

\$1,499,910,000

Puerto Rico Highways and Transportation Authority

\$800,000,000 Transportation Revenue Bonds (Series K)

\$598,285,000 Transportation Revenue Refunding Bonds (Series L)

\$101,625,000 Highway Revenue Refunding Bonds (Series BB)

The Transportation Revenue Bonds (Series K) (the “Series K Bonds”) and the Transportation Revenue Refunding Bonds (Series L) (the “Series L Bonds”) are being issued by the Puerto Rico Highways and Transportation Authority (the “Authority”) pursuant to Resolution No. 98-06 adopted by the Authority on February 26, 1998, as amended (the “1998 Resolution”), for the purpose of financing various highway projects and refunding certain of the Authority’s Transportation Revenue Bonds. The Highway Revenue Refunding Bonds (Series BB) (the “Series BB Bonds”) are being issued by the Authority pursuant to Resolution No. 68-18 adopted by the Authority on June 13, 1968, as amended (the “1968 Resolution”), for the purpose of refunding certain of the Authority’s Highway Revenue Bonds.

The Series K Bonds, the Series L Bonds, the outstanding bonds of the Authority previously issued under the 1998 Resolution, and any additional bonds that the Authority may from time to time issue under the 1998 Resolution (collectively, the “Transportation Revenue Bonds”) are payable from, and are secured by, a pledge of certain revenues of the Authority, which include: (i) the total amount of excise taxes, up to \$120 million per fiscal year, imposed by the Commonwealth of Puerto Rico (the “Commonwealth”) on certain petroleum products; (ii) toll revenues of the Authority’s traffic facilities that were not financed with Highway Revenue Bonds; (iii) certain investment earnings; and (iv) the 1968 Resolution Revenues (as described below) available after payment of debt service on the Authority’s outstanding Highway Revenue Bonds (collectively, the “1998 Resolution Revenues”).

The Series BB Bonds, the outstanding bonds of the Authority previously issued under the 1968 Resolution, and any additional bonds that the Authority may from time to time issue under the 1968 Resolution (collectively, the “Highway Revenue Bonds”) are payable from, and are secured by, a pledge of certain revenues of the Authority, which include: (i) all current gasoline taxes, a portion of the current gas oil and diesel oil taxes, and a portion of the current motor vehicle license fees allocated to the Authority by the Commonwealth; (ii) all toll revenues of the Authority’s traffic facilities financed with Highway Revenue Bonds and any extensions and improvements thereto; and (iii) certain investment earnings (collectively, the “1968 Resolution Revenues”).

All of the aforesaid revenues of the Authority that constitute taxes and license fees are subject to being applied first to the payment of general obligation debt of and debt guaranteed by the Commonwealth, if and to the extent that all other Commonwealth revenues are not sufficient therefor.

The Series K Bonds, the Series L Bonds and the Series BB Bonds (collectively, 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 each January 1 and July 1, commencing on January 1, 2006.
- The inside cover pages of this Official Statement contain information concerning the maturity schedule, interest rates and yields of the Bonds.
- The scheduled payment of principal and interest on some of the Bonds when due will be guaranteed under insurance policies to be issued concurrently with the delivery of the Bonds by CDC IXIS Financial Guaranty North America, Inc., Financial Guaranty Insurance Company, MBIA Insurance Corporation, Financial Security Assurance Inc., and Ambac Assurance Corporation, as indicated on the inside cover pages of this Official Statement.
- In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) the Bonds and the interest thereon are exempt from state, Commonwealth and local income taxation. Interest on the Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects of the Bonds, see “TAX MATTERS” herein.
- It is expected that settlement for the Bonds will occur on or about October 4, 2005.

The Bonds are not a debt of the Commonwealth or any of its political subdivisions, other than the Authority, and neither the Commonwealth nor any such subdivisions, other than the Authority, is liable thereon.

Citigroup

Lehman Brothers

UBS Financial Services Inc.

**Banc of America Securities LLC
Merrill Lynch & Co.
Samuel A. Ramirez & Co., Inc.**

**Goldman, Sachs & Co.
Morgan Stanley**

**JP Morgan
Raymond James & Associates, Inc.
Wachovia Bank, National Association**

\$1,499,910,000
Puerto Rico Highways and Transportation Authority

\$800,000,000 Transportation Revenue Bonds
(Series K)

\$598,285,000 Transportation Revenue
Refunding Bonds (Series L)

<u>Maturity</u> <u>July 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Maturity</u> <u>July 1</u>		<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2007	\$ 7,450,000	3%	3.08%	2011	(C)	\$ 805,000	3.30%	3.39%
2008	7,675,000	3.20	3.22	2012	(C)	830,000	3½	3.53
2009	7,920,000	3.30	3.35	2013	(C)	860,000	3⅝	3.66
2010	4,455,000	3.40	3.48	2014	(C)	895,000	3.70	3.77
2010	3,895,000	5	3.48	2015	(C)	925,000	3.80	3.85
2011	3,610,000	3⅝	3.65	2016	(C)	960,000	3⅞	3.93
2011	5,085,000	5	3.65	2017	(C)	1,000,000	5¼	3.96
2012	2,375,000	3¾	3.81	2018	(C)	11,465,000	5¼	4.01
2012	6,710,000	5	3.81	2019	(C)	12,065,000	5¼	4.04
2013	525,000	3⅞	3.91	2020	(C)	9,870,000	4	4.11
2013	8,980,000	5	3.91	2021	(F)	20,230,000	5¼	4.03
2014	3,005,000	3⅞	3.99	2022	(F)	8,580,000	5¼	4.07
2014	6,970,000	5	3.99	2023	(M)	9,050,000	5¼	4.10
2015	10,440,000	4	4.07	2024	(M)	7,370,000	5¼	4.13
2016	(1) 10,860,000	5	4.16	2025	(M)	765,000	4⅛	4.16
2017	(1) 11,400,000	5	4.21	2030	(F)(2)	19,205,000	5¼	4.25
2018	(1) 11,970,000	5	4.25	2035	(M)(2)	540,000	4¼	4.29
2019	(1) 12,570,000	5	4.28	2035	(M)(2)	153,005,000	5¼	4.29
2020	770,000	4.30	4.33	2038	(A)(2)	191,755,000	5¼	4.33
2020	(1) 12,430,000	5	4.33	2041	(C)(2)	148,110,000	5¼	4.45
2021	(1) 13,855,000	5	4.37					
2022	(1) 14,545,000	5	4.39					
2023	(1) 15,275,000	5	4.41					
2024	(1) 16,035,000	5	4.42					
2025	(1) 795,000	4.40	4.43					
2025	16,045,000	5	4.43					
2026	(1) 17,675,000	5	4.45					
2027	(1) 18,560,000	5	4.46					
2030	(1)(2) 61,440,000	5	4.51					
2035	(2) 1,575,000	4½	4.55					
2035	(1)(2) 123,065,000	5	4.55					
2040	(1)(2) 159,050,000	5	4.61					
2045	(1)(2) 202,990,000	5	4.65					

- (A) Insured by Ambac Assurance Company.
(C) Insured by CDC IXIS Financial Guaranty North America, Inc.
(F) Insured by Financial Guaranty Insurance Company.
(M) Insured by MBIA Insurance Corporation.

- (1) Priced to the first call date on July 1, 2015 at par.
(2) Term bond

**\$101,625,000 Highway Revenue
Refunding Bonds (Series BB)**

<u>Maturity</u>		<u>Principal</u>	<u>Interest</u>	<u>Yield</u>
<u>July 1</u>		<u>Amount</u>	<u>Rate</u>	
2012	(A)	\$ 70,000	3.30%	3.38%
2013	(A)	75,000	3½	3.51
2014	(A)	80,000	3.60	3.62
2015	(A)	80,000	3.60	3.70
2016	(A)	85,000	3.70	3.78
2017	(A)	19,075,000	5¼	3.84
2018	(A)	20,080,000	5¼	3.89
2022	(FS)	62,080,000	5¼	4.07

(A) Insured by Ambac Assurance Corporation.

(FS) Insured by Financial Security Assurance Inc.

No dealer, broker, sales representative or other person has been authorized by the Authority or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority or any Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been obtained from the Authority and other official sources that are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs or condition of the Authority since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

Other than with respect to information concerning CDC IXIS Financial Guaranty North America, Inc. (“CIFG NA”), Financial Guaranty Insurance Company (“FGIC”), MBIA Insurance Corporation (“MBIA”), Financial Security Assurance, Inc. (“FSA”), and Ambac Assurance Corporation (“Ambac”) contained under the caption “Bond Insurance” and Appendices VI, VII, VIII, IX AND X, respectively, none of the information in this Official Statement has been supplied or verified by CIFG NA, FGIC, MBIA, FSA, or Ambac. CIFG NA, FGIC, MBIA, FSA, and Ambac make no representation or warranty, express or implied, as to the accuracy or completeness of such information, the validity of the Bonds, or the tax exempt status of the interest on the Bonds.

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\$1,499,910,000
Puerto Rico Highways and Transportation Authority

\$800,000,000 Transportation Revenue Bonds (Series K)
\$598,285,000 Transportation Revenue Refunding Bonds (Series L)
\$101,625,000 Highway Revenue Refunding Bonds (Series BB)

INTRODUCTION

This Official Statement sets forth information in connection with the sale by Puerto Rico Highways and Transportation Authority (the “Authority”) of \$800,000,000 aggregate principal amount of its Transportation Revenue Bonds (Series K) (the “Series K Bonds”), \$598,285,000 aggregate principal amount of its Transportation Revenue Refunding Bonds (Series L) (the “Series L Bonds”), and \$101,625,000 aggregate principal amount of its Highway Revenue Refunding Bonds (Series BB) (the “Series BB Bonds”). The Series K Bonds, the Series L Bonds and the Series BB Bonds are referred to collectively as the “Bonds.”

The Series K Bonds and the Series L Bonds will be issued pursuant to Act No. 74 of the Legislature of Puerto Rico, approved June 23, 1965, as amended (the “Authority Act”), Resolution No. 98-06 adopted by the Authority on February 26, 1998, as amended (the “1998 Resolution”), and a resolution adopted by the Authority in connection with the issuance of such bonds. The Series BB Bonds will be issued pursuant to the Authority Act, Resolution No. 68-18 adopted by the Authority on June 13, 1968, as amended (the “1968 Resolution”), and a resolution adopted by the Authority in connection with the issuance of such bonds. JPMorgan Chase Bank, N.A. acts as fiscal agent under the 1968 resolution (in such capacity, the “1968 Fiscal Agent”) and under the 1998 Resolution (in such capacity, the “1998 Fiscal Agent”).

