economic Model seeks to identify and promote those areas in which Puerto Rico can compete more effectively in the global markets. In this regard, tourism has been targeted as a priority because of its potential for job creation and increased contribution to the gross product stemming from Puerto Rico's natural competitive advantage. As part of the initiatives directed at promoting the tourism sector, in 1993 a new Tourism Incentives Act was enacted providing special tax incentives for the development of new hotel projects. See "Tax Incentives" below. Also, in November 1993, the Tourism Development Fund was created for the purpose of promoting capital investments in and providing financing to entities that contribute to the development of the tourism industry. As a result of these initiatives, several new hotels have been constructed or are in the process of being constructed, increasing the number of total rooms on the island from 8,415 at the end of fiscal 1992 to 11,095 at the end of fiscal 1999 and to a projected 11,784 by the end of fiscal 2000. Similar tax incentives have been enacted in other areas targeted by the New Economic Model as areas of opportunity for the promotion of local and foreign investment in Puerto Rico, such as agriculture, solid waste management and venture capital. In 1998, a new tax incentives law was enacted designed to attract and retain foreign investment in manufacturing and other activities, including the performance of services for markets outside Puerto Rico. See "Tax Incentives" below.

The New Economic Model also seeks to reduce the size of government's direct contribution to gross domestic product. As part of this goal, the Government has transferred certain governmental operations and sold a number of its assets to private parties. On March 3, 1995, the Government completed the sale of the assets of the Maritime Shipping Authority to a private purchaser. On January 31, 1996, the Aqueduct and Sewer Authority executed a construction and operating agreement with a private consortium for the design, construction, and operation of an approximately 75 million gallon per day pipeline to deliver water to the San Juan metropolitan area and other municipalities along the north coast from Dos Bocas reservoir in Utuado. The Electric Power Authority has entered into power purchase agreements with private power producers under which two cogeneration plants (with a maximum capacity of approximately 961 megawatts) using fuels other than oil will be constructed, operated and owned by these producers. See "Other Public Corporations" under Public Corporations below. The Administration of Corrections has entered into operating agreements with two private companies whereby three new correctional facilities are being operated by these companies. In 1995, the Government sold to private companies certain government owned mango growing operations. The Government has also transferred to local sugar cane growers the sugar processing facilities formerly operated by the Sugar Corporation and has sold certain assets of the pineapple juice processing business formerly operated by the Land Authority. The Government has also sold three hotel properties formerly owned by a subsidiary of the Tourism Company and is currently negotiating the sale of a complex consisting of two hotels and a convention center to a Florida-based corporation. On March 2, 1999, the Government sold a controlling interest in the Puerto Rico Telephone Company ("PRTC"), a subsidiary of the Telephone Authority, to a consortium led by GTE International Telecommunications Incorporated.

One of the goals of the Government of Puerto Rico is to change Puerto Rico's public health care system from one in which the government provides free health services to low income individuals through public health facilities owned and administered by the government to one in which all medical services are provided by the private sector and the government provides comprehensive health insurance coverage for qualifying (generally low income) Puerto Rico residents. Under this new system, the Government selects, through a bidding system, one private health insurance company in each of several designated regions of the island and pays such insurance company the insurance premium for each eligible beneficiary within such region. This new health insurance system is now covering 77 municipalities out of a total of 78 on the island. It is expected that the last municipality will be added in July 2000. The total cost of this system depends on the number of municipalities included in the system, the number of participants receiving coverage, and the date coverage commences. As of August 1, 1999, approximately 1.7 million persons were participating in the system at an estimated annual cost for fiscal 2000 of approximately $1.07 billion, of which approximately $833 million will be covered by appropriations from the General Fund. It is expected that the number of participants will increase to approximately 2.16 million persons by the end of fiscal 2001, the required insurance premiums will increase to approximately $1.38 billion and the required appropriations from the General Fund will increase to approximately $1.1 billion. In conjunction with this system, the operation of certain public health facilities has been transferred to private entities. The Government's current privatization plan for health facilities provides for the transfer of ownership of all public health facilities to private entities. The Government has sold forty-five health facilities to private companies and is currently in the process of closing the sale of sixteen additional health facilities to other private companies. The Government is trying to sell the remaining twenty-two health facilities by the end of the current fiscal year.

Employment and Unemployment

The number of persons employed in Puerto Rico during fiscal 1999 averaged 1,147,000. Unemployment, although at relatively low historical levels, remains above the average for the United States.

The following table presents annual statistics of employment and unemployment for fiscal 1975 and fiscal 1985, and from fiscal 1995 through fiscal 1999, and monthly statistics for July through January 2000.

Puerto Rico
Employment and Unemployment

Fiscal Years Ended June 30	Labor Force[1]	Employed[1]	Unemployed[1]	Unemployment Rate[2]
		(Annual Average)		
1975	821	696	125	15.3%
1985	985	774	211	21.4
1995	1,219	1,051	168	13.8
1996	1,268	1,092	175	13.8
1997	1,298	1,128	170	13.1
1998	1,317	1,137	179	13.6
1999	1,310	1,147	163	12.5
Fiscal 2000		(Seasonally Adjusted)		
July	1,284	1,154	131	10.2%
August	1,294	1,143	151	11.7
September	1,285	1,135	151	11.8
October	1,285	1,123	162	12.6
November	1,273	1,115	159	12.5
December	1,297	1,143	154	11.9
January	1,313	1,157	156	11.9

(1) Thousands of persons 16 years of age and over. Totals may not add due to rounding.
(2) Unemployed as percentage of labor force.

Source: Department of Labor and Human Resources — Household Survey.

Economic Performance by Sector

Puerto Rico has a diversified economy. During the period between fiscal 1995 and 1999, the manufacturing and services sectors generated the largest portion of gross domestic product. Three sectors of the economy provide the most employment: manufacturing, services and government.

The following table presents annual statistics of gross domestic product by sector and gross product for the five fiscal years ended June 30, 1999.

Puerto Rico
Gross Domestic Product by Sector and Gross Product
(in millions at current prices)

	Fiscal Year Ended June 30				
	1995	1996	1997	1998	1999(p)
Manufacturing	$17,873	$18,418	$19,252	$22,781	$26,256
Services(1)	16,441	17,519	19,005	20,541	22,230
Government(2)	4,440	4,841	5,220	5,251	5,523
Transportation, communication and public utilities	3,276	3,563	3,751	3,983	4,353
Agriculture, forestry and fisheries	318	376	466	457	324
Construction (3)	1,007	1,077	1,257	1,337	1,515
Statistical discrepancy	(707)	(452)	(765)	(475)	(254)
Total gross domestic product(4)	42,647	45,341	48,187	53,875	59,947
Less: net payment abroad	14,195	14,984	15,844	18,855	21,718
Total gross product(4)	$28,452	$30,357	$32,343	$35,020	$38,229

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

Source: Planning Board

The following table presents annual statistics of average employment by sector for the five fiscal years ended June 30, 1999.

Puerto Rico
Average Employment by Sector
(thousands of persons age 16 and over)

	1995	1996	1997	1998	1999
Manufacturing	172	167	162	161	159
Services(1)	495	527	551	573	578
Government(2)	232	246	261	244	246
Transportation, communication and public utilities	60	61	59	59	59
Construction(3)	57	59	65	69	78
Agriculture, forestry and fisheries	34	32	31	31	27
Total(4)	1,050	1,092	1,129	1,137	1,147

(1) Includes wholesale and retail trade; finance, insurance and real estate; hotels and related services; and other services.
(2) Includes the Government of Puerto Rico, its municipalities and the federal government; excludes public corporations.
(3) Includes mining.
(4) Totals may not add due to rounding.

Source: Department of Labor and Human Resources — Household Survey.

Manufacturing

Manufacturing is the largest sector in the economy of Puerto Rico, in terms of gross domestic product. The Planning Board estimates that in fiscal 1999 manufacturing generated $26.3 billion, or 43.8% of gross domestic product. The manufacturing sector employed 143,417 workers as of March 1999 (as reported in the Department of Labor and Human Resources — Benchmark on Employment Hours and Earnings). Most of the island's manufacturing output is shipped to the United States mainland, which is also the principal source of semifinished manufactured articles on which further manufacturing operations are performed in Puerto Rico. The United States minimum wage laws are applicable in Puerto Rico. As of March 1999 the average hourly manufacturing wage rate in Puerto Rico was 62.5% of the average mainland United States rate.

Manufacturing in Puerto Rico is now more diversified than during the earlier phases of the industrial development program. In the last two decades, industrial development has tended to be more capital intensive and more dependent on skilled labor. This gradual shift in emphasis is best exemplified by the heavy investment in the pharmaceuticals, scientific instruments, computers, microprocessors, medical products, and electrical products industries in Puerto Rico over the last decade.

The following table sets forth gross domestic product by manufacturing sector for the five fiscal years ended June 30, 1999.

Puerto Rico

Gross Domestic Product by Manufacturing Sector
(in millions at current prices)

	Fiscal Year Ended June 30				
	1995	**1996**	**1997**	**1998**	**1999(p)**
Pharmaceuticals	$8,999	$9,570	$10,354	$12,888	$15,138
Machinery and metal products	3,370	3,973	4,005	4,345	5,131
Food products	2,706	2,167	2,086	2,392	2,589
Apparel	624	645	622	593	596
Other(1)	2,173	2,063	2,185	2,563	2,802
Total gross domestic product of manufacturing sector(2)	$17,873	$18,418	$19,252	$22,781	$26,256

(p) Preliminary.
(1) Includes petroleum products; petrochemicals and other chemical products; tobacco products; stone, clay and glass products; textiles and others.
(2) Totals may not add due to rounding.

Source: Planning Board.

The following table sets forth manufacturing employment by industry group as of March 31 for the last five years.

Puerto Rico

Manufacturing Employment by Industry Group
(persons age 16 years and over)

Industry Group	As of March 31, 1995	1996	1997	1998	1999
Apparel and related products	26,034	23,918	21,750	19,039	18,349
Food and related products	20,882	20,343	19,949	17,816	16,852
Electrical machinery, equipment and supplies	22,928	23,464	24,671	22,728	20,254
Chemicals and related products (includes pharmaceuticals)	28,104	28,047	27,235	27,524	26,899
Professional and scientific instruments	14,390	15,131	14,914	15,105	14,542
Machinery, except electrical equipment	2,612	3,824	3,755	3,068	3,790
Petroleum refining and related industries; rubber and miscellaneous plastic products	4,983	5,268	5,768	5,994	5,970
Leather and leather products	7,282	6,636	6,566	5,834	4,749
Paper and related products; printing, publishing and related industries	6,628	7,184	7,441	8,698	9,418
Metal products	4,740	5,157	5,683	6,159	6,390
Stone, clay and glass products	4,708	4,825	4,972	5,217	5,509
Lumber and wood products; furniture and fixtures	2,894	3,183	3,352	3,538	3,446
Textile mill products	3,403	3,841	3,627	3,282	2,827
Tobacco products	953	989	1,206	1,285	1,297
Miscellaneous manufacturing industries	3,069	2,134	2,384	3,558	3,125
Total	153,610	153,944	153,273	148,845	143,417

Sources: Department of Labor and Human Resources — Census of Manufacturing, except for March 1999, which information was derived from the "Benchmark" on Employment, Hours and Earnings.

While total employment in the manufacturing sector decreased by 9,856 from March 1997 to March 1999, other indicators of the manufacturing sector suggest that manufacturing production did not decrease. Average weekly hours worked increased 5.2%, industrial energy consumption increased 0.7% and exports increased 45.7% from fiscal 1997 to fiscal 1999. Thus, the reduction in manufacturing employment occurred during a period of significant expansion in real manufacturing output, as reflected in the growth of exports. Most of the decreases in employment have been concentrated in the labor intensive industries, particularly apparel, textile and tuna manufacturing. When compared to the reduction of employment in the U.S. manufacturing sector, the sharper reduction in Puerto Rico is probably due to the island's larger share of employment in declining industries. Apart from this trend, in fiscal 1998 two large companies in the electronic industry closed their local operations due in part to a decline in the demand for their products from Asian markets.

In fiscal 1999, 54 manufacturing plants closed their operations, and the number of jobs lost from those closings amounted to 2,369, compared to 76 plant closings and 3,466 jobs lost in fiscal 1998. Employment commitments from companies making new investments and from companies expanding their existing operations increased 8.9% from fiscal 1998 to fiscal 1999. For the first seven months of fiscal 2000, commitments for new employment and new investment amounted to 12,300 and $123.8 million, respectively.

Leading United States and Foreign Companies with Manufacturing Operations in Puerto Rico

Company	Product
Employment 2,500 and over	
Baxter International	Pharmaceuticals
Eaton Corp.	Electronic Instruments
General Electric Co.	Electrical Instruments
H. J. Heinz Co.	Food
Johnson and Johnson	Pharmaceuticals
Sara Lee Corp.	Apparel
Employment 1,500 to 2,499	
Abbott Laboratories, Inc.	Pharmaceuticals
American Home Products	Pharmaceuticals
Bristol-Myers Squibb	Pharmaceuticals
Hewlett-Packard	Computers
Hubell Incorporated	Electrical Instruments
Intel.	Computers
Merck & Co.	Chemicals
Warner-Lambert Co.	Pharmaceuticals
Employment 1,000 to 1,499	
Bumble Bee Seafoods	Food
Hampshire Designers Group	Textiles
Ingersoll-Rand Co	Electrical Instruments
MacAndrews & Forbes Holdings	Tobacco Products
Monsanto	Pharmaceuticals
Pfizer	Pharmaceuticals
Propper International	Apparel
Schering-Plough Corp.	Pharmaceuticals
Sensormatic Electronics	Electronic Components
Employment 500 to 999	
Allergan	Pharmaceuticals
Aramark	Apparel
Atlantron Inc.	Communications
B.Braun Medical Systems	Medical Equipment
Becton-Dickinson & Co.	Scientific Instruments
Coleman Co.	Luggage
Conagra	Food
DSC Communication Corp.	Communication Equipments
Dexter Shoe	Footwear
Dooney & Bourke	Leather
DuPont (E.I.) de Nemours	Chemicals
Eli Lilly and Co.	Pharmaceuticals
Isla Verde Investment	Apparel
Medtronics	Surgical and Medical Instruments
Nestle S.A.	Pharmaceuticals
Nypro	Medical Devices
Ocular Science-American Hydron	Ophthalmic Products
Owens Illinois	Glass and Plastics
Penn-State Coats & Aprons	Apparel
Pharmacia Up-John Co.	Pharmaceuticals
R.J.R. Nabisco	Food and Cigarettes
Seaboard Fluor Corp.	Food
Smart Modular Technologies	Electronic
SmithKline Beecham	Pharmaceuticals
Suiza Foods	Food
Sundstrand Corp.	Electrical Instruments
Thomas & Betts	Electrical Instruments
Timberland Company (The)	Leather
U.S. Surgical Corp.	Scientific Instruments
Unilever PLC	Consumers & Medicals
Welsh, Carson Anderson Towe	Services
Wesley Jessen Corp.	Ophthalmic Products
Zeneca Group PLC	Pharmaceuticals
Employment 300 to 499	
AMP Incorporated	Electronic Connectors
Amgen Manufacturing Co.	Pharmaceuticals
Avon Products Inc.	Costume Jewelry
Carolina Underwear Co.	Apparel
Checkpoint Systems Inc.	Electronic
Coca-Cola Company (The)	Food
Colgate-Palmolive Co.	Consumers Products
Dana Corp.	Motor Vehicles Parts
Eagle Work Clothes	Apparel
Emerson Electric	Electronic and Scientific Instruments
Esco Co.	Filters
Essilor International	Ophthalmic Products
General Signal	Electronic
Guidant Corp.	Medical Instruments
H.H. Brown Shoes Co. Inc.	Footwear
Hoffman - La Roche	Pharmaceuticals
Kayser Roth Corp.	Apparel
Kendall Healthcare Co.	Medical Instruments
Lawson Mardon Wheaton	Glass and Plastics
Loctite Corp.	Chemicals
Lutron Electronics Co.	Electronics
Millipore Corp.	Scientific Instruments
Pall Corp.	Filters
PepsiCo	Food
Phillips Van-Heusen	Apparel and Footwear
Procter & Gamble Co.	Pharmaceuticals
Rhone-Poulenc	Pharmaceuticals
Siecor Corp.	Optic Fibers
Siemens AG	Electrical Instruments
Stryker Corp.	Surgical and Medical Instruments
Unifirst Corp.	Work Garment
Viasystems	Electronics
Wolverine World Wide	Footwear

Source: Puerto Rico Industrial Development Company. Office of Economic Research (as of July 1999).

