NEW ISSUES-BOOK ENTRY ONLY

$1,167,965,000
Puerto Rico Public Buildings Authority
$832,385,000 Government Facilities Revenue Bonds, Series I
$335,580,000 Government Facilities Revenue Refunding Bonds, Series J
Guaranteed by the Commonwealth of Puerto Rico

The Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds, Series I (the "Series I Bonds"), and the Puerto Rico Public Buildings Authority Government Facilities Revenue Refunding Bonds, Series J (the "Series J Bonds" and, together with the Series I Bonds, the "Bonds") are being issued by Puerto Rico Public Buildings Authority (the "Authority") pursuant to Act No. 56 of the Legislature of Puerto Rico, approved June 19, 1958, as amended ("Act No. 56"), and under the provisions of Resolution No. 468, adopted by the Authority on June 22, 1995, as amended (the "1995 Bond Resolution").

Concurrently with the issuance of the Bonds, the Authority is issuing its $338,940,000 (estimated principal amount) Government Facilities Revenue Refunding Bonds, Series K (the "Series K Bonds"), and $4,000,000 (estimated principal amount) Government Facilities Revenue Bonds, Series L (the "Series L Bonds"). The Series L Bonds are being offered for sale solely in the Commonwealth of Puerto Rico (the "Commonwealth"). The Series K Bonds and Series L Bonds are being offered pursuant to a separate Official Statement.

The Bonds, the Series K Bonds, the Series L Bonds, the outstanding bonds of the Authority previously issued under the 1995 Bond Resolution, and any additional bonds that the Authority may from time to time issue under the 1995 Bond Resolution are payable from, and are secured by a pledge of the rentals of government facilities financed or refinanced by such bonds and leased by the Authority to departments, agencies, instrumentalities and municipalities of the Commonwealth.

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

The Bonds will have the following characteristics:

- The Bonds will be dated their date of delivery.
- The Bonds will be registered under The Depository Trust Company's book-entry only system. Purchasers of the Bonds will not receive definitive Bonds.
- Interest on the Bonds will be payable on July 1, 2004 and on each January 1 and July 1 thereafter.
- The Series J Bonds are subject to mandatory tender, payable as to the principal portion solely from the remarketing of the Series J Bonds, on July 1, 2012 (the "Mandatory Tender Date"), at a price equal to the principal amount thereof plus accrued interest, if any, to such date. Holders of the Series J Bonds will have no right to retain the Series J Bonds after the Mandatory Tender Date.
- The Bonds are subject to redemption as described herein.
- The inside cover page contains information concerning the maturity schedule, interest rates, and yields of the Bonds.
- The scheduled payment of principal and interest on some of the Series J Bonds will be insured by Ambac Assurance Corporation, as indicated on the inside cover page of this Official Statement.
- The issuance of the Bonds and the purchase of the Bonds by the Underwriters are subject to the approval of legality by Sidley Austin Brown & Wood LLP, New York, New York, Bond Counsel, and certain other conditions.
- In the opinion of Bond Counsel, under existing federal laws and regulations, interest on the Bonds will be exempt from federal income taxation and the Bonds and interest thereon will be exempt from state, Commonwealth and local income taxation. However, see *Tax Matters,* beginning on page 28 of this Official Statement, for alternative minimum tax consequences with respect to interest on the Bonds, a description of certain rules that must be complied with to preserve the federal tax exemption of interest, and other tax considerations.
- Fiddler González & Rodríguez, PSC, San Juan, Puerto Rico will pass upon certain legal matters for the Underwriters.
- It is expected that settlement for the Bonds will occur on or about June 10, 2004.

UBS Financial Services Inc. **Lehman Brothers** **Merrill Lynch & Co.**

Banc of America Securities LLC **Citigroup** **Goldman, Sachs & Co.**
JP Morgan **Morgan Stanley** **Raymond James & Associates, Inc.**
Samuel A. Ramírez & Co., Inc. **Wachovia Bank, National Association**

May 12, 2004

$1,167,965,000
Puerto Rico Public Buildings Authority
$832,385,000 Government Facilities Revenue Bonds, Series I
$335,580,000 Government Facilities Revenue Refunding Bonds, Series J
Guaranteed by the Commonwealth of Puerto Rico

$832,385,000 Government Facilities Revenue Bonds, Series I

$131,965,000 Serial Bonds

Maturity July 1,	Principal Amount	Interest Rate	Yield*
2019	$ 2,075,000	5½%	4.97%
2020	11,505,000	5½	5.00
2021	18,070,000	5½	5.05
2022	19,100,000	5½	5.12
2023	25,640,000	5½	5.16
2024	27,040,000	5½	5.20
2025	28,535,000	5½	5.26

$141,845,000 5¼% Term Bonds due July 1, 2029; Yield 5.37%
$271,395,000 5¼% Term Bonds due July 1, 2033 Yield 5.41%
$91,405,000 5⅜% Term Bonds due July 1, 2034; Yield 5.41%
$195,775,000 5% Term Bonds due July 1, 2036; Yield 5.43%

$335,580,000 Government Facilities Revenue Refunding Bonds, Series J

$85,580,000 5% Term Bonds due July 1, 2028; Yield 4.57%†
$250,000,000 5% Term Bonds due July 1, 2036; Yield 4.27%†‡

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* Yield to July 1, 2014, optional call date.
† Yield to July 1, 2012, the Mandatory Tender Date.
‡ Insured by Ambac Assurance Corporation.

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

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

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Puerto Rico Public Buildings Authority
$832,385,000 Government Facilities Revenue Bonds, Series I
$335,580,000 Government Facilities Revenue Refunding Bonds, Series J
Guaranteed by the Commonwealth of Puerto Rico

INTRODUCTION

This Official Statement sets forth information in connection with the sale by Puerto Rico Public Buildings Authority (the "Authority") of $832,385,000 aggregate principal amount of its Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds, Series I (the "Series I Bonds"), and $335,580,000 aggregate principal amount of its Puerto Rico Public Buildings Authority Government Facilities Revenue Refunding Bonds, Series J (the "Series J Bonds" and, together with the Series I Bonds, the "Bonds"). Concurrently with the issuance of the Bonds, the Authority is issuing its $338,940,000 (estimated principal amount) Government Facilities Revenue Refunding Bonds, Series K (the "Series K Bonds"), and $4,000,000 (estimated principal amount) Government Facilities Revenue Bonds, Series L (the "Series L Bonds"). The Series L Bonds are being offered for sale solely in the Commonwealth of Puerto Rico (the "Commonwealth"). The Series K Bonds and Series L Bonds are being offered pursuant to a separate Official Statement, and the terms of the Series K Bonds and the Series L Bonds are expected to be determined on or about May 25, 2004.

The Bonds will be issued pursuant to Act No. 56 of the Legislature of Puerto Rico, approved June 19, 1958, as amended (the "Enabling Act"), and under the provisions of Resolution No. 468, adopted by the Authority on June 22, 1995 (the "1995 Bond Resolution"), as supplemented by a resolution adopted by the Authority on May 12, 2004 (the "Bond Resolution"). Immediately prior to the issuance of the Bonds, the Authority will have outstanding $1,778,697,297 of its Government Facilities Bonds (calculated by excluding all accretion on any existing capital appreciation bonds and convertible capital appreciation bonds) issued under the 1995 Bond Resolution. The fiscal agent under the 1995 Bond Resolution is U.S. Bank Trust National Association (the "1995 Fiscal Agent").

The scheduled payment of principal of and interest on the Series J Bonds maturing on July 1, 2036 (the "Insured Bonds") will be insured by a municipal bond insurance policy (the "Bond Insurance Policy") issued by Ambac Assurance Corporation ("Ambac").

The Authority is issuing the Series I Bonds to pay a portion of the costs of construction of certain buildings and facilities to be leased by the Authority to various departments, agencies, instrumentalities and municipalities of the Commonwealth. The Authority is issuing the Series L Bonds to pay a portion of interest that has accrued under a line of credit with Government Development Bank for Puerto Rico ("Government Development Bank") used by the Authority to defray a portion of such costs of construction. The Authority is issuing the Series J Bonds and Series K Bonds to refund certain of its outstanding bonds to achieve debt service savings. See *Plan of Financing*.

The Bonds, the Series K Bonds, the Series L Bonds, the outstanding bonds of the Authority previously issued under the 1995 Bond Resolution, and any additional bonds that the Authority may from time to time issue under the 1995 Bond Resolution (collectively, the "Government Facilities Bonds") are payable from and are secured by a pledge of the rentals of government facilities financed or refinanced by such bonds and leased by the Authority to departments, agencies, instrumentalities and municipalities of the Commonwealth. The Bonds are further guaranteed by the Commonwealth.

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

(1) the Comprehensive Annual Financial Report of the Commonwealth for the fiscal year ended June 30, 2002, prepared by the Department of the Treasury of the Commonwealth (the "Commonwealth's

Annual Financial Report"), which includes the basic financial statements of the Commonwealth for the fiscal year ended June 30, 2002, together with the independent auditor's report thereon, dated April 30, 2003, of KPMG LLP, certified public accountants. KPMG LLP did not audit the financial statements of the Authority, and certain activities, funds and component units separately identified in their report. Those financial statements were audited by other auditors whose reports have been furnished to KPMG LLP, and their opinion as to the basic financial statements, insofar as it relates to the amounts included in the basic financial statements pertaining to such activities, funds and component units, is based solely on the reports of the other auditors. It is expected that the financial statements of the Commonwealth for fiscal year 2003 will be available during the second calendar quarter of 2004; and

(2) the Commonwealth of Puerto Rico Financial Information and Operating Data Report, dated April 1, 2004 (the "Commonwealth Report"), included as Appendix I to the Official Statement, dated April 30, 2004, of the Commonwealth's General Obligation Bonds, $279,240,000 Public Improvement Refunding Bonds, Series 2004 A, and $447,875,000 Public Improvement Refunding Bonds, Series 2004 B (collectively, the "2004 Commonwealth General Obligation Refunding Bonds"), which report includes important information about the Commonwealth, including information about the economy, historical revenues and expenditures of the Commonwealth's General Fund, the year-end results of the fiscal 2003 budget, the approved budget for fiscal year 2004, the proposed budget for fiscal year 2005, and the debt of the Commonwealth's public sector.

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

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

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

This Official Statement, including information incorporated in this Official Statement by reference, contains certain "forward-looking statements" concerning the operations, financial condition, plans and objectives of the Authority and the Commonwealth. These statements are based upon a number of assumptions and estimates which are subject to significant uncertainties, including general economic conditions, many of which are beyond the control of the Authority and the Commonwealth. The words "may," "would," "could," "will," "expect," "anticipate," "believe," "intend," "plan," "estimate" and similar expressions are meant to identify these forward-looking statements. Actual results may differ materially from those expressed or implied by these forward-looking statements.

PLAN OF FINANCING

Series I Bonds

The Authority is issuing the Series I Bonds to (i) pay a portion of the costs of construction of certain buildings and facilities to be leased by the Authority to various departments, agencies, instrumentalities and municipalities of the Commonwealth, (ii) repay (together with a portion of the proceeds of the Series L Bonds) a portion of certain advances made to the Authority by Government Development Bank under a line of credit facility, (iii) pay capitalized interest, and (iv) pay costs of issuance of the Series I Bonds. For a more detailed description of the Authority's construction program, see *The Authority*.

Series J Bonds

The Authority is issuing the Series J Bonds to (i) refund certain bonds issued under the 1995 Bond Resolution in the amounts and maturities identified in the table below (the "Refunded Bonds"), (ii) refund interest (but not principal) on certain bonds issued under the 1995 Bond Resolution (the "Refunded Interest") , and (iii) pay costs of issuance of the Series J Bonds.

Refunded Bonds	Principal Amount to be Refunded	Interest Rate	Maturity Date	Redemption Date	Redemption Price
Government Facilities Revenue Bonds, Series D					
	$ 43,950,000	5¼%	07/01/2027	07/01/2012	100%
	171,765,000	5⅜	07/01/2033	07/01/2012	100
	107,420,000	5¼	07/01/2036	07/01/2012	100

Bonds with Refunded Interest	Principal Amount	Interest Rate	Maturity Date	Interest Refunded*
Government Facilities Revenue Bonds, Series D				
	$ 2,195,000	5⅜%	07/01/2012	$117,981.25
	2,195,000	5	07/01/2016	109,750.00
	2,195,000	5	07/01/2017	109,750.00
	2,195,000	5	07/01/2018	109,750.00
	5,860,000	5⅛	07/01/2020	300,325.00
	1,810,000	5⅛	07/01/2021	92,762.50
	6,615,000	5⅛	07/01/2022	339,018.75
	5,715,000	5⅛	07/01/2023	292,893.75
	6,010,000	5⅛	07/01/2024	308,012.50

* Reflects total amount of interest refunded for July 1, 2004 and January 1, 2005 interest payment dates.

The Authority will deposit the net proceeds of the Series J Bonds, together with other available moneys, into an escrow fund with the 1995 Fiscal Agent, under the terms of an escrow deposit agreement. The net proceeds, together with such other available moneys, will be invested in certain Government Obligations (as defined in the 1995 Bond Resolution), the principal of and interest on which, will be sufficient to pay the principal of and premium, if any, on the Refunded Bonds and the Refunded Interest on the respective redemption and other dates mentioned above, which redemption and other dates will be irrevocably designated by the Authority, and to pay the interest thereon to such redemption dates.

Upon the deposit with the 1995 Fiscal Agent referred to above, the Refunded Bonds will, in the opinion of Bond Counsel, cease to be outstanding under the 1995 Bond Resolution.

The sufficiency of the amount deposited, with investment earnings thereon, to accomplish the refunding of the Refunded Bonds and Refunded Interest will be verified by Precision Analytics Inc. (the "Verification Agent").

Use of Proceeds

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

Sources	
Par Amount of Series I Bonds	$ 832,385,000.00
Par Amount of Series J Bonds	335,580,000.00
Net Original Issue Discount	(3,528,203.50)
Total	$1,164,436,796.50
Uses	
1995 Construction Fund	$ 416,174,021.53
Capitalized Interest	18,361,576.85
Escrow Account for Refunded Bonds	335,403,209.56
Repayment of Government Development Bank's Line of Credit	372,439,878.47
Underwriters' discount, legal, printing and financing expenses	22,058,110.09
Total	$1,164,436,796.50

THE BONDS

Description of the Series I Bonds

The Series I Bonds will be issued as registered bonds without coupons, will be dated, will bear interest at the rates, and will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Principal of and interest on the Series I Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Series I Bonds will be payable semiannually on each January 1 and July 1, commencing on July 1, 2004. The Series I Bonds will be issued in fully registered form, will be in denominations of $5,000 and any multiple thereof, and when issued, will initially be registered only in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC") New York, New York, which will act as securities depository for the Series I Bonds.

Description of the Series J Bonds

This description of the Series J Bonds relates only to the terms and provisions which are applicable during the period from their date of delivery through July 1, 2012 (the "Mandatory Tender Date").

The Series J Bonds will be dated the date of their delivery and will bear interest from that date. The Series J Bonds will be initially issued in book-entry only form and will mature, subject to prior redemption, on the dates set forth on the inside cover page of this Official Statement. The Series J Bonds will be issuable as fully registered bonds without coupons in denominations of $5,000 or any multiple thereof, and when issued, will initially be registered only in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Series J Bonds.

The Series J Bonds initially will bear interest at the rates set forth on the inside cover page hereof during the period ending on the Mandatory Tender Date. During that period, interest will be payable semiannually on each January 1 and July 1, commencing on July 1, 2004, and will be computed on the basis of a 360-day year of twelve 30-day months.

The Series J Bonds are subject to mandatory tender, payable solely from the remarketing of the Series J Bonds, on the Mandatory Tender Date at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to such date. Holders of the Series J Bonds will have no right to retain the Series J Bonds after such Mandatory Tender Date. Prior to the Mandatory Tender Date, the Series J Bonds may not be tendered and may not be converted to bear interest at any rate other than the rate set forth on the inside cover page hereof, as provided in the Bond Resolution. See "Mandatory Tender for Purchase of Series J Bonds," below.

Redemption Provisions

Optional Redemption of the Series I Bonds. The Series I Bonds maturing after July 1, 2014 may be redeemed at the option of the Authority upon 30 days' notice from any moneys available therefor (other than moneys set aside in the 1995 Sinking Fund established by the 1995 Bond Resolution in respect of an amortization requirement), in whole or, as directed by the Authority, in part, on July 1, 2014 and on any date thereafter, at a redemption price equal to the principal amount to be redeemed, together with accrued interest thereon to the redemption date, and without premium.

Optional Redemption of the Series J Bonds. At the option of the Authority and upon at least 30 days' notice, the Series J Bonds are subject to redemption, from any moneys that may be available for that purpose, either in whole or in part, on the Mandatory Tender Date, at the principal amount of the Series J Bonds to be redeemed, together with the interest accrued thereon to the Mandatory Tender Date, and without premium.

Mandatory Redemption. The Series I Bonds maturing July 1, 2029, July 1, 2033, and July 1, 2036, respectively, shall be redeemed upon 30 days' notice in part as set forth below in the principal amounts equal to the respective amortization requirements for such Series I Bonds (less the principal amount of any such Series I Bonds retired by purchase) from moneys in the 1995 Sinking Fund, at par plus accrued interest to the date fixed for redemption, as follows and otherwise subject to adjustments as provided in the 1995 Bond Resolution:

	Amortization Requirements for Series I Bonds due July 1,		
Year	**2029**	**2033**	**2036**
2026	$30,025,000		
2027	31,605,000		
2028	35,570,000		
2029	44,645,000*		
2030		$50,595,000	
2031		56,860,000	
2032		77,870,000	
2033		86,070,000*	
2034			
2035			$ 95,500,000
2036			100,275,000*
Average life (years)	23.72	27.79	31.57

* Final maturity.

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

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

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

Book-Entry Only System

The following information concerning DTC and DTC's book-entry system has been obtained from sources (including DTC) that the Authority believes to be reliable, but none of the Authority, the 1995 Fiscal Agent or the Underwriters takes any responsibility for the accuracy of such information.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other nominee as may be requested by an authorized representative of DTC. One fully registered Bond will be issued for each maturity of each series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. Except as otherwise provided below, a Beneficial Owner (as hereinafter defined) of an interest in the Bonds will not be entitled to have the Bonds registered in such owner's name, will not be entitled to definitive Bonds and will not be considered an owner or holder of the Bonds under the 1995 Bond Resolution.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Act of 1934, as amended (the "Exchange Act"). DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participant's 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 a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC in turn is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC are also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc. ("NYSE"), the American Stock Exchange LLC., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's Ratings Services ("Standard & Poor's") highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission ("SEC"). More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive definitive 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. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the documents governing the Bonds. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all 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 such maturity to be redeemed.