The scheduled payment of principal of and interest on the Series L Bonds maturing on July 1, 2011 through 2020, and the Series L Bonds maturing on July 1, 2041 (the “CIFG NA Insured Bonds”) will be insured by a municipal bond insurance policy (the “CIFG NA Bond Insurance Policy”) to be issued by CDC IXIS Financial Guaranty North America, Inc. concurrently with the delivery of the Bonds. The scheduled payment of principal of and interest on the Series L Bonds maturing on July 1, 2021, July 1, 2022, and July 1, 2030 (the “FGIC Insured Bonds”) will be insured by a municipal bond insurance policy (the “FGIC Bond Insurance Policy”) to be issued by Financial Guaranty Insurance Company concurrently with the delivery of the Bonds. The scheduled payment of principal of and interest on the Series L Bonds maturing on July 1, 2023 through 2025, and the Series L Bonds maturing on July 1, 2035 (the “MBIA Insured Bonds”) will be insured by a municipal bond insurance policy (the “MBIA Bond Insurance Policy”) to be issued by MBIA Insurance Corporation concurrently with the delivery of the Bonds. The scheduled payment of principal of and interest on the Series L Bonds maturing on July 1, 2038, and the Series BB Bonds maturing on July 1, 2012 through 2018 (the “Ambac Insured Bonds”) will be insured by municipal bond insurance policies (the “Ambac Bond Insurance Policies”) to be issued by Ambac Assurance Corporation concurrently with the delivery of the Bonds. The scheduled payment of principal of and interest on the Series BB Bonds maturing on July 1, 2022 (the “FSA Insured Bonds”) will be insured by a municipal bond insurance policy (the “FSA Bond Insurance Policy”), to be issued by Financial Security Assurance, Inc. concurrently with the delivery of the Bonds. The FGIC Insured Bonds, the CIFG NA Insured Bonds, the MBIA Insured Bonds, the Ambac Insured Bonds, and the FSA Insured Bonds are herein called the “Insured Bonds.”

The Authority is issuing the Series K Bonds to finance various highway projects included in its Construction Improvement Program. The Authority is issuing the Series L Bonds to refund a portion of its Transportation Revenue Bonds and achieve debt service savings. The Authority is issuing the Series BB Bonds to refund a portion of its Highway Revenue Bonds and achieve debt service savings.

The Authority has determined to finance most of its future capital requirements, after applying other available funds, through the issuance of senior Transportation Revenue Bonds under the 1998 Resolution (“Senior Transportation Revenue Bonds”). Under the 1998 Resolution, the Authority is authorized to issue Senior Transportation Revenue Bonds for any lawful purpose of the Authority. As of the date of this Official Statement, the Authority had \$3,397,936,327 aggregate principal amount of Senior Transportation Revenue Bonds outstanding (including the accreted value of capital appreciation bonds). The Series K Bonds and Series L Bonds are Senior Transportation Revenue Bonds. The 1998 Resolution also permits the Authority to issue bonds subordinated in right of payment to the Senior Transportation Revenue Bonds (“Subordinated Transportation Revenue Bonds”) for the purpose of financing transportation projects eligible for federal assistance. As of the date of this Official Statement, the Authority had \$395,595,000 aggregate principal amount of Subordinated Transportation Revenue Bonds outstanding.

The Authority has covenanted in the 1998 Resolution not to issue additional Highway Revenue Bonds under the 1968 Resolution, other than bonds whose maturity does not extend beyond July 1, 2036 and which are issued to refund outstanding Highway Revenue Bonds to achieve debt service savings. As of the date of this Official Statement, the Authority had \$1,773,375,000 aggregate principal amount of Highway Revenue Bonds outstanding.

The aggregate outstanding debt of the Authority, including Highway Revenue Bonds, Transportation Revenue Bonds, and certain notes payable to Government Development Bank for Puerto Rico ("Government Development Bank") amounted to \$6,019,906,327 as of the date of this Official Statement.

All Senior Transportation Revenue Bonds will be secured equally and ratably under the 1998 Resolution and will be payable from 1998 Resolution Revenues (as defined below). All Subordinated Transportation Revenue Bonds will be secured equally and ratably under the 1998 Resolution (except for differences in any debt service reserve requirements related thereto as permitted by the 1998 Resolution) and will be payable from 1998 Resolution Revenues remaining after providing for the payment of debt service on Senior Transportation Revenue Bonds and providing the required debt service reserve therefor. All Highway Revenue Bonds will be secured equally and ratably under the 1968 Resolution and will be payable from 1968 Resolution Revenues (as defined below).

Based on the possibility that a significant portion of the Authority's revenues would have to be used to pay general obligation bonds of the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico") and bonds guaranteed by the Commonwealth in the unlikely event that other Commonwealth revenues are not sufficient to pay these general obligation bonds and Commonwealth guaranteed bonds, this Official Statement incorporates by reference (i) the Commonwealth's Financial Information and Operating Data Report dated May 1, 2005 (the "Commonwealth Report") included as *Appendix I* to the Official Statement, dated June 2, 2005, of the Puerto Rico Infrastructure Financing Authority relating to its Special Tax Revenue Bonds, Series 2005A and 2005B, and its Special Tax Revenue Refunding Bonds, Series 2005; and (ii) the Comprehensive Annual Financial Report of the Commonwealth for the Fiscal Year ended June 30, 2004, prepared by the Department of the Treasury of Puerto Rico (the "Commonwealth's Annual Financial Report"), which report includes the basic financial statements of the Commonwealth as of and for the Fiscal Year ended June 30, 2004.

The Commonwealth Report includes important information about the Commonwealth, including information about the economy, historical revenues and expenditures of the Commonwealth's general fund, and the debt of the Commonwealth's public sector, and should be read in its entirety.

Any official statement of the Commonwealth or of any instrumentality of the Commonwealth filed with each nationally recognized municipal securities information repository ("NRMSIR") and with the Municipal Securities Rulemaking Board ("MSRB"), or any other document filed with each NRMSIR, after the date hereof and prior to the termination of the offering of the Bonds, which supplements or amends the information appearing in the Commonwealth Report shall be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document. Any statement contained in any of the above described documents incorporated by reference shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein modifies or supersedes such statement. Any statement contained herein or in any of the above described documents shall also be deemed to be modified or superseded to the extent that a statement contained in any subsequently filed document modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

This Official Statement describes the terms of and security for the Bonds and the use of proceeds of the Bonds. Also included are summaries and descriptions of certain provisions of the 1968 Resolution and the 1998 Resolution. These descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the 1968 Resolution and the 1998 Resolution are qualified in their entirety by reference to the definitive form thereof, all references to Federal and Commonwealth laws are qualified in their entirety by reference to the complete statutes, regulations and published interpretations by Federal or Commonwealth officials, and all references to the Bonds are qualified by the forms thereof contained in the corresponding resolution and are further qualified in their entirety by reference to laws and principles of equity relating to or affecting the enforceability of creditors' rights.

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.

Capitalized terms used herein but not otherwise defined herein have the meanings assigned to them in the summaries of the 1968 Resolution and the 1998 Resolution in Appendices III and IV, respectively.

RECENT DEVELOPMENTS

Authority Increases Tolls

Effective September 10, 2005, the Authority increased tolls at each of its toll plazas by between 40% and 100% (depending on the particular toll plaza), with the average rate increase being approximately 43%. The Authority estimates that this toll revision will increase revenues by approximately \$59 million in the first full year after implementation. It is the first time since 1991 that the Authority has raised tolls. The toll increase was made in accordance with the Authority's enabling act. The Authority published its proposed new toll rates in three Puerto Rico newspapers on July 16, 2005. The Authority then announced and held public hearings in four cities and towns during the period from August 1 to August 4, 2005, at which the public was able to comment on the proposed toll increases. The report of the hearing officers was made available for review and comment by the public on August 17, 2005. In addition, the Secretary of Transportation of Puerto Rico, who is also the Executive Director of the Authority, participated in hearings held by the commission of the Puerto Rico Senate where Senate Bill 885 (discussed below) was being considered, at which hearings the proposed toll increases were discussed with the members of the commission. After considering various factors, including the report of the officers who conducted the public hearings, the Secretary of Transportation and Executive Director of the Authority publicly announced on September 8, 2005, that the new tolls would go into effect on September 10, 2005.

Proposed Legislation that would affect the Authority

Three bills have been recently introduced in the Puerto Rico Legislature that, if ultimately enacted into law, would affect the Authority.

House Bill 1809 was introduced in the Puerto Rico House of Representatives on August 10, 2005, by members of the two major political parties, namely the New Progressive Party (PNP), which has a majority in both the House of Representatives and the Senate, and the Popular Democratic Party (PPD), which is the Governor's party. However, the Chairman of the House Appropriations and Budget Committee (one of the PNP sponsors of the bill) has officially withdrawn his support for the bill. The bill would restrict the ability of four Puerto Rico public corporations, namely the Authority, the Puerto Rico Electric Power Authority, the Puerto Rico Aqueduct and Sewer Authority and the University of Puerto Rico, to increase their toll, rate or fee structures. In the case of the Authority, the bill would limit the maximum increase in tolls to 25% during the current fiscal year, 15% in fiscal year 2006-2007, and 8% in fiscal year 2007-2008. For subsequent fiscal years, the bill provides that tolls and Tren Urbano fares shall increase a minimum of 10% and a maximum of 33% during each four-year period, unless the Legislature approves a different increase. The bill contains a retroactivity clause providing that any rate, toll or fee increase approved within the six months prior to the approval of the bill must be reduced to the maximum increase authorized by the bill within 30 days of the bill's enactment or the increase shall be voided.

As described above, effective September 10, 2005, the Authority increased tolls at each of its toll plazas by between 40% and 100% (depending on the particular toll plaza), with the average toll increase being approximately 43%. If House Bill 1809 is enacted into law, the Authority would be required under the terms of the bill to reduce the amount of the toll increase to 25% per toll plaza for fiscal year 2006, with the ability to increase such tolls another 15% in fiscal year 2007 and another 8% in fiscal year 2008. Based on the Authority's calculations, if House Bill 1809 is enacted into law during the current fiscal year, and taking into account the issuance of the Bonds and the related refunding, such a reduction in tolls would cause the ratio of the Authority's projected fiscal 2006 revenues available to pay debt service on the Senior Transportation Revenue Bonds outstanding under the 1998 Resolution to the maximum annual principal and interest on such bonds to be reduced from 167% to 157%, and the ratio of the Authority's projected fiscal 2006 revenues available to pay debt service on the all Senior Transportation Revenue Bonds and Subordinated Transportation Revenue Bonds outstanding under the 1998 Resolution to the maximum annual principal and interest on such bonds to be reduced from 150% to 141%.