Services

Puerto Rico has experienced significant growth in the services sector (including finance, insurance, real estate, wholesale and retail trade, hotels and related services and other services) in terms of both income and employment over the past decade, showing a favorable trend as compared with certain other industrialized economies. During the period between fiscal 1995 and 1999, the gross domestic product in this sector increased at an annual average rate of 6.2%, while employment increased at an annual average rate of 3.1%. The development of the services sector has shown a strong interaction among the following important sectors: manufacturing, tourism, construction, and agriculture. The services sector in Puerto Rico has a diversified base.

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

The services sector ranks second to manufacturing in its contribution to gross domestic product, and it is the sector with the greatest employment. In fiscal 1999, services generated $22.2 billion of gross domestic product, or 37.1% of the total. Service employment grew from 495,160 in fiscal 1995 to 577,921 in fiscal 1999, a cumulative increase of 16.7%, which increase was greater than the 9.1% cumulative growth in total employment over the same period. Wholesale and retail trade, finance, insurance and real estate have experienced significant growth in the fiscal 1995 to 1999 period, as measured by gross domestic product. Gross domestic product in wholesale and retail trade increased from $6.0 billion in fiscal 1995 to $7.9 billion in fiscal 1999. In finance, insurance and real estate, gross domestic product increased from $5.7 billion in fiscal 1995 to $8.3 billion in fiscal 1999. There are now seventeen commercial banks and trust companies currently operating in Puerto Rico of which one is a U.S. major money center bank, three are foreign banks and thirteen are local banks and trust companies. Total assets of these institutions as of June 30, 1999 were $45.3 billion. In addition, six major securities firms operate on the island.

The following tables set forth gross domestic product and employment for the services sector for the five fiscal years ended June 30, 1999.

Puerto Rico

Gross Domestic Product by Services Sector
(in millions at current prices)

	Fiscal Year Ended June 30				
	1995	**1996**	**1997**	**1998**	**1999(p)**
Wholesale and retail trade	$5,992	$6,281	$ 6,724	$ 7,353	$ 7,876
Finance, insurance and real estate	5,726	6,213	6,967	7,495	8,340
Hotels	471	501	530	563	603
Other services	4,252	4,524	4,784	5,130	5,411
Total[(1)]	$16,441	$17,519	$19,005	$20,541	$22,230

(p) Preliminary.
(1) Totals may not add due to rounding.

Source: Planning Board.

Puerto Rico

Average Employment by Services Sector
(thousands of persons age 16 and over)

	Fiscal Year Ended June 30				
	1995	1996	1997	1998	1999
Wholesale and retail trade	211	218	228	236	229
Finance, insurance and real estate	35	39	38	40	43
Other services(1)	249	270	285	297	306
Total	495	527	551	573	578

(1) Includes hotels and related services.

Source: Department of Labor and Human Resources — Household Survey.

Hotels and Related Services - Tourism

Total visitors' expenditures accounted for 5.6% of the island's gross product in fiscal 1999, compared to 6.4% in fiscal 1998. Visitors' expenditures and the number of visitors to the island had grown consistently from 1985 to 1998, reaching $2.2 billion, and more than 4.6 million, respectively, in fiscal 1998. In fiscal 1999, however, the number of visitors to the island decreased to 4.2 million and visitors' expenditures decreased to $2.1 billion, a decrease of 4.2% compared to fiscal 1998, due in part to the effect of Hurricane Georges, which affected the island in October 1998. The number of persons registered in tourist hotels during fiscal 1999, however, increased 1.1% over the number registered for fiscal 1998. The average occupancy rate in tourist hotels during fiscal 1999 was 75.4% compared to 70.9% in fiscal 1998. The average number of rooms rented in tourist hotels increased 6.8% during fiscal 1999 compared with fiscal 1998. These increases are due in part to the increased marketing by the Government of Puerto Rico, the trends in the U.S. economy and increased hotel usage by Puerto Rico residents. Since fiscal 1992, a number of major hotels have undergone substantial renovation and more than 2,680 new rooms have been added with the opening of several major hotels. Various international hotel corporations have recently made substantial capital investments to develop additional tourist facilities. At June 30, 1999, the total number of hotel rooms was 11,095 and is expected to increase to 11,784 during fiscal 2000 with the completion and renovation of several new hotels. A major reason for this increase in rooms has been the initiatives of the New Economic Model that encourage private development in tourism projects. See "Economic Development Program—New Economic Model" above and "Tax Incentives" below.

During the first six months of fiscal 2000 the number of persons registered in tourist hotels was 674,276, an increase of 2.0% over the number registered for the same period in fiscal 1999. The average occupancy rate in tourist hotels during this period was 71.7% compared to 70.6% in fiscal 1999. The average number of rooms rented in tourist hotels increased 2.5% during the first six months of fiscal 2000 compared with the same period of fiscal 1999.

San Juan has become the largest home port for cruise ships in the Caribbean and the second largest home port for cruise ships in the world.

The following table presents data relating to visitors to Puerto Rico and tourist expenditures for the five fiscal years ended June 30, 1999.

Puerto Rico

Tourism Data

	Number of Visitors				
Fiscal Year Ended June 30	Tourist Hotel(1)	Cruise Ship	Other(2)	Total	Total Visitors' Expenditures (in millions)
1995	774,040	955,917	2,356,622	4,086,579	1,827.6
1996	828,251	1,045,104	2,236,805	4,110,160	1,898.3
1997	906,706	1,107,913	2,335,068	4,349,687	2,046.3
1998	1,030,500	1,274,700	2,365,600	4,670,800	2,232.9
1999(p)	1,042,000	1,197,200	1,982,100	4,221,300	2,138.5

(p) Preliminary.
(1) Includes visitors in guest houses.
(2) Including visitors in homes of relatives, friends, and in hotel apartments.

Sources: Puerto Rico Tourism Company and the Planning Board.

Government

The government sector of Puerto Rico plays an important role in the economy. In fiscal 1999, government accounted for $5.5 billion of Puerto Rico's gross domestic product, or 9.2% of the total. The government is also a significant employer, providing jobs for 245,865 workers, or 21.4% of total employment in fiscal 1999. The government sector employment does not include data relating to public corporations which are included in other sectors. These public corporations include significant employers such as the Electric Power Authority and the Aqueduct and Sewer Authority. The government's (including the public corporations) share of employment, measured according to the payroll survey, has diminished from 34.9% in calendar 1980, to 32.9% in calendar 1992, to 27.6% in calendar 1999.

On February 25, 1998, the Governor signed into law Act No. 45, which permits the unionization of government employees (excluding municipal employees). Under this law, government employees are given collective bargaining rights subject to a number of limitations. Among those limitations are: employees are prohibited from striking; annual salary increases are limited; employees cannot be required to become union members and pay union dues; and collective bargaining negotiations cannot occur in an election year. Negotiations of non-economic conditions with government employees pursuant to this bill will commence in fiscal 2000 and negotiations of economic conditions will commence in fiscal 2001.

Transportation

Thirty-four shipping lines offer regular ocean freight service to eighty United States and foreign ports. San Juan is the island's leading seaport, but there are also seaport facilities at other locations on the island including Arecibo, Culebra, Fajardo, Guayama, Guayanilla, Mayagüez, Ponce, Vieques, and Yabucoa.

The Luis Muñoz Marín International Airport is currently served by 24 United States and international airlines. At present, there is daily direct service between San Juan and New York, Chicago, Dallas, Los Angeles, Miami, Atlanta, Boston, and numerous other destinations within the United States. There is also regularly scheduled service between Puerto Rico and other Caribbean islands and major Latin American and European cities. San Juan serves as a hub for intra-Caribbean airline service. Several smaller airports serve intra-island traffic.

The island's major cities are connected by a modern highway system which, as of December 31, 1998, totaled approximately 4,616 miles.

Construction

The construction industry has experienced substantial real growth since fiscal 1987. During the period from fiscal 1996 through fiscal 1998 construction investment increased 54%. In fiscal 1999, investment in construction rose to an unprecedented level of $6.6 billion, a nominal increase of 23.9%, as compared to $5.4 billion for fiscal 1998. The strong growth in the construction industry resulted from increased public and private investment in the past few years. Nominal public investment in key infrastructure projects increased 9.1% in fiscal 1999 and 5.7% in fiscal 1998. Private construction investment, particularly in housing and hotels, increased 41.0% in fiscal 1999 and 25.9% in fiscal 1998. In fiscal 1999 private construction investment exceeded public investment for the first time since 1974. The growth in private construction investment during fiscal 1999 is attributable primarily to the high level of housing reconstruction carried out in response to the damages caused by Hurricane Georges. During fiscal year 1999, the total value of construction permits increased 17.2% and cement sales increased 6.7% in comparison with fiscal 1998. In fiscal 1999, the average employment in the construction sector was 77,771, an increase of 12.7% over fiscal 1998. The Planning Board's construction investment forecast for fiscal 2000, made in July 1999, projected a nominal increase of 11.9% attributable primarily to the construction of large infrastructure projects, commercial projects and other investments related to the damages caused by Hurricane Georges.

During the first six months of fiscal year 2000, the total value of construction permits increased 34.0% and total cement sales increased 11.2% in comparison with the same period in fiscal 1999. The average employment in the construction sector during the first seven months of fiscal 2000 was 89,202, an increase of 14.4% over the same period in fiscal 1999.

Agriculture

The Department of Agriculture and related agencies have directed their efforts at increasing and improving local agricultural production, increasing efficiency and quality of produce, and stimulating import substitution where economically feasible. During fiscal 1999, gross income from agriculture was $668.4 million, a decrease of 5.5% in comparison with fiscal 1998 due in part to the effects of Hurricane Georges, which affected the island in October 1998. Agriculture gross income consists of the total value of production in the principal agricultural sectors, which include traditional crops, cattle products, farinaceous, vegetables, fruits, and other products. Recently, cattle products, non-traditional crops, and livestock products have contributed a higher percentage of the sector's income.

The Government of Puerto Rico supports agricultural activities through incentives, subsidies, and technical and support services, in addition to income tax exemptions for qualified income derived by bona fide farmers. Act No. 225, approved on December 1, 1995, increased the tax benefits available to bona fide farmers. The Act provides a 90% income tax exemption for income derived from agricultural operations, an investment tax credit equal to 50% of the investment in qualified agricultural projects, and a 100% exemption from excise taxes, real and personal property taxes, municipal license taxes and tariff payments. It also provides full income tax exemption for interest income from bonds, notes and other debt instruments to be issued by financial institutions to provide financing to agricultural businesses. Subsequent legislation imposed an aggregate annual limitation of $15 million on the investment tax credits available under Act No. 225.

As part of the programs embodied in the New Economic Model, the Government of Puerto Rico sold to private entities various agricultural operations previously conducted by governmental entities. These include certain assets of the pineapple processing operation and a mango growing facility. The Government has transferred to local private sugarcane growers the sugar processing facilities formerly operated by the Sugar Corporation.

Higher Education

During the four decades from 1950 to 1990, Puerto Rico made significant advances in the field of education, particularly at the college and graduate school level. The transformation of Puerto Rico during the 1950's and 1960's from an agricultural economy to an industrial economy brought about an increased demand for educational services at all levels. During the 1970's and 1980's, certain higher wage, higher technology industries became more prominent in Puerto Rico. More recently, employment in the services sector has increased significantly. This has resulted in an increased demand for workers having a higher level of education, in general, and, in particular, greater expertise in various technical fields. During the same time period, enrollments in institutions of higher learning rose very rapidly due to growth in the college-age population, and the increasing proportion of college attendance by such population. After the 1980's, college attendance has remained relatively stable as a percentage of the college age population, generally following the trend in the United States.

The University of Puerto Rico, the only public university in Puerto Rico, includes eleven campuses located throughout the island. Total enrollment of the University was 69,272 students during academic year 1998-1999. The government of Puerto Rico is legally bound to appropriate annually to the University an amount equal to 9.60% of the average annual revenue from internal sources for each of the two fiscal years immediately preceding the current fiscal year.

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

Trend in College Enrollment

	Puerto Rico			Mainland United States		
Academic Year	Population 18-24 Years of Age	Higher Education Enrollment	Percent(1)	Population 18-24 Years of Age	Higher Education Enrollment	Percent(1)
1970	341,448	57,340	16.8%	23,714,000	8,580,887	36.2%
1980	397,839	130,105	32.7	30,022,000	12,096,895	40.3
1990	417,636	156,147	37.4	26,950,000	13,820,000	51.3
1997	454,670	172,935	38.0	24,979,000	14,351,000	57.5
1998	455,321	175,633	38.6	25,160,000	14,589,000	58.0
1999(e)	456,007	174,348	38.2	25,710,000	14,758,000	57.4

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

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

In addition to the University of Puerto Rico, there are 37 private institutions of higher education located in Puerto Rico. Such institutions have current enrollment in excess of 109,180 students and provide programs of study in liberal arts, education, business, natural sciences, technology, secretarial and computer sciences, nursing, medicine, and law. Degrees are offered by these institutions at the associate, bachelor, master, and doctoral levels.

Tax Incentives

One of the factors assisting the development of the manufacturing sector in Puerto Rico has been the various local and federal tax incentives available, particularly those under Puerto Rico's Industrial Incentives Program and Sections 30A and 936 of the United States Internal Revenue Code of 1986, as amended (the "Code"). New tax and other incentives have been established to promote the development of the tourism industry. These incentives are summarized below.

Industrial Incentives Program

Since 1948, Puerto Rico has had various industrial incentives laws designed to stimulate industrial investment in the island. Under these laws, companies engaged in manufacturing and certain other designated activities were eligible to receive full or partial exemption from income, property, and other local taxes. The most recent of these industrial incentives laws is Act No. 135 of December 2, 1997 (the "1998 Tax Incentives Law"), a new industrial incentives law aimed at attracting and retaining foreign investment in Puerto Rico.

The benefits provided by the 1998 Tax Incentives Law are available to new companies as well as companies currently conducting tax exempt operations in Puerto Rico which choose to renegotiate their existing tax exemption grant. The activities eligible for tax exemption include manufacturing, certain designated services performed for markets outside Puerto Rico, the production of energy from local renewable sources for consumption in Puerto Rico and laboratories for scientific and industrial research. For companies qualifying thereunder, the 1998 Tax Incentives Law imposes income tax rates ranging from 2% to 7% for periods ranging from 10 to 25 years. In addition, it grants 90% exemption from property taxes, 100% exemption from municipal license taxes during the first eighteen months of operation and between 80% and 60% thereafter, and 100% exemption from municipal excise taxes. The 1998 Tax Incentives Law also provides various special deductions designed to stimulate employment and productivity, research and development and capital investment in Puerto Rico.

Under the 1998 Tax Incentives Law, companies can repatriate or distribute their profits free of dividend taxes. In addition, passive income derived from the investment of eligible funds in Puerto Rico financial institutions, obligations of the Government of Puerto Rico and other designated investments are fully exempt from income and municipal license taxes. Individual shareholders of an exempted business are allowed a credit against their Puerto Rico income taxes equal to 30% of their proportionate share of the exempted business' income tax liability. Gain from the sale or exchange of shares of an exempted business by its shareholders during the exemption period is subject to a 4% income tax rate.

Tourism Incentives Program

For many years Puerto Rico has also had incentives laws designed to stimulate investment in hotel operations on the island. The most recent of these laws, the Tourism Incentives Act of 1993, provides exemptions from income, property, and municipal license taxes for a period of up to 10 years. In addition, it provides certain tax credits for qualifying investments in hotel development projects.

As part of the incentives to promote the tourism industry, the Government of Puerto Rico established the Tourism Development Fund as a subsidiary of GDB with the authority to make investments in or provide financing to entities that contribute to the development of the tourism industry. The Fund was initially capitalized with $50,000,000 and was authorized to provide financial guarantees for financing hotel development projects. To date the Fund has provided financial guarantees to private entities issuing bonds or borrowing funds to finance the development of seven hotel projects which provided approximately 1,500 new hotel rooms.