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

Principal of and premium, if any, and interest payments on the Bonds will be made to Cede & Co., or to such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the 1995 Fiscal Agent on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC (or its nominee), the Authority or the 1995 Fiscal Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest with respect to the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the 1995 Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the 1995 Fiscal Agent, or DTC's services with respect to the Bonds may be discontinued or terminated at any time by the Authority, in its sole discretion, and without the consent of any other person. In the event that DTC's services are so discontinued or terminated and no substitute securities depository willing to undertake the functions of DTC under the 1995 Bond Resolution can be found which, in the opinion of the Authority, is willing and able to undertake such functions upon reasonable and customary terms, or in the event it is so determined that continuation of the system of book-entry transfers is not in the best interest of the Beneficial Owners, the Authority is obligated to deliver definitive Bonds to or for the account of such Beneficial Owners.

The Authority, the 1995 Fiscal Agent and the Underwriters will have no responsibility or obligation to DTC, Direct Participants, Indirect Participants or the Beneficial Owners of the Bonds with respect to (i) the accuracy of any records maintained by DTC, any Direct Participant or any Indirect Participant; (ii) the payment by DTC to any Direct Participant or any Indirect Participant of any amount due to any Beneficial Owner in respect of the principal of, or premium, if any, or interest on, any Bonds; (iii) the delivery of any notice by DTC, any Direct Participant or any Indirect Participant; (iv) the selection of Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (v) any other action taken or omitted to be taken by DTC or any Direct Participant or Indirect Participant. The current "rules" applicable to DTC are on file with the SEC and current "procedures" of DTC to be followed in dealing with its Participants are on file with DTC.

Discontinuance of the Book-Entry Only System

In the event that such book-entry only system is discontinued, the following provisions will apply: (i) principal of and the redemption premium, if any, on the Bonds will be payable in lawful money of the United States of America at the corporate trust office of the 1995 Fiscal Agent in New York, New York; (ii) interest on the Bonds will be payable on each January 1 and July 1 by check mailed to the respective addresses of the registered owners thereof as shown on the registration books of the Authority maintained by the 1995 Fiscal Agent as of the close of business on the record date therefor as set forth in the 1995 Bond Resolution (June 15 and December 15); (iii) the Bonds will be issued only as registered bonds without coupons in denominations of $5,000 or any multiple thereof; and (iv) the transfer of the Bonds will be registrable and the Bonds may be exchanged at the corporate trust office of the 1995 Fiscal Agent in New York, New York upon the payment of any taxes or other governmental charges required to be paid with respect to such registration, transfer or exchange.

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

Mandatory Tender for Purchase of Series J Bonds

The Series J Bonds are subject to mandatory tender for purchase, payable as to their principal portion solely from the remarketing thereof, at a purchase price equal to the principal amount of such bonds (the "Tender Purchase Price") on the Mandatory Tender Date, with no right of the owners of such bonds to retain them. On the Mandatory Tender Date, the Series J Bonds must be tendered for purchase by the holders thereof to the 1995 Fiscal Agent. UBS Financial Services Inc. (the "Remarketing Agent") will act as remarketing agent of the Series J Bonds pursuant to a remarketing agreement with the Authority.

Prior to the Mandatory Tender Date, the Authority will determine the initial interest rate mode or modes that will be applicable to such bonds from and after the Mandatory Tender Date. The interest rate or rates to be borne by such bonds immediately after the Mandatory Tender Date will be determined by the Remarketing Agent and will be equal to the lowest rate or rates that, in the opinion of the Remarketing Agent, will permit the remarketing of such bonds. The interest rate or rates to be determined by the Remarketing Agent may be a fixed or variable rate, and the Series J Bonds may be subject to subsequent remarketings. If the Authority determines that the interest rate mode applicable immediately after the Mandatory Tender Date will be a Fixed Rate Mode (as defined in the Bond Resolution) (in which the interest rate of the Series J Bonds will be fixed to their maturity) or a Term Rate Mode (as defined in the Bond Resolution) (in which the interest rate of the Series J Bonds will be fixed for one year or longer), the Series J Bonds may be remarketed at an aggregate price exceeding par, but the tendering holders will only receive the Tender Purchase Price. The Authority in conjunction with any such remarketing may establish amortization requirements for such bonds that will result in the mandatory redemption of such bonds prior to maturity.

As of the date of this Official Statement, the Authority has not provided and does not intend to provide any liquidity facility for the payment of the purchase price payable upon the mandatory tender of the Series J Bonds on the Mandatory Tender Date, nor is there any requirement that such liquidity facility be obtained. The Tender Purchase Price for such Series J Bonds is expected to be obtained from the remarketing thereof.

The Remarketing Agent will use its best efforts to remarket the Series J Bonds on the Mandatory Tender Date. On the Mandatory Tender Date (or such later date to which such tender has been postponed as described below), the Series J Bonds shall be deemed to have been tendered on such date for purchase and, if on such date moneys sufficient to pay the Tender Purchase Price thereof shall be on deposit with the 1995 Fiscal Agent, interest on such bonds shall cease to accrue. The remarketing of the Series J Bonds on the Mandatory Tender Date is subject, in all of the cases described above, to the condition that the Authority receives on the Mandatory Tender Date an opinion of Bond Counsel to the effect that the action proposed to be taken will not have an adverse effect on the tax exemption of the Bonds. Any Series J Bonds not purchased on the Mandatory Tender Date, including on account of a failure of the Authority to receive the aforementioned opinion of Bond Counsel, (i) will be returned to their holders, remain outstanding and bear interest at the rate of 8% per annum (or such higher rate as the Authority, upon receipt of a similar opinion of Bond Counsel, may determine) and (ii) will be purchased upon the availability of funds to purchase such Bonds and the receipt of such Bond Counsel opinion. The Authority has agreed that it will cause the Series J Bonds to be remarketed (in such rate mode or modes) on the Mandatory Tender Date or on the first date thereafter at which such opinion is delivered and they can be sold at par (or above par in the two exceptions described above) at a rate not exceeding the maximum legal rate (currently 12% per annum).

Notice of the mandatory tender for purchase of the Series J Bonds will be given not less than 30 days prior to the Mandatory Tender Date by first-class mail, postage prepaid, to DTC (or if the book-entry only system has been discontinued as described above, to the registered owners of the Series J Bonds, at their addresses appearing upon the registration books maintained by the 1995 Fiscal Agent). Failure to mail such notice to the registered owner of any Series J Bond will not affect the tender, purchase or remarketing of such Series J Bond.

SECURITY

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

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

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

Commonwealth Guaranty

As provided in Act No. 17 of the Legislature of Puerto Rico, approved on April 11, 1968, as amended (the "Guaranty Act"), the Commonwealth guarantees, among other things, the payment of the principal of and interest on the Government Facilities Bonds. The Guaranty Act, which was amended by Act No. 321 of December 28, 2003 to increase the amount of the guaranty from $2,500,000,000 to $3,325,000,000, reads as follows:

> The Commonwealth of Puerto Rico hereby guarantees payment of the principal and the interest on bonds outstanding at any given time, in an aggregate principal amount not exceeding $3,325,000,000 issued from time to time by the Public Buildings Authority for the development of its capital improvements, according to any of its purposes authorized by Act No. 56 (the "Enabling Act"). The bonds covered by this guaranty shall be those specified by the Authority, and a statement of such guaranty shall be set forth on the face of such bonds. If at any time the

revenues or income, and any other moneys of the Authority, pledged for the payment of the principal and interest on such bonds, are not sufficient to pay such principal and interest as the same fall due, or to maintain the reserve fund that the Authority has pledged itself to maintain for such bonds, the Secretary of Treasury shall draw from any funds available in the Treasury of Puerto Rico, such sums as may be necessary to cover the deficiency in the amount required for the payment of such principal and interest and to restore said reserve fund to the maximum requirement agreed to by the Authority, and shall direct that the sums so drawn be applied to such payment and purpose. For the purposes of this Section, bonds issued by the Authority, which have been refinanced and for which a special reserve, guaranteed investment contract or other acceptable collateral has been pledged to secure their payment when due, shall not be deemed to be outstanding. The good faith and credit of the Commonwealth of Puerto Rico are hereby pledged for such payments (translation provided by the Authority).

The Bonds have been specified by the Authority to be guaranteed by the Commonwealth under the Guaranty Act. Following the issuance of the Bonds, the Authority will have $2,898,283,259 aggregate principal amount of bonds outstanding which are covered by the Guaranty Act, consisting of: $70,408,955 of bonds issued under Resolution No. 77, adopted by the Authority on November 16, 1970, as amended (the "1970 Bond Resolution"), $204,347,006 of bonds issued under Resolution No. 158, adopted by the Authority on February 14, 1978, as amended (the "1978 Bond Resolution"), and $2,623,527,297 of bonds issued under the 1995 Bond Resolution, calculated in each case by excluding the accretion on capital appreciation bonds and convertible capital appreciation bonds. See *Debt of the Authority and Debt Service Requirements*. This principal amount will increase by the estimated net amount of $43,315,000 upon the issuance of the Series K Bonds and Series L Bonds and the anticipated refunding of certain outstanding bonds under the 1995 Bond Resolution.

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

Opinion of the Secretary of Justice of the Commonwealth

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

"I have examined Act No. 56 of the Legislature of Puerto Rico, approved June 19, 1958, as amended, creating Public Buildings Authority (the "Authority") as a body corporate and politic constituting an instrumentality of the Commonwealth of Puerto Rico exercising public and essential governmental functions. I have also examined Act No. 17 of the Legislature of Puerto Rico, approved April 11, 1968, as amended (the "Guaranty Act"), providing for the guaranty of the Commonwealth of Puerto Rico of the payment of the principal of and interest on a principal amount of bonds of the Authority outstanding at any one time, not exceeding $3,325,000,000 specified by the Authority to be covered by such guaranty, to the extent that the revenues and other moneys of the Authority pledged to the payment of such principal and interest are not sufficient for that purpose. I have also examined the Puerto Rico Constitution and such other laws of the Commonwealth of Puerto Rico as I consider necessary for the purpose of the following opinion.

From such examination, I am of the opinion that:

1. The Authority is lawfully authorized to specify up to $3,325,000,000 aggregate principal amount of bonds of the Authority outstanding at any one time, issued for any of its authorized purposes, to be covered by the guaranty of the Commonwealth of Puerto Rico under the Guaranty Act, and the Commonwealth of Puerto Rico will be obligated to pay the principal of and the interest on the bonds so specified to be covered by said guaranty, if and to the extent that the revenues and other moneys of the Authority pledged to the payment of such principal and interest are not sufficient to make such payments as the same become due.

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

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

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

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

4. The Commonwealth guaranty of the $832,385,000 Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds, Series I, and the $335,580,000 Puerto Rico Public Buildings Authority Government Facilities Revenue Refunding Bonds, Series J, constitutes a general obligation of the Commonwealth to which its good faith, credit and taxing power are pledged.

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

Lease Agreements

In accordance with the provisions of the 1995 Bond Resolution, the Authority enters into lease agreements (the "Lease Agreements") with various departments, agencies, instrumentalities and municipalities of the Commonwealth in respect of Leased Facilities. The Lease Agreements require the lessees to pay to the Authority annual rentals in substantially equal monthly installments. The rentals are calculated to take into account the following factors: (1) the interest on and principal of (including any amortization requirements) and redemption premium, if any, on Government Facilities Bonds issued to finance or refinance such Leased Facilities, (2) any amounts necessary to pay the general administrative expenses of the Authority in connection with such Leased Facilities, and (3) any amounts necessary to provide and maintain a reserve fund for the replacement of major items of equipment comprising a portion of such Leased Facilities. The Lease Agreements may also require the lessees to pay certain amounts on account of the principal of and interest on outstanding notes issued to finance Leased Facilities. Each Lease Agreement with respect to a facility or facilities terminates when the Government Facilities Bonds which were issued to finance or refinance the acquisition or construction of such facility or facilities have been paid in full. All Lease Agreements provide for the adjustment of rentals so that the total amounts payable will be sufficient to meet the required debt service charges. The Authority has also entered into Lease Agreements with various departments, agencies, instrumentalities and municipalities of the Commonwealth in respect of facilities financed or refinanced with the Refunded Bonds (collectively, the "Refunded Bonds Lease Agreements"). The Refunded Bonds Lease Agreements require the lessees to pay to the Authority rentals in the amount sufficient to, among other things, cover the allocable portion of the principal of and interest on the Refunded Bonds. In connection with the refunding of the Refunded Bonds through the issuance of the Series J Bonds, the Authority and the lessees under the Refunded Bonds Lease Agreements are amending such Refunded Bonds Lease Agreements to provide that the debt service rental paid by the lessees thereunder will equal the amount of the debt service rental payable under the Refunded Bonds Lease Agreement corresponding to the debt service payable on the bonds issued and outstanding under the 1995 Bond Resolution to refinance the facilities covered by such Refunded Bonds Lease Agreement. Each Lease Agreement provides that the obligation of the lessee to pay rentals is absolute and unconditional.

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

Included among the operating and maintenance expenses that are required to be paid under the Lease Agreements by the lessee is the cost of insurance premiums. The Authority's facilities are covered by commercial insurance policies insuring such properties against losses from fire, hurricanes and other natural disasters and personal liability. However, because of reductions in industry-wide limits on the amount of insurance that may be written and significant increases in insurance premiums on such available insurance during the 1990's and in the aftermath of the events of September 11, 2001, the insurance currently held by the Authority is only equal to approximately 11% of the total replacement value of all of its properties. The Lease Agreements provide that each lessee's obligation to make rental payments is absolute and unconditional, regardless of whether the leased facilities are damaged, destroyed or otherwise become unusable for any period of time and regardless of any default by the Authority thereunder. The Lease Agreements further provide that the Authority is obligated, at the request and expense of each lessee, to obtain insurance to cover required rental payments during periods when facilities become unusable as a result of damage or destruction, to the extent such insurance is commercially obtainable. The Authority currently has insurance policies to cover up to $175 million per event in such circumstances. See *Insurance Matters* in the Commonwealth Report.

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

Pledge of the Commonwealth to Pay or Advance Rentals

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

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

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

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

Additional Bonds

Under and in accordance with the provisions and restrictions of the 1995 Bond Resolution, the Authority may issue additional Government Facilities Bonds from time to time to finance additional government facilities or complete the construction of existing government facilities or to refund any bonds issued under the 1995 Bond Resolution, the 1970 Bond Resolution or the 1978 Bond Resolution. Although the Authority reserves the right to issue additional Public Buildings Authority Revenue Bonds under the 1970 Bond Resolution and Public Buildings Authority Public Education and Health Facilities Bonds under the 1978 Bond Resolution, since the adoption of the 1995 Bond Resolution, the Authority has only issued additional bonds under the 1995 Bond Resolution.

BOND INSURANCE

Ambac Assurance Corporation

The following information has been provided by Ambac Assurance Corporation ("Ambac") for use in this Official Statement. Reference is made to *Appendix III* for a specimen of the Bond Insurance Policy.

Concurrently with the issuance of the Bonds, Ambac will issue the Bond Insurance Policy for the Insured Bonds. Ambac is a Wisconsin-domiciled, stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth and the U.S. Virgin Islands, with admitted assets of approximately $7,670,000,000 (audited) and statutory capital of approximately $4,683,000,000 (audited) as of March 31, 2004**.** Statutory capital consists of Ambac's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac.

Ambac has obtained a ruling from the Internal Revenue Service to the effect that the insuring of the Insured Bonds by Ambac will not affect the treatment for federal income tax purposes of interest on the Insured Bonds and that insurance proceeds representing maturing interest paid by Ambac under policy provisions substantially identical to those contained in the Bond Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor (as such term is defined in the Bond Insurance Policy).

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

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

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

Incorporation of Certain Documents by Reference. The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement: (i) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004; (ii) the Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004; and (iii) the Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004.

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

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

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

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

The Bond Insurance Policy does **not** insure any risk other than Nonpayment, as defined therein. Specifically, the Bond Insurance Policy does **not** cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; and (iii) nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

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

Upon payment of the insurance benefits, Ambac will become the owner of the Insured Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Insured Bond and will be fully subrogated to the surrendering Holder's rights to payment.

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

PROVISIONS RELATING TO PUBLIC DEBT OF THE COMMONWEALTH

Payment of Public Debt

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

The Commonwealth has allocated certain motor vehicle fuel taxes, crude oil and derivative products excise taxes and license fees to Puerto Rico Highways 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 payment of its public debt.

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

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

Payment Record

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

Debt Limitation

Section 2 of Article VI of the Constitution of Puerto Rico provides that direct obligations of the Commonwealth evidenced by good faith and credit bonds or notes shall not be issued if the amount of the principal of and interest on such bonds and notes and on all such bonds and notes theretofore issued which is payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceeds 15% of the average annual revenues raised under the provisions of Commonwealth legislation and covered into the Treasury of Puerto Rico (hereinafter "Internal Revenues") in the two fiscal years preceding the then current fiscal year. Section 2 of Article VI does not limit the amount of debt that the Commonwealth may guarantee so long as its payment during the preceding fiscal year in respect of any such guaranteed debt does not cause the 15% limitation to be 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, crude oil and derivative products excise taxes and motor vehicle 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, Puerto Rico Aqueduct and Sewer Authority ("PRASA") 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 good faith and credit guarantee of the Commonwealth. The amount paid by the

Commonwealth under the PRASA Guaranteed Bonds is taken into account for purposes of computing the above described 15% constitutional debt limitation.

All or a portion of the proceeds of certain refunding bonds issued by the Commonwealth were invested in guaranteed investment contracts or federal agency securities (in each case rated in the highest rating category by Moody's and Standard & Poor's), none of which is eligible to be used for legal defeasance under Puerto Rico law ("non-eligible investments"). Since bonds refunded with proceeds invested in noneligible investments are not legally defeased, such bonds are treated as outstanding for purposes of the above described 15% constitutional debt limitation.

Future maximum annual debt service for the Commonwealth's outstanding general obligation debt is $676,817,577.92 in the fiscal year ending June 30, 2006 (based on the assumption that a portion of the 2004 Commonwealth General Obligation Refunding Bonds after July 1, 2012 and all of the remainder of said bonds bear interest at 12% per annum).