The Secretary of Transportation of Puerto Rico (who is also the Executive Director of the Authority) publicly expressed his opposition to the proposed bill in its present form, because it reduces the Authority's fiscal independence by limiting its ability to fix tolls as the Authority determines to be necessary. The Governor of Puerto Rico has also publicly expressed his opposition to the proposed bill in its present form and his willingness to veto legislation restricting the ability of public corporations to control their own tolls, tariffs and rates.

Senate Bill 885, introduced in the Puerto Rico Senate on August 10, 2005, and sponsored by several members of the PNP, was approved by the Senate on September 12, 2005. The proposed bill would assign to the Authority additional vehicle registration fee revenues estimated by the bill's sponsors to be equal to the amount of additional toll revenues resulting from the recent toll increase. However, the bill, as initially proposed, would prohibit any toll increase without the approval of the Legislature. Senate Bill 885 was amended prior to its approval by the Senate to eliminate this prohibition, and the bill as approved does not restrict the Authority's ability to raise tolls. However, the intent of the bill is to make the toll increases that went into effect on September 10, 2005, unnecessary. The Secretary of Transportation of Puerto Rico and Executive Director of the Authority had publicly expressed his opposition to this proposed bill in its original form because it reduced the Authority's fiscal independence by limiting its ability to fix tolls as the Authority determines to be necessary. The Governor of Puerto Rico had also publicly expressed his opposition to the proposed bill in its original form and his willingness to veto it if it restricted the Authority's ability to raise tolls.

After the September 8 announcement of the recent toll increases, the principal sponsor of Senate Bill 885 publicly expressed disappointment with the Authority's decision to implement the toll increases, and urged the Authority to wait until Senate Bill 885 becomes law. This senator also commented that the recent toll increases were implemented in violation of a 1985 law that establishes a procedure that must be followed by certain public corporations when approving rate increases. This 1985 law by its terms applies to the Puerto Rico Electric Power Authority, the Puerto Rico Aqueduct and Sewer Authority, and any other public corporation or governmental instrumentality providing "basic and essential public services." The 1985 law by its terms also previously applied to the Puerto Rico Telephone Authority and the Puerto Rico Communications Authority, but these entities were removed from the scope of the law in 1996 as a result of the adoption of federal legislation. The Authority is not specifically mentioned in the law. The procedures established by the 1985 law are more detailed than those established by the Authority's enabling act. However, both laws require that public hearings be publicly announced and held, which the Authority has done. The 1985 law also authorizes the Legislative Assembly to "revise" the tolls set by the public corporations subject to the law through a concurrent resolution or through a resolution of either the House of Representatives or the Senate. The Authority's position is that the 1985 law is not applicable to the Authority.

House Joint Resolution 995 was introduced in the Puerto Rico House of Representatives on September 8, 2005 by a member of the PNP. The joint resolution provides that, in order to increase ridership, Tren Urbano fares must be reduced from \$1.50 to \$0.75. Tren Urbano fares are not pledged to the payment of the Bonds.

The Authority cannot predict whether any of these bills, or any other bill affecting the Authority, will ultimately become law.

Laws affecting the Authority's ability to raise tolls and Tren Urbano fares could adversely affect the Authority's ability to finance its capital improvement program.

Financial Statements of the Authority Will Be Restated

The financial statements included in this Official Statement treat interest and other financing expenses incurred by the Authority in connection with the construction of its transportation facilities as an expense in the year in which it was incurred. The Authority's independent auditors, Ernst & Young, recently concluded that, in light of the recent implementation of GASB accounting pronouncement No. 34 at the Authority, FASB No. 34 does not permit this expense recognition treatment and, accordingly, that the Authority should have capitalized these expenses, with expense recognition occurring in the form of depreciation expense over the life of the applicable project. The Authority and its independent auditors are in the process of restating the financial statements to reflect the accounting treatment of these expenses as required by the pronouncements mentioned above. This restatement is expected to result in a decrease in interest expense for fiscal year 2004 and prior fiscal years, an increase in depreciation expense for fiscal year 2004 and prior fiscal years, and an increase in the Authority's reported net assets as of the end of fiscal year 2004 and each such prior fiscal year.

The Authority and its independent auditors expect to finalize the restatement of the Authority's financial statements shortly. However, the closing of the sale of the Bonds is not conditioned on the completion of the restatement or the availability of such restated financial statements. Such restated financial statements will be made publicly available when they are completed.

The changes to be reflected in the restated financial statements do not affect the Authority's cash flow, or the amount of revenues pledged to pay the Bonds, or the coverage ratios shown in this Official Statement, all of which are computed and presented on a cash basis.

Recent Developments Relating to the Commonwealth

In the unlikely event that the resources of the Commonwealth were insufficient to pay debt service on general obligation bonds of the Commonwealth of Puerto Rico and bonds guaranteed by the Commonwealth, a significant portion of the revenues of the Authority could be used to pay these general obligation bonds and Commonwealth guaranteed bonds. Therefore, this Official Statement includes the following information with respect to recent developments affecting the Commonwealth.

Commonwealth General Fund Revenues and Expenditures for Fiscal Year 2005

During fiscal year 2005, the Commonwealth's central government operated with an authorized budget of \$8.854 billion. Actual expenditures for the year are currently estimated to be approximately \$9.332 billion, or \$478 million in excess of the budgeted amount. This excess was covered by four financing transactions, none of which constitute an increased obligation for the central government's general fund.

Commonwealth Budget for Fiscal Year 2006

On March 16, 2005, the Governor of Puerto Rico, Anibal Acevedo-Vilá, submitted to the Puerto Rico Legislature a proposed Commonwealth budget of revenues and expenditures for fiscal year 2006. The proposed budget provided for general fund resources and expenditures of \$9.684 billion, representing an increase of \$830 million, or 9.4%, over budgeted expenditures for fiscal year 2005 and an increase of \$352 million, or 3.4%, over estimated actual expenditures for fiscal year 2005. The proposed budget package included several new revenue raising measures, most of which required legislative approval, including (i) the elimination of the exemption for food, medicine, and certain other goods from the general excise tax; (ii) an increase in license fees for luxury cars; (iii) a temporary surtax on financial institutions; and (iv) an increase in capital gains taxes.

The Puerto Rico Legislative Assembly, which is controlled by members of the principal opposition political party, did not approve the budget proposed by the Governor. Instead, on June 30, 2005, the Legislative Assembly approved a budget resolution for fiscal year 2006 that provided for general fund expenditures of \$9.258 billion. The Legislative Assembly also did not approve some of the revenue raising measures proposed by the Governor, although it did approve measures estimated to generate approximately \$230 million in new revenues. Governor Acevedo-Vilá decided to veto this budget resolution, but signed into law the revenue raising measures approved by the Legislature.

As a result of this veto, and in accordance with the Constitution of Puerto Rico, the Commonwealth budget for fiscal year 2005 will continue in effect for fiscal year 2006 until a budget for fiscal year 2006 is approved by the Legislature and the Governor. Based in part on an opinion from the Secretary of Justice of Puerto Rico, and as provided in Executive Order 2005-58, dated August 30, 2005, the budget that came into effect on July 1, 2005 for fiscal year 2006 totals \$9.489 billion, which is the sum of the amounts provided by (i) the fiscal year 2005 budget resolution, (ii) laws that assign resources according to formulas or over several years, including fiscal year 2006, and (iii) laws approved during fiscal year 2005 with respect to ordinary government operational expenses. However, unless further revenue-raising measures are approved, the Commonwealth's resources for fiscal year 2006 are estimated by the Puerto Rico Treasury Department to be only \$8.945 billion, which includes the approximately \$230 million expected from the new revenue measures approved by the Legislature and signed into law by the Governor. Executive Order 2005-58 therefore adjusts the budget to this lower amount. As a result, unless further revenue-raising measures are approved, the Commonwealth will have to reduce expenditures significantly. A significant amount of the cuts will have to come from payroll expenses, which account for a major percentage of the Commonwealth's general fund budget.

FINANCING PLAN

Series K Bonds

The Authority is issuing the Series K Bonds to (i) finance various highway projects included in the Authority's current Construction Improvement Program, (ii) make a deposit to the 1998 Senior Bond Reserve Account, (iii) pay a portion of the interest on the Series K Bonds, and (iv) pay costs of issuance of the Series K Bonds. See "Operating Expenses and Capital Expenditures – Construction Improvement Program" under "TRANSPORTATION SYSTEM REVENUES AND EXPENDITURES."

Series L Bonds

The Authority is issuing the Series L Bonds to (i) refund a portion of the Authority's Senior Transportation Revenue Bonds (the "1998 Resolution Refunded Bonds") in the amounts and maturities identified in the tables below, and (ii) pay costs of issuance of the Series L Bonds. See "Issuance of Additional Bonds" in "APPENDIX IV - SUMMARY OF CERTAIN PROVISIONS OF THE 1998 RESOLUTION."

1998 Resolution Refunded Bonds	Maturity Date July 1	Interest Rate	Principal Amount to be Refunded	Redemption Date July 1	Redemption Price
1998 Series A	2007	4.30%	\$ 4,855,000 ⁽¹⁾	At maturity	N/A
	2008	5.00	11,255,000 ⁽²⁾	At maturity	N/A
	2009	5.50	11,820,000 ⁽³⁾	At maturity	N/A
	2010	5.50	12,470,000 ⁽⁴⁾	At maturity	N/A
2000 Series B	2018	5.75	10,415,000	2010	101.0%
	2019	5.75	11,010,000	2010	101.0
	2020	5.875	11,645,000	2010	101.0
	2021	5.875	12,330,000	2010	101.0
	2035	5.875	66,555,000 ⁽⁵⁾	2010	101.0
2000 Series C	2029	6.00	14,880,000	2010	101.0
2002 Series D	2036	5.375	142,665,000 ⁽⁶⁾	2012	100.0
	2038	5.25	129,890,000 ⁽⁷⁾	2012	100.0
	2041	5.75	146,990,000 ⁽⁸⁾	2012	100.0
2004 Series J	2021	5.50	7,135,000	2014	100.0
	2022	5.50	7,870,000	2014	100.0
	2023	5.50	8,320,000	2014	100.0
	2024	5.50	6,625,000	2014	100.0

- (1) Represents a portion of the \$16,720,000 principal amount maturing July 1, 2007.
(2) Represents a portion of the \$17,440,000 principal amount maturing July 1, 2008.
(3) Represents a portion of the \$18,310,000 principal amount maturing July 1, 2009.
(4) Represents a portion of the \$19,320,000 principal amount maturing July 1, 2010.
(5) Represents the remaining portion of the original sinking funds and maturities.
(6) Represents the Amortization Requirements due July 1 of the years 2033 through 2036, inclusive.
(7) Represents the Amortization Requirements due July 1 of the years 2037 and 2038.
(8) Represents the Amortization Requirements due July 1 of the years 2039 through 2041, inclusive

The Authority will deposit the net proceeds of the Series L Bonds, together with other available moneys, with the 1998 Fiscal Agent, as escrow agent, under the terms of two escrow deposit agreements. The net proceeds, together with such other moneys, will be invested in securities permitted to be used as defeasance securities under the 1998 Resolution or by the bond insurer insuring the 1998 Resolution Refunded Bonds, as applicable, the principal of and interest on which when due, together with any moneys deposited with the 1998 Fiscal Agent remaining uninvested, will provide moneys sufficient to pay the interest coming due on the 1998 Resolution Refunded Bonds through their dates of maturity or redemption, as applicable, and to pay the principal of and premium, if any, on the 1998 Resolution Refunded Bonds on their maturity dates or dates of redemption, as applicable. The sufficiency of the amount so deposited, with investment earnings thereon, to accomplish the refunding of the 1998 Resolution Refunded Bonds will be verified by the Verification Agent. See “VERIFICATION OF MATHEMATICAL ACCURACY.”