Sections 30A and 936 of the Code

For many years, United States companies operating in Puerto Rico enjoyed a special tax credit that was available under Section 936 of the Code. Originally, the credit provided an effective 100% federal tax exemption for operating and qualifying investment income from Puerto Rico sources. Amendments to Section 936 made in 1993 (the "1993 Amendments") instituted two alternative methods for calculating the tax credit and limited the amount of the credit that a qualifying company could claim. These limitations are based on a percentage of qualifying income (the "percentage of income limitation") and on qualifying expenditures on wages, other wage related benefits and other qualifying expenditures (the "economic activity limitation", also known as the "wage credit limitation"). As a result of additional amendments incorporated in the Small Business Job Protection Act of 1996 enacted by the United States Congress and signed into law by President Clinton on August 20, 1996 (the "1996 Amendments"), as described below, the tax credit is now being phased out over a ten-year period for existing claimants and is no longer available for corporations that establish operations in Puerto Rico after October 13, 1995 (including existing Section 936 Corporations (as defined below) to the extent substantially new operations are established in Puerto Rico). The 1996 Amendments also moved the credit based on the economic activity limitation to Section 30A of the Code and phased it out over 10 years. In addition, the 1996 Amendments eliminated the credit previously available for income derived from certain qualified investments in Puerto Rico. The Section 30A Credit and the remaining Section 936 credit are discussed below.

Section 30A. The 1996 Amendments added a new Section 30A to the Code. Section 30A permits a "qualifying domestic corporation" ("QDC") that meets certain gross income tests (which are similar to the 80% and 75% gross income tests of Section 936 of the Code discussed below) to claim a credit (the "Section 30A Credit") against the federal income tax imposed on taxable income derived from sources outside the United States from the active conduct of a trade or business in Puerto Rico or from the sale of substantially all the assets used in such business ("possession income").

A QDC is a United States corporation which (i) was actively conducting a trade or business in Puerto Rico on October 13, 1995, (ii) had a Section 936 election in effect for its taxable year that included October 13, 1995, (iii) does not have in effect an election to use the percentage limitation of Section 936(a)(4)(B) of the Code, and (iv) does not add a "substantial new line of business."

The Section 30A Credit is limited to the sum of (i) 60% of qualified possession wages as defined in the Code, which includes wages up to 85% of the maximum earnings subject to the OASDI portion of Social Security taxes plus an allowance for fringe benefits of 15% of qualified possession wages, (ii) a specified percentage of depreciation deductions ranging between 15% and 65%, based on the class life of tangible property, and (iii) a portion of Puerto Rico income taxes paid by the QDC, up to a 9% effective tax rate (but only if the QDC does not elect the profit-split method for allocating income from intangible property).

A QDC electing Section 30A of the Code may compute the amount of its active business income eligible for the Section 30A Credit by using either the cost sharing formula, the profit-split formula or the cost-plus formula, under the same rules and guidelines prescribed for such formulas as provided under Section 936 (see discussion below). To be eligible for the first two formulas, the QDC must have a significant presence in Puerto Rico.

In the case of taxable years beginning after December 31, 2001, the amount of possession income that would qualify for the Section 30A Credit would be subject to a cap based on the QDC's possession income for an average adjusted base period ending before October 14, 1995 (the "income cap").

Section 30A applies only to taxable years beginning after December 31, 1995 and before January 1, 2006.

Section 936. Under Section 936 of the Code, as amended by the 1996 Amendments, United States corporations that meet certain requirements and elect its application ("Section 936 Corporations") are entitled to credit against their United States corporate income tax, the portion of such tax attributable to income derived from the active conduct of a trade or business within Puerto Rico ("active business income") and from the sale or exchange of substantially all assets used in the active conduct of such trade or business. To qualify under Section 936 in any given taxable year, a corporation must derive for the three-year period immediately preceding the end of such taxable year, (i) 80% or more of its gross income from sources within Puerto Rico, and (ii) 75% or more of its gross income from the active conduct of a trade or business in Puerto Rico.

Under Section 936, a Section 936 Corporation may elect to compute its active business income, eligible for the Section 936 credit, under one of three formulas: (i) a cost-sharing formula, whereby it is allowed to claim all profits attributable to manufacturing intangibles and other functions carried out in Puerto Rico provided it makes a cost sharing payment in the amount required under Section 936; (ii) a profit-split formula, whereby it is allowed to claim 50% of the combined net income of its affiliated group from the sale of products manufactured in Puerto Rico; or (iii) a cost-plus formula, whereby it is allowed to claim a reasonable profit on the manufacturing costs incurred in Puerto Rico. To be eligible for the first two formulas, the Section 936 Corporation must have a significant business presence in Puerto Rico for purposes of the Section 936 rules.

As a result of the 1993 Amendments and the 1996 Amendments, the Section 936 credit is only available to companies that were operating in Puerto Rico on October 13, 1995 and had elected the percentage of income limitation, and is limited in amount to 40% of the credit allowable prior to the 1993 Amendments, subject to a five-year phase-in period from 1994 to 1998 during which the percentage of the allowable credit is reduced from 60% to 40%.

In the case of taxable years beginning on or after 1998, the possession income subject to the 936 credit will be subject to a cap based on the Section 936 Corporation's possession income for an average adjusted base period ending on October 14, 1995. The 936 credit is eliminated for taxable years beginning in 2006.

Proposals to Extend the Phaseout of Section 30A. During 1997, Governor Rosselló proposed to Congress the enactment of a new permanent federal incentive program similar to what is now provided under Section 30A. Such program would provide U.S. companies a tax credit based on qualifying wages paid and other wage related expenses, such as fringe benefits, as well as depreciation expenses for certain tangible assets and research and development expenses. Under the Governor's proposal, the credit granted to qualifying companies would continue in effect until Puerto Rico shows, among other things, substantial economic improvements in terms of certain economic parameters. The fiscal 1998, fiscal 1999 and fiscal 2000 budgets submitted by President Clinton to Congress included a proposal to modify Section 30A to (i) extend the availability of the Section 30A Credit indefinitely, (ii) make it available to companies establishing operations in Puerto Rico after October 13, 1995, and (iii) eliminate the income cap. This proposal was not included in the 1998, 1999 or 2000 budgets approved by Congress. The fiscal 2001 budget submitted by President Clinton included a proposal to extend the Section 30A Credit for three years and make it available to companies establishing new operations, but would make the credit subject to the existing income cap.

Two bills were recently introduced in Congress in one case to extend the Section 30A Credit until 2009 and in the other to extend it until the Puerto Rico economy reaches a level closer to that of the U.S. economy. Both bills would make the Section 30A Credit applicable to newly established companies and new lines of businesses and would remove the income cap. While the Government of Puerto Rico plans to continue lobbying for these proposals, it is not possible at this time to predict whether the Section 30A Credit will be so modified.

Outlook. The Government of Puerto Rico believes that the phase out of Sections 936 and 30A will not have a significant adverse effect on the economy of Puerto Rico. It believes that, notwithstanding the loss of the federal income tax benefits provided by Sections 936 and 30A, the tax and other benefits offered by Puerto Rico to U.S. and foreign investors will enable it to continue attracting and retaining investments in manufacturing and service operations. Some of the factors which the Government believes will continue to make Puerto Rico an attractive jurisdiction for U.S. and foreign companies to conduct manufacturing and service operations include: low Puerto Rico corporate tax rates ranging from 2 to 7%; "super deductions" for job training and research and development; availability of industrial facilities at competitive rental rates; an accelerated permitting process; availability of a highly skilled and educated labor force and a well developed infrastructure for business operations, including a sophisticated legal and financial system and modern and reliable electric, transportation and telecommunications networks. One of the reasons why the Government believes that many U.S. corporations formerly operating under Section 936 will remain in Puerto Rico during and after the phase out of Sections 936 and 30A is the fact that, since the beginning of the phase out period, many of them have converted from U.S. corporations to foreign corporations, including Puerto Rico corporations. As a result, these corporations will be able to defer the payment of federal income taxes on the profits generated by their manufacturing and service operations in Puerto Rico until such time as such profits are distributed to their U.S. parent company. The Government believes that this deferral, coupled with the local tax exemption and other benefits offered by Puerto Rico, is sufficient to offset the loss of the credits provided by Sections 936 and 30A. Another reason is that many companies have obtained new grants of tax exemption under the 1998 Tax Incentives Law and have made commitments to increase their employment and make new capital investments. Since fiscal 1997, 234 companies have either established new operations in Puerto Rico or expanded their existing operations in Puerto Rico. The level of exports of manufactured products and other economic indicators suggest that so far the level of manufacturing operations has remained strong during this phase out period. While the Government believes that these indicators suggest that the economy will not be affected significantly by the elimination of Sections 936 and 30A, there can be no assurance that such phase out will not have an adverse effect on the economy.

DEBT

Public Sector Debt

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

The following table presents a summary of public sector debt as of December 31, 1999. Excluded from this table is debt not primarily payable from either Commonwealth or municipal taxes, Commonwealth appropriations or rates charged by public corporations for services or products. Also excluded from this table is debt the inclusion of which would reflect double counting, including, but not limited to, \$1,083,705,000 of bonds issued by the Municipal Finance Agency to finance its purchase of bonds of Puerto Rico municipalities, and \$1,718,281,000 of obligations of GDB issued to purchase certain Commonwealth public sector debt and for other purposes, of which \$267,000,000 is guaranteed by the Commonwealth.

Puerto Rico

Public Sector Debt
(in thousands)

	December 31, 1999
Puerto Rico direct debt[1]	$ 5,252,763
Municipal debt	1,356,689
Public corporations debt	
Puerto Rico guaranteed debt[2]	399,400
Debt supported by Puerto Rico appropriations or taxes[3]	9,738,801
Other non-guaranteed debt	6,038,927
Total public corporations debt	16,177,128
Total public sector debt	$22,786,580

(1) Includes a $21,415,921 loan from GDB to the Department of the Treasury to settle certain property tax claims of the municipalities (the "GDB Tax Claims Loan") and $98,460,000 of certain indebtedness originally issued by Urban Renewal and Housing Corporation that was transferred to the Commonwealth by virtue of Act No. 134 of the Legislature of Puerto Rico, approved on December 13, 1994 ("Act No. 134 of 1994") (such indebtedness referred to as "Transferred CRUV Debt"). Excludes the issuance on January 12, 2000 of $600,000,000 Tax and Revenue Anticipation Notes, Series 1999, which will mature on July 30, 2000.

(2) Consists of bonds issued by Housing Bank and Finance Agency and Aqueduct and Sewer Authority. Excludes $1,689,961,000 of Public Buildings Authority bonds and notes which are primarily payable from Commonwealth appropriations and $267,000,000 of GDB bonds payable from available moneys of GDB.

(3) Represents, among others, bonds and notes issued by Aqueduct and Sewer Authority, Highway and Transportation Authority, Public Buildings Authority, Public Finance Corporation, Infrastructure Financing Authority and Housing Bank and Finance Agency and notes of the Health Facilities and Services Administration which were assumed by the Department of Health.

Source: GDB.

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

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

The following table presents debt service requirements for Commonwealth general obligation bonds and bonds of Aqueduct and Sewer Authority for which debt service payments are being made under the Commonwealth guaranty, in each case outstanding on December 31, 1999. See "Commonwealth Guaranteed Debt" below. With respect to other debt of Aqueduct and Sewer Authority, see *Public Corporations*. Debt service requirements for each fiscal year, as shown in the following table, include principal and interest due on July 1 immediately following the close of such fiscal year. The table does not include the debt service on $24,320,000 outstanding principal amount of Puerto Rico Housing Bank and Finance Agency Special Obligation Refunding Bonds (Series H) guaranteed by the Commonwealth, which have a final maturity of October 1, 2001, a portion of which is being paid from Commonwealth appropriations. See "Commonwealth Guaranteed Debt" below. Debt service on such bonds is $13,250,225 and $13,249,048 for the bond years ending on October 1, 2000 and October 1, 2001, respectively.

Puerto Rico
Debt Service Requirements*
(in thousands)

Fiscal Year Ending June 30	Outstanding Bonds Principal	Outstanding Bonds Interest	Outstanding Bonds Total	Aqueduct and Sewer Authority Bonds Debt Service	Grand Total
2000	$ 243,590	$ 255,204	$ 498,794	$ 33,509	$ 532,303
2001	250,361	242,238	492,600	33,473	526,073
2002	252,124	230,895	483,020	33,542	516,561
2003	186,269	296,868	483,137	32,745	515,882
2004	158,100	289,680	447,780	30,125	477,905
2005	234,077	210,139	444,216	30,127	474,343
2006	196,503	222,695	419,198	30,121	449,319
2007	171,544	227,398	398,942	30,126	429,068
2008	146,378	190,804	337,182	30,131	367,313
2009	156,605	162,320	318,925	30,123	349,048
2010	167,935	151,063	318,998	29,984	348,982
2011	176,632	141,873	318,505	29,928	348,433
2012	186,485	124,976	311,461	30,127	341,588
2013	178,585	115,203	293,788	30,128	323,915
2014	148,598	124,526	273,124	30,125	303,249
2015	155,265	118,043	273,308	30,126	303,434
2016	161,525	111,713	273,238	30,121	303,358
2017	169,687	103,722	273,409	30,122	303,531
2018	176,950	96,366	273,316	30,126	303,441
2019	189,285	63,110	252,395	30,125	282,519
2020	199,885	53,642	253,527	0	253,527
2021	166,895	43,380	210,275	0	210,275
2022	153,125	35,104	188,229	0	188,229
2023	137,430	27,518	164,948	0	164,948
2024	120,920	20,524	141,444	0	141,444
2025	104,055	14,132	118,187	0	118,187
2026	85,065	8,739	93,804	0	93,804
2027	60,170	4,486	64,656	0	64,656
2028	29,550	1,478	31,028	0	31,028
Total	$4,763,590	$3,687,841	$8,451,432	$614,934	$9,066,365

* Totals may not add due to rounding.

Sources: GDB and Department of the Treasury.

Commonwealth Guaranteed Debt

As of December 31, 1999, $24,320,000 of Commonwealth guaranteed bonds of Housing Bank and Finance Agency were outstanding. These bonds were originally issued by Urban Renewal and Housing Corporation and refinanced in fiscal 1992 by Housing Bank and Finance Agency. Their final maturity is October 1, 2001. In fiscal 1999 and 2000, the Commonwealth appropriated funds to help make the debt service payments on these bonds. These appropriations were required as a result of timing differences between the receipt of payments on the mortgage loans which secure these bonds and the debt service payments on the bonds. The Commonwealth expects to make additional appropriations in fiscal 2001 and 2002.

As of December 31, 1999, $1,689,961,000 of Commonwealth guaranteed bonds of Public Buildings Authority were outstanding. Annual debt service on these bonds is $167,363,726 in fiscal year ending June 30, 2001, with their final maturity being July 1, 2027. No payments under the Commonwealth guaranty have been required to date for bonds of Public Buildings Authority.

As of December 31, 1999, $267,000,000 of Commonwealth guaranteed obligations of GDB were outstanding. No payments under the Commonwealth guaranty have been required for any obligations of GDB to date.

As of December 31, 1999, the Commonwealth had guaranteed certain outstanding revenue bonds of the Aqueduct and Sewer Authority in the aggregate principal amount of $375,080,000. On January 2, 1997, the Commonwealth began to make debt service payments under the Commonwealth guaranty and expects to make all debt service payments required on these revenue bonds.

The Farm Credit Corporation ("Farm Credit"), created pursuant to Act No. 68, approved on June 8, 1960, as amended, assumed responsibility in 1971 for the administration of the Farm Credit Security Fund (the "Security Fund") from the Department of Agriculture. The Security Fund has guaranteed, under the good faith and credit of the Commonwealth, certain loans made by financial institutions and Farm Credit to farmers. The Security Fund is authorized to guarantee loans, of which approximately $9,303,599 has been committed as of December 31, 1999. As of December 31, 1999, $6,616,833 was available in the Security Fund to cover loan payment defaults by farmers.

The functions of Farm Credit and the administration of the Security Fund were transferred to Commercial and Agricultural Credit and Development Corporation, a new public corporation (which is an affiliate of Economic Development Bank) created to provide, among other things, loans to the commercial and agricultural sectors. Simultaneously with the creation of this new corporation, the amount of guarantees was limited to the outstanding loans which carry such guaranty.