Debt service for the PRASA Guaranteed Bonds paid by the Commonwealth during fiscal year 2003 (including for this purpose debt service payments due July 1, 2003) was $32,745,157.50. The sum of those amounts ($709,562,735.42) is equal to 9.88% of $7,185,660,000, which is the average of the adjusted Internal Revenues for the two fiscal years ended June 30, 2002 and June 30, 2003. If Commonwealth general obligation bonds refunded with noneligible investments were treated as not being outstanding, the percentage referred to in the preceding sentence would be 9.11%.

THE AUTHORITY

General

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

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

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

Powers

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

Management

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

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

Members of the Board*	Occupation	Expiration of Term
Roberto Montalvo	Attorney	February 24, 2009
Antonio Vidal	Attorney	November 20, 2008
César A. Rey Hernández	Secretary of Education	Ex-officio
Fernando E. Fagundo	Secretary of Transportation and Public Works	Ex-officio
Antonio Faría	President of Government Development Bank	Ex-officio

* Ing. José Izquierdo-Encarnación, Secretary of State of the Commonwealth, has been appointed as a member of the Board and is awaiting confirmation from the Senate of the Commonwealth.

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

PROGRAMS AND FACILITIES OF THE AUTHORITY

The Authority has an approximately $1.72 billion Capital Improvement Program (the "CIP"), which reflects the Authority's construction priorities through fiscal year 2007, of which approximately $703 million has been previously financed with Government Facilities Bonds of the Authority. Approximately $795 million of the CIP will be financed by the issuance of the Series I Bonds. The remainder will be paid for through interim financings, future bond issues under the 1995 Bond Resolution and Commonwealth appropriations. The CIP includes office buildings, school buildings, health facilities, correctional facilities, and other facilities, as described below.

Office Buildings Program

Under its office buildings program, the Authority has completed construction and formally delivered for use and lease 242 office buildings (including police stations, courthouses and related parking facilities), amounting to 7,507,390 square feet of rentable space, for the use of and lease to various departments, agencies, instrumentalities and municipalities of the Commonwealth. As of December 31, 2003, the estimated total cost of construction completed under the office buildings program was $474 million.

The Authority has under planning and construction 7 office centers, 7 police facilities, 11 fire stations, and improvements to 87 office buildings (including police stations and courthouses), at an estimated total cost of $150 million.

Currently, the Authority's outstanding Revenue Bonds issued under the 1970 Bond Resolution and its Government Facilities Bonds issued under the 1995 Bond Resolution are secured by a pledge of rentals of public buildings and related facilities financed by such bonds. In addition, they are secured by a pledge of the Commonwealth to pay rentals under the Enabling Act and the Commonwealth guaranty of such bonds under the Guaranty Act.

School Buildings Program

Under its school buildings program, the Authority has completed construction and formally delivered for use and lease 493 school buildings, amounting to 15,866,844 square feet of rentable space, all of which have been leased to the Department of Education. As of December 31, 2003, the estimated total cost of construction completed under the school buildings program was $1.33 billion.

The Authority has under planning and construction 46 new school buildings and improvements to 77 school buildings amounting to 5,584,116 square feet of rentable space to be leased to the Department of Education. The estimated total cost of construction of such school buildings and improvements is $1.02 billion.

Currently, the Authority's outstanding Public Education and Health Facilities Bonds issued under the 1978 Bond Resolution and its Government Facilities Bonds issued under the 1995 Bond Resolution are secured by a pledge of rentals of all facilities financed by such bonds. In addition, they are secured by a pledge of the Commonwealth to pay rentals under the Enabling Act and the Commonwealth guaranty of such bonds under the Guaranty Act.

Health Facilities Program

Under its health facilities program, the Authority has completed construction and formally delivered for use and lease 14 hospitals, 13 diagnostic and treatment centers and 23 family health centers, amounting to 4,202,561 square feet of rentable space, all of which has been leased to the Department of Health. As of December 31, 2003, the estimated total cost of construction completed under the health facilities program was $539 million (of which approximately $225 million correspond to facilities that remain owned by Authority after the facilities' sales mentioned in the next paragraph).

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

Currently, the Authority's outstanding Public Education and Health Facilities Bonds issued under the 1978 Bond Resolution and the Government Facilities Bonds issued under the 1995 Bond Resolution are secured by a pledge of rentals of all facilities financed by such bonds. In addition, they are secured by a pledge of the Commonwealth to pay rentals under the Enabling Act and the Commonwealth guaranty of such bonds under the Guaranty Act.

Correctional Facilities Program

Under its correctional facilities program, the Authority has completed construction and formally delivered for use and lease 8 correctional facilities which have been leased to the Department of Corrections. As of December 31, 2003, the estimated total cost of construction of these facilities was approximately $285 million.

The Authority has under planning and construction improvements to one existing facility. The estimated cost of construction of such improvements is approximately $5 million.

Currently, the Authority's outstanding Government Facilities Bonds issued under the 1995 Bond Resolution are secured by a pledge of rentals of all facilities financed by such bonds. In addition, they are secured by a pledge of the Commonwealth to pay rentals under the Enabling Act and the Commonwealth guaranty of such bonds under the Guaranty Act.

Other Facilities

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

The Authority currently has under planning and construction 2 office buildings, 2 police stations, 1 health facility, 15 fire stations, 6 correctional facilities and 3 school facilities, which have an estimated total cost of construction of approximately $33 million, to be financed through Commonwealth appropriations.

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

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

DEBT OF THE AUTHORITY AND DEBT SERVICE REQUIREMENTS

Debt

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

	As of December 31, 2003[1]	As Adjusted[2]
Bonds outstanding under the 1970 Bond Resolution	$ 70,408,955	$ 70,408,955
Bonds outstanding under the 1978 Bond Resolution	204,347,006	204,347,006
Bonds outstanding under the 1995 Bond Resolution	1,778,697,297	2,623,527,297
Total bonded debt[3]	$ 2,053,453,259	$ 2,898,283,259

(1) Calculated by excluding all interest accretion on outstanding capital appreciation bonds and convertible capital appreciation bonds from their respective dates of issuance. These amounts do not reflect Government Development Bank's interim financing of the Authority's CIP.

(2) Reflects the outstanding debt of the Authority after giving effect to the issuance of the Bonds (calculated by excluding all interest accretion on outstanding capital appreciation bonds and convertible capital appreciation bonds from their respective dates of issuance) and the refunding of the Refunded Bonds, but does not include the Series K Bonds and Series L Bonds expected to be issued by the Authority concurrently with the Bonds. The Authority expects the total bonds outstanding under the 1995 Bond Resolution after said issuance and refunding to increase by about $43,315,000.

(3) Totals may not add due to rounding.

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

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

No reserve account is established under the 1995 Bond Resolution.

Debt Service Requirements

Debt service requirements of the Authority for the outstanding Bonds (after the refunding of the Refunded Bonds) and the Bonds (but not including the Series K Bonds and the Series L Bonds) as shown in the following table, consist in any fiscal year of the sum of the amounts required to pay (i) the interest that is payable on January 1 in such fiscal year and July 1 in the following fiscal year, (ii) the principal of serial bonds that is payable on July 1 in the following fiscal year, and (iii) the amortization requirements for term bonds that are payable on July 1 in the following fiscal year.

Puerto Rico Public Buildings Authority
Debt Service Requirements

Fiscal Year Ending June 30	Total Debt Service on Bonds Outstanding under 1970, 1978 and 1995 Bond Resolutions[1]	The Bonds Principal	Interest[2]	Total Debt Service
2004	$ 77,912,462	$	$ 3,525,313	$ 81,437,775
2005	147,190,309		60,433,944	207,624,253
2006	150,363,114		60,433,944	210,797,058
2007	153,649,444		60,433,944	214,083,388
2008	154,194,386		60,433,944	214,628,330
2009	153,744,236		60,433,944	214,178,180
2010	155,345,986		60,433,944	215,779,930
2011	159,592,531		60,433,944	220,026,475
2012	152,014,569		60,433,944	212,448,513
2013	128,807,611		57,017,768	185,825,379
2014	128,646,061		57,017,768	185,663,829
2015	128,489,349		57,017,768	185,507,117
2016	128,242,774		57,017,768	185,260,542
2017	128,182,211		57,017,768	185,199,979
2018	111,352,755		57,017,768	168,370,523
2019	97,744,855	2,075,000	57,017,768	156,837,623
2020	88,427,230	11,505,000	56,903,643	156,835,873
2021	82,494,130	18,070,000	56,270,868	156,834,998
2022	82,457,874	19,100,000	55,277,018	156,834,892
2023	76,971,468	25,640,000	54,226,518	156,837,985
2024	76,980,205	27,040,000	52,816,318	156,836,523
2025	70,655,649	33,415,000	51,329,118	155,399,767
2026	59,047,461	46,800,000	49,550,829	155,398,290
2027	59,052,761	49,095,000	47,256,546	155,404,308
2028	30,594,711	83,910,000	44,848,712	159,353,423
2029	28,670,674	89,760,000	40,919,955	159,350,629
2030	41,023,325	62,735,000	36,825,630	140,583,956
2031	37,432,067	70,690,000	33,698,361	141,820,428
2032	18,552,700	110,630,000	30,176,607	159,359,307
2033	14,441,681	120,100,000	24,817,344	159,359,025
2034	14,439,850	126,755,000	18,978,305	160,173,155
2035	14,439,638	132,220,000	12,693,706	159,353,344
2036	14,440,300	138,425,000	6,493,970	159,359,270
Total[3]	**$2,965,594,377**	**$1,167,965,000**	**$1,559,204,683**	**$5,692,764,060**

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

(2) Interest on the Series J Bonds is calculated at their actual rate per annum through the Mandatory Tender Date and thereafter at 4.28% per annum for the Series J Bonds due on July 1, 2028, and 3.88% per annum for the Series J Bonds due on July 1, 2036. If the maximum rate permitted by Puerto Rico law of 12% were used instead, maximum annual principal and interest requirements on the Bonds of $156,630,443.76 would occur in the fiscal year ending June 30, 2033. Does not take into account capitalized interest.

(3) Totals may not add due to rounding.

RECENT DEVELOPMENTS INVOLVING THE COMMONWEALTH

The following table supersedes the table (and related footnotes) with the same title that appears in the Commonwealth Report under the caption "Public Sector Debt" in *Debt* but not any of the discussion under said heading that precedes or follows said table. The table below takes into account under the "As Adjusted" column the expected issuance of the 2004 Commonwealth General Obligation Refunding Bonds on May 18, 2004 and the Bonds on June 10, 2004 and reflects the refunding of the Refunded Bonds and the revised principal amount of general obligation bonds being refunded by the issuance of the 2004 Commonwealth General Obligation Refunding Bonds (as alluded to in footnote 3 to the table).

Commonwealth of Puerto Rico
Public Sector Debt
(in thousands)*

	December 31, 2003	As Adjusted (1)
Puerto Rico direct debt(2)	$ 8,515,633	$ 8,551,708(3)
Municipal debt	1,935,028	1,935,028
Public corporation debt		
Puerto Rico guaranteed debt	643,295	643,295
Debt supported by Puerto Rico appropriations or taxes	13,527,718	14,372,548
Other non-guaranteed debt	7,694,201	7,694,201
Total public corporations debt	$21,865,214	$22,710,044
Total public sector debt	$32,315,875	$33,196,780

* For a complete recital of all notes to this table, see "Public Sector Debt" under *Debt* in the Commonwealth Report

(1) Adjusted to include the issuance of the Bonds and the 2004 Commonwealth General Obligation Refunding Bonds and to exclude the Refunded Bonds and the Commonwealth general obligation bonds refunded by the 2004 Commonwealth General Obligation Refunding Bonds. It does not take into account the expected issuance on June 10, 2004 of the Series K Bonds and the Series L Bonds.

(2) This amount excludes any Commonwealth general obligation bonds that have been refunded with proceeds that were invested in non-eligible investments, even though such bonds will be considered outstanding under their respective authorizing resolutions and for purposes of calculating the Commonwealth's constitutional debt limitation.

(3) The determination of the principal amount of certain Commonwealth general obligation bonds being refunded by the 2004 Commonwealth General Obligation Refunding Bonds was dependent on the issuance of the Bonds because the Bonds and the 2004 Commonwealth General Obligation Refunding Bonds are considered a single issue for federal income tax purposes (see *Tax Matters* below) relating, among other things, to the amount of income that the securities in the respective escrow funds for the bonds refunded by each such bond issue may earn. The amount shown takes into account the final principal amount of the Commonwealth general obligation bonds refunded by the 2004 Commonwealth General Obligation Refunding Bonds.

Source: Government Development Bank

SUMMARY OF CERTAIN PROVISIONS OF THE 1995 BOND RESOLUTION

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

Revenues

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

1995 Sinking Fund

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

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

(1) To the 1995 Bond Service Account, such amount thereof as may be required to make the amount then to the credit of the 1995 Bond Service Account equal to the amount of interest then due and payable and the interest which will accrue up to the next interest payment date on all Bonds of each series then outstanding and the principal of all serial Bonds, if any, which will become due and payable within the next ensuing twelve months;

(2) To the 1995 Redemption Account, such amount of the balance remaining after making the deposit under paragraph (1) above as may be required to make the amounts so deposited in the then current fiscal year equal to the Amortization requirement, if any, for such fiscal year for the term Bonds of each series then outstanding, plus the premium, if any, which would be payable on a like principal amount of Bonds if such principal amount of Bonds should be redeemed on the next redemption date from moneys in the 1995 Sinking Fund; and

(3) The balance, if any, shall be deposited to the credit of the 1995 Bond Service Account. (Section 502).

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

1995 Redemption Account

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

(a) Subject to the provisions of paragraph (c) below, the 1995 Fiscal Agent shall endeavor to purchase outstanding Bonds, whether or not such Bonds shall then be subject to redemption, at the most advantageous price obtainable with reasonable diligence, having regard to interest rate and price, such price not to exceed the principal of such Bonds plus the amount of the premium, if any, which would be payable on the next redemption date to the holders of such Bonds if such Bonds should be called for redemption on such date from moneys in the 1995 Sinking Fund. The 1995 Fiscal Agent shall pay the interest accrued on such Bonds to the date of delivery thereof from the 1995 Bond Service Account and the purchase price from the 1995 Redemption Account, but no such purchase shall be contracted for within 45 days next preceding any interest payment date on which such Bonds are subject to call for redemption.

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

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

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

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

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

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

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

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

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

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

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

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

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

(iii) the interest rate on Bonds issued with a variable, adjustable, convertible or similar rate of interest shall be the average rate of interest per annum on such Bonds for the preceding twelve months or such shorter period that such Bonds shall have been outstanding, or if such Bonds had not been outstanding prior to the date of calculation, the rate of interest on such Bonds on the date of calculation;

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

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

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

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

1995 Construction Fund

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

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

Additional Bonds

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

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

Investment of Funds

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

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

(b) Investment Obligations which are (i) Government Obligations, (ii) obligations of any state or territory of the United States of America which are rated, on the date of investment therein, in one of the three highest rating categories (without regard to any gradation within such categories) by both Moody's or any successors thereto and Standard & Poor or any successors thereto, (iii) bankers' acceptances, certificates of deposit or time deposits of any bank or national banking association (including the 1995 Fiscal Agent), any trust company or any savings and loan association (including any investment in pools of such bankers' acceptances, certificates, certificates of deposit or time deposits), which to the extent that such obligations are not insured by the Federal Deposit Insurance Corporation, are either (A) issued by a bank, national banking association, trust company or savings and loan association having a combined capital and surplus aggregating at least $50,000,000 or (B) collateralized at all times by such securities as are described in clause (i) or (ii) above, having a market value at least equal to the principal amount of such bankers' acceptances, certificates of deposit or time deposits (or portion thereof not so insured); provided that the 1995 Fiscal Agent has a perfected first security interest in the collateral and that such collateral is held free and clear of claims by third parties, (iv) any repurchase, reverse repurchase or investment agreement with any bank or trust company organized under the laws of any state of the United States or the Commonwealth of Puerto Rico or any national banking association (including the 1995 Fiscal Agent), insurance company, or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation, which agreement is secured by any or more of the securities described in clause (i) or (ii) above, in which securities the 1995 Fiscal Agent has a perfected first security interest and such securities are held free and clear of claims by third parties, or if not so secured, meets the rating requirements set forth in clause (vii) below, (v) participating shares in a mutual fund or investment pool for local government investment; provided that the investments of such mutual fund or investment pool are rated in one of the three highest rating categories (without regard to any gradations within such categories) by both Moody's or any successors thereto, and Standard & Poor's or any successors thereto, (vi) (1) shares of stock in a corporation rated in the highest rating category by Moody's or any successors thereto and

Standard & Poor's or any successors thereto (without regard to gradations within such category) and (a) is a regulated investment company within the meaning of Section 851(a) of the Internal Revenue Code of 1986, as amended, and meets the requirements of Section 852(a) of said Code for the calendar year; (b) invests all of its assets in Government Obligations or in Investment Obligations described in clause (ii) above; and (c) has at least 98% of (I) its gross income derived from interest on, or gain from the sale of or other disposition of, such obligations or (II) the weighted average of its assets is represented by investments in such obligations or (2) money market accounts of the 1995 Fiscal Agent or any state or federally chartered bank, banking association, trust company or subsidiary trust company that is rated or whose parent state bank is rated in the highest short-term rating category or in one of the two highest long-term rating categories by Moody's or any successors thereto and Standard & Poor's or any successors thereto (without regard to any gradations within such category), and (vii) any other investment obligations which are rated, which are issued by issuers which are rated, or which are backed by letters of credit or lines of credit the provider of which is rated, on the date of investment herein, in one of the three highest rating categories (without regard to any gradation within such categories) by both Moody's or any successors thereto and Standard & Poor's or any successors thereto or which are collateralized by such Investment Obligations. (Section 101).