Upon the deposit with the 1998 Fiscal Agent described above, the 1998 Resolution Refunded Bonds will, in the opinion of Bond Counsel, based on the report of the Verification Agent (see “VERIFICATION OF MATHEMATICAL ACCURACY”), no longer be deemed to be outstanding under the 1998 Resolution, and the 1998 Resolution Refunded Bonds will thereupon be defeased.

Series BB Bonds

The Authority is issuing the Series BB Bonds to (i) refund a portion of the Authority’s Highway Revenue Bonds in the amounts and maturities identified in the table below (the “1968 Resolution Refunded Bonds” and, together with the 1998 Resolution Refunded Bonds, the “Refunded Bonds”) and (ii) pay the costs of issuance of the Series BB Bonds. See “Issuance of Additional Bonds” in “APPENDIX III - SUMMARY OF CERTAIN PROVISIONS OF THE 1968 RESOLUTION.”

1968 Resolution Refunded Bonds	Maturity Date July 1	Interest Rate	Principal Amount to be Refunded	Redemption Date	Redemption Price
1993 Series X	2022	5.00%	\$65,260,000	11/18/2005	100.0%
1996 Series Y	2018	5.50	39,025,000 ⁽¹⁾	07/01/2006	101.5
2003 Series AA	2007	5.00	5,900,000 ⁽²⁾	At maturity	N/A

(1) Represents the Amortization Requirements due July 1 of the years 2017 and 2018.

(2) Represents a portion of the \$39,975,000 principal amount maturing July 1, 2007.

The Authority will deposit the net proceeds of the Series BB Bonds, together with other available moneys, with the 1968 Fiscal Agent, as escrow agent, under the terms of an escrow deposit agreement. The net proceeds, together with such other moneys, will be invested in Government Obligations (as defined in the 1968 Resolution) the principal of and interest on which when due, together with any moneys deposited with the 1968 Fiscal Agent remaining uninvested, will provide moneys sufficient to pay the interest coming due on the 1968 Resolution Refunded Bonds through their dates of maturity or redemption, as applicable, and to pay the principal of and premium, if any, on the 1968 Resolution Refunded Bonds on their maturity date or dates of redemption, as applicable. The sufficiency of the amount so deposited, with investment earnings thereon, to accomplish the refunding of the 1968 Resolution Refunded Bonds will be verified by the Verification Agent. See “VERIFICATION OF MATHEMATICAL ACCURACY.”

Upon the deposit with the 1968 Fiscal Agent referred to above, the 1968 Resolution Refunded Bonds will, in the opinion of Bond Counsel, based on the report of the Verification Agent (see “VERIFICATION OF MATHEMATICAL ACCURACY”), no longer be deemed to be outstanding under the 1968 Resolution, and the 1968 Resolution Refunded Bonds will thereupon be defeased.

Sources and Uses of Funds

Sources:

Principal Amount of the Bonds.....	\$1,499,910,000.00
Net Original Issue Premium	130,321,412.80
Other Available Moneys	9,960,464.69
Total Sources.....	<u>\$1,640,191,877.49</u>

Uses:

Deposit into 1998 Construction Fund.....	\$ 294,220,068.41
Deposit into 1968 Escrow Fund.....	112,939,249.11
Deposit into 1998 Escrow Funds.....	667,426,462.75
Deposit into 1998 Senior Bond Reserve Account.....	46,883,777.50
Capitalized interest on Series K Bonds through July 1, 2006.....	27,007,323.43
Underwriting discount and legal, printing, municipal bond insurance policy and other financing expenses.....	38,714,996.29
Payment of GDB Line of Credit.....	453,000,000.00
Total Uses.....	<u>\$1,640,191,877.49</u>

THE BONDS

General

The Bonds will be issued as registered bonds without coupons, will be dated, will bear interest at the rates, will be payable at the times, and will mature on the dates and in the principal amounts set forth on the inside cover pages of this Official Statement.

Principal and Interest

The principal and premium, if any, on the Series K Bonds and the Series L Bonds shall be payable in lawful money of the United States of America at the designated office of the 1998 Fiscal Agent. Interest on the Series K Bonds and the Series L Bonds will be payable on the first day of each January 1 and July 1, commencing on January 1, 2006, to the person whose name appears on the registration books of the 1998 Fiscal Agent as the registered owner thereof on the 15th day of the month immediately preceding the month in which payment is due.

The principal and premium, if any, on the Series BB Bonds shall be payable in lawful money of the United States of America at the designated office of the 1968 Fiscal Agent. Interest on the Series BB Bonds will be payable on the first day of each January 1 and July 1, commencing on January 1, 2006, to the person whose name appears on the registration books of the 1968 Fiscal Agent as the registered owner thereof on the 15th day of the month immediately preceding the month in which payment is due.

Redemption of the Bonds

Optional Redemption

Series K Bonds. The Series K Bonds maturing on or after July 1, 2016 may be redeemed on any date on or after July 1, 2015, at the option of the Authority, either in whole or in part (and, if in part, in such order of maturities as the Authority may direct), from any available moneys (other than moneys deposited in the 1998 Senior Bond Sinking Fund in respect of an Amortization Requirement) at a redemption price equal to the principal amount of the bonds to be redeemed plus accrued interest to the redemption date, without premium.

Series L Bonds and Series BB Bonds. The Series L Bonds and the Series BB Bonds are not subject to optional redemption; however, the Series L Bonds consisting of term bonds are subject to mandatory redemption as set forth under "Mandatory Redemption" below.

Mandatory Redemption

Series K Bonds. The Series K Bonds maturing on July 1, 2030, July 1, 2035, July 1, 2040, and July 1, 2045 are subject to redemption on each July 1 immediately after the fiscal year for which there is an Amortization Requirement to the extent of the Amortization Requirement for said bonds (less the amount of bonds retired by purchase from moneys in the 1998 Senior Bond Sinking Fund) from moneys in the 1998 Senior Bond Sinking Fund at par plus accrued interest in the years and amounts set forth below.

**Amortization Requirements for Series K Bonds
due July 1,**

Year	2030	2035 (4.50% coupon)	2035 (5.00% coupon)	2040	2045
2028	\$19,490,000				
2029	20,465,000				
2030	21,485,000*				
2031		\$285,000	\$22,275,000		
2032		300,000	23,385,000		
2033		315,000	24,555,000		
2034		330,000	25,780,000		
2035		345,000*	27,070,000*		
2036				\$28,785,000	
2037				30,225,000	
2038				31,735,000	
2039				33,320,000	
2040				34,985,000*	
2041					\$36,735,000
2042					38,575,000
2043					40,500,000
2044					42,525,000
2045					44,655,000*
Average life (years)	23.77	27.84	27.84	32.84	37.84

*Maturity

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

Series L Bonds. The Series L Bonds maturing on July 1, 2030, July 1, 2035, July 1, 2038, and July 1, 2041 are subject to redemption on each July 1 immediately after the fiscal year for which there is an Amortization Requirement to the extent of the Amortization Requirement for said bonds (less the amount of bonds retired by purchase from moneys in the 1998 Senior Bond Sinking Fund) from moneys in the 1998 Senior Bond Sinking Fund at par plus accrued interest in the years and amounts set forth below.

**Amortization Requirements for Series L Bonds
due July 1,**

Year	2030	2035 (4.25% coupon)	2035 (5.25% coupon)	2038	2041
2026	\$ 800,000				
2027	840,000				
2028	885,000				
2029	15,810,000				
2030	870,000*				
2031			\$ 915,000		
2032			15,450,000		
2033			42,895,000		
2034		\$155,000	45,525,000		
2035		385,000*	48,220,000*		
2036				\$60,680,000	
2037				63,860,000	
2038				67,215,000*	
2039					\$70,750,000
2040					37,690,000
2041					39,670,000*
Average life (years)	23.52	29.45	28.55	31.77	34.53

*Maturity

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

Series BB Bonds. The Series BB Bonds will not be subject to any mandatory redemption or amortization requirement.

Book-Entry Only System

The following information concerning The Depository Trust Company (“DTC”) and DTC’s book-entry system has been obtained from DTC. Neither the Authority nor the Underwriters take any responsibility for the accuracy thereof. Beneficial Owners of the Bonds should confirm this information with DTC or the DTC Participants.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds in the name of Cede & Co. (DTC’s partnership nominee) or such other nominee as may be requested by an authorized representative of DTC. One fully registered Bond will be issued for each maturity of each series of the Bonds in the aggregate principal amount of such maturity and will be deposited with DTC. So long as the nominee of DTC is the registered owner of the Bonds, such nominee, subject to the limitations set forth under “Bond Insurance” above, will be considered the sole owner or holder of the Bonds for all purposes under the 1998 Bond Resolution, the 1968 Bond Resolution and any applicable laws. Except as otherwise provided below, a Beneficial Owner (as hereinafter defined) of Bonds will not be entitled to have the Bonds registered in such owner’s name, will not be entitled to receive definitive Bonds and will not be considered an owner or holder of the Bonds under the 1998 Bond Resolution or the 1968 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 Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants

include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants, by members of the Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (also subsidiaries of DTCC), and by the New York Stock Exchange, Inc., 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 both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (a “Beneficial Owner”) will in turn be recorded in the Direct or Indirect Participants’ records. Beneficial Owners will not receive written confirmations from DTC of their purchases. Beneficial Owners, however, are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds will be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 transmission to them of notices of significant events with respect to the Bonds, such as redemptions, 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 will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds of that 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 the record date (identified in a listing attached to the Omnibus Proxy).