Trends of Public Sector Debt

Historically, the Commonwealth has maintained a fiscal policy which provides for a prudent relationship between the growth of public sector debt and the growth of the economic base required to service that debt. During fiscal 1996, 1997 and 1998, however, public sector debt increased at a greater rate than the growth of gross product due to an increase in the amount of debt incurred to finance certain key infrastructure projects, which are important to the development of the economy and are expected to produce long term economic benefits, and debt incurred to refinance outstanding debt to enable Puerto Rico to benefit from the historically low levels of interest rates and realize debt service savings. From fiscal 1996 to 1999, public sector debt increased 28.7% while gross product increased 25.9%. During fiscal 1999, public sector debt increased 1.6% while gross product increased 9.2%. One of the reasons why the growth in public sector debt during fiscal 1999 was much lower than in prior fiscal years is that during fiscal 1999 $756 million principal amount of bonds of the Telephone Authority were defeased in connection with the sale to a private company of a controlling interest in Puerto Rico Telephone Company. Without such defeasance, public sector debt would have grown 5.2% during fiscal 1999. The trend of higher levels of growth of public sector debt relative to the growth in gross product is expected to continue during the next few fiscal years as the level of public sector capital investment remains high.

As of December 31, 1999, outstanding short-term debt, relative to total debt, was 11.2%.

The following table shows the trends in gross product (in current dollars) and public sector debt for the five fiscal years ended June 30, 1999 and as of December 31, 1999:

Puerto Rico
Public Sector Debt and Gross Product
(dollars in millions)

	Public Sector Debt					Gross Product(1)	
June 30	Long Term	Short Term(2)	Short Term as % of Total	Total*	Rate of Increase	Amount	Rate of Increase
1995	$14,688	$1,305	8.2%	$15,993	4.8%	$28,452	6.8%
1996	16,316	1,310	7.4	17,626	10.2	30,357	6.7
1997	17,865	1,642(3)	8.4	19,507	10.7	32,343	6.5
1998	20,759	1,563(3)	7.0	22,322	14.4	35,020	8.3
1999	20,905	1,772(3)	7.8	22,678	1.6	38,229(p)	9.2
December 31, 1999	20,242	2,545	11.2	22,787	0.1	N/A	N/A

* Totals may not add due to rounding.

(p) Preliminary.
(1) In current dollars.
(2) Obligations (other than bonds) issued with an original maturity of three years or less and lines of credit with a remaining maturity of three years or less are considered short term debt.
(3) Does not include the tax and revenue anticipation notes which were outstanding at the close of the indicated fiscal years because prior to the end of said fiscal years sufficient funds had been set aside for the payment of such notes in full.

Source: GDB.

The following table shows the trend of public sector debt by major category for the five fiscal years ended June 30, 1999 and as of December 31, 1999:

Puerto Rico
Public Sector Debt by Major Category
(dollars in millions)

	Commonwealth			Municipalities			Public Corporations(1)			Total*		Grand Total*
June 30	Long Term	Short Term(2)	Total*	Long Term	Short Term(2)	Total*	Long Term	Short Term(2)	Total*	Long Term	Short Term(2)	
1995	$4,236	$30	$4,266(4)	$ 679	$53	$732	$ 9,773	$1,222	$10,995	$14,688	$1,305	$15,993(4)
1996	4,203	0	4,203(4)	706	58	765	11,405	1,251	12,657	16,316	1,310	17,626(4)
1997	4,512	0(3)	4,512(4)	843	51	894	12,509	1,590	14,100	17,865	1,642(3)	19,507(4)
1998	4,819	0(3)	4,819(4)	973	57	1,030	14,967	1,506	16,473	20,759	1,563(3)	22,322(4)
1999	5,097	0(3)	5,097(4)	1,215	60	1,275	14,593	1,713	16,306	20,905	1,772(3)	22,678(4)
As of Dec. 31, 1999	4,884	369	5,253(4)	1,295	61	1,356	14,063	2,114	16,177	20,242	2,545	22,787(4)

* Totals may not add due to rounding.

(1) Includes Commonwealth guaranteed debt.
(2) Obligations (other than bonds) issued with an original maturity of three years or less and lines of credit with a remaining maturity of three years or less are considered short term debt.
(3) Does not include the tax and revenue anticipation notes which were outstanding at the close of the indicated fiscal years because prior to the end of said fiscal years sufficient funds had been set aside for the payment of such notes in full.
(4) Includes the GDB Tax Claims Loan and the Transferred CRUV Debt.

Source: GDB.

PUBLIC CORPORATIONS

In Puerto Rico, many governmental or quasi-governmental functions are performed by public corporations. These are governmental entities created by the Legislature with varying degrees of independence from the central government. Public corporations are generally created to perform a single function or a limited number of related functions. Most public corporations obtain revenues from rates charged for services or products, but many are subsidized to some extent by the central government. Most public corporations are governed by boards appointed by the Governor with the advice and consent of the Senate, but some public corporations are subsidiaries of departments of the central government. Capital improvements of most of the larger public corporations are financed by revenue bonds under trust agreements or bond resolutions or notes under loan agreements. The following table presents the outstanding bonds and notes of certain of the public corporations as of December 31, 1999 ("notes" as used in this section refers primarily to certain types of non-bonded debt regardless of maturity). Debt of certain other public corporations is excluded from this table because such debt is payable primarily from the Federal government or is payable from sources other than Commonwealth appropriations or taxes or revenues of public corporations, or is payable from revenues derived from services or products, such as industrial development bonds. Also excluded from this table is debt of certain public corporations the inclusion of which would reflect double counting. No deductions have been made in the table for debt service funds and debt service reserve funds. More detailed information about the major public corporations is presented in the following sections.

Outstanding Debt
December 31, 1999
(in thousands)

	Bonds			Notes			Total Bonds and Notes		
	With Guaranty	Without Guaranty	Total	With Guaranty	Without Guaranty	Total	With Guaranty	Without Guaranty	Total
Agricultural Services Administration	$ 0	$ 0	$ 0	$ 0	$ 10,122	$ 10,122	$ 0	$ 10,122	$ 10,122
Aqueduct and Sewer Authority	375,080	84,630[1]	459,710	0	757,073	757,073	375,080	841,703	1,216,783
Agricultural and Commercial Credit and Development Corporation	0	0	0	0	0	0	0	0	0
Electric Power Authority(2)	0	3,835,278	3,835,278	0	255,000	255,000	0	4,090,278	4,090,278
Health Facilities and Services Administration(3)	0	0	0	0	543,928[4]	543,928	0	543,928	543,928
Highway and Transportation Authority	0	3,410,469	3,410,469	0	300,099	300,099	0	3,710,568	3,710,568
Housing Bank	24,320	644,255	668,575	0	34,022	34,022	24,320	678,277	702,597
Industrial Development Company(2)	0	187,498	187,498	0	1,031	1,031	0	188,529	188,529
Infrastructure Financing Authority	0	991,085	991,085	0	50,895	50,895	0	1,041,980	1,041,980
Public Finance Corporation(2)	0	1,630,849[4]	1,630,849	0	21,717	21,717	0	1,652,566	1,652,566
Ports Authority	0	109,660	109,660	0	228,809	228,809	0	338,469	338,469
Public Buildings Authority(2)	1,689,961	0	1,689,961	0	99,293	99,293	1,689,961	99,293	1,789,254
Sugar Corporation	0	0	0	0	57,511[4]	57,511	0	57,511	57,511
University of Puerto Rico	0	303,140	303,140	0	56,006	56,006	0	359,146	359,146
Others	0	0	0	0	475,397	475,397	0	475,397	475,397
Total	$2,089,361[5]	$11,196,864	$13,286,225	$ -	$2,890,903	$2,890,903	$2,089,361[5]	$14,087,767	$16,177,128

(1) Principal of and interest on this debt is reimbursed from Commonwealth appropriations.

(2) Does not include accretion of interest from the respective issuance dates on capital appreciation bonds, as follows (each as of December 31, 1999): Electric Power Authority $129,852,639; Industrial Development Company $6,643,339; Public Buildings Authority $59,304,100; and Public Finance Corporation $17,819,003.15.

(3) This is debt incurred by the Health Facilities and Services Administration prior to its dissolution on June 30, 1999, which debt was assumed by the Department of Health.

(4) Payable primarily from Commonwealth appropriations.

(5) Authorization for Commonwealth guarantee of debt as of December 31, 1999, was $3,483,000,000. Excludes $9,303,599 of loans from lending institutions to farmers guaranteed by the Security Fund as of December 31, 1999.

Source: GDB.

Government Development Bank for Puerto Rico

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

As of December 31, 1999, $1,407,331,926 of bonds and notes of GDB were outstanding. As of said date, GDB also had $3,305,979,000 in loans to local public corporations and municipalities. Act No. 12 of May 9, 1975, as amended, provides that the payment of principal of and interest on specified notes and other obligations of GDB, not exceeding $550,000,000, may be guaranteed by the Commonwealth, of which $267,000,000 were outstanding as of December 31, 1999.

GDB has the following principal subsidiaries:

Housing Finance Corporation was created in November 1977 to provide needed rental housing units and stimulate the construction industry under federally subsidized programs. The Corporation has issued tax-exempt revenue bonds and notes to finance the construction of housing units approved for federal rental subsidies, which bonds and notes are limited obligations of the Corporation payable solely from revenues collected in respect of such housing units. The Federal Housing Administration has insured mortgages on certain of the housing units. As of December 31, 1999, $1,063,399,139 of bonds of Housing Finance Corporation were outstanding.

Tourism Development Fund was created in November 1993 to promote the hotel and tourism industry of Puerto Rico, primarily by making available guarantees to secure the payment of private financing used for new hotel development projects. The Tourism Development Fund is also authorized to make capital investments and provide direct financing to tourism related projects. As of December 31, 1999, the Tourism Development Fund had issued seven (7) guarantees totaling $388,649,306.

Development Fund was created in 1977 to provide an alternate source of financing to private enterprises in Puerto Rico that have difficulties in obtaining financing from traditional sources. The Development Fund may also guarantee obligations of these enterprises and invest in their equity securities.

Capital Fund was created in November 1993 for trading in debt obligations and publicly traded shares of domestic and foreign corporations.

GDB Holdings was created in 1999 to hold, administer and dispose of, for the benefit of the Employees Retirement System of the Government of Puerto Rico and its Instrumentalities, shares of stock in PRTC's holding company representing the Government's remaining 43% interest in PRTC.

Public Finance Corporation was established in December 1984 to provide agencies and instrumentalities of Puerto Rico with alternate means of meeting their financing requirements. In June 1995, the Corporation issued $296,393,974 of bonds to purchase from GDB certain debt of the Maritime Shipping Authority. In April 1996, the Corporation issued $192,108,735 of bonds to purchase from GDB a portion of a debt of the Secretary of the Treasury relating to advances made by the Secretary to the municipalities to settle certain property tax claims. In June 1998, the Corporation issued $383,225,000 of bonds to purchase from GDB the debt which had been incurred by the Office for the Improvement of Public Schools in connection with its public schools repair and improvement program. In January 1999 the Corporation issued $618,085,149 of bonds to purchase from GDB a portion of the outstanding indebtedness of Health Facilities and Services Administration ("AFASS"). All of these bonds of the Corporation are payable from Commonwealth appropriations.

In February 1999 the Corporation issued $228,318,000 of bonds to refund a GDB line of credit utilized by the Corporation to purchase certain property tax debts from the Municipal Revenues Collection Center and the Department of the Treasury. Said bonds are limited obligations payable solely from collections of the property tax debts purchased by the Corporation.

As of December 31, 1999, the Corporation had $1,630,849,000 aggregate principal amount of such bonds outstanding.

A description of certain other affiliates of GDB is provided in "Other Public Corporations."

Other Public Corporations

Aqueduct and Sewer Authority owns and operates a system of public water supply and sanitary sewer facilities. Capital expenditures are financed by revenues of the system, debt issuances, and federal and Puerto Rico grants. Debt service on revenue bonds is payable from net revenues of the system after payment of current expenses.

Facilities and operations of the Authority's system are subject to regulation under numerous federal and Puerto Rico environmental laws, including the federal Clean Water Act administered by the United States Environmental Protection Agency ("EPA"). The Authority has embarked on an extensive capital improvement program for the five-year period ending June 30, 2004, that is estimated to cost approximately $1.2 billion. A portion of the capital improvement program is designed to enable the Authority to comply with federal and Commonwealth laws and regulations.

The Authority needs to make a substantial investment in infrastructure and a major overhaul of its operations to maintain the viability of the existing system and to finance its expansion for new users. Funds for this investment are expected to be provided through a combination of bond issues, legislative appropriations and federal grants. Due to the Authority's financial difficulties (discussed below) and its inability to access the bond market, Act No. 45 was enacted in July 1994 to provide a Commonwealth guaranty of the principal and interest payments to the bondholders of all outstanding debt previously issued by the Authority which, at that time, amounted to $388 million, and to also guarantee all future bonds or any other similar obligations incurred by the Authority to refinance such debt. In December 1995, the Authority issued $400,340,000 of its Refunding Bonds, Series 1995 (the "Series 1995 Bonds") to refund all of the Authority's outstanding revenue and revenue refunding bonds. The Series 1995 Bonds are guaranteed by the Commonwealth pursuant to Act No. 45. On January 2, 1997, the Commonwealth began making all debt service payments under said guaranty in respect of the Series 1995 Bonds.

The Authority has reported net losses of approximately $91.0 million, $55.2 million, $94.9 million and $130 million during fiscal years 1996, 1997, 1998 and 1999, respectively. These losses reflect the continuing financial and operating difficulties that the Authority has experienced in recent years. These losses were aggravated in recent years by extraordinary items, including the required adoption of new government accounting requirements relating to required expense reserves, the posting of previous years' non-registered entries and adjustments, employees' salary increases and early retirement bonuses, non-budgeted or underestimated expenses relating to the PSG Agreement (described below), increased maintenance costs and additional non-budgeted reserves. Legislation was approved in July 1994 providing for annual Commonwealth appropriations to the Authority to pay a portion of the principal of and interest on the Authority's indebtedness, cover capital improvements and defray a portion of the Authority's operating and maintenance expenses, as follows: $20 million for fiscal 1995, $25 million for fiscal 1996, $30 million for fiscal 1997, and $35 million for fiscal 1998. Additional legislation was approved in August 1997 providing for annual Commonwealth appropriations of $35 million annually through fiscal 2008. For fiscal 2000 and 2001, the Authority expects to receive Commonwealth appropriations of approximately $150 million and $120 million, respectively, to cover payment for public water and sewer services and certain operating expenses of the Authority, including debt service of its outstanding Series 1995 Bonds which are guaranteed by the Commonwealth.

On May 26, 1995, the Authority and Professional Services Group, Inc. ("PSG") entered into a five-year agreement (the "Agreement") for the operation, management, repair and maintenance of the Authority's public water supply and sanitary sewer systems, and for its customer service systems (the "Authority Systems"). PSG, which is headquartered in Houston, Texas, is a subsidiary of Air Water Technologies Corporation ("AWT"), which in turn is a subsidiary of Compagnie Générale des Eaux-SAHIDE ("CGE"), a member of the Vivendi Group, a French based international conglomerate of environmental, utility, energy, construction and communication companies. CGE guaranteed PSG's performance obligations under the Agreement. PSG commenced management of the Authority Systems in September 1995. Under the Agreement, all employees remained employees of the Authority, and the Authority retained management responsibilities for the capital planning, construction and environmental compliance departments. The management of certain departments, such as finance and management information systems, was shared by the Authority and PSG.

In September 1998, the Authority, PSG, AWT and CGE entered into an amendment to the Agreement (the "Amended Agreement"), that assigned all of PSG's obligations under the Agreement to CGE and AWT, with CGE being primarily responsible. The Amended Agreement extended the term of the Agreement by one year, transferred the management responsibility for the shared departments to CGE, and modified certain terms and conditions of the Agreement. The Amended Agreement includes performance incentives and penalties in the event that CGE fails to operate the Authority Systems within specified parameters, and establishes a contract administrator to oversee and monitor CGE's performance under the Amended Agreement. Fees and costs payable to CGE under the Amended Agreement for fiscal years 1999 to 2002 are approximately \$376.5 million, plus amounts for maintenance, repairs and improvements to the Authority Systems. The annual fees payable to CGE may be adjusted to provide for certain unforeseen events and circumstances, such as additional operations expenses due to hurricanes, and for adding facilities to the Authority Systems. The Amended Agreement gives the Authority the right to terminate the Amended Agreement, without cause or penalty, at the end of the fifth contract year.