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

General Covenants

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

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

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

Each Lease Agreement is required to provide that it may not be assigned or otherwise transferred in whole or in part by either party (unless the conditions set forth under the 1995 Bond Resolution for a termination of such Lease Agreement have been met), and will provide that all or any part of the Authority Facilities covered by such Agreement may be subleased as a whole or in part by the lessee if, among other things the following conditions have been met: (a) the sublessee under the sublease shall be a department, agency or instrumentality of the

Commonwealth unless the Authority shall have obtained an opinion of nationally recognized bond counsel that such sublease will not cause interest on any Bonds to be includable in gross income of the owners thereof for federal income tax purposes (other than Bonds for which such interest is intended not to be excludable in gross income for such purposes); (b) such lessee shall acknowledge in writing that it shall continue to remain liable for the payment of all rentals under such Lease Agreement; and (c) there shall have been delivered to the Authority and such lessee (i) if the sublessee is a department of the Commonwealth, a certificate, signed by the Secretary or an Assistant Secretary of such department, stating that, on the basis of budgeted appropriations for the fiscal year in which the sublease is to become effective, the sublessee will have available funds sufficient to timely pay all rentals which will be due and payable during such fiscal year, or (ii) if the sublessee is an agency or instrumentality of the Commonwealth, a certificate, signed by the chief executive officer of the sublessee, stating that on the basis of budgeted appropriations and/or estimate revenues for the sublessee for the fiscal year in which the sublease is to become effective, the sublessee will have available funds sufficient to pay timely all rentals which will be due and payable during such fiscal year. (Section 710).

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

Modifications

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

The holders of not less than a majority in aggregate principal amount of the Bonds then outstanding shall have the right to consent to and approve the adoption of such resolution or resolutions supplemental to the 1995 Bond Resolution as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding any of the terms and provisions contained in the 1995 Bond Resolution; provided, however, that nothing contained in the 1995 Bond Resolution shall permit, or be construed as permitting, (a) an extension of the maturity of the principal of or the interest on any Bond or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of 1995 Debt Service Rentals other than the liens and pledges created by or pursuant to the 1995 Bond Resolution, or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental resolution. (Section 902). No supplemental resolution may, however, change, amend or modify the rights or obligations of the 1995 Fiscal Agent under the 1995 Bond Resolution without the written consent of the 1995 Fiscal Agent. (Section 904).

Notice of Default

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

Authority by the 1995 Fiscal Agent, the 1995 Fiscal Agent shall promptly give notice of such default to the Secretary of the Treasury of the Commonwealth and Government Development Bank. (Section 804).

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

TAX MATTERS

The Bonds and the 2004 Commonwealth General Obligation Refunding Bonds will be a single issue of bonds for federal income tax purposes (the "Combined Bond Issue"). The Internal Revenue Code of 1986, as amended (the "Code"), includes requirements regarding the use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States, if required, with respect to the Combined Bond Issue, which requirements the Authority and the Commonwealth must continue to meet after the issuance of the Bonds in order that interest on the Bonds not be included in gross income for federal income tax purposes. The failure to meet these requirements by the Authority or the Commonwealth may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. The Authority and the Commonwealth have each covenanted to comply, to the extent permitted by the Constitution and the laws of the Commonwealth, with the requirements of the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds. Bond Counsel is not aware of any provision of the Constitution or laws of the Commonwealth which would prevent the Authority or the Commonwealth from complying with the requirements of the Code.

In the opinion of Bond Counsel, subject to continuing compliance by the Authority, and the Commonwealth under the circumstances described in the preceding paragraph, with the tax covenant referred to above, under the provisions of the Acts of Congress now in force and under existing regulations, rulings and court decisions, interest on the Bonds will not be includable in gross income for federal income tax purposes. Interest on the Bonds will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Bonds will, however, be includable in the computation of the alternative minimum tax on corporations imposed by the Code. Bond Counsel is rendering no opinion on the effect of any action taken or not taken after the date of its opinion (1) without its approval (except for such action or omission to act as is provided for in the documents pertaining to the Bonds) or (2) in reliance upon the advice of counsel other than such firm, in either case, on the exclusion from gross income of the interest on the Bonds for federal income tax purposes. Bond Counsel is further of the opinion that under the provisions of the Acts of Congress now in force, the Bonds and the interest thereon will be exempt from state, Commonwealth and local income taxation.

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations, certain S Corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit.

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

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

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status of the Bonds. Legislative or regulatory actions and proposals may also affect the economic value of tax exemption or the market prices of the Bonds.

Discount Bonds

The excess, if any, of the amount payable at maturity of any Bond over its issue price constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of a

Bond with original issue discount (a "Discount Bond") will be excluded from gross income for federal income tax purposes to the same extent as interest on the Bonds. In general, the issue price of a Bond is the first price at which a substantial amount of Bonds of the same series and maturity as that Bond was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and the amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. A purchaser's adjusted basis in a Discount Bond is to be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale, redemption or other disposition of such Discount Bond for federal income tax purposes.

A portion of the original issue discount that accrues in each year to an owner of a Discount Bond that is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond that is a regulated investment company may be included in the calculation of the distribution requirements of that investment company and may result in some of the collateral federal income tax consequences discussed herein. Consequently, an owner of a Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The accrual of original issue discount and its effect on the redemption, sale or other disposition of any Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of Discount Bonds of the same series and maturity is sold to the public may be determined according to rules that differ from those described above. An owner of a Discount Bond should consult his tax advisor with respect to the determination for federal income tax purposes of the amount of original issue discount with respect to such Discount Bond and with respect to state, Commonwealth and local tax consequences of owning and disposing of such Discount Bond.

Premium Bonds

The excess, if any, of the tax basis of a Bond to a purchaser (other than a purchaser who holds such Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) who purchases such Bond as part of the initial offering and at the initial offering price as set forth or derived from information set forth on the inside cover page of this Official Statement over the amount payable at maturity of that Bond is "Bond Premium." Bond Premium is amortized over the term of such Bond for federal income tax purposes (or in the case of a Bond with Bond Premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on a basis of a call date that results in the lowest yield on such Bond). No deduction is allowed for such amortization of Bond Premium. United States Treasury regulations provide, however, that Bond Premium is treated as an offset to qualified stated interest received on such Bond. An owner of such Bond is required to decrease his adjusted basis in such Bond by the amount of amortizable Bond Premium attributable to each taxable year such Bond is held. An owner of such Bond should consult his tax advisor with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon sale, redemption or other disposition of such Bond and with respect to the state, Commonwealth and local tax consequences of owning and disposing of such Bond.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Verification Agent will verify, from the information provided to it, the mathematical accuracy as of the date of the closing of the Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the securities listed in such schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements of the Refunded Bonds and Refunded Interest, and (ii) the computations of yield on the securities, certain other escrow securities relating to the 2004 Commonwealth General Obligation Refunding Bonds, the Bonds and the 2004 Commonwealth General Obligation Refunding Bonds contained in such schedules used by Bond Counsel in its determination that interest on the Bonds is excluded from gross income for federal income tax purposes. See *Plan of Financing*. The Verification Agent will express no opinion on the assumptions provided to it, nor as to the exclusion from gross income for Federal income tax purposes of the interest on the Bonds.

UNDERWRITING

The Underwriters, represented by UBS Financial Services Inc., have jointly and severally agreed, subject to certain conditions, to purchase the Bonds from the Authority at an aggregate discount of $7,571,693.45 from the initial offering prices of such bonds set forth or derived from information set forth on the inside cover page hereof. The obligations of the Underwriters are subject to certain conditions precedent, and they will be obligated to purchase all the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers (including dealers depositing Bonds into investment trusts) and institutional purchasers at prices lower than such public offering prices, and such offering prices may be changed, from time to time, by the Underwriters.

Lehman Brothers, Inc. ("Lehman"), a managing underwriter, has entered into a written agreement with Santander Securities Corporation ("Santander") pursuant to which Santander has agreed to act as consultant to Lehman in connection with the provisions of underwriting and investment banking services to the Authority with respect to the Bonds. Pursuant to this agreement, the existence of which has been disclosed to the Authority and Government Development Bank, Santander will be entitled to receive a portion of Lehman's actual net profits, if any, in connection with the underwriting of the Bonds. Other similar agreements with respect to the sharing of underwriting net profits have been entered into and disclosed to the Authority and Government Development Bank by the following Underwriters: Merrill Lynch, Pierce, Fenner & Smith Incorporated and BBVA Capital Markets of Puerto Rico, Inc.; Banc of America Securities LLC and Oriental Financial Services Corporation; Goldman, Sachs & Co. and FirstBank Puerto Rico; J.P. Morgan Securities Inc. and R-G Investments Corporation; Morgan Stanley & Co. Incorporated and Popular Securities, Inc.; and Wachovia Bank, National Association and Doral Securities, Inc.

LEGAL INVESTMENT

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

LEGAL MATTERS

The proposed form of opinions of Sidley Austin Brown & Wood LLP, New York, New York, Bond Counsel, is set forth in *Appendix I* to this Official Statement. Certain legal matters will be passed upon for the Underwriters by their counsel, Fiddler González & Rodríguez, PSC, San Juan, Puerto Rico.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

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

INDEPENDENT ACCOUNTANTS

The financial statements as of June 30, 2003 of the Authority are appended as *Appendix II* to this Official Statement. Said financial statements were audited by RSM ROC & Company, certified independent accountants, as set forth in its report therein.

RATINGS

The Bonds have been assigned ratings of "Baa1" by Moody's and of "A-" by Standard & Poor's. These ratings do not reflect the Bond Insurance Policy. Moody's and Standard & Poor's are expected to give the Insured Bonds ratings of "Aaa" and "AAA," respectively, based on the expected issuance by Ambac of its Bond Insurance

Policy. The ratings reflect only the respective opinions of such rating agencies and an explanation of the significance of such ratings may be obtained only from the respective rating agency.

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

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

CONTINUING DISCLOSURE

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

1. The Commonwealth has agreed to file within 305 days after the end of each fiscal year commencing with the fiscal year ending June 30, 2004, 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, in each case incorporated by reference in this Official Statement;

2. The Authority has agreed to file within 305 days after the end of each fiscal year beginning after its fiscal year ending June 30, 2004, with each NRMSIR and with any Commonwealth SID, the Authority's audited financial statements for the prior fiscal year prepared in accordance with generally accepted accounting principles in effect from time to time; and

3. The Authority will agree to file in a timely manner, with each NRMSIR or with the MSRB, and with any Commonwealth SID, notice of failure of the Commonwealth to comply with clause 1 above and of the Authority to comply with clause 2 above and notice 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 exclusion from gross income for Federal income tax purposes of interest on the Bonds;
(g) modifications to rights of security holders;
(h) bond calls;
(i) defeasances;
(j) release, substitution, or sale of property securing repayment of the Bonds; and
(k) rating changes.

Event (c) and (e) are included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers, dated September 19, 1995. However, events (c) and (e) may not be applicable, since the terms of the Bonds do not provide for "debt service reserves" or "liquidity providers." In addition, with respect to the following events:

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

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

Event (h). The Authority does not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms, dates and amounts of redemption are set forth in detail in this Official Statement in "Redemption Provisions" under *Description of the Bonds*, the only other 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 Exchange Act Release No. 34-23856 of the SEC, even if the originally scheduled amounts are reduced by prior optional redemptions or Bond purchases.

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

The Commonwealth has made similar continuing disclosure covenants in connection with prior bond issuances, and has complied with all such covenants, except hereinafter noted. The Commonwealth's audited financial statements for the fiscal year ended June 30, 2002 were filed after the Commonwealth's filing deadline of May 1, 2003, because of delays in finalizing such financial statements resulting from the implementation of Government Accounting Standards Board Statement No. 34 ("GASB 34"). The Commonwealth's audited financial statements for the fiscal year ended June 30, 2003 were not filed on or prior to the Commonwealth's filing deadline of April 30, 2004, because of delays in finalizing the financial statements of certain of the Commonwealth's reporting units due to the implementation of GASB 34. The Commonwealth expects such financial statements will be available and filed during the second calendar quarter of 2004.

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

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

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

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

The Covenants may only be amended if:

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

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

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

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

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

MISCELLANEOUS

The foregoing references to and summaries of certain provisions of the 1995 Bond Resolution, the Lease Agreements with respect to the facilities that are to be financed or refinanced in whole or in part by the Bonds, the various Acts and the Bonds are made subject to all the detailed provisions thereof, to which reference is hereby made for further information, and do not purport to be complete statements of any or all of such provisions. Appended to, and constituting a part of, this Official Statement are the proposed form of opinions of Sidley Austin Brown & Wood, LLP, Bond Counsel (*Appendix I*), the audited financial statements of the Authority for the fiscal year ended June 30, 2003, together with the report of RSM ROC & Company (*Appendix II),* and a specimen Bond Insurance Policy (*Appendix III*).

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

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

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

PUERTO RICO PUBIC BUILDINGS AUTHORITY

By: /s/ Lillian Rivera Correa
Executive Director

SIDLEY AUSTIN BROWN & WOOD LLP

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June __, 2004

PUERTO RICO PUBLIC BUILDINGS AUTHORITY
San Juan, Puerto Rico

Gentlemen:

We have examined Act No. 56 of the Legislature of Puerto Rico, approved June 19, 1958, as amended (hereinafter called the "Enabling Act"), creating Public Buildings Authority (the "Authority") as a body corporate and politic constituting an instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth") exercising public and essential governmental functions. We have also examined Act No. 17 of the Legislature of Puerto Rico, approved April 11, 1968, as amended (hereinafter called the "Guaranty Act"), providing for the guaranty by the Commonwealth of the payment of the principal of and interest on a principal amount of bonds outstanding at any one time of the Authority, not exceeding $3,325,000,000, specified by the Authority to be covered by such guaranty, to the extent that the revenues and other moneys of the Authority pledged to the payment of such principal and interest are not sufficient for that purpose.

We have also examined certified copies of the proceedings of the Authority, including Resolution No. 468, adopted on June 22, 1995, as supplemented (said Resolution No. 468, as supplemented, being hereinafter called the "Bond Resolution"), and other proofs submitted relative to the authorization, sale and issuance of the following described bonds (the "Bonds"):

$832,385,000

PUBLIC BUILDINGS AUTHORITY
GOVERNMENT FACILITIES REVENUE BONDS, SERIES I
GUARANTEED BY THE COMMONWEALTH OF PUERTO RICO
Dated: Date of Delivery.

Issued in such denominations, transferable and exchangeable, dated, bearing interest at such rates and payable on such dates, maturing on July 1 of the years and in such principal amounts, and subject to redemption prior to maturity, all as set forth in the resolution of the Authority authorizing the issuance of the Bonds.

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

From such examination we are of the opinion that:

1. The Enabling Act is valid.

2. The Guaranty Act is valid.

3. Said proceedings have been validly and legally taken.

4. The Bonds have been duly authorized and issued to pay the cost of constructing certain buildings and other facilities to be leased to various departments, agencies, instrumentalities and municipalities of the Commonwealth, for paying any notes or other obligations of the Authority to finance temporarily such cost and for paying capitalized interest on the Bonds, and the Bonds are valid and binding obligations of the Authority payable solely from the special fund created by the Bond Resolution and designated "Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds Sinking Fund" (the "Sinking Fund") or from moneys provided by the Commonwealth under its guaranty of payment of the principal of and interest on the Bonds. The Authority has covenanted to deposit to the credit of the Sinking Fund a sufficient amount of the rentals received by the Authority from the leasing of government facilities financed or refinanced by the Authority under the provisions of the Bond Resolution to pay the principal of and the redemption premium, if any, and the interest on all bonds issued under the provisions of the Bond Resolution (including the Bonds) as the same shall become due, which Sinking Fund is pledged to and charged with the payment of such principal, premium, if any, and interest.

5. The Authority has properly specified the Bonds to be covered by the guaranty of the Commonwealth under the Guaranty Act.

6. The good faith and credit of the Commonwealth are pledged for the payment of any amounts required to be paid by the Commonwealth pursuant to said guaranty.

7. The Bond Resolution provides for the issuance, from time to time, under the conditions, limitations and restrictions therein set forth, of additional bonds for the purpose of paying all or a part of the cost of government facilities and improvements of such facilities and refunding any bonds issued by the Authority under the provisions of the Bond Resolution, under Resolution No. 77, adopted by the Authority on November 16, 1970, as amended, or under Resolution No. 158, adopted by the Authority on February 14, 1978, as amended.

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

pertaining to the Bonds) or in reliance upon advice of counsel other than ourselves on the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

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

The Bonds and the Commonwealth of Puerto Rico $279,240,000 Public Improvement Refunding Bonds, Series 2004 A and the $447,875,000 Public Improvement Refunding Bonds, Series 2004 B will be a single issue of bonds for federal income tax purposes (the "Combined Bond Issue"). The Authority and the Commonwealth must comply with the above requirements under the Code with respect to the Combined Bond Issue. A failure to satisfy such requirements by either the Authority or the Commonwealth may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. The Authority and the Commonwealth have each covenanted to comply, to the extent permitted by the Constitution and the laws of the Commonwealth, with the requirements of the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds. We are not aware of any provision of the Constitution or laws of the Commonwealth which would prevent the Authority or the Commonwealth from complying with the requirements of the Code.

Respectfully submitted,

[To be signed, "Sidley Austin Brown & Wood LLP"]

SIDLEY AUSTIN BROWN & WOOD LLP

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June __, 2004

PUERTO RICO PUBLIC BUILDINGS AUTHORITY
San Juan, Puerto Rico

Gentlemen:

We have examined Act No. 56 of the Legislature of Puerto Rico, approved June 19, 1958, as amended (hereinafter called the "Enabling Act"), creating Public Buildings Authority (the "Authority") as a body corporate and politic constituting an instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth") exercising public and essential governmental functions. We have also examined Act No. 17 of the Legislature of Puerto Rico, approved April 11, 1968, as amended (hereinafter called the "Guaranty Act"), providing for the guaranty by the Commonwealth of the payment of the principal of and interest on a principal amount of bonds outstanding at any one time of the Authority, not exceeding $3,325,000,000, specified by the Authority to be covered by such guaranty, to the extent that the revenues and other moneys of the Authority pledged to the payment of such principal and interest are not sufficient for that purpose.

We have also examined certified copies of the proceedings of the Authority, including Resolution No. 468, adopted on June 22, 1995, as supplemented (said Resolution No. 468, as supplemented, being hereinafter called the "Bond Resolution"), and other proofs submitted relative to the authorization, sale and issuance of the following described bonds (the "Bonds"):

$335,580,000

PUBLIC BUILDINGS AUTHORITY
GOVERNMENT FACILITIES REVENUE REFUNDING BONDS, SERIES J
GUARANTEED BY THE COMMONWEALTH OF PUERTO RICO
Dated: Date of Delivery.

Issued in such denominations, transferable and exchangeable, dated, bearing interest at such rates and payable on such dates, maturing on July 1 of the years and in such principal amounts, and subject to redemption and tender for purchase, all as set forth in the resolution of the Authority authorizing the issuance of the Bonds.