Principal 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, the 1968 Fiscal Agent or the 1998 Fiscal Agent, on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC or its nominee, the Authority, the 1968 Fiscal Agent or the 1998 Fiscal Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, the 1968 Fiscal Agent or the 1998 Fiscal Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

Payments and Transfers

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

The Authority, the 1968 Fiscal Agent, and the 1998 Fiscal Agent will have no responsibility or obligation to such Direct Participants, Indirect Participants, or the persons for whom they act as nominees with respect to the payments to or the providing of notice for the Direct Participants, the Indirect Participants, or the Beneficial Owners. Payments made to DTC or its nominee shall satisfy the obligations of the Authority to the extent of such payments.

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

Discontinuance of Book-Entry Only System

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority, the 1968 Fiscal Agent, and the 1998 Fiscal Agent. Under such circumstances, in the event that a successor securities depository is not obtained, definitive Bonds are required to be printed and delivered. The Authority may decide to discontinue the use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, definitive Bonds will be printed and delivered.

In the event that such book-entry only system is discontinued for the Bonds, the following provisions will apply to the Bonds: principal of the Bonds and redemption premium, if any, will be payable in lawful money of the United States of America at the principal corporate trust office of the 1968 Fiscal Agent or the 1998 Fiscal Agent, as the case may be, in New York, New York. Interest on the Bonds will be payable on each July 1 and January 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 1968 Fiscal Agent and the 1998 Fiscal Agent, as applicable, as of the close of business on the record date therefor as set forth in the 1968 Resolution and the 1998 Resolution.

The Bonds will be issued only as registered bonds without coupons in authorized denominations. The transfer of the Bonds will be registrable and the Bonds may be exchanged at the principal corporate trust office of the 1968 Fiscal Agent or the 1998 Fiscal Agent, as applicable, in New York, New York upon the payment of any taxes or other governmental charges required to be paid with respect to such transfer or exchange.

The Authority will have no responsibility or obligation to DTC, to Direct Participants or to Indirect Participants with respect to (1) the accuracy of any records maintained by DTC, any Direct Participant, or any Indirect Participant; (2) any notice that is permitted or required to be given to the owners of the Bonds under the 1968 Resolution or the 1998 Resolution; (3) the selection by DTC or any Direct Participant or Indirect Participant of any person to receive payment in the event of a partial redemption of the Bonds; (4) the payment by DTC or any Direct Participant or Indirect Participant of any amount with respect to the principal or redemption premium, if any, or interest due with respect to the Bonds; or (5) any consent given or other action taken by DTC as the owner of the Bonds.

BOND INSURANCE

The CIFG NA Bond Insurance Policy

The following information has been furnished by CDC IXIS Financial Guaranty North America, Inc. (“CIFG NA”) for use in this Official Statement. No representation is made by the Authority or the Underwriters as to the accuracy or completeness of this information.

CIFG NA and the CIFG NA Insurance Policy

CIFG NA is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The address of the principal executive offices of CIFG NA is 825 Third Avenue, Sixth Floor, New York, New York 10022; its toll-free telephone number is (866) CIFG-212; its general telephone number is (212) 909-3939; and its website is located at www.cifg.com.

CIFG NA is a member of the CIFG Group of financial guaranty companies, which also includes CIFG Europe (“CIFG Europe”), a French insurance company licensed to do business in the European Union, and CIFG Guaranty (“CIFG”), a dedicated French reinsurance corporation. In addition to its capital and surplus as set forth below, CIFG NA

is supported by a net worth maintenance agreement from CIFG, which provides that CIFG will maintain CIFG NA's New York statutory capital and surplus at no less than \$80 million, and may cede a substantial portion (not to exceed 90%) of its exposure on each transaction to CIFG through a facultative reinsurance agreement.

Each of CIFG NA, CIFG Europe and CIFG has received an insurer financial strength rating of “AAA” from Fitch Ratings, an insurer financial strength rating of “Aaa” from Moody’s Investors Services Inc. (“Moody’s”), and an insurer financial enhancement rating of “AAA” from Standard and Poor’s Ratings Services (“Standard and Poor’s”), the highest rating assigned by each rating agency. Each such rating should be evaluated independently. The ratings reflect the respective rating agency's current assessment of each company’s capacity to pay claims on a timely basis and are not recommendations to buy, sell or hold the Bonds. Such ratings may be subject to revision or withdrawal at any time.

CIFG NA is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York, its state of domicile, and is licensed to do business in 44 jurisdictions. CIFG NA is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of such insurers to financial guaranty insurance and related lines, requires that such insurers maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements for such insurers, and limits the size of individual transactions and the volume of transactions that may be underwritten by such insurers. Other provisions of the New York Insurance Law applicable to non-life insurance companies such as CIFG NA regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

CIFG NA’s Financial Guaranty Insurance Policy does not protect investors against changes in market value of the bonds insured by CIFG NA (the “CIFG NA Insured Bonds”), which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. The Financial Guaranty Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified by Article 76 of the New York Insurance Law, the Florida Insurance Guaranty Association created under part II of Chapter 631, Florida Statutes or similar funds or arrangements in any other state. CIFG NA makes no representation regarding the CIFG NA Insured Bonds or the advisability of investing in the CIFG NA Insured Bonds. CIFG NA makes no representation regarding this Official Statement, nor has it participated in the preparation thereof, except that CIFG NA has provided to the Authority the information presented under this caption for inclusion in this Official Statement.

Capitalization

The following tables set forth the capitalization of CIFG NA, on the basis of accounting principles generally accepted in the United States (“US GAAP”) and statutory accounting practices prescribed or permitted by the New York State Insurance Department, respectively.

	<u>United States Generally Accepted Accounting Principles</u> <u>December 31, 2004</u> (in thousands of US dollars)
Total Assets	\$246,767
Total Liabilities	117,368
Shareholder’s Equity	129,399
	<u>Statutory Accounting Practices</u> <u>December 31, 2004</u> (in thousands of US dollars)
Admitted Assets	\$152,361
Liabilities	38,733
Capital and Surplus	113,628

The following table sets forth the capitalization of CIFG on the basis of US GAAP.

	<u>United States Generally Accepted Accounting Principles</u> <u>December 31, 2004</u> (in thousands of US dollars)
Assets	\$847,632
Liabilities	147,061
Shareholder’s Equity	700,571

	(in thousands of euros)
Assets	€621,431
Liabilities	107,816
Shareholder's Equity	513,615

For further information concerning CIFG NA and CIFG, see the audited financial statements of CIFG NA and the audited consolidated financial statements of CIFG, including the respective notes thereto, prepared in accordance with US GAAP as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004, and the unaudited interim financial statements of CIFG NA as of March 31, 2005 and 2004 and for each of the three-month periods ended March 31, 2005 and 2004, each of which is available on the CIFG Group's website at www.cifg.com. Copies of the most recent interim unaudited US GAAP financial statements of CIFG NA and CIFG, as well as audited annual and unaudited interim financial statements of CIFG NA prepared in accordance with accounting principles prescribed or permitted by the New York State Insurance Department, are also available on the website and may be obtained, without charge, upon request to CIFG NA at its address above, Attention: Finance Department.

The FGIC Bond Insurance Policy

Financial Guaranty Insurance Company ("FGIC") has supplied the following information for inclusion in this Official Statement. No representation is made by the Authority or the Underwriters as to the accuracy or completeness of this information.

Payments Under the FGIC Bond Insurance Policy

Concurrently with the issuance of the Bonds, FGIC will issue its Municipal Bond New Issue Insurance Policy (the "FGIC Bond Insurance Policy") for those bonds indicated in the inside cover of this Official Statement (the "FGIC Insured Bonds"). The FGIC Bond Insurance Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the FGIC Insured Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Authority. Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which FGIC shall have received notice (in accordance with the terms of the Policy) from an owner of FGIC Insured Bonds or the 1998 Fiscal Agent, of the nonpayment of such amount by the Authority. The Fiscal Agent will disburse such amount due on any FGIC Insured Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in FGIC. The term "nonpayment" in respect of a FGIC Insured Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a FGIC Insured Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the FGIC Bond Insurance Policy is non-cancellable by FGIC. The FGIC Bond Insurance Policy covers failure to pay principal (or accreted value, if applicable) of the FGIC Insured Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the FGIC Insured Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The FGIC Bond Insurance Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the FGIC Insured Bonds is accelerated, FGIC will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, FGIC will become the owner of the FGIC Insured Bond, appurtenant coupon or right to payment of principal or interest on such FGIC Insured Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The FGIC Bond Insurance Policy does not insure any risk other than Nonpayment by the Authority, as defined in the FGIC Bond Insurance Policy. Specifically, the FGIC 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; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the 1998 Fiscal Agent, if any.

As a condition of its commitment to insure the FGIC Insured Bonds, FGIC may be granted certain rights under the Bond documentation. The specific rights, if any, granted to FGIC in connection with its insurance of the FGIC Insured Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto. The FGIC Bond Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

FGIC Insurance Company

FGIC, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, a Delaware corporation, and provides financial guaranty insurance for public finance and structured finance obligations. FGIC is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia, the U.S. Virgin Islands, the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. (“PMI”), affiliates of The Blackstone Group L.P. (“Blackstone”), affiliates of The Cypress Group L.L.C. (“Cypress”) and affiliates of CIVC Partners L.P. (“CIVC”) acquired FGIC Corporation (the “FGIC Acquisition”) from a subsidiary of General Electric Capital Corporation (“GE Capital”). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation’s common stock. FGIC Corporation paid GE Capital approximately \$284.3 million in pre-closing dividends from the proceeds of dividends it, in turn, had received from FGIC, and GE Capital retained approximately \$234.6 million in liquidation preference of FGIC Corporation’s convertible participating preferred stock and approximately 5% of FGIC Corporation’s common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of FGIC or any claims under any insurance policy, including the Policy, issued by FGIC.

FGIC is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law (“Article 69”), a comprehensive financial guaranty insurance statute. FGIC is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles (“SAP”) and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including FGIC, to financial guaranty insurance and certain related lines.