On March 1, 1999 the Authority entered into a further amendment to the Amended Agreement, which transferred to CGE responsibility of the departments that had remained under the Authority's control. In connection with such amendment, the fees and costs payable to CGE were adjusted to reflect the additional responsibilities assumed by CGE and the increased efficiencies of a private management company.

The Authority has entered into an agreement with Thames-Dick Superaqueduct Partners, Inc. for the planning, design, construction, operation and maintenance of the North Coast Superaqueduct Project (the "Project") to supply additional potable water to certain municipalities, mainly in the San Juan Metropolitan Area. The total estimated cost of the Project is approximately \$377 million. GDB is providing interim financing for this Project, which is being paid over time from Commonwealth appropriations, and is considering permanent financing alternatives. One of the alternatives being considered is a bond issue payable from Commonwealth appropriations. The Project is now completed and is expected to start operations by the end of March 2000.

Included in the Authority's strategic projects is a major dredging program of the Carraízo Reservoir with an estimated cost of \$60 million. The Carraízo Reservoir is the main water supply source for the San Juan Metropolitan Area. This dredging project is directed at recovering reservoir storage capacity by removing approximately 6 million cubic meters of sediment. Under the agreement signed on October 7, 1996 with Weeks Marine Corporation, with headquarters in New Jersey, the Authority entered into a multi-year dredging program to remove sediment from the Carraízo Reservoir which includes the construction, operation, and maintenance of the areas that will be used to dispose of the dredged materials. GDB approved a \$50 million line of credit to the Authority to provide partial interim financing to pay for the dredging and related costs. This financing is being paid from the proceeds of Commonwealth appropriations. Final completion of the project is expected in August 2000.

Economic Development Bank was created in July 1985 to engage primarily in granting small direct loans, providing loan guarantees to private enterprises, and making equity investments in such enterprises. Its initial capital was provided by a transfer of loans in the principal amount of \$15,000,000 previously administered by a now inactive subsidiary of GDB. As of December 31, 1999, Economic Development Bank had outstanding \$33,800,000 of collateralized Promissory Notes with certain financial institutions and a debt of \$14,100,000 with GDB.

Electric Power Authority owns and operates the island's electric system. Capital improvements are financed primarily by borrowed funds, supplemented by internally generated funds. The Authority's bonded debt consists of Power Revenue Bonds, secured by a lien on net revenues of the electric system. As of December 31, 1999, the Authority had \$3,835,278,000 in bonds outstanding (not including accretion of interest from the respective issuance dates on capital appreciation bonds). As a means of reducing its dependency on oil, the Authority has entered into power purchase contracts relating to the construction of certain cogeneration plants that will use fuels other than oil. These two cogeneration projects consist of EcoElectrica's 507 megawatts liquefied natural gas plant at Guayanilla and Applied Energy Systems ("AES") 454 megawatts clean coal facility at Guayama. Construction of EcoElectrica's plant was substantially completed in December 1999, and the facility is now in the system testing phase. Commercial operations are scheduled to start during the last quarter of fiscal year 2000. Construction of AES' plant began in December 1999, and the plant is expected to be in service during calendar year 2002. It is expected that these two cogeneration plants will provide approximately one third of the Authority's energy needs.

Health Facilities and Services Administration was created by Act No. 26 of November 13, 1975, as amended, for the purpose of carrying out the following functions: planning, evaluation and development of health services, alleviation of environmental contamination, operation of public hospitals and other health facilities, prevention and treatment of mental illness and administration of family planning programs and maternal and child care activities. In connection with the revamping of the island's public health system as part of the Health Reform, AFASS was dissolved and its administrative responsibilities were transferred to the Department of Health. Act No. 187 of the Legislature of Puerto Rico, approved on August 17, 1998, authorized the Secretary of Health to consolidate into the Department of Health all the programs formerly conducted by AFASS and provides that all agreements and contracts of AFASS and claims to which it was subject shall remain valid and shall be honored by the Department of Health. AFASS was dissolved on June 30, 1999.

The operations of AFASS had been funded substantially by Commonwealth appropriations and lines of credit provided by GDB. Aggregate outstanding indebtedness to GDB as of December 31, 1999 relating to such lines of credit was $543,928,000. Such indebtedness is expected to be paid principally from Commonwealth appropriations.

Highway and Transportation Authority is responsible for highway construction in Puerto Rico. Such construction is financed by debt (interim notes and revenue bonds), revenues of the Authority, and federal and Puerto Rico grants. Debt service on the Authority's revenue bonds constitutes a first lien on its gross revenues, which consist currently of all the proceeds of the gasoline tax, one-half of the proceeds of the tax on gas oil or diesel oil, all the proceeds of the excise taxes on crude oil, unfinished oil and derivative products, up to $120 million per fiscal year, highway toll revenues, and the gross receipts of $15.00 per vehicle per year from certain motor vehicle license fees. Such revenues (except for toll revenues) may be applied first to the payment of debt service on general obligation bonds and notes of the Commonwealth and payments required to be made by the Commonwealth under its guarantees of bonds and notes to the extent that no other revenues are available for such purpose. The Government of Puerto Rico has never applied such revenues for such payment. As of December 31, 1999, the Highway and Transportation Authority had $3,410,469,000 in bonds outstanding.

The Authority has under construction the first phase of a new mass transit system, known as Tren Urbano, to serve a portion of metropolitan San Juan. The first phase of Tren Urbano is being constructed under several design/build contracts, including a design/build/operate contract covering the design and construction of the system and the operation of Tren Urbano for five years with an additional five-year option at the Authority's election. The cost of the first phase is estimated to be $1.675 billion, which cost will be financed by Federal Transit Administration grants, other federal funding sources and the Authority's own resources. An extension of the first phase of Tren Urbano to serve the area of Minillas Government Center is currently in the planning stage.

The Authority is a party to a concession agreement under which a private company designed, constructed and currently is operating a toll bridge spanning the San José Lagoon. The toll bridge was financed with special facility revenue bonds of the Authority payable by the private company principally from toll revenues. The concession is for a term of 35 years, subject to earlier termination or extension. The bridge opened for traffic in February 1994. In certain circumstances as described in the concession agreement, including where toll revenues are insufficient to generate certain rates of return to the private operator, the private company may require the Authority, among other things, to assume the private company's obligations with respect to the special facility revenue bonds. Some of those circumstances, including low toll revenues, exist at this time, but the Authority does not currently anticipate that the private company will exercise its remedy against the Authority.

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

As of December 31, 1999, the Agency had outstanding $668,575,000 of bonds (of which $24,320,000, originally issued by the Urban Renewal and Housing Corporation, are guaranteed by the Commonwealth) issued to pay obligations of the Commonwealth under law, otherwise payable from Commonwealth appropriations, to fund certain payments of the Commonwealth under its mortgage subsidy program for low and moderate income families, to guarantee certain insurance obligations of the Agency under certain programs, and to refund bonds originally issued by Urban Renewal and Housing Corporation to carry out activities related to the provision of low-cost housing for moderate income families, federally aided public housing for low income families, and urban renewal, housing and related activities. These bonds are payable principally from appropriations in substantially the amount that the Commonwealth would otherwise have been bound to appropriate for such purposes.

Industrial Development Company participates in the Commonwealth-sponsored economic development program by providing physical facilities, general assistance, and special incentive grants to manufacturers. The Company was merged with the Economic Development Administration in January 1998. Rentals derived from the leasing of specified facilities of the Company are pledged to the payment of the Company's revenue bonds. As of December 31, 1999, the Company had $187,498,000 in bonds outstanding (not including accretion of interest from the respective issuance dates on capital appreciation bonds).

Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority was created in June 1977. The Authority has issued revenue bonds to finance industrial, tourist, pollution control, medical, and educational facilities in Puerto Rico for the use of private companies, non-profit entities, or government agencies. The bonds are payable solely from payments to be made to the Authority by such private companies, non-profit entities, or government agencies, and do not constitute a debt of the Commonwealth or any of its other public corporations or municipalities. As of December 31, 1999, $2,534,876,072 of the Authority's bonds were outstanding.

Infrastructure Financing Authority was created in June 1988 by virtue of Act No. 44 of June 21, 1988, as amended ("Act No. 44"), to provide financial, administrative, consulting, technical, advisory, and other types of assistance to other public corporations and governmental instrumentalities of Puerto Rico authorized to develop infrastructure facilities and to establish alternate means for financing infrastructure facilities. The Authority is authorized to issue bonds and provide loans, grants and other financial assistance for the construction, acquisition, repair, maintenance and reconstruction of infrastructure projects by public corporations and instrumentalities of the Commonwealth. Act No. 44 also established the Puerto Rico Infrastructure Fund, funded in the amount of $30 million during fiscal 1989 and $40 million for the following twenty-nine fiscal years with the first proceeds of federal excise taxes imposed on rum and other articles produced in Puerto Rico and sold in the United States which are transferred to Puerto Rico pursuant to the United States Internal Revenue Code of 1986, as amended. On July 7, 1997, Act No. 44 was amended to increase to $60 million for fiscal year 1998 and $70 million for each subsequent year until fiscal year 2028 the amount of federal excise taxes transferred to the Authority. The increased level of appropriations was used by the Authority to provide additional financial support to Aqueduct and Sewer Authority.

In November 1988, the Authority issued $327,740,000 of Special Tax Revenue Bonds, Series 1988A to refund in advance certain outstanding revenue bonds and other debt of the Aqueduct and Sewer Authority. The Authority's Special Tax Revenue Bonds, Series 1988A are secured by a pledge of a portion of said federal excise taxes, subject to the prior application of such taxes to the payment of Puerto Rico's general obligation bonds and notes and certain other obligations guaranteed by Puerto Rico.

In December 1997, the Authority issued $801,760,000 Special Tax Revenue Bonds, Series 1997A and 1997B, to finance certain capital projects and working capital needs of Aqueduct and Sewer Authority. The Authority also issued $134,660,000 Special Tax Revenue Refunding Bonds, Series 1998A, on April 2, 1998, to refund certain of its outstanding revenue bonds. The Authority had $991,085,000 in bonds outstanding as of December 31, 1999.

In January 1998, the Authority expanded the assistance given to Aqueduct and Sewer Authority to include assistance covering the design and construction of various strategic regional water and sewer projects intended to provide improved services to targeted regions throughout the island, the implementation of an immediate action plan to address a number of small water and sewer rehabilitation projects and legal and technical assistance in achieving compliance with certain environmental laws and in establishing a prioritized capital program. The Authority is undertaking such projects at the request of the Aqueduct and Sewer Authority.

In June 1998 Act No. 44 was amended to establish the Infrastructure Development Fund, a permanent trust fund to be utilized by the Authority for the purpose of financing infrastructure projects. The Infrastructure Development Fund was initially funded in March 1999 with $1.2 billion of proceeds received by the Telephone Authority from the sale of a controlling interest in PRTC. This initial amount will remain permanently deposited in a segregated, perpetual account, denominated the "corpus account". Funds in the corpus account must remain intact and must be invested exclusively in U.S. government or U.S. government-backed obligations. The income from such investment may only be used to finance infrastructure projects related to the Commonwealth's water and sewer systems. Other moneys in the Infrastructure Development Fund not attributable to the corpus account or the investment income thereon may be used for other infrastructure projects. The Authority is the custodian and administrator of the Infrastructure Development Fund.

Maritime Shipping Authority commenced operations in 1974 upon the acquisition of three shipping lines serving Puerto Rico and the United States mainland. The Authority acquired vessels and other equipment financed by the issuance of notes on a secured basis to the previous owners. As of the date of the sale of the Authority's assets referred to below, the Authority carried approximately 30% of the total cargo shipped between Puerto Rico and the United States mainland.

On March 3, 1995, the assets and operations of Maritime Shipping Authority were acquired by an investor group headed by BTIP, a subsidiary of Bankers Trust New York Corporation, under the terms and conditions approved by the Legislature of Puerto Rico and signed by the Governor on September 27, 1994.

Act No. 112 of September 27, 1994, restructured the operations and administration of the Authority by creating the Maritime Shipping Authority as a public corporation affiliated with GDB, subject to the control of the President of GDB, but as a separate legal entity, apart from GDB and any of its other affiliates and subsidiaries. The remaining debt of the Authority was refinanced, as allowed under Act No. 113 of September 27, 1994, through the issuance of bonds by Public Finance Corporation, a subsidiary of GDB. The aggregate principal amount of such bonds as of December 31, 1999, was $277,813,974. The bonds are payable from funds to be appropriated annually by the Legislature of Puerto Rico.

Municipal Finance Agency was created in 1972 as a municipal "bond bank" for Puerto Rico. The Agency is authorized to issue bonds to purchase general obligation bonds and notes of Puerto Rico municipalities and to fund a debt service reserve. Debt service on the Agency's bonds is payable from debt service payments on municipal bonds held by the Agency and from the reserve, including investment income thereon. The Government of Puerto Rico has agreed to pay such amounts to the reserve as may be necessary to maintain it at its required level, subject to appropriation by the Legislature, which appropriation is not legally required to be made. To date no such payments have been required.

Ports Authority owns and operates the major airport and seaport facilities in Puerto Rico. The Authority derives revenues from a variety of sources, including charges on airplane fuel sales, air terminal space rentals, landing fees, wharfage, dockage and harbor fees, and rentals for the lease of seaport equipment and property. The Authority has lines of credit from GDB for various capital improvements to the Authority's facilities, of which approximately $228.8 million was outstanding as of December 31, 1999. The Authority had total net losses of approximately $70 million during fiscal years 1993 and 1994, and, as a result, was not in compliance with its rate covenant with bondholders. After reducing its operating losses through a comprehensive rate revision process, including the implementation of annual (instead of triennial) rate revision analyses, the Authority is currently in compliance with its rate covenant. The Authority is implementing a plan to restructure its operations which, among other things, encompasses revisions to its capital improvement program, measures to increase collections from certain users of its facilities and proposals to improve the efficiency of its operations. Act No. 1 of January 1, 2000 authorized the transfer of the Authority's unprofitable maritime ferry operations to a newly created government agency. The Authority reported net losses during the fiscal years ended June 30, 1997, 1998 and 1999 of $11.3 million, $28.8 million and $6.5 million, respectively. As of December 31, 1999, the Authority had $109,660,000 in bonds outstanding.

Public Buildings Authority is authorized to construct, purchase or lease office, school, health, and social welfare facilities for lease to departments, public corporations, and instrumentalities of the Government of Puerto Rico. Bonds that have been issued by the Authority to finance such facilities (through retirement of interim notes or otherwise) are payable from lease payments, which are largely derived from legislative appropriations, and are further secured by the Commonwealth's guaranty. The Authority is authorized by Act No. 17 of 1968, as amended, to have outstanding at any one time up to $2,100,000,000 of bonds guaranteed by the Commonwealth. As of December 31, 1999, $1,689,961,000 of such bonds of the Authority were outstanding (not including accretion of interest from the respective issuance dates on capital appreciation bonds). The Authority has four lines of credit for its capital improvement program totaling $754,909,300, of which $99,293,718 was outstanding as of December 31, 1999.

The Authority is undertaking a program to construct additional correctional facilities to be completed by the end of fiscal 2001 at an estimated cost of $187,000,000. The Authority has previously issued $126,972,552 in bonds to finance the construction of three correctional facilities, which are being operated by private companies.

At present, several officers of the Commonwealth are defendants in a lawsuit filed in United States District Court in which they are charged with violating the constitutional rights of correctional system inmates as a result of severe overcrowding in the island's correctional system. Fines to assure compliance with minimum space standards have been assessed in the past against the defendants, such fines being paid by the Government of Puerto Rico. Most of these fines have been earmarked for improving the conditions of inmates but not for construction of additional correctional facilities to alleviate prison overcrowding. The Government of Puerto Rico can give no assurance that additional fines will not be levied in connection with this lawsuit.

Sugar Corporation was created in 1973 to consolidate ownership and management of the Government of Puerto Rico's interests in Puerto Rico's sugar industry. Until February 27, 1998, Sugar Corporation owned or leased and operated virtually all the sugar production facilities on the island. Sugar Corporation bought all cane grown by private growers, processed the cane, and sold crude and refined sugar and molasses. For many years, its operations produced substantial operating deficits. For fiscal 1999 appropriations of approximately $10,000,000 were made to cover its operating deficit. As of June 30, 1999, the total debt of the Corporation was $57,511,000. Of this amount $46,112,000 is payable from Commonwealth appropriations.