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

From such examination we are of the opinion that:

1. The Enabling Act is valid.

2. The Guaranty Act is valid.

3. Said proceedings have been validly and legally taken.

4. The Bonds have been duly authorized and issued to provide funds to refund certain of the Authority's outstanding Puerto Rico Public Buildings Authority Government Facilities Revenue and Revenue Refunding Bonds set forth in said resolution authorizing the issuance of the Bonds. The Bonds are valid and binding obligations of the Authority payable solely from the special fund created by the Bond Resolution and designated "Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds Sinking Fund" (the "Sinking Fund") or from moneys provided by the Commonwealth under its guaranty of payment of the principal of and interest on the Bonds. The Authority has covenanted to deposit to the credit of the Sinking Fund a sufficient amount of the rentals received by the Authority from the leasing of government facilities financed or refinanced by the Authority under the provisions of the Bond Resolution to pay the principal of and the redemption premium, if any, and the interest on all bonds issued under the provisions of the Bond Resolution (including the Bonds) as the same shall become due, which Sinking Fund is pledged to and charged with the payment of such principal, premium, if any, and interest.

5. The Authority has properly specified the Bonds to be covered by the guaranty of the Commonwealth under the Guaranty Act.

6. The good faith and credit of the Commonwealth are pledged for the payment of any amounts required to be paid by the Commonwealth pursuant to said guaranty.

7. The Bond Resolution provides for the issuance, from time to time, under the conditions, limitations and restrictions therein set forth, of additional bonds for the purpose of paying all or a part of the cost of government facilities and improvements of such facilities and refunding any bonds issued by the Authority under the provisions of the Bond Resolution, under Resolution No. 77, adopted by the Authority on November 16, 1970, as amended, or under Resolution No. 158, adopted by the Authority on February 14, 1978, as amended.

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

pertaining to the Bonds) or in reliance upon advice of counsel other than ourselves on the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

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

The Bonds and the Commonwealth of Puerto Rico $279,240,000 Public Improvement Refunding Bonds, Series 2004 A and the $447,875,000 Public Improvement Refunding Bonds, Series 2004 B will be a single issue of bonds for federal income tax purposes (the "Combined Bond Issue"). The Authority and the Commonwealth must comply with the above requirements under the Code with respect to the Combined Bond Issue. A failure to satisfy such requirements by either the Authority or the Commonwealth may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. The Authority and the Commonwealth have each covenanted to comply, to the extent permitted by the Constitution and the laws of the Commonwealth, with the requirements of the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds. We are not aware of any provision of the Constitution or laws of the Commonwealth which would prevent the Authority or the Commonwealth from complying with the requirements of the Code.

Respectfully submitted,

[To be signed, "Sidley Austin Brown & Wood LLP"]

Appendix II

PUBLIC BUILDINGS AUTHORITY
BASIC FINANCIAL STATEMENTS
AND OTHER SUPPLEMENTARY INFORMATION
AS OF JUNE 30, 2003 AND 2002
Together with Independent Auditors' Report

PUBLIC BUILDINGS AUTHORITY
BASIC FINANCIAL STATEMENTS
AND OTHER SUPPLEMENTARY INFORMATION
AS OF JUNE 30, 2003 AND 2002
TABLE OF CONTENT

RSM ROC & COMPANY
Certified Public Accountants & Consultants

To: The Board of Directors of
Public Buildings Authority

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the Public Buildings Authority ("the Authority"), a component unit of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2003 and 2002. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2003 and 2002, and the change in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis presented in Section II, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented in Section IV, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

San Juan, Puerto Rico
February 6, 2004.

RSM Roc & Company

Stamp No. 1946171 was affixed to
the original of this report.

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Introduction:

The Public Buildings Authority (the Authority), constituting an instrumentality of the Commonwealth of Puerto Rico (Commonwealth), exercising public and essential governmental functions, was created on June 19, 1958 by the Enabling Act.

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

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

Powers:

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

Management:

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

The member of the Board of the Authority as of June 30, 2003, and their occupations are:

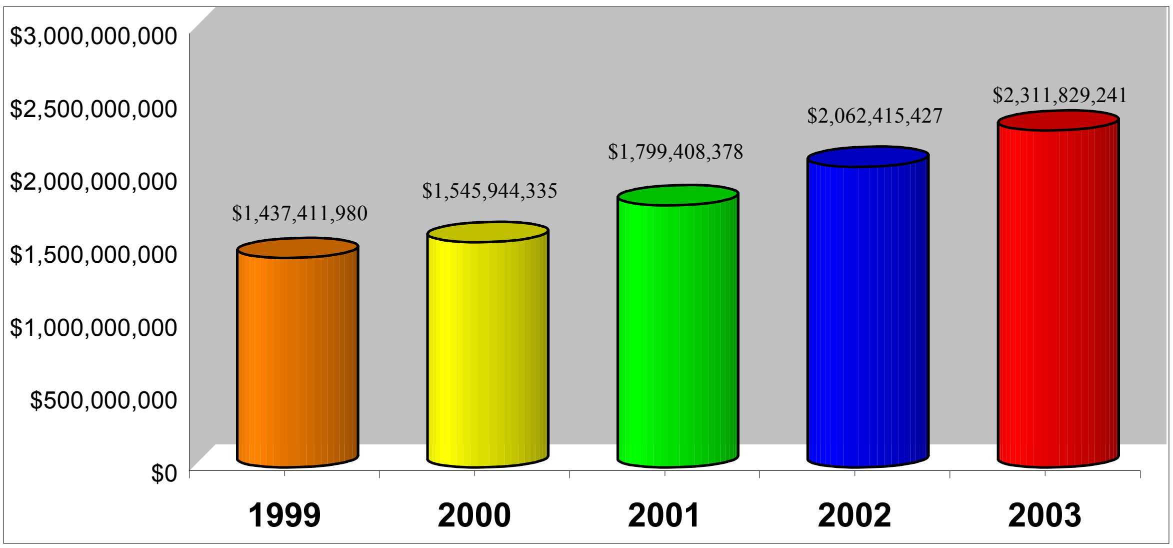
		Expiration of Term of Office
Miguel P. Vélez Rodríguez	Engineer	July 19, 2007
Roberto Montalvo Carbia	Attorney	February 24, 2004
Antonio Vidal	Attorney	November 20, 2008
Fernando Fagundo	Secretary of Transportation and Public Work	Ex-officio
Héctor Méndez Vázquez	President of Government Development Bank	Ex-officio
César A. Rey Hernández	Secretary of Education	Ex-officio

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

Programs and facilities of the Authority:

The Authority has a Five-Year Capital Improvement Program (the "CIP") of approximately $11,700 million, which reflects the Authority's construction priorities through fiscal year 2007. The CIP includes office buildings, school buildings, health facilities, correctional facilities, and other facilities, as described below. A portion of the CIP was financed with Outstanding Bonds. The remainder of the costs of the CIP is to be paid through interim financings, future bond issues and Commonwealth appropriations.

The following chart shows the balance of investment in capital asset at June 30, 2003 and each of the previous four years.



The following is a brief description of the various programs currently under planning and/or construction:

Office Buildings Program:

Under its office buildings program, the Authority has completed construction of 231 office buildings (including police stations, courthouses and related parking facilities) for the use of and lease to various departments, agencies and instrumentalities of the Commonwealth. As of June 30, 2003, the estimated total cost of construction completed under the office buildings program was $485 million, which was provided principally by the Authority through the issuance of Public Buildings Authority Revenue Bonds under the 1970 Bond Resolution.

Governmental Center in Aibonito-Under construction
Estimated cost of $13,254,000
AEP-2050

Office Building in Santa Isabel
Cost of $800,000 in Capital Asset
AEP-2660

The Authority has under planning and construction (including improvements) 123 projects, including office centers and police facilities, at an estimated total cost of $149 million.

School Buildings Program:

Under its school buildings program, the Authority has completed construction (including improvements) of 433 school buildings, all of which has been leased to the Department of Education. As of June 30, 2003, the estimated total cost of construction completed under the school buildings program was $1,167 million, which was provided principally by the Authority through the issuance of Public Buildings Authority Education and Health Facilities Bonds under the 1978 Bond Resolution.

Colinas del Oeste School in Hormigueros
Cost of $5,870,000 in Capital Asset
AEP-8335

Josefina Linares School
Cost of $21,548,000 in Capital Asset
AEP-8406

The Authority has under planning and construction (including improvements) 116 school buildings to be leased to the Department of Education. The estimated total cost of construction of such school buildings and improvements is $1,002 million.

Health Facilities Program:

Under its health facilities program, the Authority has completed construction of, and currently owns as of June 30, 2003, 18 hospital, diagnostic and treatment centers, all of which has been leased to the Department of Health. Other projects have been completed in the past, which have been sold to private parties. The current policy is not to sale any additional facility. As of June 30, 2003, the estimated total construction cost of the 18 facilities completed and still owned by the Authority under the health facilities program was $205 million, which was provided principally by the Authority through the issuance of Public Buildings Authority Public Education and Health Facilities Bonds under the 1978 Bond Resolution.

CDT Vega Alta
Cost of $893,477 in Capital Asset
AEP-5710

Dr. Gandara Hospital-Sold
Cost of $45,236,481
AEP-5564

Correctional Facilities Program:

Under its correctional facilities program, the Authority has completed construction of 8 correctional facilities, all of which has been leased to the Department of Correction. As of June 30, 2003, the estimated total cost of construction completed under the correctional facilities program was $239 million.

"Centro de Ingreso y Clasificación" in Ponce
Cost of $103 millions in Capital Asset
AEP-7564, 7567, 7568 and 7569

Detention Center in Bayamón
Cost of $90 millions
AEP-7963, 7964, 7965, 7966 and 7968

The Authority has under planning and construction 1 additional facility. The estimated total cost of construction of such facility is approximately $5 million.

Other Facilities:

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

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

Overview of the financial statements:

Set for the below is a narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2003 and 2002. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. It is intended to serve as an introduction to the Authority's financial statements, which are comprised of the basic financial statements and the notes to the financial statement. Since the Authority is comprised of a single proprietary fund, no fund level financial statements are shown.

We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, result in increased net assets, which also indicates an improved financial position.

The Statements of Revenues, Expenses, and Changes in Net Assets present information showing how the Authority's net assets are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods (e.g., earned but unused vacation leave).

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing activities, capital and related financing activities, and investing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

In addition to the basic financial statements the accompanying notes, various schedules present certain information concerning changes in sinking fund accounts, activity of operating cash, detail of rental revenues and receivable and summary of capital improvements compared to budget.

Financial Highlights:

Operating income of the Public Buildings Authority was $2,645,093 for fiscal year 2003. As a result of a provision recorded to cover an estimated arbitrage liability ($4,500,000) and the recording of interest and charges on income tax withheld claimed by the Treasury Department ($4,913,000), as described in Page 9, net assets decreased by $9,480,459. At the close of fiscal year 2003, the Authority had net assets of $200,004,779.

The largest portion of the Authority's net assets reflect its investment in capital assets (e.g., buildings, etc.). The Authority uses these capital assets to provide service, and consequently, these assets are not available to liquidate liabilities or other spending.

The Statement of Net Asset, Statement of Revenue, Expenses and Changes n Net Assets and Statement of Cash Flows and brief description of significant variances are summarized as below:

Statement of Net Assets

	2003	2002
Assets:		
Current assets	$ 268,356,918	$ 419,018,594
Capital assets	2,311,829,241	2,062,415,427
Construction in progress for other governmental agencies	31,837,166	184,101,527
Others assets	14,845,291	12,175,498
	$ 2,626,868,616	$ 2,677,711,046
Liabilities:		
Current liabilities	$ 258,620,089	$ 156,816,484
Current liabilities payable from restricted assets	90,717,326	114,480,772
Bonds payable	2,057,210,954	2,036,837,468
Obligation under capital leases	-	3,418,990
Accrued pension cost	1,484,675	3,392,000
Advances from governmental agencies	18,830,793	153,280,094
	2,426,863,837	2,468,225,808
Net assets	200,004,779	209,485,238
	$ 2,626,868,616	$ 2,677,711,046

Decrease in current assets of approximately $141 million is attributed mainly to a decrease in the construction fund of approximately $92 million. Such decrease is due to the net effect of a proceed from a bond issuances of approximately $194 million and uses of approximately $286 million related to the planning and construction of rental building projects.

The Authority's investment in capital assets as of June 30, 2003 and 2002, amounted to approximately $2.3 billion and $2.0 billion, respectively, net of accumulated depreciation of approximately $521 million and $491 million, respectively. Capital assets includes land, buildings, equipment and construction in progress.

Construction in progress for other governmental agencies decreased by approximately $160 million. It is the result of the close out of various projects that have been completed during current and prior years, in which advances received from the various governmental agencies, were not sufficient to fund the total construction costs. As a result of this transaction, the Authority reduced land and building under construction for other governmental agencies by approximately $160 million, reduced advances from other governmental agencies by approximately $142 million and recorded a receivable of approximately $18 million.

Subsequent to June 30, 2003, the Authority has entered into negotiations with the Puerto Rico Office of Management and Budget ("OMB"), whereby such receivable will be recovered through a transfer of a real estate property having a book value and fair value in excess of the receivable balance.

Increase in current liabilities of approximately $102 million is attributed mainly to an increase in the utilization of available credit facility with the Government Development Bank of approximately $85 million for the financing of the capital improvement program. The balance outstanding in the prior year had been repaid with the proceeds of bond issuance in year 2002.

As of June 30, 2003 and 2002, the Authority has outstanding bonds payable of approximately $2.1 billions (net of unamortized bond discounts, bond premium, deferred loss on bonds refunding and bonds issuance costs). The activity of bonds payable for the year ended June 30, 2003, is detailed in the following table:

Description	2002	Increase	Decrease	2003
Serial Revenue Bonds	$ 759,235,000	$ 371,480,000	$ (75,180,000)	$ 1,055,535,000
Terms Revenue Bonds	1,130,645,001	34,525,000	(349,045,001)	816,125,000
Capital Appreciation Bonds	139,026,537	67,578,993	(21,885,000)	184,720,530
Tax-Exempt Bonds	72,160,000	-	-	72,160,000
Indexed Inverse Floaters Bonds	46,000,000	-	(46,000,000)	-
	2,147,066,538	473,583,993	(492,110,001)	2,128,540,530
Less: Bonds discounts	(42,644,147)	-	8,298,744	(34,345,403)
Deferred loss on bond defeased	(9,155,825)	(34,769,997)	2,076,965	(41,848,857)
Deferred bond issuance cost	(5,319,524)	(647,318)	4,215,641	(1,751,201)
Plus: Bonds premiums	11,703,208	42,107,219	(4,879,542)	48,930,885
Total bonds payable, net	$ 2,101,650,250	$ 480,273,897	$ (482,398,193)	$ 2,099,525,954

In connection with the Authority's bonds obligation, during the years ended June 30, 2003 and 2002, the Authority advance refunded certain bonds as follows:

A) On October 10, 2002, the Authority issued $131,445,000 Government Facilities Revenue Refunding Bonds, Series F, $62,000,000 Government Facilities Revenue Bonds, Series G and $272,717,418 Government Facilities Revenue Refunding Bonds, Series H (Forward Delivery). The proceeds from the Series F Bonds were used for the purpose of refunding certain bonds issued under the 1978 Bond Resolution ($15,885,000) and the 1995 Bond Resolution ($114,810,000). The proceeds of Series G Bonds were used to provide funds (i) to pay a portion of the costs of construction of certain buildings and facilities to be leased by the Authority to various departments and instrumentalities of the Commonwealth, (ii) to pay capitalized interest, and (iii) to pay costs of issuance of Series G Bonds. The proceeds of Series H Bonds were used for the purpose of refunding certain bonds (together with the bonds being refunded with the proceeds of the Series F Bonds, the "Refunded Bonds") issued under the 1970 Bond Resolution ($44,430,000) and the 1978 Bond Resolution ($239,690,000).

As a result of this advance refunding, the Authority decreased its debt services payments by approximately $41.6 million over the following 23 years. This advance refunding resulted in an economic gain (the difference between the present values of the debt services payments of the refunded and refunding bonds) of approximately $35.7 million.

B) On January 11, 2002, the Authority issued $185,290,000 Government Facilities Revenue Refunding Bonds, Series C and $553,733,795 Government Facilities Revenue Bonds, Series D (Improvement Bonds). On January 18, 2002, the Authority issued $49,999,097 Government Facilities Revenue Bonds, Series E.

The Refunding Bonds were issued for the purpose of refunding certain bonds issued under the 1970 Bond Resolution ($20,131,458), 1978 Bond Resolution ($72,850,000) and the 1995 Bond Resolution ($89,610,000). The Improvement Bonds were issued to; i) repay the principal component of notes issued by the Authority to Government Development Bank for Puerto Rico ($344,000,000) as interim financing for the construction of certain buildings and facilities, ii) to deposit $193,669,258 in the 1995 Construction Fund to pay the remaining cost of such buildings and facilities, and iii) to pay costs of issuance. The Series E Bonds were issued to provide funds; i) to repay the interest component of notes issued by the Authority to Government Development Bank for Puerto Rico and ii) repayment of notes issued by the Authority to Government Development Bank for Puerto Rico for certain health facilities.

As a result of this advance refunding, the Authority decreased its debt service payments during the following three (3) years and increased its aggregated debt services payments by approximately $29.6 million over the following 20 years. The advance refunding resulted in an economic gain of approximately $8.5 million.

From the proceeds of the advance refunding of October 30, 2002 and January 11, 2002, the Authority deposited, approximately $439 million and $196 million, respectively, in irrevocable trust funds with various fiscal agents for investment in certain direct obligation of the United State of America to provide for all future debt services payments of the defeased bonds. In addition, over the years, the Authority has defeased certain bonds by placing the proceeds of the refunded bonds in irrevocable trusts to provide for all future debt service payments of such defeased bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the Authority's financial statements. Total bonds defeased as of June 30, 2003 and 2002, aggregates approximately $1,829 million and $1,414 million, respectively.

Statement of revenues, expenses and change in net assets

	2003	2002
Operating revenues	$ 228,617,978	$ 252,904,022
Operating expenses	225,972,885	227,479,431
Operating income	2,645,093	25,424,591
Non-operating expenses, net	(12,125,552)	(7,978,637)
Transfers from other governmental agencies	-	209,539
Increase (decrease) in net assets	(9,480,459)	17,655,493
Net assets, beginning of year	209,485,238	191,829,745
Net assets, end of year	$ 200,004,779	$ 209,485,238

Operating revenues, consist of debt services and operating rentals aggregating approximately $229 million as compared to approximately $253 million in 2002. Such decrease of approximately $24 million is the result of a decrease of approximately $47 million in debt service rental income, due to certain bond refinancing transactions that occurred during January 2002 and October 2002 and an increase in operating rentals of approximately $23 million due to the completion of various rental buildings that are currently generating rental income.