For the six months ended June 30, 2005, and the years ended December 31, 2004, and December 31, 2003, FGIC had written directly or assumed through reinsurance, guaranties of approximately \$35.3 billion, \$59.5 billion and \$42.4 billion par value of securities, respectively (of which approximately 61%, 56% and 79%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately \$131.3 million, \$323.6 million and \$260.3 million, respectively. For the six months ended June 30, 2005, FGIC had reinsured, through facultative and excess of loss arrangements, approximately 4.2% of the risks it had written.

As of June 30, 2005, FGIC had net admitted assets of approximately \$3.327 billion, total liabilities of approximately \$2.152 billion, and total capital and policyholders’ surplus of approximately \$1.175 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements of FGIC as of June 30, 2005, the audited financial statements of FGIC as of December 31, 2004, and the audited financial statements of FGIC as of December 31, 2003, which have been filed with the NRMSIRs, are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading “BOND INSURANCE – The FGIC Bond Insurance Policy,” or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by FGIC with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of FGIC (if any) included in documents filed by FGIC with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

FGIC also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of FGIC’s most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. FGIC’s telephone number is (212) 312-3000.

FGIC’s Credit Ratings

The financial strength of FGIC is rated “AAA” by Standard & Poor’s, “Aaa” by Moody’s, and “AAA” by Fitch Ratings. Each rating of FGIC should be evaluated independently. The ratings reflect the respective ratings agencies’ current assessments of the insurance financial strength of FGIC. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the FGIC Insured

Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. FGIC does not guarantee the market price or investment value of the FGIC Insured Bonds nor does it guarantee that the ratings on the Bonds will not be revised or withdrawn.

Neither FGIC nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the FGIC Insured Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to FGIC or the Policy under the heading “BOND INSURANCE – The FGIC Bond Insurance Policy.” In addition, FGIC makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The MBIA Bond Insurance Policy

The following information has been furnished by MBIA Insurance Corporation (“MBIA”) for use in this Official Statement. Reference is made to Appendix VIII for a specimen of MBIA's policy (the “MBIA Bond Insurance Policy”). No representation is made by the Authority or the Underwriters as to the accuracy or completeness of this information.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the MBIA Bond Insurance Policy and MBIA set forth under the heading “BOND INSURANCE – The MBIA Bond Insurance Policy.” Additionally, MBIA makes no representation regarding the bonds insured by MBIA, as indicated in the inside cover of this Official Statement (the “MBIA Insured Bonds”) or the advisability of investing in the MBIA Insured Bonds.

The MBIA Bond Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the 1998 Fiscal Agent, or its successor, of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the MBIA Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Bond Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the MBIA Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a “Preference”).

The MBIA Bond Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any of the MBIA Insured Bonds. The MBIA Bond Insurance Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of the MBIA Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The MBIA Bond Insurance Policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the 1998 Fiscal Agent, or any other paying agent for the MBIA Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the 1998 Fiscal Agent, or from any owner of a bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such MBIA Insured Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the MBIA Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the MBIA Insured Bonds in any legal proceeding related to payment of insured amounts on the MBIA Insured Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the 1998 Fiscal Agent, payment of the insured amounts due on such MBIA Insured Bonds, less any amount held by the 1998 Fiscal Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The MBIA Bond Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's rates the financial strength of MBIA "Aaa."

Standard & Poor's rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

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

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

MBIA Financial Information

As of December 31, 2004, MBIA had admitted assets of \$10.4 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$3.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2005 MBIA had admitted assets of \$10.7 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2004 and December 31, 2003 and for each of the three years in the period ended December 31, 2004, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2004 and the consolidated financial statements of MBIA and its subsidiaries as of June 30, 2005 and for the six month periods ended June 30, 2005 and June 30, 2004 included in the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2005, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission are incorporated by reference into this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2004; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, 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 which also is or is deemed to be incorporated by reference herein 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 Company files annual, quarterly and special reports, information statements and other information with the Securities and Exchange Commission under File No. 1-9583. Copies of the Company's Securities and Exchange Commission filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005) are available (i) over the Internet at the Securities and Exchange Commission's web site at <http://www.sec.gov>; (ii) at the Securities and Exchange Commission's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

The FSA Bond Insurance Policy

The following information has been supplied by Financial Security Assurance Inc. ("FSA") for inclusion in this Official Statement. No representation is made by the Authority or the Underwriters as to the accuracy or completeness of this information.

Concurrently with the issuance of the Bonds, FSA will issue its Municipal Bond Insurance Policy (the "FSA Bond Insurance Policy") for the Bonds maturing on indicated in the inside cover pages of this Official Statement (the "FSA Insured Bonds"). The FSA Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the FSA Insured Bonds when due as set forth in the form of the FSA Bond Insurance Policy included as an exhibit to this Official Statement.

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

Financial Security Assurance Inc.

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

At June 30, 2005, FSA's total policyholders' surplus and contingency reserves were approximately \$2,365,896,000 and its total unearned premium reserve was approximately \$1,719,641,000 in accordance with statutory accounting principles. At June 30, 2005, FSA's total shareholder's equity was approximately \$2,819,103,000 and its total net unearned premium reserve was approximately \$1,404,195,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

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

The Ambac Bond Insurance Policies

The following information has been supplied by Ambac Assurance Corporation (“Ambac”) for inclusion in this Official Statement. No representation is made by the Authority or the Underwriters as to the accuracy or completeness of this information.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac has made a commitment to issue financial guaranty insurance policies (the “Ambac Bond Insurance Policies”) relating to the bonds indicated in the inside cover of this Official Statement (the “Ambac Insured Bonds”) effective as of the date of issuance of the Ambac Insured Bonds. Under the terms of the Ambac Bond Insurance Policies, 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 Ambac 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 Ambac Bond Insurance Policies). Ambac will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac shall have received notice of Nonpayment from the 1968 Fiscal Agent or the 1998 Fiscal Agent. The insurance will extend for the term of the Ambac Insured Bonds and, once issued, cannot be canceled by Ambac.

The Ambac Bond Insurance Policies 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 Ambac Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Ambac Insured Bonds, Ambac will remain obligated to pay principal of and interest on outstanding Ambac 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 Ambac 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 1968 Fiscal Agent or the 1998 Fiscal Agent, as applicable, has notice that any payment of principal of or interest on an Ambac 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 Ambac Bond Insurance Policies do not insure any risk other than Nonpayment, as defined in the Ambac Bond Insurance Policies. Specifically, the Ambac Bond Insurance Policies do not cover:

1. 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.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of the 1968 Fiscal Agent or the 1998 Fiscal Agent.

If it becomes necessary to call upon the Ambac Bond Insurance Policies, payment of principal requires surrender of Ambac Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Ambac Insured Bonds to be registered in the name of Ambac to the extent of the payment under the Ambac Bond Insurance Policies. Payment of interest pursuant to the Ambac Bond Insurance Policies 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 Ambac Insured Bonds, appurtenant coupon, if any, or right to payment of principal or interest on such Ambac Insured Bonds and will be fully subrogated to the surrendering Holder’s rights to payment.

Ambac Assurance Corporation

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 of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$8,720,000,000 (unaudited) and statutory capital of approximately \$5,287,000,000 (unaudited) as of June 30, 2005. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's, 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 a bond by Ambac will not affect the treatment for federal income tax purposes of interest on such bond and that insurance proceeds representing maturing interest paid by Ambac under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Ambac Insured Bonds.

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

Available Information

The parent company of Ambac, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission. These reports, proxy statements and other information can be read and copied at the Securities and Exchange Commission's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference room. The Securities and Exchange Commission 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 Securities and Exchange Commission, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 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 Assurance'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 Securities and Exchange Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;
2. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;
3. The Company's Current Report on Form 8-K dated and filed on April 20, 2005;
4. The Company's Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005;
5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005;
6. The Company's Current Report on Form 8-K dated and filed on July 20, 2005;
7. The Company's Current Report on Form 8-K dated July 28, 2005 and filed on August 2, 2005;
8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2005 and filed on August 9, 2005; and

All documents subsequently filed by the Company pursuant to the requirements of the Securities Exchange Act of 1934 after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

Certain Rights of the Bond Insurers

As provided in the insurance agreements to be entered into by the Authority and the 1968 Fiscal Agent and the 1998 Fiscal Agent, as applicable, for the benefit of each of CIFG NA, FGIC, MBIA, FSA, and Ambac, concurrently with the delivery of their respective municipal bond insurance policies, as long as CIFG NA, FGIC, MBIA, FSA, and Ambac shall not be in default on their respective obligations under the municipal bond insurance policies, CIFG NA, FGIC, MBIA, FSA, and Ambac shall be deemed to be the owners of the Bonds insured by them for purposes of, among other things (1) taking remedial actions under the 1968 Resolution and the 1998 Resolution, as applicable, and (2) the giving of consents to the execution of any supplemental resolution to the 1968 Resolution or the 1998 Resolution.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledged Revenues

The Series K Bonds, the Series L Bonds, and any other Senior Transportation Revenue Bonds issued under the 1998 Resolution are payable solely from, and secured by a pledge of, the 1998 Resolution Revenues and all other moneys held for the credit of the 1998 Senior Bond Sinking Fund, which includes the 1998 Senior Bond Service Account, the 1998 Senior Bond Redemption Account, and the 1998 Senior Bond Reserve Account. Under certain circumstances described below, unencumbered moneys in the 1998 Construction Fund or the 1998 Subordinated Bond Sinking Fund may be used to pay debt service on the Senior Transportation Revenue Bonds, if moneys in the 1998 Senior Bond Service Account or the 1998 Senior Bond Redemption Account are insufficient therefor, prior to applying moneys in the 1998 Senior Bond Reserve Account.

The Series BB Bonds and any other Highway Revenue Bonds issued under the 1968 Resolution are payable solely from, and secured by a pledge of, the 1968 Resolution Revenues and all other moneys held for the credit of the 1968 Sinking Fund, which includes the 1968 Bond Service Account, the 1968 Redemption Account and the 1968 Reserve Account.

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

Under the 1998 Resolution, the Authority has covenanted not to encumber, withdraw or pledge any Excess 1968 Resolution Revenues deposited in the 1968 Construction Fund except for the transfer of Excess 1968 Resolution Revenues to the 1998 Revenue Fund.