On September 5, 1996, the Governor of Puerto Rico signed into law Act No. 189, as amended, which authorized the transfer, for a nominal sum, of certain assets and liabilities of the Corporation to entities created by the sugar cane growers. Pursuant thereto, the Government of Puerto Rico has transferred the operations of the Corporation to certain entities formed by sugar cane growers. The Corporation retained substantially all its liabilities.

Telephone Authority was created in July 1974 when the Government of Puerto Rico purchased PRTC from International Telephone and Telegraph Corporation. PRTC operates the principal telephone system in Puerto Rico.

On March 2, 1999, the Telephone Authority sold a controlling interest in PRTC to a consortium led by GTE International Telecommunications Incorporated. The net proceeds of the sale received at closing were applied to defease outstanding bonds of the Authority in the principal amount of $756 million, to make a $1.2 billion deposit to the Infrastructure Development Fund and to pay certain benefits to PRTC employees. The Government retained a 43% stock participation in PRTC. The proceeds from the future sale of such participation will be applied to reduce the unfunded pension benefits obligations of the Employees Retirement System of the Government of Puerto Rico and its Instrumentalities.

University of Puerto Rico, with 69,272 students during academic year 1998-1999, is by far the largest institution of higher education on the island. Government appropriations are the principal source of University revenues, but additional revenues are derived from tuition, student fees, auxiliary enterprises, interest income, federal grants, and other sources. University capital improvements have been financed mainly by revenue bonds of which $303,140,000 were outstanding as of December 31, 1999.

Public corporations, in addition to those mentioned above, have outstanding debt in the aggregate amount of $441,609,000 as of December 31, 1999. Debt service on $219,103,000 of such outstanding debt is being paid from legislative appropriations. However, the Government of Puerto Rico is not obligated to make any such appropriations. Additional legislative appropriations are made to enable certain of such corporations to pay their operating expenses.

INSURANCE MATTERS

Government-owned property is insured through policies obtained by the Secretary of the Treasury and through self-insurance, except for property owned by the Electric Power Authority and Aqueduct and Sewer Authority, which are insured through arrangements and policies obtained by the respective Authorities. Personal injury awards against the Government of Puerto Rico are limited by law to $150,000 per occurrence.

RETIREMENT SYSTEMS

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

The University Retirement System and the Electric Power Authority Retirement System apply to employees of the University of Puerto Rico and Electric Power Authority, respectively. The Government of Puerto Rico is not required to contribute directly to those two systems, although a large portion of University revenues are derived from legislative appropriations.

The Teachers Retirement System covers primarily public school teachers, the Judiciary Retirement System covers judges, and the Employees Retirement System covers all other employees of the Government of Puerto Rico, its municipalities and instrumentalities. As of June 30, 1999, the total number of active members of the three systems was as follows: Employees Retirement System, 158,000; Teachers Retirement System, 48,497 and Judiciary Retirement System, 355. The three systems are financed by contributions made by employers (the Government of Puerto Rico, public corporations, or municipalities), employees, and investment income. The government is responsible for approximately 66% of total employer contributions to the Employees Retirement System and 100% and 99% of total employer contributions to the Judiciary and Teachers Retirement Systems, respectively. Retirement and related benefits provided by the systems and required contributions to the systems by employees are determined by statute. Required contributions to the systems by employers are determined by statute with respect to the Teachers Retirement System and, with respect to the Employees and Judiciary Retirement Systems, by the Administrators of the Systems.

According to the most recent actuarial valuation of the Employees Retirement System and Judiciary Retirement System submitted by a firm of independent consulting actuaries, as of June 30, 1999, the total pension benefit obligation for the Employees Retirement System and Judiciary Retirement System was $8,308,000,000 and $118,200,000, respectively. The unfunded pension benefit obligation of the Employees Retirement System and Judiciary Retirement System for the same period was $6,450,000,000 and $44,300,000, respectively, representing a funding ratio of 22% and 62%, respectively. The actuarial valuation was completed in accordance with the "Projected Unit Credit" method. An investment return of 8.5% per year, a salary increase of 5% per year and a post-retirement benefit increase of 3% every third year were assumed. This benefit increase was provided by the Legislature of Puerto Rico by Act No. 10 of May 10, 1992. The first 3% increase was granted to retirees who had been receiving their annuities for three or more years as of that date. The second 3% increase was granted to retirees who had been receiving their annuities for three or more years as of January 1, 1995. This increase is being financed by additional contributions from the employers. The third 3% increase was granted to retirees who had been receiving their annuities for three or more years as of January 1, 1998. This third increase is being partially funded with additional contributions from some of the employers. Subsequent increases will depend upon the explicit approval of the System's Board of Trustees and the Legislature, based on a favorable recommendation from the System's independent consulting actuary and given a minimum of 24 months of benefit payment reserves.

On February 1, 1990, the Legislature of Puerto Rico enacted Act No. 1 amending the organic act of the Employees Retirement System to reduce the future pension liabilities of the Employees Retirement System. Among other provisions, the legislation increased the level of contribution to the System and limited the retirement benefits for new employees by increasing the length of time for the vesting of certain benefits and reducing the level of benefits in the case of early retirement. The legislation also reduced the level of occupational disability benefits and death benefits received by new employees.

Act No. 305 of September 24, 1999 further amended the organic act of the Employees Retirement System to change it, prospectively, from a defined benefit system to a defined contribution system. This amendment provides for the establishment of an individual account for each employee hired by the Government after December 31, 1999 and for those current employees who elect to transfer from the existing defined benefit system. The individual account of each current employee is credited initially with an amount equal to his aggregate contributions to the Employees Retirement System, plus interest. Current employees who do not elect to transfer to the new defined contribution system will continue accruing benefits under the current defined benefit system. The individual account of each participant of the new defined contribution system is credited monthly with the participant's contribution and is credited semiannually with a rate of return based on either of two notional investment returns. Such accounts are not credited with any contribution by the Government. Instead, Government contributions will now be used completely to reduce the unfunded accumulated pension liability of the Employees Retirement System.

Based on actuarial studies conducted by the actuary of the Employees Retirement System, it is expected that the implementation of the defined contribution system will allow the Government to reduce the current actuarial deficit of the Employees Retirement System.

The law approving the sale of a controlling interest in PRTC to a consortium led by GTE International Telecommunications Incorporated provides that any future proceeds received by the government from the sale of its remaining 43% stock ownership in PRTC will be transferred to the Employees Retirement System to reduce its accumulated unfunded pension benefit obligation.

According to the most recent actuarial valuation of the Teachers Retirement System submitted by a firm of independent consulting actuaries, as of June 30, 1998, the accrued pension liability of the system was $2,919,939,567, the value of assets amounted to $2,135,436,000, representing a funding ratio of 73.13%, and the resulting unfunded accrued liability was $784,503,567, a decrease of $186,301,472 from the prior valuation made as of June 30, 1997. As of June 30, 1998, the remaining amortization period for the unfunded liability is 22 years. The actuarial valuation assumed an investment return of 8% per year and salary increases of 5% per year. Act No. 43 of January 27, 2000 increased the amount of the employee contribution from 7% to 9%, effective immediately. This will result in an increase of employee contributions of $1.5 million per month.

The following table presents in summary form, the income and expenses of the retirement systems for the fiscal years ended June 30, 1998 and June 30, 1999 and estimates for the fiscal year ending June 30, 2000.

Retirement Systems
Income and Expenses
(in thousands)

	Employees Retirement System	Judiciary Retirement System	Teachers Retirement System
Fiscal Year Ended June 30, 1998	Actual	Actual	Actual
Income:			
Employers contributions	$284,200	$4,239	$ 95,122
Employee contributions	217,890	1,873	68,445
Investment income	229,130	12,047	284,258
Total	731,220	18,159	447,825
Expenses:			
Benefit payments	467,696	6,550	184,571
Administrative and other expenses	32,565	1,685	14,905
Total	500,261	8,235	199,476
Net Income	$230,959	$9,924	$248,349
Fiscal Year Ended June 30, 1999	Actual	Actual	Actual
Income:			
Employers contributions	$274,658	$ 5,744	$ 91,155
Employee contributions	217,179	2,115	67,807
Investment income	241,940	7,489	242,198
Total	733,777	15,348	401,160
Expenses:			
Benefit payments	515,993	7,099	206,397
Administrative and other expenses	35,683	1,521	16,469
Total	551,676	8,620	222,866
Net Income	$182,101	$ 6,728	$178,294
Fiscal Year Ending June 30, 2000	Estimated	Estimated	Estimated
Income:			
Employers contributions	$278,547	$ 6,107	90,000
Employee contributions	248,505	2,109	77,500
Investment income	266,134	9,361	250,000
Total	793,186	17,577	417,500
Expenses:			
Benefit payments	552,120	7,620	210,000
Administrative and other expenses	31,933	1,680	18,000
Total	584,053	9,300	228,000
Net Income	$209,133	$ 8,277	$189,500

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

COMMONWEALTH FINANCIAL STATEMENTS

Since fiscal 1990, the complete financial statements of the Commonwealth have been audited. For fiscal 1999, such financial statements were audited by Deloitte & Touche LLP, whose report thereon is dated January 14, 2000. Preparation of the audited financial statements of the Commonwealth involves the collection and combination of audited financial statements from 50 separate reporting entities.

The Comprehensive Annual Financial Report of the Commonwealth for fiscal 1999 prepared by the Department of the Treasury, which includes the general purpose financial statements of the Commonwealth for fiscal 1999, has been filed by the Commonwealth with each nationally recognized municipal securities information repository.

PUERTO RICO TAXES, OTHER REVENUES AND EXPENDITURES

The Secretary of the Treasury has custody of the funds of the central government and is responsible for the accounting, disbursement and investment of such funds. Central government funds are grouped into three major categories or "types" of funds, as follows: (i) Governmental Fund Types, which include the General, Special Revenue, Debt Service (also referred to herein as Redemption), and Capital Project Funds; (ii) Proprietary Fund Types, which include the Enterprise and Internal Service Funds; and (iii) Fiduciary Fund Types, which include the Trust and Agency Funds. These funds do not include funds of the municipalities, because the municipalities are governmental entities with independent treasuries. The Special Revenue Fund was incorporated into the General Fund commencing in fiscal 1993.

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

Summary and Management Discussion of General Fund Results

The following table presents the Commonwealth revenues and expenditures of the General Fund on a cash basis for fiscal 1996 through fiscal 2000. The information relating to fiscal 2000 is based on estimates provided by the Secretary of the Treasury as of February 2000. The information for fiscal 1996 through fiscal 1999 is based on actual fiscal year end results.

To improve the presentation of the following table, the Department of the Treasury has eliminated the use of line items identified as "Operating Transfers In" and "Operating Transfers Out" in the financial statements of the Commonwealth and has assigned the amounts previously listed under these two categories to the following revenue and expenditure line items according to the purpose and amount of each transfer: "Other Income", "Other Expenditures", "Capital Outlays and Other Debt Service" and "Transfers to Agencies". Amounts listed under "Other Income" represent recurring General Fund revenues not appropriately attributable to other revenue line items, such as repayment of General Fund advances to municipalities and government agencies and funds. "Other Expenditures" represent recurring General Fund expenditures not appropriately attributable to other expenditures line items, such as advances to government agencies and municipalities which advances are to be reimbursed to the General Fund by law. Amounts listed under "Capital Outlays and Other Debt Service" represent debt service on obligations and capital expenditures for which the Legislature has by resolution agreed to appropriate funds. "Transfers to Agencies" represent moneys appropriated for the operation of the Health Facilities and Services Administration and for repayment of certain advances to the General Fund from certain public pension funds. General Fund revenues, expenditures and transfers as presented in the table differ from the General Fund revenues, expenditures and transfers as presented in the financial statements of the Commonwealth, as the latter statements reflect an expanded General Fund entity in accordance with generally accepted accounting principles.

Puerto Rico
General Fund Revenues, Expenditures, and Changes in Cash Balance
(in thousands)

	1996	1997	1998	1999	2000(1)
Beginning cash balance	$ 534,929	$ 147,066	$ 127,477	$ 340,771	$ 231,719
Revenues from internal sources:					
Income Taxes:					
Individuals	1,709,116	1,825,337	2,026,612	2,310,376	2,576,000
Corporations	1,348,160	1,440,691	1,527,415	1,544,762	1,673,000
Partnerships	3,323	2,120	4,404	2,087	3,000
Withheld from non-residents	78,235	88,603	192,463	369,384	453,000
Tollgate taxes	179,454	210,245	170,953	114,533	115,000
Interest	6,662	7,582	11,406	10,666	12,000
Dividends	43,225	35,438	39,616	38,996	39,000
Total income taxes	3,368,175	3,610,016	3,972,869	4,390,804	4,871,000
Commonwealth excise taxes					
Alcoholic beverages	237,915	229,043	238,118	243,464	249,000
Cigarettes	107,177	120,287	111,094	119,105	119,000
Motor vehicles	307,931	365,820	350,004	411,573	411,000
Other excise taxes	651,001	704,203	613,500	699,685	725,000
Total Commonwealth excise taxes	1,304,024	1,419,353	1,312,716	1,473,827	1,504,000
Property taxes	5,107	8,286	5,673	2,214	0
Inheritance and gift taxes	1,547	4,028	1,380	1,811	2,000
Licenses	50,467	53,535	66,167	70,848	75,000
Other:					
Lottery	60,856	52,829	57,986	59,206	61,000
Electronic Lottery	57,008	47,994	54,681	53,013	62,000
Miscellaneous non-tax revenues	127,734	139,838	158,568	176,669	189,000
Total other	245,598	240,661	271,235	288,888	312,000
Total revenues from internal sources	4,974,918	5,335,879	5,630,040	6,228,392	6,764,000
Revenues from non-Commonwealth sources:					
Federal excise taxes	194,917	203,755	200,260	217,296	224,000
Customs	77,781	61,114	72,206	61,355	55,000
Total revenues from non-Commonwealth sources	272,698	264,869	272,466	278,651	279,000
Sub-total revenues	5,247,616	5,600,748	5,902,506	6,507,043	7,043,000
Proceeds from special funds	20,716	23,217	50,253	32,705	0
Total Revenues	5,268,332	5,623,965	5,952,759	6,539,748	7,043,000
Other Income	113,515	80,388	482,120	238,681	44,000
Transfers to Redemption Fund (2)	(359,638)	(375,000)	(368,544)	(320,240)	(410,046)
Note proceeds (3)	0	551,186	601,892	600,000	603,863
Repayment of notes (4)	0	(563,628)	(617,775)	(611,410)	(617,531)
Adjusted revenues	5,022,209	5,316,911	6,050,452	6,446,779	6,663,286
Expenditures:					
Grants and subsidies	1,620,347	1,676,929	2,118,266	2,353,841	1,678,180
Personal services	1,993,176	2,164,007	2,197,903	2,544,267	3,288,691
Other services	602,460	666,004	698,446	832,801	828,119
Materials and supplies	86,370	84,789	84,451	122,005	226,708
Equipment purchases	54,685	37,507	31,626	52,992	131,316
Capital outlays and other debt service	116,863	47,269	253,962	274,824	405,130
Transfers to agencies	564,360	355,213	131,174	375,101	143,000
Other expenditures	371,811	304,782	321,330	0	0
Total expenditures	5,410,072	5,336,500	5,837,158	6,555,831	6,701,144
Adjusted revenues less expenditures	(387,863)	(19,589)	213,294	(109,052)	(37,858)
Ending cash balance	$ 147,066	$ 127,477	$ 340,771	$ 231,719	$ 193,861

1) Budget, as adopted, except for the estimates of revenues which were revised in February 2000.
2) Consists of amounts to pay principal of and interest on general obligation bonds and notes of the Commonwealth. Does not include amounts deposited directly to the Redemption Fund from non-General Fund revenues.
3) Consists of proceeds from Commonwealth tax and revenue anticipation notes issued in each such fiscal year.
4) Consists of amounts deposited for the repayment of Commonwealth tax and revenue anticipation notes issued in each such fiscal year.

ource: Department of the Treasury

Estimated Fiscal 2000 Compared to Fiscal 1999

General Fund estimated total revenues for fiscal 2000 (excluding proceeds from special funds) are forecast at $7,043 million, an increase of $536 million (8.2%) over fiscal 1999. The major projected changes are: an increase in personal income taxes of $266 million; an increase in corporation income taxes of $128 million; an increase in income tax withheld from non-residents of $84 million; an increase in excise taxes of $30 million; an increase in miscellaneous non-tax revenues of $12 million; an increase in lottery revenues of $11 million; an increase in federal excise taxes of $7 million; and decreases in the special excise tax on petroleum products of $20 million and in customs revenues of $6 million.