Although operating expenses in total remain at approximately the same level than in 2002, interest on bonds and notes decreased by approximately $10 million due to the effect of bonds refinancing transactions as described above. The remaining operating expenses (excluding interest on bonds and notes) increased by approximately $9 million due to the completion of new buildings, which increased the level of maintenance and other cost.

Non-operating expenses for the year ended June 30, 2003, includes, among others, amortization of deferred loss on bond defeasance ($2.1 million), settlement of legal claims ($7.7 million) and provision for arbitrage liability ($4.5 million), which are offset by interest income ($2.0 million). The provision for arbitrage liability of $4.5 million relates to the excess investment earnings on tax-exempt debt of Series B, Government Facilities Revenue Bonds, covering the period from June 24, 1997 to June 30, 2002. The settlement of legal claim of $7.7 million includes approximately $4.9 million related to unpaid interest and charges on income tax withheld claimed by the Puerto Rico Department of Treasury applicable to fiscal years 1995 though 2002. Non-operating expenses for the year ended June 30, 2002, includes, among others, bad debt expenses ($3.8million) and legal claim ($9.1 million), which are offset by interest income ($5.0 million).

Statement of Cash Flows

	2003	2002
Net cash flows provided by operating activities	$ 103,377,302	$ 116,117,120
Net cash flows provided by non-capital financing activities	1,336,796	628,236
Net cash flows used in capital and related financing activities	(263,840,775)	(104,895,041)
Net cash flows provided by (used in) investing activities	134,563,347	(85,486,684)
Net decrease in cash and cash equivalents	(24,563,330)	(73,636,369)
Cash and cash equivalents, beginning of year	48,895,338	122,531,707
Cash and cash equivalents, end of year	$ 24,332,008	$ 48,895,338

During the years ended June 30, 2003 and 2002**,** net cash provided by operating activities was approximately $103 million and $116 millions, respectively. A decrease of approximately $13 million as compared to prior year, is due primarily to a settlement of a legal claim (unpaid vacations) of approximately $12 million, a portion of which was paid during 2003 and approximately $3 million are accrued for payment during 2004. A decrease in collection of account receivable of approximately $10 million is offset by a decrease in the payment of goods and services of approximately the same amount.

Net cash used in capital and related financing activities amounted to approximately $264 million as compared to approximately $105 million in 2002. The largest components within such category are: construction of building facilities of approximately $234 million, interest payments of approximately $103 million and proceeds from bonds issuance aggregating approximately $69 million. Borrowings under the line of credit aggregated approximately $85 million. During the year ended June 30, 2002, the largest components within such category are: construction of building facilities of approximately $290 million, interest payments of approximately $75 million and proceeds from bond issuance aggregating approximately $200 million. Borrowings under the line of credit aggregate approximately $140 million.

During year ended June 30, 2003, net cash provided by investing activities aggregated approximately $134 million. Deposits to the construction and sinking funds aggregated approximately $194 million and $177 million, respectively. During the year ended June 30, 2002, net cash used in investing activities aggregated approximately $85 million. Deposits to the construction and sinking fund aggregated approximately $197 million and $161 million, respectively.

Requests for Information:

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Comptroller Office, Public Buildings Authority, PO Box 41029, San Juan, Puerto Rico 00940.

PUBLIC BUILDINGS AUTHORITY
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2003 AND 2002

ASSETS

	2003	2002
CURRENT ASSETS:		
Cash and cash equivalents	$ 24,332,008	$ 48,895,338
Rent receivable, net of allowance for doubtful account of approximately $886,000 and $404,000 in 2003 and 2002, respectively	66,094,588	77,720,629
Other receivables, net of allowance of bad debts of approximately $15,114,000 and $15,018,000 in 2003 and 2002, respectively	18,242,205	81,792
Restricted assets	159,688,117	292,320,835
	268,356,918	419,018,594
NON-CURRENT ASSETS:		
Capital assets, net	2,311,829,241	2,062,415,427
Land and buildings under construction for other governmental agencies	31,837,166	184,101,527
Other assets	14,845,291	12,175,498
	2,358,511,698	2,258,692,452
	$ 2,626,868,616	$ 2,677,711,046

LIABILITIES AND NET ASSETS

	2003	2002
LIABILITIES:		
Current liabilities-		
Borrowings under line of credit	$ 85,244,922	$ -
Accounts payable	24,612,241	21,624,711
Accrued expenses	23,726,039	32,118,620
Due to contractors, including contract retentions	121,617,897	99,863,679
Current portion of obligation under capital lease	3,418,990	3,209,474
	258,620,089	156,816,484
Current liabilities payable from restricted assets-		
Current portion of bonds payable	42,315,000	64,812,782
Interest	48,402,326	49,667,990
	90,717,326	114,480,772
Non-current liabilities-		
Bonds payable	2,057,210,954	2,036,837,468
Obligation under capital lease	-	3,418,990
Accrued pension costs	1,484,675	3,392,000
Advances from governmental agencies	18,830,793	153,280,094
	2,077,526,422	2,196,928,552
	2,426,863,837	2,468,225,808
NET ASSETS:		
Invested in capital assets, net of related debt	143,592,279	104,484,668
Restricted	101,745,530	141,972,880
Unrestricted	(45,333,030)	(36,972,310)
	200,004,779	209,485,238
	$ 2,626,868,616	$ 2,677,711,046

The accompanying notes are an integral part of these statements.

PUBLIC BUILDINGS AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
OPERATING REVENUES:		
Debt-service rentals	$ 115,413,896	$ 162,723,879
Operating rentals	113,204,082	90,180,143
	228,617,978	252,904,022
OPERATING EXPENSES:		
Interest on bonds and notes	76,142,537	86,097,472
Salaries and employee benefits	71,053,533	70,442,649
Depreciation	35,683,616	32,408,929
Security services	12,868,332	12,778,720
Utilities	11,092,420	11,118,227
Repairs and maintenance	12,337,488	9,522,202
Rent and insurance	8,216,074	7,119,042
General and administrative	6,971,885	6,049,202
	234,365,885	235,536,443
Less: Administrative expenses applied to construction in progress	(8,393,000)	(8,057,012)
	225,972,885	227,479,431
OPERATING INCOME	2,645,093	25,424,591
NON-OPERATING INCOME (EXPENSES):		
Interest income	1,930,629	5,025,748
Other interest expense	(432,709)	(629,386)
Other income	1,336,796	418,697
Bad debt expense	(578,336)	(3,687,510)
Amortization of deferred loss on bond defeasance	(2,076,965)	-
Amortization of bond issuance costs	(63,695)	-
Settlement of legal claim and other contingencies	(7,741,272)	(9,106,186)
Provision for estimated arbitrage liability	(4,500,000)	-
	(12,125,552)	(7,978,637)
INCOME (LOSS) BEFORE TRANSFERS	(9,480,459)	17,445,954
TRANSFER FROM OTHER GOVERNMENTAL AGENCIES	-	209,539
NET INCREASE (DECREASE) IN NET ASSETS	(9,480,459)	17,655,493
NET ASSETS, beginning of year	209,485,238	191,829,745
NET ASSETS, end of year	$ 200,004,779	$ 209,485,238

The accompanying notes are an integral part of these statements.

PUBLIC BUILDINGS AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipt from tenant covering debt service and operating rent	$ 239,267,793	$ 244,029,087
Payments to employee and related benefits	(81,853,440)	(77,507,932)
Payments to suppliers for goods and services	(42,330,056)	(50,404,035)
Settlement of legal claim	(11,706,995)	-
Net cash provided by operating activities	103,377,302	116,117,120
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfer from other governmental agencies	-	209,539
Non-operating income	1,336,796	418,697
Net cash provided by non-capital financing activities	1,336,796	628,236
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital expenditures, excluding interest capitalized of $29,389,133 and $17,484,155 in 2003 and 2002, respectively	(233,954,079)	(289,908,352)
Additions to land and building under construction for other agencies	(7,452,025)	(29,961,668)
Proceeds from bonds issuance	69,075,035	199,662,013
Repayment of bonds	(77,295,000)	(72,587,709)
Payment of bond issuance costs	(647,318)	(5,319,524)
Borrowings under lines of credit	85,244,922	140,300,609
Repayments under lines of credit	-	(15,990)
Repayment of obligation under capital lease	(3,209,474)	(3,012,797)
Interest paid	(102,627,716)	(74,560,869)
Net advances from governmental agencies	7,024,880	30,509,246
Net cash used in capital and related financing activities	(263,840,775)	(104,895,041)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Transfer to sinking funds	(176,895,624)	(161,149,114)
Transfer from sinking funds for payment of debt services	176,854,488	160,896,355
Transfer to construction funds	(193,669,258)	(197,459,862)
Transfer from construction funds for payment of capital expenditures	286,074,626	107,263,927
Transfer to cash available for sinking fund	(90,717,326)	(126,962,990)
Transfer from cash available for sinking fund for payment of debt services	126,962,990	126,899,252
Transfer from other restricted assets	4,022,822	-
Interest collected	1,930,629	5,025,748
Net cash provided by (used in) investing activities	134,563,347	(85,486,684)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(24,563,330)	(73,636,369)
CASH AND CASH EQUIVALENTS, beginning of year	48,895,338	122,531,707
CASH AND CASH EQUIVALENTS, end of year	$ 24,332,008	$ 48,895,338

Continues …

PUBLIC BUILDINGS AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)

	2003	2002
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 2,645,093	$ 25,424,591
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Interest expense	76,142,537	86,097,472
Depreciation	35,683,616	32,408,929
Capitalized interest cost	-	12,178,941
Decrease (increase) in operating assets:		
Rent receivable	6,047,705	(7,649,704)
Other receivables	81,792	(1,101,336)
Other assets	(2,669,793)	(1,905,920)
Increase (decrease) in operating liabilities:		
Accounts payable	2,987,530	(9,357,733)
Accrued expenses	(17,541,178)	(19,978,120)
Net cash provided by operating activities	$ 103,377,302	$ 116,117,120
SUMMARY OF NON-CASH TRANSACTIONS:		
Issuance of bonds	$ 439,194,602	$ 589,360,879
Deposits to escrow accounts	$ 439,194,602	$ 195,845,460
Repayment of line of credit	$ -	$ 371,008,653
Payment of accrued interest on line of credit	$ -	$ 22,506,766

The accompanying notes are an integral part of these statements.

PUERTO RICO BUILDINGS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

1) Organization and summary of significant accounting policies:

A) Organization – The Public Buildings Authority (the "Authority"), a blended component unit of the Commonwealth of Puerto Rico (the "Commonwealth"), exercising public and governmental functions, was created on June 19, 1958 by Act No. 56 of the Legislature of Puerto Rico (the "Enabling Act").

The Authority is empowered to design and construct office buildings, courts, warehouses, shops and related facilities for lease to the Commonwealth or any of its departments, agencies, instrumentalities or municipalities. An amendment to the Enabling Act granted the additional power to finance and construct schools, health-care and social welfare facilities.

The annual rent for each leased building is computed based on the amounts needed by the Authority to cover the payment of: (1) principal, interest and other amortization requirements of the notes and bonds issued to finance the buildings; (2) operating and maintenance expenses of the buildings, including a reasonable proportional share of the Authority's administrative expenses, excluding depreciation; (3) cost of equipment replacement and other noncurrent operating and maintenance costs; and (4) a reserve for capital maintenance. The components of rent charged for operating and maintenance expenses, together with equipment replacement, are subject to escalation to permit the Authority to recover costs in these areas.

The Enabling Act provides that the full faith and credit of the Commonwealth are pledged for the payment of rent under any lease agreement executed pursuant to the Enabling Act with any department of the Commonwealth. The Enabling Act also provides that the Department of the Treasury of the Commonwealth of Puerto Rico (the "Treasury Department") will make advances to the Authority for any unpaid portion of rent payable to the Authority by any agency or instrumentality of the Commonwealth that has entered into lease agreements with the Authority. Such advances are recorded as a reduction of accounts receivable since the responsibility of reimbursement belongs to the agency in accordance with the Enabling Act.

The Authority is exempt from the payment of taxes on its revenues and properties.

B) Summary of significant accounting policies – The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The following is a description of the most significant accounting policies:

Basis of accounting – The financial statements of the Authority are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned, regardless of when received, and expenses when incurred, regardless of when paid.

Basis of presentation – The Authority's financial statements are presented as a proprietary fund and conform to the provisions of Governmental Accounting Standards Board Statement No. 34 ("GASB 34") "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." GASB 34, as amended by GASB 37, establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

- *Restricted* – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.

- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

As permitted by Governmental Accounting Standard Board ("GASB") Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting," the Authority has elected to apply all Financial Accounting Standards Board ("FASB") Statements and Interpretations, issued after November 30, 1989 that do not conflict with those issued by GASB.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

Fair value of financial instruments – The carrying amounts reported in the statement of net assets for cash and cash equivalents and receivables, approximate fair value due to their short-term duration. Amounts deposited in Bond Sinking Funds and Construction Funds are carried at fair value. The carrying amount of bonds payable approximates fair value since interest rates on such debt approximate the rates currently available in the market for other debt with similar terms and remaining maturities.

Cash equivalents – Cash equivalents are defined as highly liquid investments with original maturities at the date of purchase of 90 days or less, excluding resources held in restricted accounts.

Allowance for doubtful accounts – The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables, excluding debt service rentals and maintenance charges that may become uncollectible based on evaluations of the collectibility of each balance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the receivables outstanding and the related allowance may change in the near term.

Capital assets – Capital assets are recorded at cost. The costs of the projects constructed by the Authority include a portion of indirect construction costs and interest costs allocated during the construction period. The Authority defines capital assets as assets with an individual cost of more than $100 and a useful life in excess of five (5) years. As of June 30, 2003 and 2002, property (excluding cost of land) with a total cost of approximately $2,003 million and $1,772 million, respectively, is leased to other governmental agencies. Buildings, equipment and automobiles are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	50 years
Equipment and automobiles	5-10 years

Expenditures for major renewals and betterments that extend the useful lives of the assets are capitalized.

Accounting for the impairment or disposal of long-lived assets – The Authority accounts for asset impairment under the provisions of Financial Accounting Standards Board Statement No. 144. This Statement requires that long-lived assets held and used in operations (capital assets) be tested for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The circumstance exists if the carrying amount of the asset exceeds the sum of the undiscounted cash flow expected to result from the use and eventual disposition of the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds its fair value. Assets to be disposed of, other than by sale, continue to be classified as held and used (capital assets) until they are disposed of. Assets to be disposed of by sale are classified as held for sale in the period in which certain criteria are met and reported at the lower of the carrying amount or fair value. At the time such criteria are not longer met, such assets are reclassified as assets held and used in operations.

Investments – Investments are reported at fair value. Investment income, including unrealized gains and losses, are recognized in operations.

Restricted assets and liabilities payable from restricted assets – Restricted assets represent the amounts deposited by the Authority to provide for the amortization of bonds payable and related interest costs and cash available in the related construction fund.

Amortization of discount, premium and bond issuance costs on bonds payable – Discount, premiums and bond issuance costs on bonds payable are amortized over the term of the bond in question, based on the straight line method.

Operating revenues and expenses – Operating revenues and expenses are those that result from the Authority's operations. All leases are deemed to be operating leases. Accordingly, rental income is recognized as operating revenue over the term of the lease. Interest expense is included as part of operating expenses since the same are considered in the determination of debt service rentals.

Risk financing – The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage during the past four years. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth.

Compensated absences – An expense for compensated absences is accrued when earned by the employees. Employees may carry forward their vacation and sick leave as permitted by statute and may receive a cash payment from the Authority upon termination of employment.

New accounting pronouncements – In May 2003, the Governmental Accounting Standards Board issued Statement No. 40 "Deposit and Investment Risk Disclosure - an amendment of GASB Statement No. 3." The statement addresses common deposit and investments risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Among other disclosures, the statement requires certain disclosures applicable to deposits or investments having fair values that are highly sensitive to changes in interest rates. This statement is effective for fiscal years beginning after June 15, 2004.

In November 2003, the GASB issued Statement No. 42 "Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries," which requires governments to report the effects of capital asset impairment in their financial statements when it occurs. Impairment will be measured using methods that are designed to isolate the cost of the capital asset's service capacity that has been rendered unusable by impairment. The statement requires several disclosure requirements to assist users in understanding the nature and impact of the impairment. The statement is effective for fiscal years beginning after December 15, 2004.

Management of the Authority is currently in the process of ascertaining the impact of these pronouncements.

2) Cash, cash equivalents and restricted assets:

The Authority is authorized to deposit funds only in financial institutions approved by the Commonwealth, and such deposits should be kept in separate accounts in the name of the Authority. Based upon the Bond Resolutions, monies in the Sinking Fund shall be held by the fiscal agents (JP Morgan Chase Bank and U.S. Bank Trust National Association) and applied as provided in the Bond Resolutions. The Authority's deposits at June 30, 2003 and 2002, were fully insured by Federal Depository Insurance or collateralized with securities held by the custodian in the Authority's name. Deposits in the Government Development Bank for Puerto Rico ("GDB") and the Economic Development Bank for Puerto Rico ("EDB") are not required to be collateralized.

Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Money in the Sinking Funds can only be invested in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

The Authority's bank balances of deposits with financial institutions are categorized to provide an indication of the level of custodial credit assumed by the Authority at year-end. Risk categories are described as follows:

Category 1:	Insured or collateralized with securities held by the Authority or its agent in the Authority's name.
Category 2:	Collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.
Category 3:	Uncollateralized, including any bank balance that is collateralized, with securities held by the pledging financial institution or by its trust department or agent but not in the Authority's name.