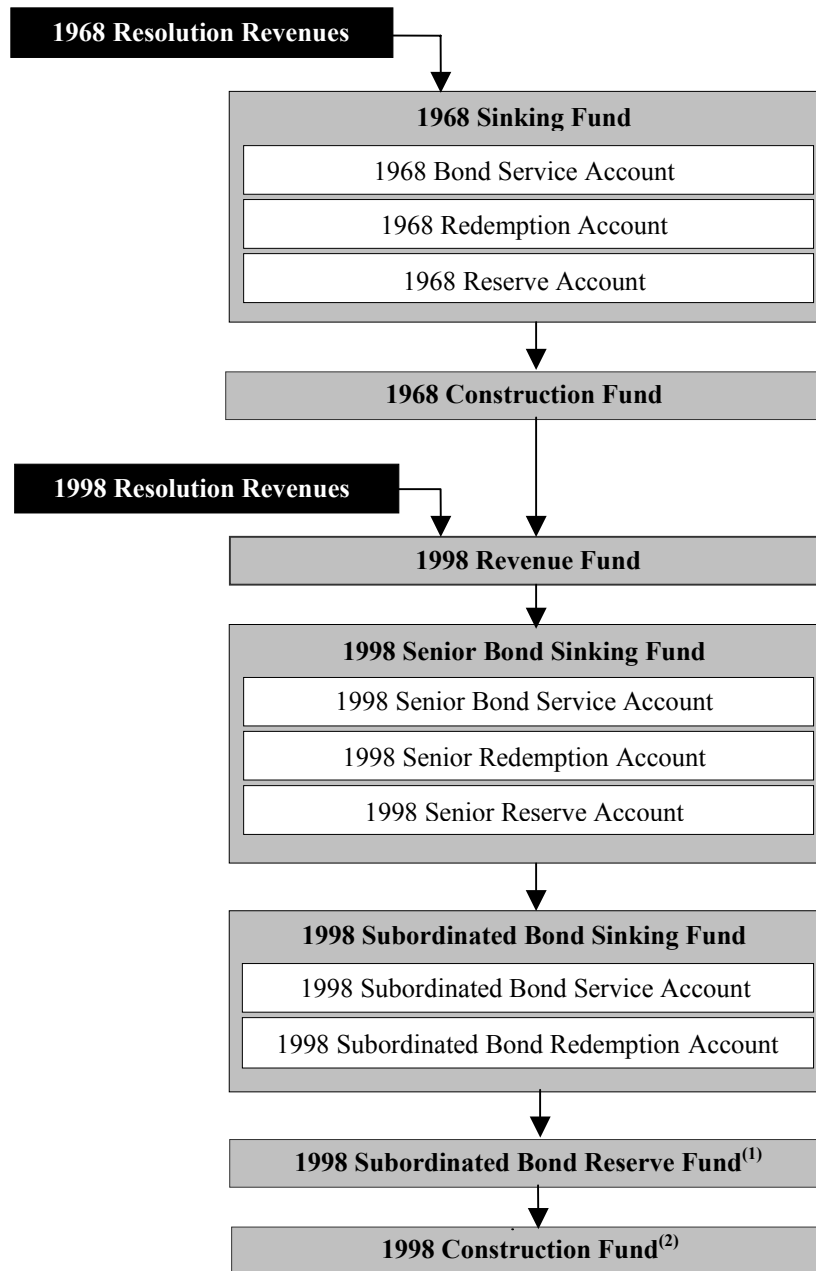
1968 Resolution Revenues. The 1968 Resolution Revenues consist of: (i) the gross receipts of the current \$0.16 per gallon excise tax on gasoline and \$0.04 of the current \$0.08 per gallon excise tax on gas oil and diesel oil imposed by the Commonwealth and allocated to the Authority (after any deductions for taxes on fuels used in sea and air transportation that are required to be reimbursed under certain circumstances) by the Puerto Rico Internal Revenue Code (the remaining \$0.04 per gallon excise tax has been allocated to the Metropolitan Bus Authority by Act No. 39 of July 19, 1997); (ii) the gross receipts derived from the \$15 per vehicle increase of annual motor vehicle license fees imposed by the Commonwealth and allocated to the Authority by Act No. 9 of the Legislature of Puerto Rico, approved August 12, 1982 (“Act No. 9”); (iii) all tolls collected on the Authority’s existing toll highways (which do not include the Eastern Corridor), including any extensions or improvements thereof, however financed; and (iv) investment earnings on deposits to the credit of funds and accounts established under the 1968 Resolution, except for the 1968 Construction Fund. 1968

Resolution Revenues do not include gasoline taxes, gas oil and diesel oil taxes, and motor vehicle license fees which may be levied or collected from time to time other than the amounts of the taxes and fees described in this paragraph unless allocated to the Authority and pledged by the Authority to the payment of Highway Revenue Bonds.

Flow of Funds Under 1968 Resolution and 1998 Resolution

The following chart illustrates the flow of 1968 Resolution Revenues and 1998 Resolution Revenues into the various funds and accounts established under the 1968 Resolution and the 1998 Resolution. The chart is provided only as a summary of the flow of funds under the 1968 Resolution and the 1998 Resolution, and does not purport to be complete. Reference is made to the summaries of the 1968 Resolution and the 1998 Resolution in Appendix III and Appendix IV, respectively, which should be read in conjunction herewith.

Flow of Funds Under the 1968 and 1998 Resolutions



(1) Under the 1998 Resolution, separate accounts in the Subordinated Bond Reserve Fund may be established for Series of Subordinated Bonds with different Subordinated Reserve Requirements.
 (2) Certain Authority operation and maintenance expenses are paid from the 1998 Construction Fund.

Upon receipt of any moneys constituting 1968 Resolution Revenues, including moneys in the Special Fund constituting 1968 Resolution Revenues received from the Department of the Treasury (see “Special Fund for Deposit of Taxes and Fees Allocated to the Authority” below), the Authority is required under the 1968 Resolution to deposit such moneys in equal monthly amounts into the 1968 Bond Service Account and the 1968 Redemption Account to provide for the payment of principal of and interest and premium, if any, on the Highway Revenue Bonds and in the amounts necessary for the required deposits to the 1968 Reserve Account. Any remaining 1968 Resolution Revenues (other than investment earnings) are deposited into the 1968 Construction Fund. Under the 1998 Resolution, the Authority has agreed not to encumber or withdraw or pledge any 1968 Resolution Revenues deposited in the 1968 Construction Fund except for the transfer of Excess 1968 Resolution Revenues to the 1998 Revenue Fund, which Excess 1968 Resolution Revenues must be withdrawn monthly and transferred to the 1998 Revenue Fund for application as described below.

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

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

1998 Senior Bond Reserve Account

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

The Authority covenants to accumulate and maintain in the 1998 Senior Bond Reserve Account an amount equal to the lesser of the maximum annual Principal and Interest Requirements for any fiscal year on all outstanding Senior Transportation Revenue Bonds and 10% of the original principal amount of each Series of Senior Transportation Revenue Bonds outstanding (the “1998 Senior Bonds Reserve Requirement”).

On June 30, 2005, approximately \$228,839,866 was on deposit in the 1998 Senior Bond Reserve Account. The 1998 Senior Bonds Reserve Requirement will increase to \$266,002,128 upon the issuance of the Series K Bonds and Series L Bonds and the refunding of the 1998 Resolution Refunded Bonds. The difference will be deposited in the 1998 Senior Bond Reserve Account from the proceeds of the issuance of the Series K Bonds. The 1998 Resolution permits any increase in the Senior Bonds Reserve Requirement to be funded over not more than five years and allows the Authority to use a letter of credit or insurance policy to fund the 1998 Senior Bonds Reserve Requirement.

Excess moneys in the 1998 Senior Bond Reserve Account may be retained in such Reserve Account, may be applied to the payment of outstanding notes issued by the Authority to finance temporarily any Transportation Facilities

or outstanding Senior Transportation Revenue Bonds to be refunded or may be transferred to the 1998 Senior Bond Service Account, the 1998 Senior Bond Redemption Account, or the 1998 Construction Fund, as directed by the Authority.

1968 Reserve Account.

The 1968 Resolution establishes the 1968 Reserve Account, the moneys in which are to be applied to the payment of interest on the Highway Revenue Bonds and maturing principal of serial Highway Revenue Bonds whenever moneys in the 1968 Bond Service Account are insufficient for such purpose and thereafter for the purpose of making deposits to the credit of the 1968 Redemption Account to satisfy any Amortization Requirements for the term Highway Revenue Bonds whenever 1968 Resolution Revenues are insufficient for such purpose. The Authority covenants to accumulate and maintain in the 1968 Reserve Account an amount equal to the lesser of the maximum annual Principal and Interest Requirements for any fiscal year on all outstanding Highway Revenue Bonds and 10% of the original principal amount of each Series of Bonds outstanding (the “1968 Reserve Requirement”).

On June 30, 2005, approximately \$161,054,339 was on deposit in the 1968 Reserve Account. The 1968 Reserve Requirement will be \$159,392,339 upon the issuance of the Series BB Bonds and the refunding of the 1968 Resolution Refunded Bonds, and such amount will be on deposit in the 1968 Reserve Account following the issuance of the Series BB Bonds. The 1968 Resolution allows the Authority to use a letter of credit or insurance policy to fund the 1968 Reserve Requirement.

Excess moneys in the 1968 Reserve Account are transferred to the 1968 Construction Fund, the 1968 Bond Service Account or the 1968 Redemption Account, as directed by the Authority.

Replenishment of 1968 and 1998 Reserve Accounts

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

Commitment Not to Reduce Taxes and Fees

The Commonwealth has agreed and committed in the Puerto Rico Internal Revenue Code that it will not reduce the gasoline tax below \$0.16 per gallon, the tax on gas oil and diesel oil below \$0.04 per gallon or the tax on petroleum products below the tax rates in effect on July 16, 1997 (as described below), and that it will not reduce the amount of any such taxes allocated to the Authority until all obligations of the Authority, including the Highway Revenue Bonds and the Transportation Revenue Bonds, secured by the pledge thereof are fully paid. The Commonwealth has also agreed and pledged in Act No. 9 that it will not reduce the motor vehicle license fees allocated and pledged to the payment of obligations of the Authority, including the Highway Revenue Bonds and the Transportation Revenue Bonds, so long as the proceeds of such fees remain pledged to the payment of such obligations.

Special Fund for Deposit of Taxes and Fees Allocated to the Authority

Under the Puerto Rico Internal Revenue Code and Act No. 9, the proceeds of the taxes and license fees allocated to the Authority are deposited by the Department of the Treasury in a special fund (the “Special Fund”) in favor of the Authority. In accordance with the Constitution of Puerto Rico, the proceeds of such taxes and license fees are subject to being applied first to the payment of general obligation debt of and debt guaranteed by the Commonwealth. However, under the Puerto Rico Internal Revenue Code and Act. No. 9, such taxes and license fees may only be applied to pay general obligation debt of and debt guaranteed by the Commonwealth the extent that all other Commonwealth revenues are insufficient therefor. The Commonwealth has never applied the proceeds of such taxes or license fees allocated to the Authority to the payment of such debt nor has the Commonwealth ever defaulted on the payment of principal of or interest on any of such debt. For information with respect to the Commonwealth’s debt and the economic and financial

condition of the Commonwealth, see “Prior Payment of Full Faith and Credit Obligations of the Commonwealth” below and *Debt* in the Commonwealth Report.