Total projected expenditures for fiscal 2000 are estimated at $6,701 million, an increase of $145 million (2.2%) from fiscal 1999. The ending cash balance for the General Fund for fiscal 2000 is estimated to be $194 million, a decrease of $38 million from fiscal 1999.

Fiscal 1999 Compared to Fiscal 1998

General Fund total revenues for fiscal 1999 were $6,507 million, an increase of $604 million (10.2%) over fiscal 1998. Major changes were: an increase in income taxes of $418 million and an increase in excise taxes of $161 million.

Total expenditures for fiscal 1999 were $6,556 million, an increase of $719 million (12.3%) from fiscal 1998. The ending cash balance for the General Fund for fiscal 1999 was $232 million, a decrease of $109 million from fiscal 1998.

Fiscal 1998 Compared to Fiscal 1997

General Fund total revenues for fiscal 1998 were $5,903 million, an increase of $301.8 million (5%) over fiscal 1997. Major changes were: an increase in income taxes of $362.9 million; an increase in licenses of $12.6 million; an increase in lottery revenues of $11.8 million; and a decrease in excise taxes of $106.6 million (due to the transfer of $120 million to Puerto Rico Highways and Transportation Authority and $16.9 million to Metropolitan Bus Authority).

Total expenditures for fiscal 1998 were $5,837 million, an increase of $500.6 million (9.3%), when compared to fiscal 1997. The ending cash balance for the General Fund for fiscal 1998 was $340 million, an increase of $213 million from fiscal 1997.

Fiscal 1997 Compared to Fiscal 1996

General Fund total revenues for fiscal 1997 were $5,601 million, an increase of $353.1 million (6.7%) over fiscal 1996. Major changes were an increase in total income taxes and excise taxes of $241.8 million and $115.3 million, respectively.

Total expenditures for fiscal 1997 were $5,337 million, a decrease of $74 million when compared to fiscal 1996. The ending cash balance for the General Fund for fiscal 1997 was $127.5 million, a decrease of $19.6 million from fiscal 1996.

Major Sources of General Fund Revenues

Income Taxes

The Commonwealth's income tax law, the Internal Revenue Code of 1994, as amended (the "PR Code"), imposes a tax on the income of individual residents of Puerto Rico, trusts, estates, and domestic and foreign (if engaged in a trade or business in Puerto Rico) corporations and partnerships. A withholding tax is imposed on certain payments made to non-residents of Puerto Rico.

Individuals. Resident individuals are subject to tax on their taxable income from all sources. The PR Code has five tax brackets for individuals with tax rates of 8%, 12%, 18%, 31% and 33%. As a result of legislation enacted in 1999, the first four brackets have been reduced to 7.5%, 11%, 16.5% and 29.5% for the taxable year commencing on January 1, 2000 and to 7%, 10%, 15% and 28% for taxable years commencing on and after January 1, 2001. Dividend income from Puerto Rico corporations and certain qualifying foreign corporations is taxed at a rate of 10%. A recent amendment to the PR Code provides income tax exemption for "Real Estate Investment Trusts" ("REIT") and imposes a 17% tax on taxable dividends distributed by such entities.

Gains realized from the sale or exchange of a capital asset, if held for more than 6 months, are taxed at a rate of 20%. Gains realized from the sale of stock of certain Puerto Rico corporations in an initial public offering made prior to December 31, 2000 and December 31, 2003 are subject to a special capital gains rate of 7% and 9%, respectively.

Interest income in excess of $2,000 on deposits with Puerto Rico financial institutions is taxed at a rate of 17%; the first $2,000 of interest income from such institutions is exempt from taxation. Interest income on certain qualifying debt obligations issued by Puerto Rico corporations and certain qualifying foreign corporations and paid to resident individuals, trusts and estates qualifies for a special 17% tax rate.

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

The PR Code provides for six income tax brackets for corporations and partnerships, with the highest rate (39%) applicable to taxable income in excess of $275,000. Gains realized from the sale or exchange of a capital asset, if held for more than six months, are taxed at a maximum rate of 25%.Gains realized from the sale of stock of certain Puerto Rico corporations in an initial public offering made prior to December 31, 2000 and December 31, 2003 are subject to a special capital gains rate of 7% and 9%, respectively. Interest on certain qualifying debt obligations is taxed at a 17% tax rate. The special tax rate applicable to REIT's dividend distributions also applies to dividends received by corporations.

Certain corporations and partnerships covered by the tax incentives acts continue to be subject to a maximum tax rate of 45% on their taxable income. Corporations and partnerships covered by the Puerto Rico Tourism Incentives Act of 1993, as amended, are subject to a maximum tax rate of 42% on their taxable income. The PR Code also provides for an alternative minimum tax of 22%. Corporations and partnerships operating under a new grant of tax exemption issued under the 1998 Tax Incentives Act are subject to a maximum income tax rate of 7%.

The PR Code imposes a branch profits tax on resident foreign corporations less than 80% of whose gross income qualifies as income effectively connected with a Puerto Rico trade or business. The branch profits tax is 10% of an annual dividend equivalent amount, and it applies without regard to the Puerto Rico source of income rules.

Interest from Puerto Rico sources paid to non-resident non-affiliated corporate recipients is not subject to any income or withholding tax. Interest paid to certain related non-resident recipients continues to be subject to a withholding tax of 29%. Dividends paid to non-resident corporate recipients are subject to a withholding tax of 10%. Dividends distributed by corporations (including Section 936 Corporations) operating under new grants of tax exemption issued under the 1998 Tax Incentives Act are not subject to Puerto Rico income tax. The basic tax on dividends paid to foreign corporate shareholders of Section 936 Corporations operating under grants of tax exemption issued under prior incentives laws is 10% but is subject to reduction with respect to dividends paid from profits invested in certain eligible instruments for specified periods of time.

Payments in excess of $1,000 made by the Government of Puerto Rico and persons engaged in a trade or business in consideration of the receipt of services are subject to a 7% withholding tax.

Excise Taxes

The PR Code imposes a tax on articles and commodities that are imported into or manufactured in Puerto Rico for consumption in Puerto Rico and a tax on certain transactions, such as hotel occupancy, public shows, and horse racing. The excise tax on certain articles and commodities, such as cigarettes and petroleum products, is based upon the quantity of goods imported. The excise tax on motor vehicles is based on suggested retail price. The PR Code imposes a tax at an effective rate of 6.6% of the F.O.B. factory price for imported goods and 3.6% of the sales price of goods manufactured in Puerto Rico, except sugar, cement, cigarettes, motor vehicles and certain petroleum products, which are taxed at different rates. Goods to be used by the government, except for motor vehicles and construction equipment, are not exempt. Exemptions apply to certain articles, such as food and medicines, and to articles designated for certain users.

Other Taxes and Revenues

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

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

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

Property Taxes

Personal property, which accounts for approximately 55% of total collections of taxable property, is self-assessed. Real property taxes are currently assessed at 1958 values. No real property reassessment has been made since 1958, and construction taking place after that year has been assessed on the basis of what the value of the property would have been in 1958. Accordingly, the overall assessed valuation of real property for taxation purposes is substantially lower than the actual market value. Also, an exemption on the first $15,000 of assessed valuation in owner-occupied residences is available.

On August 30, 1991, legislation was adopted in Puerto Rico providing a municipal reform program which also involved the creation of the Municipal Revenues Collection Center to collect property taxes. The program transferred the previous functions of the Department of the Treasury with respect to real and personal property tax assessment, notification, determination, and collection to the Municipal Revenues Collection Center, as of July 1, 1993. The special 1.03% tax on the assessed value of all property (other than exempted property) imposed by the Commonwealth for purposes of paying the Commonwealth's general obligation debt continues to be deposited in the Commonwealth's Redemption Fund.

Puerto Rico

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

Fiscal Year Ended June 30	Assessed Valuations(1)	Taxes Levied	Collections of Current Year	Collections of Previous Years	Total
1995	$12,508,656	$505,793	$370,029	$54,241	$424,270
1996	13,052,524	416,881	400,207	70,571	470,778
1997	17,499,974	533,362	437,178	82,435	519,613
1998	19,272,428	619,343	510,999	90,311	601,310
1999(2)	20,042,738	642,555	523,886	47,309	571,198

(1) Valuation set as of July 1 of each fiscal year.
(2) Municipal Revenues Collection Center Distribution Report December 1999.

Source: Municipal Revenues Collection Center.

During 1997, legislation was enacted authorizing the Municipal Revenues Collection Center to sell past due property taxes on residential, commercial and industrial properties to persons who, after payment of the purchase price to the Municipal Revenues Collection Center, would then be responsible for collecting such taxes from the delinquent property taxpayers. Pursuant to this legislation, in February 1999 the Government securitized eligible property tax debts of the Municipal Revenues Collection Center. The proceeds of the securitization were paid to the Municipal Revenues Collection Center for the benefit of the Commonwealth and the municipalities of the Commonwealth.

Collections of Income and Excise Taxes

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

Transfers to General Obligation Redemption Fund

These consist of transfers from the General Fund to the Redemption Fund for the amortization of the principal of and interest on general obligation bonds and notes of the Commonwealth.

Components of General Fund Expenditures

Grants and Subsidies

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

Personal Services

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

Other Services

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

Materials and Supplies

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

Equipment Purchases

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

Capital Outlays and Other Debt Service

Capital outlays are made primarily for land acquisition or interests in land, construction of buildings, roads, bridges and other structures, as well as permanent improvements and additions. Other debt service includes payments on notes held by GDB to be paid from the balance in the General Fund and payments for the amortization of the principal of and interest on non-general obligations payable from Commonwealth appropriations.

Transfers to Agencies

Includes repayment of loans and advances to other funds, certain refunds, advances from other funds and other receipts, repayment of advances from other funds, grants and contributions to other funds under the custody of the Secretary of the Treasury and other items. The major portion of grants and contributions in recent fiscal years consisted of transfers to the Health Facilities and Services Administration and advances to the municipalities.

Other Expenditures

This category represents recurring General Fund expenditures not appropriately attributable to other expenditures line items, such as advances to government agencies and municipalities, which advances are to be reimbursed to the General Fund by law.

Federal Grants

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

Puerto Rico

Federal Grants
(in thousands)

	Fiscal Year Ending June 30				
	1997	**1998**	**1999**	**2000(p)**	**2001(e)**
Education	$ 518,254	$ 504,296	$ 571,758	$ 691,544	$ 744,568
Social Services	1,514,773	1,592,402	1,606,405	1,640,964	1,687,130
Health	371,889	399,790	362,905	297,098	309,387
Labor and Human Resources (1)	144,228	161,272	251,170	247,482	256,515
Public Works and Transportation(2)	39	0	0	0	0
Crime	39,453	25,726	27,552	24,836	33,305
Housing(3)	224,965	224,787	232,359	232,359	232,359
Drug and Justice	23,594	10,909	9,841	14,607	14,418
Agriculture and Natural Resources	14,516	6,771	6,898	7,307	7,073
Contributions to Municipalities	64,911	64,911	58,865	58,865	59,411
Other	4,958	6,337	5,914	5,845	5,976
TOTAL	$2,921,580	$2,997,201	$3,133,667	$3,220,907	$3,350,142

(p) Preliminary

(e) Estimated

(1) Amounts include grants to the Right to Work Administration, and the Occupational Development and Human Resources Council.

(2) Amounts of federal grants to the Highway and Transportation Authority are not included in the Public Works and Transportation area.

(3) Amounts include grants to the Public Housing Administration.

BUDGET OF THE GOVERNMENT OF PUERTO RICO

Office of Management and Budget

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

Budgetary Process

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

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

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

Financial Control and Adjustment Procedures

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

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

A Budgetary Fund was created by Act No. 147 of June 18, 1980, as amended (the "Budgetary Fund Act"), to cover the appropriations approved in any fiscal year in which the revenues available for such fiscal year are insufficient, honor the public debt, and provide for unforeseen circumstances in the provision of public services. The Budgetary Fund Act was amended in 1994 to require that an annual legislative appropriation equal to one third of one percent (.33%) of the total budgeted appropriations for each fiscal year be deposited in the Budgetary Fund. In 1997, the Budgetary Fund Act was further amended to increase the annual legislative appropriation required to be deposited in the Budgetary Fund to one percent (1%) of the total revenues of the preceding fiscal year, beginning in fiscal year 2000. In addition, other income (not classified as revenues) that is not assigned by law to a specific purpose is also required to be deposited in the Budgetary Fund. The maximum balance of the Budgetary Fund may not exceed six percent (6%) of the total appropriations included in the budget for the preceding fiscal year. The balance of the Budgetary Fund as of June 30, 2000 is expected to be approximately $62 million.

Appropriations

Appropriations in the central government budget of Puerto Rico consist of the following:

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

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

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

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

In Puerto Rico, the central government has many functions which in the fifty states are the responsibility of local government, such as providing public education and police and fire protection. The central government also makes large annual grants to the University of Puerto Rico and to the municipalities. In the summaries of the budgets of the central government presented below, grants to the University of Puerto Rico are included in current expenses for education and debt service on general obligation bonds is included in current expenses for debt service. Debt service on Sugar Corporation notes paid by the Government of Puerto Rico is included in current expenses for economic development, and debt service on Urban Renewal and Housing Corporation bonds and notes and on Housing Bank and Finance Agency mortgage subsidy bonds paid by the Government of Puerto Rico is included in current expenses for housing.

Approximately 25.2% of the General Fund is committed, including debt service on direct debt of the Commonwealth and on the debt of the Sugar Corporation, municipal subsidies, grants to the University of Puerto Rico, contributions to Aqueduct and Sewer Authority, and rental payments to Public Buildings Authority, among others.

Fiscal 2000 Budget

The following table presents a summary of the Commonwealth budget for the fiscal year ending June 30, 2000.

Puerto Rico
Summary of Central Government Annual Budget
Fiscal Year Ending June 30, 2000
(in thousands)

	General Fund	Bond Fund	Special Funds	Total
Revenues from internal sources:				
Property taxes	$ 0	$ -	$ 99,673	$ 99,673
Personal income taxes	2,576,000	-	-	2,576,000
Income tax withheld from non-residents	453,000	-	-	453,000
Corporation income taxes	1,673,000	-	-	1,673,000
Partnership income taxes	3,000	-	-	3,000
Tollgate taxes	115,000	-	-	115,000
17% withholding tax on interest	12,000	-	-	12,000
10% withholding tax on dividends	39,000	-	-	39,000
Inheritance and gift taxes	2,000	-	-	2,000
Excise taxes:				
Alcoholic beverages	249,000	-	-	249,000
Motor vehicles and accessories	411,000	-	-	411,000
Cigarettes	119,000	-	-	119,000
Special excise tax on certain petroleum products	50,000	-	-	50,000
General 5% excise tax	553,000	-	-	553,000
Other	122,000	-	104,950	226,950
Licenses	75,000	-	-	75,000
Miscellaneous non-tax revenues:				
Contributions from lottery fund	61,000	-	-	61,000
Electronic lottery	62,000	-	-	62,000
Registration and document certification fees	137,000	-	-	137,000
Other	52,000	-	169,281	221,281
Total revenues from internal sources	6,764,000	-	373,904	7,137,904
Revenues from non-Commonwealth sources:				
Federal excise taxes on off-shore shipments	224,000	-	-	224,000
Federal grants	0	-	3,220,907[1]	3,220,907
Customs	55,000	-	-	55,000
Total revenues from non-Commonwealth sources	279,000	-	3,220,907	3,499,907
Total revenues	7,043,000	-	3,594,811	10,637,811
Balance from previous year	152,903	-	255,324	408,227
Bonds authorized	0	475,000	-	475,000
Total other sources	152,903	475,000	255,324	883,227
Total resources	7,195,903	475,000	3,850,135	11,521,038

	General Fund	Bond Fund	Special Funds	Total
Appropriations:				
Current expenses:				
General government	761,903	-	44,919	806,822
Education	2,131,398	-	750,835	2,882,233
Health	1,207,950	-	401,908	1,609,858
Welfare	376,993	-	1,962,113	2,339,106
Economic development	220,389	-	28,138	248,527
Public safety and protection	1,169,049	-	65,377	1,234,426
Transportation and communications	77,740	-	12,892	90,632
Housing	19,586	-	117,395	136,981
Contributions to municipalities	293,634	-	2,088	295,722
Special pension contributions	39,502	-	-	39,502
Debt service	410,046	-	99,673	509,719
Other debt service	406,125	-	19,000	425,125
Total appropriations—current expenses	7,114,315	-	3,504,338	10,618,653
Capital improvements	-	475,000	162,160	637,160
Total appropriations	7,114,315	475,000	3,666,498	11,255,813
Year-end balance	81,588	-	183,637	265,225
Total appropriations and year-end balance	$7,195,903	$475,000	3,850,135	$11,521,038

(1) Does not include grants received by agencies whose accounting systems are not centralized in the Department of Treasury.