The following summarizes the cash, cash equivalents and investments at June 30, 2003 and 2002, classified by risk categories as described in the preceding paragraph:

Cash and Cash Equivalents:

	June 30, 2003				
	Category			Bank	Carrying
Description	1	2	3	Balance	Amount
Cash	$ 14,931,252	$ -	$ -	$ 14,931,252	$ 6,764,611
Certificates of deposits	-	-	12,349,729	12,349,729	12,349,729
Not categorized – PR Government Investment Trust Fund	-	-	-	5,217,668	5,217,668
	$ 14,931,252	$ -	$ 12,349,729	$ 32,498,649	$ 24,332,008

	June 30, 2002				
	Category			Bank	Carrying
Description	1	2	3	Balance	Amount
Cash	$ 48,705,876	$ -	$ -	$ 48,705,876	$ 39,913,275
Certificates of deposits	-	-	8,460,619	8,460,619	8,460,619
Not categorized – PR Government Investment Trust Fund	-	-	-	521,444	521,444
	$ 48,705,876	$ -	$ 8,460,619	$ 57,687,939	$ 48,895,338

Bond Sinking Funds:

	June 30, 2003				
	Category			Bank	Carrying
Description	1	2	3	Balance	Amount
Cash	$ 6,052,667	$ -	$ -	$ 6,052,667	$ 6,054,414
Money Market Funds	-	-	159,932	159,932	159,932
	$ 6,052,667	$ -	$ 159,932	$ 6,212,599	$ 6,214,346

	June 30, 2002				
	Category			Bank	Carrying
Description	1	2	3	Balance	Amount
Cash	$ 5,959,854	$ -	$ -	$ 5,959,854	$ 6,014,862
Money Market Funds	-	-	158,348	158,348	158,348
	$ 5,959,854	$ -	$ 158,348	$ 6,118,202	$ 6,173,210

Construction Funds:

	June 30, 2003				
	Category			Bank	Carrying
Description	1	2	3	Balance	Amount
Cash	$ 45,176,616	$ -	$ -	$ 45,176,616	$ 45,174,427
Certificates of deposits	9,463,024	-	-	9,463,024	9,463,024
Money Market Funds	-	-	3,305,136	3,305,136	3,305,136
	$ 54,639,640	$ -	$ 3,305,136	$ 57,944,776	$ 57,942,587

	June 30, 2002				
	Category			Bank	Carrying
Description	1	2	3	Balance	Amount
Cash	$ 50,244,621	$ -	$ 11,049,004	$ 61,293,625	$ 57,358,575
Certificates of deposits	14,821,431	-	-	14,821,431	14,821,431
Money Market Funds	-	-	78,167,949	78,167,949	78,167,949
	$ 65,066,052	$ -	$ 89,216,953	$154,283,005	$ 150,347,955

Other:

Description	June 30, 2003				
	Category			Bank	Carrying
	1	2	3	Balance	Amount
Proceeds from sale of assets -					
Cash	$ -	$ -	$ 1,359,747	$ 1,359,747	$ 1,359,747
Certificates of deposits	-	-	2,729,111	2,729,111	2,729,111
Cash restricted for payment of salary under Act No. 82	725,000	-	-	725,000	725,000
Cash available for deposit to sinking fund	-	-	90,717,326	90,717,326	90,717,326
	$ 725,000	$ -	$ 94,806,184	$ 95,531,184	$ 95,531,184

Description	June 30, 2002				
	Category			Bank	Carrying
	1	2	3	Balance	Amount
Proceeds from sale of assets -					
Cash	$ -	$ -	$ 3,890,929	$ 3,890,929	$ 3,890,929
Certificate of deposits	-	-	4,945,751	4,945,751	4,945,751
Cash available for deposit to sinking fund	-	-	126,962,990	126,962,990	126,962,990
	$ -	$ -	$135,799,670	$135,799,670	$ 135,799,670

The cash classified in category 3 at June 30, 2003 and 2002, corresponds to deposits in the GDB, a component unit of the Commonwealth, as no collateral is required to be carried for deposits in governmental banks operated by the Commonwealth.

The PR Government Investment Trust Fund (the "Trust") is a no-load diversified collective investment trust of the Commonwealth. The purpose of the Trust is to provide eligible investors a convenient and economic way to invest in a money market portfolio. Units of the Trust are offered exclusively to the Commonwealth and its agencies, municipalities, public corporations and other public authorities and instrumentalities. The Trust may purchase only high quality securities denominated in U.S. dollars that the Investment Advisors believe present minimal credit risk. The investment objective of the Trust is to seek to obtain a high level of current income with the preservation of capital and liquidity.

3) Rent receivable:

In accordance with the provisions of the Enabling Act, the Treasury Department may make advances on behalf of certain agency and instrumentality lessees and make payments on behalf of certain department lessees.

Minimum lease rentals for the year ending June 30, 2004 aggregate approximately $252 million. Minimum lease rentals for the following four years and thereafter are not readily available, as they are revised every July 1st based on, among other things, debt service requirements for the particular year.

4) Other receivable:

During the year ended June 30, 2003, the Authority recorded a receivable of approximately $18.2 million from other governmental agencies related to the recovery of certain costs incurred on behalf of those agencies. Subsequent to June 30, 2003, the Authority has entered into negotiations with the Commonwealth Office of Management and Budget ("OMB") whereby such amount will be recovered through the transfer of real property having a book value and fair value in excess of the receivable balance.

As of June 30, 2003, approximately $15,114,000, representing receivables for services not guaranteed by the Commonwealth, are not expected to be collected during the year ended June 30, 2004.

5) Capital assets:

Capital assets as of June 30, 2003 and 2002 were as follow:

	June 30, 2003			
	2002	Increase	Decrease	2003
Capital assets not being depreciated:				
Land	$ 101,018,428	$ 7,766,687	$ (2,382,862)	$ 106,402,253
Construction in progress	680,718,356	288,655,561	(246,002,100)	723,371,817
	781,736,784	296,422,248	(248,384,962)	829,774,070
Capital assets being depreciated:				
Buildings	1,757,787,318	235,475,538	(3,586,600)	1,989,676,256
Equipment and automobiles	14,058,542	1,741,222	(2,609,477)	13,190,287
	1,771,845,860	237,216,760	(6,196,077)	2,002,866,543
Less accumulated depreciation for:				
Buildings	(481,756,529)	(29,145,753)	-	(510,902,282)
Equipment and automobiles	(9,410,688)	(3,107,879)	2,609,477	(9,909,090)
	(491,167,217)	(32,253,632)	2,609,477	(520,811,372)
Capital assets being depreciated, net	1,280,678,643	204,963,128	(3,586,600)	1,482,055,171
Capital assets, net	$ 2,062,415,427	$ 501,385,376	$ (251,971,562)	$ 2,311,829,241

	June 30, 2002			
	2001	Increase	Decrease	2002
Capital assets not being depreciated:				
Land	$ 95,758,633	$ 5,763,595	$ (503,800)	$ 101,018,428
Construction in progress	486,499,918	206,228,522	(12,010,084)	680,718,356
	582,258,551	211,992,117	(12,513,884)	781,736,784
Capital assets being depreciated:				
Buildings	1,593,942,043	163,510,332	334,943	1,757,787,318
Equipment and automobiles	13,086,422	1,074,786	(102,666)	14,058,542
	1,607,028,465	164,585,118	232,277	1,771,845,860
Less accumulated depreciation for:				
Buildings	(426,085,328)	(55,671,201)	-	(481,756,529)
Equipment and automobiles	(8,504,037)	(1,009,317)	102,666	(9,410,688)
	(434,589,365)	(56,680,518)	102,666	(491,167,217)
Capital assets being depreciated, net	1,172,439,100	107,904,600	334,943	1,280,678,643
Capital assets, net	$ 1,754,697,651	$ 319,896,717	$ (12,178,941)	$ 2,062,415,427

Construction in progress includes approximately $61.9 million of accumulated costs on uncompleted projects that were eliminated from the capital improvement program. Such amount includes approximately $7.7 million of capitalized interest and approximately $454,000 of capitalized general and administrative expenses. The Authority with the consent of OMB will begin billing the corresponding debt service rentals applicable to those projects, commencing during fiscal year 2003-04, as permitted by the applicable Bond Resolutions and Lease Agreements.

Total interest cost capitalized during the years ended June 30, 2003 and 2002, aggregates approximately $29,389,000 and $17,484,000, respectively.

The cost of equipment under capital lease included under equipment and automobiles aggregates approximately $5,215,000 as of June 30, 2003 and 2002, respectively. Accumulated depreciation on equipment under capital lease aggregates $3,912,000 and $2,869,000 as of June 30, 2003 and 2002, respectively. Depreciation expense for equipment under capital lease for the years ended June 30, 2003 and 2002, aggregates approximately, $1,043,000 in both years.

Over the years, the Authority has received land parcels from other governmental instrumentalities whose original costs at the time of transfer were not readily available, and accordingly, are not reflected in the accompanying financial statements.

6) Land and buildings under construction for other governmental agencies:

Land and buildings under construction for other governmental agencies as of June 30, 2003 and 2002, were as follows:

	June 30, 2003			
	2002	Increase	Decrease	2003
Capital assets not being depreciated:				
Land	$ 25,305,303	$ 625,479	$ (25,305,303)	$ 625,479
Construction in progress	158,796,224	6,826,546	(134,411,083)	31,211,687
	$ 184,101,527	$ 7,452,025	$ (159,716,386)	$ 31,837,166

	June 30, 2002			
	2002	Increase	Decrease	2003
Capital assets not being depreciated:				
Land	$ 2,694,984	$ 22,610,319	$ -	$ 25,305,303
Construction in progress	151,444,875	7,351,349	-	158,796,224
	$ 154,139,859	$ 29,961,668	$ -	$ 184,101,527

7) Restricted assets:

Restricted assets as of June 30, 2003 and 2002, were as follow:

Description	2003	2002
Bond sinking funds	$ 6,214,346	$ 6,173,210
Construction funds	57,942,587	150,347,955
Proceeds from sales of assets	4,088,858	8,836,680
Restricted for the payment of salaries under Act No. 82	725,000	-
Cash available for deposit to sinking funds	90,717,326	126,962,990
	$ 159,688,117	$ 292,320,835

The Bond Sinking Funds under Bond Resolutions No. 77, 158 and 468 as of June 30, 2003 and 2002, consist of cash and money market funds carried at fair value, as follows:

	June 30, 2003		
Description	Bond Service Account	Reserve and Redemption Account	Total
Resolution No. 77 – Office Buildings – Cash	$ 2,738,010	$ -	$ 2,738,010
Resolution No. 158 – Public Education and Health Facilities – Cash	1,747	3,314,658	3,316,405
Resolution No. 468 – Governmental Facilities – Money Market Funds	159,931	-	159,931
	$ 2,899,688	$ 3,314,658	$ 6,214,346

	June 30, 2002		
Description	Bond Service Account	Reserve and Redemption Account	Total
Resolution No. 77 – Office Buildings – Cash	$ 2,738,010	$ -	$ 2,738,010
Resolution No. 158 – Public Education and Health Facilities – Cash	1,747	3,275,106	3,276,853
Resolution No. 468 – Governmental Facilities – Money Market Funds	158,347	-	158,347
	$ 2,898,104	$ 3,275,106	$ 6,173,210

Each Sinking Fund consists of three (3) separate accounts designated as a "Bond Service Account," a "Reserve Account" and a "Redemption Account," except under Resolution No. 468, which has no Reserve Account in its Sinking Fund. Revenues received from debt service rentals with respect to the facilities financed under Bond Resolutions No. 77, No. 158 and No. 468 are deposited with their respective Fiscal Agents for the credit of such accounts in the following order:

- to the Bond Service Account, in such amount as may be required to make the amount equal to the amount of interest then due and payable and the interest which will become due and payable within the next ensuing six months on all bonds of each series then outstanding and the principal of all serial bonds, if any, which will become payable within the next ensuing twelve months;

- to the Redemption Account, in such amount as may be required to make the amounts so deposited in the then current fiscal year equal to the amortization requirement, if any, for such fiscal year for the term bonds of each series then outstanding, plus the premium, if any, which would be payable on a like principal amount of bonds if such principal amount of bonds should be redeemed on the next redemption date from monies in their respective Bond Sinking Funds; and

- the balance, if any, is deposited to the credit of the Reserve Account, except under Resolution 468, where such balance is deposited to the credit of the Bond Service Account.

Bond Resolution No. 77 requires that monies held in the various accounts be, as nearly as practicable, invested and reinvested in direct obligations of, or obligations on which the principal of and the interest are unconditionally guaranteed by, the United States government. In lieu of such investments, monies in any or all of such accounts may be placed in interest-bearing time deposits.

Bond Resolution No. 158 requires that monies be invested and reinvested in investment obligations, repurchase agreements or time deposits fully secured by investment obligations, as those terms are defined therein.

Bond Resolution No. 468 requires that monies be invested and reinvested in government obligations, bankers' acceptances, certificates or time deposits of any Commonwealth's approval bank or national banking association, repurchase or reverse repurchase agreements or any other investment which are rated in one of the three highest rating categories.

Investments will mature or will be subject to redemption by the holder thereof at the option of such holder:

- as to investment of monies in the Bond Service Account and the Redemption Account not later than the dates when the monies held for credit thereof will be required for the purposes intended,

- as to investment of monies in the Reserve Account under Bond Resolution No. 77, (i) 25% of the principal amount not later than the next interest payment date of bonds issued thereunder, (ii) 25% not later than the second interest payment date after such investment, and (iii) 50% not later than three years after the date of such investment, and

- as to investment of monies in the Reserve Account under Bond Resolution No. 158, (i) 50% of such monies not later than five years from the date of investment, and (ii) the balance of such monies as directed by an order signed by the Executive Director of the Authority.

Construction Funds are created for the purpose of providing resources for the payment of all or any part of the remaining cost of the Initial Facilities, as defined, or for payment of all or any part of the cost to the Authority of any Additional Facilities or Improvements, as defined, in accordance with the Bond Resolutions.

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

The obligations of the Authority under the reimbursement agreements between BNS and the Authority are payable from the portion of the rentals received by the Authority in respect of the facilities financed or refinanced with the proceeds of the bonds issued under the 1970 Bond Resolution or the 1978 Bond Resolution, as appropriate, and not from any rentals received by the Authority in respect of the government facilities financed or refinanced with the proceeds of any Government Facilities Bonds issued under the 1995 Bond Resolution and allocable to such Government Facilities Bonds.

No reserve account is established under the 1995 Bond Resolution.

On July 2, 2003, amounts available for deposit to sinking fund were used to pay bonds principal and interest maturities aggregating $90,717,326, scheduled for payment on such date.

8) Bonds payable:

Bonds payable as of June 30, 2003 and 2002 were as follow:

Description	2003	2002
Office Buildings Bonds –		
Serial Bonds, maturing through 2010, with interest rates ranging from 4 1/2% to 6 9/10%	$ 21,060,000	$ 28,045,000
Term Bonds, maturing through 2021, with interest rates ranging from 5 1/2% to 6%	37,315,000	81,745,001
Capital Appreciation Bonds, maturing through 2006, with interest rates ranging from 6 3/5% to 7 3/20%	13,040,342	22,207,072
Tax-exempt components maturing through 2008, with interest rates ranging from 5 ½% to 5 3/5%	10,520,000	10,520,000
	81,935,342	142,517,073
Public Education and Health Facilities Bonds –		
Serial Bonds, maturing through 2010, with interest rates ranging from 4 1/2% to 6 3/5%	155,560,000	196,035,000
Term Bonds, maturing through 2021, with interest rates ranging from 5% to 5 3/4%	-	206,805,000
Capital Appreciation Bonds, maturing through 2006, with interest rates ranging from 5% to 6 7/10%	42,627,494	52,039,276
Tax-exempt components maturing through 2007, with interest rates ranging from 5 ½% to 5 3/5%	61,640,000	61,640,000
Indexed inverse floaters maturing through 2016, with interest rates ranging from 3 ¾% to 4 4/5%	-	46,000,000
	259,827,494	562,519,276
Government Facilities Revenue Bonds -		
Serial Bonds maturing through 2025, with interest rates ranging from 4 1/4% to 6 3/4%	878,915,000	535,155,000
Term Bonds Maturing through 2036, with interest rates ranging from 5% to 5 3/4%	778,810,000	842,095,000
Capital Appreciation Bonds, maturing through 2031, with interest rates ranging from 5 1/10% to 5 1/2%	129,052,694	64,780,189
	1,786,777,694	1,442,030,189
Total bonds outstanding	2,128,540,530	2,147,066,538
Less: Bond discounts	(34,345,403)	(42,644,147)
Deferred loss on bonds defeased	(41,848,857)	(9,155,825)
Deferred bond issuance costs	(1,751,201)	(5,319,524)
Plus: Bond premiums	48,930,885	11,703,208
Net bonds payable	2,099,525,954	2,101,650,250
Less: Current portion	(42,315,000)	(64,812,782)
	$ 2,057,210,954	$ 2,036,837,468

Aggregate maturities of sinking funds' amortization requirements on bonds (excluding discounts and premiums) and related interest payments in future years are as follows:

Year ending June 30,	Principal	Interest
2004	$ 33,074,619	$ 108,234,817
2005	26,276,483	110,265,426
2006	53,979,588	109,158,916
2007	56,854,983	109,448,090
2008	73,056,893	95,949,316
2009-2013	419,446,516	434,005,774
2014-2018	382,170,000	336,034,547
2019-2023	298,990,000	241,432,669
2024-2028	295,490,000	167,915,759
2029-2033	256,618,794	123,780,290
2034-2038	190,570,000	20,681,290
Total principal outstanding	2,086,527,876	1,856,906,894
Add: Accreted value on bonds outstanding	42,012,654	-
	$ 2,128,540,530	$ 1,856,906,894

Activity of bonds payable during the year ended June 30, 2003 is as follow:

	June 30, 2003				
	2002	Increase	Decrease	2003	Current Portion
Office Building Bonds -					
Serial Bonds	$ 28,045,000	$ -	$ (6,985,000)	$ 21,060,000	$ 2,135,000
Terms Bonds	81,745,001	-	(44,430,001)	37,315,000	-
Capital Appreciation Bonds	22,207,072	908,269	(10,074,999)	13,040,342	3,605,000
Tax-Exempt Bonds	10,520,000	-	-	10,520,000	-
	142,517,073	908,269	(61,490,000)	81,935,342	5,740,000
Office Building Bonds -					
Serial Bonds	196,035,000	-	(40,475,000)	155,560,000	24,775,000
Terms Bonds	206,805,000	-	(206,805,000)	-	-
Capital Appreciation Bonds	52,039,276	2,398,219	(11,810,001)	42,627,494	11,800,000
Tax-Exempt Bonds	61,640,000	-	-	61,640,000	-
Indexed Inverse Floaters Bonds	46,000,000	-	(46,000,000)	-	-
	562,519,276	2,398,219	(305,090,001)	259,827,494	36,575,000
Public Education and Health Facilities Bonds -					
Serial Bonds	535,155,000	371,480,000	(27,720,000)	878,915,000	-
Terms Bonds	842,095,000	34,525,000	(97,810,000)	778,810,000	-
Capital Appreciation Bonds	64,780,189	64,272,505	-	129,052,694	-
	1,442,030,189	470,277,505	(125,530,000)	1,786,777,694	-
Total bonds outstanding	2,147,066,538	473,583,993	(492,110,001)	2,128,540,530	42,315,000
Less: Bonds discount	(42,644,147)	-	8,298,744	(34,345,403)	-
Deferred loss on bond defeased	(9,155,825)	(34,769,997)	2,076,965	(41,848,857)	-
Deferred bond issuance cost	(5,319,524)	(647,318)	4,215,641	(1,751,201)	-
Plus: Bond premiums	11,703,208	42,107,219	(4,879,542)	48,930,885	-
Total bonds payable, net	$ 2,101,650,250	$ 480,273,897	$ (482,398,193)	$ 2,099,525,954	$ 42,315,000

Activity of long-term debt during the year ended June 30, 2002 is as follow:

	June 30, 2002				
	2001	Increase	Decrease	2002	Current Portion
Office Building Bonds -					
Serial Bonds	$ 41,660,000	$ -	$ (13,615,000)	$ 28,045,000	$ 6,985,000
Terms Bonds	91,805,000	-	(10,059,999)	81,745,001	-
Capital Appreciation Bonds	41,977,463	2,554,276	(22,324,667)	22,207,072	4,323,301
Tax-Exempt Bonds	10,520,000	-	-	10,520,000	-
	185,962,463	2,554,276	(45,999,666)	142,517,073	11,308,301
Office Building Bonds -					
Serial Bonds	246,820,000	-	(50,785,000)	196,035,000	37,705,000
Terms Bonds	264,595,000	-	(57,790,000)	206,805,000	-
Capital Appreciation Bonds	60,503,743	3,355,533	(11,820,000)	52,039,276	5,079,481
Tax-Exempt Bonds	61,640,000	-	-	61,640,000	-
Indexed Inverse Floaters Bonds	46,000,000	-	-	46,000,000	-
	679,558,743	3,355,533	(120,395,000)	562,519,276	42,784,481
Public Education and Health Facilities Bonds -					
Serial Bonds	339,565,000	277,715,000	(82,125,000)	535,155,000	10,720,000
Terms Bonds	407,355,000	456,885,000	(22,145,000)	842,095,000	-
Capital Appreciation Bonds	8,665,421	56,114,768	-	64,780,189	-
	755,585,421	790,714,768	(104,270,000)	1,442,030,189	10,720,000
Total bonds outstanding	1,621,106,627	796,624,577	(270,664,666)	2,147,066,538	64,812,782
Less: Bonds discount	(34,726,576)	(13,741,185)	5,823,614	(42,644,147)	-
Deferred loss on bond defeased	-	(9,155,825)	-	(9,155,825)	-
Deferred bond issuance cost	-	(5,319,524)	-	(5,319,524)	-
Plus: Bond premiums	-	11,703,208	-	11,703,208	-
Total bonds payable, net	$ 1,586,380,051	$ 780,111,251	$ (264,841,052)	$ 2,101,650,250	$ 64,782,782

The maturities are funded by debt service rental revenue collected from the lessees. The bonds are secured by a pledge of the rentals of government facilities financed or refinanced by such bonds and leased by the Authority to departments, agencies, and instrumentalities of the Commonwealth of Puerto Rico.

The good faith and credit of the Commonwealth of Puerto Rico are pledged for the payment or advance of such rentals. The payment of principal and interest on the bonds is further secured by the guaranty of the Commonwealth under which the Commonwealth, pledges to draw from any funds available in the Treasury of Puerto Rico such sums as may be necessary to cover any deficiency in the amount required for the payment of principal and interest on the Bonds, in an aggregate principal amount not exceeding $2.5 billion.

The Authority's bonds payable are subject to the arbitrage rebate regulations issued by the Internal Revenue Service that require rebate to the federal government of excess investment earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier.

9) Advance refunding and defeased bonds:

During the years ended June 30, 2003 and 2002, the Authority issued certain bonds as follows:

A) On October 10, 2002, the Authority issued $131,445,000 Government Facilities Revenue Refunding Bonds, Series F, $62,000,000 Government Facilities Revenue Bonds, Series G and $272,717,418 Government Facilities Revenue Refunding Bonds, Series H (Forward Delivery). The proceeds from the Series F Bonds were used for the purpose of refunding certain bonds issued under the 1978 Bond Resolution ($15,885,000) and the 1995 Bond Resolution ($114,810,000). The proceeds of Series G Bonds were used to provide funds; (i) to pay a portion of the costs of construction of certain buildings and facilities to be leased by the Authority to various departments and instrumentalities of the Commonwealth, (ii) to pay capitalized interest, and (iii) to pay costs of issuance of Series G Bonds. The proceeds of Series H Bonds were used for the purpose of refunding certain bonds issued under the 1970 Bond Resolution ($44,430,000) and the 1978 Bond Resolution ($239,690,000).

   As a result of this advance refunding, the Authority decreased its debt services payments by approximately $41.6 million over the following 23 years. This advance refunding resulted in an economic gain (the difference between the present values of the debt services payments of the refunded and refunding bonds) of approximately $35.7 million.

B) On January 11, 2002, the Authority issued $185,290,000 Government Facilities Revenue Refunding Bonds, Series C, and $553,733,795 Government Facilities Revenue Bonds, Series D (Improvement Bonds). On January 18, 2002, the Authority issued $49,999,097 Government Facilities Revenue Bonds, Series E.

   The Series C Refunding Bonds were issued for the purpose of refunding certain bonds issued under the 1970 Bond Resolution ($20,131,458), 1978 Bond Resolution ($72,850,000) and the 1995 Bond Resolution ($89,610,000). The Series D Bonds were issued to; i) repay the principal component of notes issued by the Authority to Government Development Bank for Puerto Rico ($344,000,000) as interim financing for the construction of certain buildings and facilities, ii) to deposit $193,669,258 in the 1995 Construction Fund to pay the remaining cost of such buildings and facilities, and iii) to pay costs of issuance. The Series E Bonds were issued to provide funds i) to repay the interest component of notes issued by the Authority to Government Development Bank for Puerto Rico and ii) to repay notes issued by the Authority to Government Development Bank for Puerto Rico for certain health facilities.

   As a result of this advance refunding, the Authority decreased its debt service payments during the following three (3) years and increased its aggregated debt service payments by approximately $29.6 million over the following 20 years. The advance refunding resulted in an economic gain of approximately $8.5 million.

From the proceeds of the advance refunding of October 30, 2002 and January 11, 2002, the Authority deposited, approximately, $439 million and $196 million, respectively, in irrevocable trust funds with various fiscal agents for investment in certain direct obligations of the United States of America to provide for all future debt service payments of the defeased bonds. In addition, over the years, the Authority has defeased certain other bonds by placing bond proceeds in irrevocable trusts to provide for all future debt service payments of such defeased bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the Authority's financial statements. Total bonds defeased as of June 30, 2003 and 2002, aggregates approximately $1.83 billion and $1.4 billion, respectively.

10) Borrowings under line of credit:

As of June 30, 2003, borrowings under line of credit represent the outstanding balance due under a line of credit arrangement with the GDB, bearing interest at 1.50% over the cost of commercial paper issued by the GDB (2.57% as of June 30, 2003) to fund the line. Under the terms of the line of credit agreement, the Authority has a limit of $400 million to be used for the acquisition, construction and development of additional facilities. There was no line of credit agreement as of June 30, 2002.

11) Obligation under capital lease:

The Authority has entered into a Master Equipment Lease for computer equipment under a capital lease agreement, which substantially covers the estimated useful lives of the respective assets. Future minimum lease payments, all of which are due during the year ending June 30, 2004, aggregate $3,642,183, of which $223,193 represents interest. Activity of obligations under capital lease during the years ended June 30, 2003 and 2002, is as follows:

Description	2003	2002
Beginning balance	$ 6,628,464	$ 9,641,261
Increase	-	-
Decrease	(3,209,474)	(3,012,797)
Ending balance	$ 3,418,990	$ 6,628,464

12) Employees' retirement plan:

The Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the "System") is a cost sharing multiple-employer defined-benefit pension plan sponsored by, and reported as a component unit of, the Commonwealth.

The System was created under Act No. 447 (the "Act"), approved on May 15, 1951, as amended, and became effective on January 1, 1952. All regular appointed and temporary employees of the Authority under age fifty-five (55) at the date of employment become plan participants of the System.

The System provides retirement, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits generally vest after ten (10) years of plan participation.

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest thirty-six (36) months of compensation recognized by the System. The annuity, for which a plan member is eligible, is limited to a minimum of $200 per month and a maximum of 75 percent of the average compensation.

Contribution requirements, which are established by Law and are not actuarially determined, are as follows:

Commonwealth	9.275% of applicable payroll
Employees:	
Hired on or before March 31, 1990	5.775% of monthly gross salary up to $550
	8.275% of monthly gross salary over $550
Hired on or after April 1, 1990	8.275% of monthly gross salary

On September 24, 1999, an amendment to Act, which created the System, was enacted with the purpose of establishing a defined contribution plan known as System 2000.

System 2000 became effective on January 1, 2000. Employees participating in the defined-benefit plan (the "traditional plan") at December 31, 1999, had the option to either stay in the traditional plan or transfer to System 2000. Persons employed on or after January 1, 2000 are only allowed to become members of System 2000.

System 2000 is a hybrid defined-contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets, which is invested by the System, together with those of System 2000 benefit plan. The Commonwealth does not guarantee benefits at retirement age. The annuity is based on a formula which assumes that each year the participants' contribution (with a minimum of 8.275 percent of the participants' salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not granted under System 2000. The employers' contributions (9.275% of the employee's salary) are used to fund the traditional plan.

System 2000 reduces the retirement age from sixty-five (65) years to sixty (60) years for those employees who joined the current plan on or after January 1, 2000.

Total employee and employer contributions (rounded) for the years ended June 30, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
Traditional Plan -			
Employer	$3,313,000	$ 2,776,000	$ 3,039,000
Employee	$2,910,000	$ 2,430,000	$ 2,531,000
System 2000 -			
Employer	$281,000	$ 134,000	-
Employee	$253,000	$ 120,000	-

Segregation of employee and employer contributions into the traditional plan and System 2000, for the year ended June 30, 2001 are not available, and accordingly, were reflected as a lump sum amount in the traditional plan.

The System issues publicly available financial reports that include their basic financial statements and required supplementary information. Those reports may be obtained by writing to the System's administrator at 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918. Telephone number (787) 756-4410.

On July 13, 2000, the Commonwealth approved legislation that offered an early retirement option to qualifying employees as of July 31, 2000. Total pension costs unpaid as of June 30, 2003, estimated at approximately $3,605,000, have been accrued in the accompanying statement of net assets. Such balance is estimated to be paid as follows:

Year ending June 30,	Amount
2004	$ 2,120,300
2005	1,230,400
2006	254,300
	$ 3,605,000

Activity of accrued pension costs during the years ended June 30, 2003 and 2002, is as follows:

Description		2003		2002
Beginning balance	$	10,835,011	$	11,307,976
Increase		-		3,978,015
Decrease		(7,229,986)		(4,450,980)
Ending balance	$	3,605,025	$	10,835,011

13) Commitments:

The Authority has entered into various contracts with outside contractors for the construction of buildings and other facilities. The Authority records the liability for these contracts as progress billings are received, based on completed work. The uncompleted portion of these contracts approximated $280 million and $388 million as of June 30, 2003 and 2002, respectively.

14) Contingent liabilities:

During fiscal year 1997, Authority employees filed a claim requesting the payment of vacation amounts earned plus penalties as required by statute for such amounts not paid in accordance with the applicable laws. As of June 30, 2003, there is an accrual of approximately $3,700,000 to cover the unpaid portion of a settlement reached in this case.

Also during 2003, the Puerto Rico Department of Treasury claimed approximately $4,913,000 representing unpaid interest and charges on income tax withheld. Such amount has been recorded as other non-operating expense in the accompanying statement of revenues, expenses and changes in net assets.

In addition, the Authority is defendant and/or co-defendant in various lawsuits for alleged breach of contracts and other actions arising in the ordinary course of business. Management, based on the advice of the legal counsel, has recorded reserves in the accompanying financial statements to cover for possible liabilities related to these claims. These reserves are recorded as part of accrued expenses in the accompanying statement of net assets.

15) Arbitrage liability:

The Authority is in the process of determining its compliance with the arbitrage regulations pursuant to Section 148 (f) of the Internal Revenue Code and Regulations. The Authority, based on preliminary calculations of the rebate requirement has estimated a potential liability of approximately $4,500,000. Such amount has been recorded as a provision of estimated arbitrage liability in the accompanying financial statements, included as part of the accrued expenses. Commencing during fiscal year 2004, the arbitrage liability will be calculated and recorded annually.

16) Transfers in from other governmental agencies:

During the year ended June 30, 2002, the Authority received $200,539 representing the “off-site” cost incurred by the Puerto Rico Highways and Transportation Authority in the construction of a school in Coamo, Puerto Rico.

17) Reclassifications:

Certain reclassifications have been made to the 2002 financial statements in order to conform to the 2003 financial statements presentation.

18) Subsequent events:

The Authority is currently in the process of structuring a refinancing of various of its outstanding bonds in connection with a new bond issuance with the purpose of raising additional funds for scheduled construction projects, reducing the balance due under the line of credit with GDB and improving the interest rate and reduce interest cost.

SCHEDULE 1

PUBLIC BUILDINGS AUTHORITY
(A Blended Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF CHANGES IN SINKING FUND ACCOUNTS

YEAR ENDED JUNE 30, 2003

	TOTAL	BOND SERVICE ACCOUNT	RESERVE AND REDEMPTION ACCOUNT
OFFICE BUILDING BONDS:			
Balance at June 30, 2002	$ 2,738,010	$ 2,738,010	$ -
Receipts:			
Debt Service Rentals	23,628,475	23,628,475	-
Disbursements:			
Payment of Bonds interest	6,568,475	6,568,475	-
Payment of Bonds principal	17,060,000	17,060,000	-
	23,628,475	23,628,475	-
Balance at June 30, 2003	$ 2,738,010	$ 2,738,010	$ -
PUBLIC EDUCATION & HEALTH FACILITIES BONDS:			
Balance at June 30, 2002	$ 3,276,853	$ 1,747	$ 3,275,106
Receipts:			
Debt Service Rentals	76,662,350	76,662,350	-
Investments Income	39,552	-	39,552
	76,701,902	76,662,350	39,552
Disbursements:			
Payment of Bonds interest	27,147,350	27,147,350	-
Payment of Bonds principal	49,515,000	49,515,000	-
	76,662,350	76,662,350	-
Balance at June 30, 2003	$ 3,316,405	$ 1,747	$ 3,314,658
GOVERNMENT FACILITIES BONDS:			
Balance at June 30, 2002	$ 158,347	$ 158,347	$ -
Receipts:			
Debt Service Rentals	76,563,662	76,563,662	-
Investments Income	1,584	1,584	-
	76,565,246	76,565,246	-
Disbursements:			
Payment of Bonds interest	64,829,662	64,829,662	-
Payment of Bonds principal	11,734,000	11,734,000	-
	76,563,662	76,563,662	-
Balance at June 30, 2003	$ 159,931	$ 159,931	$ -

PUBLIC BUILDINGS AUTHORITY
(A Blended Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF OPERATING CASH ACCOUNTS

YEAR ENDED JUNE 30, 2003

DESCRIPTION	BANCO POPULAR	BANCO BILBAO VIZCAYA	BANCO GUBERNAMENTAL DE FOMENTO
BALANCE AT JUNE 30, 2002	$ (409,324)	$ 36,339,526	$ 11,000,000
Deposits:			
Rent collected	15,532,223	743,407	192,990,841
Interest	1,043	2,044	218,683
Other deposits, mainly legislative appropriations	8,575,109	-	-
Tranfers from (to) other accounts	11,000,000	27,516,675	(11,000,000)
Disbursements:			
For current expenses, transfers to Bond Service Accounts and others	(34,324,763)	(64,591,007)	(105,186,749)
BALANCE AT JUNE 30, 2003	$ 374,288	$ 10,645	$ 88,022,775
	(A)	(A)	(B)

(A) Balance included in cash and cash equivalents in the accompanying Statement of Net Assets

(B) Balance included in restricted assets in the accompanying Statement of Net Assets

PUBLIC BUILDINGS AUTHORITY
(A Blended Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF RENTAL REVENUES AND RECEIVABLES

DESCRIPTION	REVENUES YEAR ENDED JUNE 30, 2003	RECEIVABLES AS OF JUNE 30, 2003
OFFICE BUILDINGS:		
Debt service rentals - bonds	$ 28,787,142	$ -
Operating, administrative and equipment replacement reserve rentals	38,606,728	20,507,364
Debt service rentals - notes	159,498	-
	67,553,368	20,507,364
PUBLIC EDUCATION BUILDINGS:		
Debt service rentals - bonds	58,408,375	-
Operating, administrative and equipment replacement reserve rentals	67,265,847	14,591,952
	125,674,222	14,591,952
HEALTH FACILITIES:		
Debt service rentals - bonds	28,058,881	-
Operating, administrative and equipment replacement reserve rentals	7,331,507	30,995,272
	35,390,388	30,995,272
	$ 228,617,978	$ 66,094,588

PUBLIC BUILDINGS AUTHORITY
(A Blended Component Unit of the Commonwealth of Puerto Rico)

STATEMENTS OF CAPITAL IMPROVEMENTS PROGRAM
COMPARED TO BUDGET

YEAR ENDED JUNE 30, 2003

	ACTUAL	BUDGET
OFFICE BUILDINGS	$ 20,310,470	$ 33,196,533
HEALTH AND WELFARE FACILITIES	123,715	-
FIREHOUSE	613,986	1,913,880
EDUCATIONAL FACILITIES	257,068,700	370,229,930
CORRECTIONAL FACILITIES	8,955,750	8,940,044
AUTHORITY'S EQUIPMENT	1,408,031	1,897,193
	$ 288,480,652	$ 416,177,580

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

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

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

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

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

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

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

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

President

Secretary

Effective Date:

Authorized Representative

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

Authorized Officer of Insurance Trustee