Sources: Department of the Treasury and Office of Management and Budget as reported on February 29, 2000.

In the fiscal 2000 budget, revenues and other resources of all budgetary funds total $10,637,811,000 excluding balances from the previous fiscal year and general obligation bonds authorized. The estimated net increase in General Fund revenues in fiscal 2000 are accounted for principally by increases in personal income taxes (up $265,624,000), corporation income taxes (up $128,238,000), income tax withheld from non-residents (up $83,615,000), general excise tax of 5% (up $32,649,000), lottery revenues (up $10,785,000), registration and document certification fees (up $7,151,000), federal excise tax on offshore shipments (up $6,704,000), excise tax on alcoholic beverages (up $5,535,000); and decreases in the special excise tax on certain petroleum products (down $20,056,000) and custom revenues (down $6,335,000).

Current expenses and capital improvements, of all budgetary funds total $11,255,813,000, an increase of $474,591,000 from fiscal 1999. The major changes in General Fund expenditures by program are: increases in general government (up $155,519,000), health (up $119,028,000), debt service (up $89,804,000), contributions to municipalities (up $66,794,000), welfare (up $45,326,000), education (up $28,614,000), transportation and communications (up $15,673,000), special pension contributions (up $3,792,000), housing (up $1,355,000), and decreases in other debt service (down $58,691,000), public safety and protection (down $44,133,000), and economic development (down $20,800,000).

The general obligation bond authorization for the fiscal 2000 budget is $475,000,000.

Proposed Fiscal 2001 Budget

The following table presents a summary of the proposed Commonwealth budget for the fiscal year ending June 30, 2001, as presented to the Legislature on February 23, 2000:

Puerto Rico
Summary of Central Government Annual Budget
Fiscal Year Ended June 30, 2001
(in thousands)

	General Fund	Bond Fund	Special Funds	Total
Revenues from internal sources:				
Property taxes	$ -	$ -	$ 92,455	$ 92,455
Personal income taxes	2,729,000	-	-	2,729,000
Income tax withheld from non-residents	525,000	-	-	525,000
Corporation income taxes	1,767,000	-	-	1,767,000
Partnership income taxes	3,000	-	-	3,000
Tollgate taxes	94,000	-	-	94,000
17% withholding tax on interest	13,000	-	-	13,000
10% withholding tax on dividends	40,000	-	-	40,000
Inheritance and gift taxes	2,000	-	-	2,000
Excise taxes:				
Alcoholic beverages	258,000	-	-	258,000
Motor vehicles and accessories	441,000	-	-	441,000
Cigarettes	119,000	-	-	119,000
Special excise tax on certain petroleum products	70,000	-	-	70,000
General 5% excise tax	599,000	-	-	599,000
Slots machines and machines for entertainment	-	-	-	-
Other	97,000	-	110,500	207,500
Licenses	78,000	-	-	78,000
Miscellaneous non-tax revenues:				
Contributions from lottery fund	58,000	-	-	58,000
Electronic lottery	63,000	-	-	63,000
Registration and document certification fees	147,000	-	-	147,000
Other	53,000	-	193,290	246,290
Total revenues from internal sources	7,156,000	-	396,245	7,552,245
Revenues from non-Commonwealth sources:				
Federal excise taxes on off-shore shipments	291,000	-	-	291,000
Federal grants	-	-	3,350,142[1]	3,350,142
Customs	58,000	-	-	58,000
Total revenues from non-Commonwealth sources	349,000	-	3,350,142	3,699,142
Total revenues	7,505,000	-	3,746,387	11,251,387
Other:				
Balance from previous year	81,588	-	183,637	265,225
Bonds authorized	-	400,000	-	400,000
Total other sources	81,588	400,000	183,637	665,225
Total resources	7,586,588	400,000	3,930,024	11,916,612

	General Fund	Bond Fund	Special Funds	Total
Appropriations:				
Current expenses:				
General government	994,701	-	45,607	1,040,308
Education	2,225,718	-	806,661	3,032,379
Health	1,270,825	-	331,116	1,601,941
Welfare	384,054	-	2,003,615	2,387,669
Economic development	179,059	-	64,734	243,793
Public safety and protection	1,214,509	-	76,295	1,290,804
Transportation and communications	72,346	-	12,892	85,238
Housing	19,592	-	117,395	136,987
Contributions to municipalities	300,364	-	2,099	302,463
Special pension contributions	46,410	-	-	46,410
Debt service	446,920	-	92,455	539,375
Other debt service	423,585	-	19,000	442,585
Total appropriations—current expenses	7,578,083	-	3,571,869	11,149,952
Capital improvements	-	400,000	163,446	563,446
Total appropriations	7,578,083	400,000	3,735,315	11,713,398
Year-end balance	8,505	-	194,709	203,214
Total appropriations and year-end balance	$7,586,588	$400,000	$3,930,024	$11,916,612

(1) Does not include grants received by agencies whose accounting systems are not centralized in the Department of the Treasury.

Sources: Department of the Treasury and Office of Management and Budget as reported on February 29, 2000.

In the fiscal 2001 budget proposal, revenues and other resources of all budgetary funds total $11,251,387,000 excluding balances from the previous fiscal year and general obligation bonds authorized. The estimated net increase in General Fund revenues in fiscal 2001 are accounted for by increases in personal income taxes (up $153,000,000), corporation income taxes (up $94,000,000), income tax withheld from non-residents (up $72,000,000), federal excise taxes on off-shore shipments (up $67,000,000), general excise tax of 5% (up $46,000,000), excise tax on motor vehicles and accessories (up $30,000,000), special excise tax on certain petroleum products (up $20,000,000), registration and documentation fees (up $10,000,000) and excise tax on alcoholic beverages (up $9,000,000); and decreases in tollgate taxes (down $21,000,000).

Current expenses and capital improvements of all budgetary funds total $11,713,398,000, an increase of $457,585,000 from fiscal 2000. The major changes in General Fund expenditures by program are: increases in general government (up $232,798,000), education (up $94,320,000), health (up $62,875,000), public safety and protection (up $45,460,000), debt service (up $36,874,000), other debt service (up $17,460,000), contributions to municipalities (up $6,730,000) welfare (up $7,061,000), and special pension contributions (up $6,908,000); and decreases in economic development (down $41,330,000) and transportation and communications (down $5,394,000).

The general obligation bond authorization proposed for the fiscal 2001 budget was $400,000,000.

Differences between Budget and General Purpose Financial Statements

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

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

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

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

LITIGATION

The Commonwealth is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of the Legislature of Puerto Rico, approved on June 25, 1955, as amended ("Act No. 104"), persons are authorized to sue the Commonwealth only for causes of actions specified in said Act. The Commonwealth may be liable under Act No. 104 for damages up to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of the Legislature of Puerto Rico, approved on November 26, 1975, as amended ("Act No. 9"), the Commonwealth may provide its officers and employees, including directors of public corporations and government instrumentalities and mayors of the municipalities of the Commonwealth, with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the amount of the judgment that may be paid under Act No. 9.

With respect to pending and threatened litigation, as of June 30, 1999 the Commonwealth included in its financial statements reported liabilities of approximately $352 million for awarded and anticipated unfavorable judgments. This amount represented the amount estimated at the time as a probable liability or a liability with a fixed or expected due date which would require future available financial resources for its payment. This amount includes approximately $200 million of accrued liabilities related to the fines described below. The Commonwealth believes that the ultimate liability in excess of amounts provided in the financial statements, if any, would not be significant.

The Commonwealth is a defendant in approximately three hundred related lawsuits in which the plaintiffs allege a torts claim and violation of their civil rights in connection with the preparation by the government of dossiers on certain individuals. The lawsuits are still in the discovery stage. A petition to certify these claims as a class action has been denied, and such denial has become final. The aggregate amount of damages claimed by the plaintiffs exceed $50 billion. The Commonwealth has accepted liability for the claims without renouncing the limitations, immunities and defenses available to it under Act No. 104. The Commonwealth believes that the amount of damages claimed is exaggerated and that the outcome of this litigation will not materially affect the revenues and expenditures of the Commonwealth. The Commonwealth's financial statements for the fiscal year which ended June 30, 1999, did not include any provision for liability with respect to these lawsuits. On December 14, 1999 the Governor issued an Executive Order whereby the Government offered to pay $6,000 to the plaintiffs in the lawsuits who would agree to dismiss their lawsuit and $3,000 to certain potential claimants who had not yet filed a lawsuit. The Commonwealth expects that many of the claimants will accept this settlement offer. As part of the Executive Order, the Governor authorized the Secretary of the Treasury to set aside $5.7 million of the moneys on deposit in the Budgetary Fund to cover any settlement payments made.

Several officers of the Commonwealth are defendants in a class action lawsuit filed in 1979 in the United States District Court for the District of Puerto Rico by various inmates who alleged that their constitutional rights were being violated because of overcrowding and lack of adequate healthcare in the island's correctional system. In 1980, the United States District Court issued a preliminary injunction and required the defendants to provide additional capacity for the cells of the correctional facilities and to improve the health care services available to inmates. Fines in the amount of $280 million have been assessed against the defendants in order to assure compliance with the space and health care requirements imposed by the United States District Court. Of the fines imposed, $150 million have already been paid by the Commonwealth.

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FORMS OF OPINIONS OF BOND COUNSEL

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

April __, 2000

Hon. Xenia Vélez Silva
Secretary of the Treasury of Puerto Rico
San Juan, Puerto Rico

Dear Madam:

We have served as bond counsel in connection with the issuance by the Commonwealth of Puerto Rico of its $475,000,000 principal amount of Public Improvement Bonds of 2000 (the "Bonds"). The Bonds are dated, mature on July 1 of the years and in such principal amounts, bear interest at the rates, all as set forth in the Resolution referred to hereinbelow. The Bonds are issuable as fully registered Bonds without coupons, in authorized denominations of $5,000 and integral multiples thereof, in the manner and in accordance with the terms and conditions of the Resolution.

In our capacity as bond counsel, we have examined the transcript of the proceedings (the "Transcript") of the Commonwealth of Puerto Rico relating to the issuance of the Bonds, including, without limitation, Act No. 153 of the Legislature of Puerto Rico, approved July 16, 1999 (the "Act") and a resolution adopted on March 17, 2000 by the Secretary of the Treasury of Puerto Rico and approved by the Governor of Puerto Rico (the "Resolution"), and such other documents as we have deemed necessary to render this opinion.

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

From such examination, we are of the opinion that:

1. The Act is valid.

2. Said proceedings have been validly and legally taken.

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

4. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference under Section 57 of the Code for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. We express no opinion as to any other tax consequences regarding the Bonds.

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

In giving the opinion set forth in numbered paragraph 4. hereof, we have relied upon and assumed compliance with the Commonwealth of Puerto Rico's covenants and the accuracy, which we have not independently verified, of the representations and certifications of the Commonwealth of Puerto Rico contained in the Transcript. The accuracy of those representations and certifications, and the Commonwealth of Puerto Rico's compliance with those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain of those covenants subsequent to issuance of the Bonds could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Commonwealth of Puerto Rico has covenanted to comply with the requirements of the Code to the extent permitted by the Constitution and laws of the Commonwealth. We are not aware of any provisions of the Constitution or laws of the Commonwealth of Puerto Rico that would prevent the Commonwealth from complying with the requirements of the Code.

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

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

Respectfully submitted,

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

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

April __, 2000

Hon. Xenia Vélez Silva
Secretary of the Treasury of Puerto Rico
San Juan, Puerto Rico

Dear Madam:

We have served as bond counsel in connection with the issuance by the Commonwealth of Puerto Rico of its $55,910,993.15 principal amount of Public Improvement Refunding Bonds, Series 2000 (the "Bonds"). The Bonds are dated, mature on July 1 of the years and in such principal amounts and bear interest at the rates, all as set forth in the Resolution referred to hereinbelow. The Bonds are issuable as fully registered Bonds without coupons, in authorized denominations of $5,000 and integral multiples thereof ($5,000 maturity amount and any multiple thereof in the case of the capital appreciation Bonds), in the manner and in accordance with the terms and conditions of the Resolution.

In our capacity as bond counsel, we have examined the transcript of the proceedings (the "Transcript") of the Commonwealth of Puerto Rico relating to the issuance of the Bonds, including, without limitation, Act No. 2 of the Legislature of Puerto Rico, approved October 10, 1985, and Joint Resolution No. 57 of the Legislature of Puerto Rico, approved July 12, 1993 (collectively, the "Act") and a resolution adopted on March 17, 2000 by the Secretary of the Treasury of Puerto Rico and approved by the Governor of Puerto Rico (the "Resolution"), and such other documents as we have deemed necessary to render this opinion.

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

From such examination, we are of the opinion that:

1. The Act is valid.

2. Said proceedings have been validly and legally taken.

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

4. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference under Section 57 of the Code for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. We express no opinion as to any other tax consequences regarding the Bonds.

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

In giving the opinion set forth in numbered paragraph 4. hereof, we have relied upon and assumed compliance with the Commonwealth of Puerto Rico's covenants and the accuracy, which we have not independently verified, of the representations and certifications of the Commonwealth of Puerto Rico contained in the Transcript. The accuracy of those representations and certifications, and the Commonwealth of Puerto Rico's compliance with those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain of those covenants subsequent to issuance of the Bonds could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Commonwealth of Puerto Rico has covenanted to comply with the requirements of the Code to the extent permitted by the Constitution and laws of the Commonwealth. We are not aware of any provisions of the Constitution or laws of the Commonwealth of Puerto Rico that would prevent the Commonwealth of Puerto Rico from complying with the requirements of the Code.

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

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

Respectfully submitted,

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

MBIA

APPENDIX III

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

COUNTERSIGNED:

MBIA Insurance Corporation

____
Resident Licensed Agent

____
President

SPECIMEN

____
City, State

Attest: ____________________________
Assistant Secretary

STD-RCS-6
4/95

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APPENDIX IV

TABLE OF ACCRETED VALUES FOR CAPITAL APPRECIATION BONDS

(Expressed per $5,000 maturity amount)

Date	Accreted Value
04/05/2000	1,664.35
07/01/2000	1,687.25
01/01/2001	1,736.20
07/01/2001	1,786.55
01/01/2002	1,838.35
07/01/2002	1,891.65
01/01/2003	1,946.50
07/01/2003	2,002.95
01/01/2004	2,061.05
07/01/2004	2,120.80
01/01/2005	2,182.30
07/01/2005	2,245.60
01/01/2006	2,310.75
07/01/2006	2,377.75
01/01/2007	2,446.70
07/01/2007	2,517.65
01/01/2008	2,590.65
07/01/2008	2,665.80
01/01/2009	2,743.10
07/01/2009	2,822.65
01/01/2010	2,904.50
07/01/2010	2,988.75
01/01/2011	3,075.40
07/01/2011	3,164.60
01/01/2012	3,256.40
07/01/2012	3,350.80
01/01/2013	3,448.00
07/01/2013	3,548.00
01/01/2014	3,650.90
07/01/2014	3,756.75
01/01/2015	3,865.70
07/01/2015	3,977.80
01/01/2016	4,093.15
07/01/2016	4,211.85
01/01/2017	4,334.00
07/01/2017	4,459.70
01/01/2018	4,589.05
07/01/2018	4,722.10
01/01/2019	4,859.05
07/01/2019	5,000.00

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