Prior Payment of Full Faith and Credit Obligations of the Commonwealth

Provision for Prior Payment. The Constitution of Puerto Rico provides that in the event the Commonwealth has insufficient funds to pay all approved appropriations, the available resources of the Commonwealth shall be used first to pay public debt before being used for other purposes. Public debt includes bonds and notes of the Commonwealth to which the full faith, credit and taxing power of the Commonwealth are pledged, and, according to opinions rendered by the Secretary of Justice of the Commonwealth, any payments which are required to be made by the Commonwealth under its guarantees of bonds and notes issued by its public corporations. The Bonds do not constitute public debt.

The proceeds of the gasoline tax, the gas oil and diesel oil tax, the petroleum products tax and the motor vehicle license fees allocated to the Authority by the Puerto Rico Internal Revenue Code and Act No. 9 are available Commonwealth resources under the Constitution. Accordingly, if needed, they are subject to being applied first to the payment of debt service on the public debt of the Commonwealth. However, under the Puerto Rico Internal Revenue Code and Act No. 9, such taxes and license fees are to be used for such payments only if and to the extent that all other available revenues of the Commonwealth are insufficient for such purpose. Tolls and other fees and charges collected by the Authority and investment earnings are not considered available Commonwealth resources.

The Commonwealth has never applied taxes or license fees allocated to the Authority to the payment of its public debt; nor has the Commonwealth ever defaulted on the payment of principal of or interest on any of its public debt. See *Debt* in the Commonwealth Report.

Under the provisions of Act No. 39 of the Legislature of Puerto Rico, approved May 13, 1976, as amended (“Act No. 39”), the Secretary of the Treasury of Puerto Rico is obligated to fund annual debt service on general obligation bonds and notes of the Commonwealth by monthly deposits into the Special Fund for the Amortization of General Obligations Evidenced by Bonds and Promissory Notes (the “Commonwealth Redemption Fund”). As of the date of this Official Statement, the amount on deposit in the Commonwealth Redemption Fund complied with such requirement. Moneys in the Commonwealth Redemption Fund may also be applied to the payment of other Commonwealth guaranteed obligations outstanding prior to adoption of Act No. 39. Such moneys are not available to pay the Bonds.

Debt Limitation. Section 2 of Article VI of the Constitution of Puerto Rico provides that direct obligations of the Commonwealth evidenced by full faith and credit bonds or notes shall not be issued if the amount of the principal of and interest on such bonds and notes and on all such bonds and notes theretofore issued which is payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceeds 15% of the average annual revenues raised under the provisions of Commonwealth legislation and covered into the Treasury of Puerto Rico (hereinafter “internal revenues”) in the two fiscal years preceding the then current fiscal year. Section 2 of Article VI does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded.

Internal revenues consist principally of income taxes, property taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Treasury of Puerto Rico, and motor vehicle fuel taxes and license fees, which are allocated to the 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, the Puerto Rico Aqueduct and Sewer Authority issued \$400,340,000 Puerto Rico Aqueduct and Sewer Authority Refunding Bonds, guaranteed by the Commonwealth (the “PRASA Guaranteed Bonds”). On January 1, 1997, the Commonwealth began to make payments of debt service on the PRASA Guaranteed Bonds under the full faith and credit guarantee of the Commonwealth. The amounts paid by the Commonwealth under the PRASA Guaranteed Bonds are taken into account for purposes of computing the above described 15% constitutional debt limitation.

All or a portion of the proceeds of certain refunding bonds issued by the Commonwealth have been 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 Ratings Services), none of which is eligible to be used for legal defeasance under Puerto Rico law (“non-eligible investments”). Since the bonds being refunded with proceeds invested in non-eligible investments are not legally defeased, such bonds are treated as outstanding for purposes of the 15% debt limitation.

Future maximum annual debt service for the Commonwealth's currently outstanding general obligation debt is \$600,559,676.39 in the fiscal year ending June 30, 2020. Debt service for the PRASA Guaranteed Bonds paid during fiscal 2005 was \$30,127,367.50. The sum of those amounts (\$630,687,043.89) is equal to 8.1% of \$7,775,600,500, which is the average of the adjusted internal revenues of the Commonwealth for the two fiscal years ended June 30, 2005.

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

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

Additional bonds under the 1998 Resolution and the 1968 Resolution

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

The Authority may also issue additional Senior Transportation Revenue Bonds to refund all or any part of the outstanding Senior Transportation Revenue Bonds of any Series without satisfying such requirement, provided that the Authority certifies that the maximum annual Principal and Interest Requirements on the Senior Transportation Revenue Bonds to be outstanding after the issuance of such additional Senior Transportation Revenue Bonds will be equal to or less than the maximum annual Principal and Interest Requirements on the Senior Transportation Revenue Bonds outstanding immediately prior to the issuance of the additional Senior Transportation Revenue Bonds. See "Issuance of Additional Bonds" in "APPENDIX IV – SUMMARY OF CERTAIN PROVISIONS OF THE 1998 RESOLUTION."

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

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

The Authority may also issue Subordinated Transportation Revenue Bonds to refund all or any part of the outstanding Subordinated Transportation Revenue Bonds of any Series without satisfying such requirement, provided that the Authority certifies that the maximum Principal and Interest Requirements on the Subordinated Transportation Revenue Bonds to be outstanding after the issuance of such additional Subordinated Transportation Revenue Bonds will be equal to or less than the maximum annual Principal and Interest Requirements on the Subordinated Transportation Revenue Bonds outstanding immediately prior to the issuance of the additional Subordinated Transportation Revenue Bonds. See "Issuance of Additional Bonds" in "APPENDIX IV – SUMMARY OF CERTAIN PROVISIONS OF THE 1998 RESOLUTION."

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

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

In April 2003, the Authority issued its Subordinated Transportation Revenue Bonds (Series 2003) in the principal amount of \$320,545,000 under the 1998 Resolution to refund a \$300 million loan from the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998, as amended, related to the financing of the Tren Urbano project discussed elsewhere in this Official Statement.

Highway Revenue Bonds. The Authority may not issue additional Highway Revenue Bonds under the 1968 Resolution except bonds maturing no later than July 1, 2036, which are issued to refund outstanding Highway Revenue Bonds in order to achieve debt service savings. The issuance of such Highway Revenue Bonds must meet the tests for the issuance of such bonds under the 1968 Resolution, which tests are more fully described in “Issuance of Additional Bonds” in “APPENDIX III – SUMMARY OF CERTAIN PROVISIONS OF THE 1968 RESOLUTION.”

Proposed 1968 Supplemental Resolutions

The Authority proposes to adopt a supplemental resolution (the “1968 Variable Rate Supplement”) when the consent of the owners of two-thirds in aggregate principal amount of the Highway Revenue Bonds outstanding has been obtained. Such supplemental resolution will permit the 1968 Fiscal Agent to treat Variable Rate Bonds (as defined in the 1968 Resolution) as having an assumed fixed interest rate equal to the latest five-year or one-year (if higher) average of the historical interest rates on such bonds or based upon certain commonly used interest rate indices for the purpose of calculating Principal and Interest Requirements (as defined in the 1968 Resolution).

The Authority proposes to adopt another supplemental resolution (the “Parity Lien Supplement”) when the consent of the owners of 100% of the Highway Revenue Bonds outstanding has been obtained. Such supplemental resolution will provide, among other things, for certain modifications to the amendment provisions of the 1968 Resolution, including a reduction of the 66-2/3% consent requirement for certain amendments to a majority. In addition, the Authority will be permitted to grant a parity lien on 1968 Resolution Revenues to secure reimbursement agreements with the providers of any credit facility or liquidity facility securing Highway Revenue Bonds.

Consent of Purchasers of Series BB Bonds

By purchasing the Series BB Bonds, the owners of such bonds will have consented to and approved, for themselves and future owners of such bonds, the adoption of the proposed supplemental resolutions.

Proposed 1998 Supplemental Resolution

The Authority proposes to adopt a supplemental resolution (the “1998 Variable Rate Supplement”) when the consent of the owners of a majority in aggregate principal amount of the Senior Transportation Revenue Bonds and of the Subordinated Transportation Revenue Bonds outstanding has been obtained. Such supplemental resolution will permit the 1998 Fiscal Agent to treat Transportation Revenue Bonds bearing interest at a variable rate as having an assumed fixed interest rate equal to the latest five-year or one-year (if higher) average of the historical interest rates on such bonds or based upon certain commonly used interest rate indices for the purpose of calculating Principal and Interest Requirements (as defined in the 1998 Resolution).

Consent of Purchasers of Series K Bonds and Series L Bonds

By purchasing the Series K Bonds and the Series L Bonds, the owners of such bonds will have consented to and approved, for themselves and future owners of such Series K Bonds and Series L Bonds, the adoption of the 1998 Variable Rate Supplement.

THE AUTHORITY

General Description

The Authority was created in 1965 to assume responsibility for the construction of roads and highways and related transportation facilities in Puerto Rico. The Authority is a separate entity from the Department of Transportation

and Public Works for purposes of financing and constructing Puerto Rico's transportation system, but since 1971, the Secretary of Transportation and Public Works (the "Secretary"), appointed by the Governor, has overseen the management of the Authority and exercises the powers of the Governing Board of the Authority.

The Authority has adopted a long-term master plan for development of the transportation infrastructure necessary to foster and sustain Puerto Rico's economic growth and a five-year Construction Improvement Program to implement that plan. (The current Construction Improvement Program covers the period from fiscal year 2006, which began on July 1, 2005, through fiscal year 2010). As required by the 1968 Resolution and the 1998 Resolution, the Authority supplements the master plan as necessary and annually updates the five-year Construction Improvement Program.

The Authority Act gives the Authority broad powers to carry out its responsibilities in accordance with the Department's overall transportation policies. These powers include, among other things, the complete control and supervision of any highway and other transportation facilities owned, operated or constructed by it; the ability to set tolls and other charges for the use of the highway and other transportation facilities; and the power to issue bonds, notes and other obligations. The Authority plans and manages the construction of all major projects relating to Puerto Rico's transportation system, undertakes major repairs and maintains the toll highways. The Department maintains Puerto Rico's highway system, other than the toll highways, and undertakes construction of smaller projects.

The Authority classifies its highways and roads within the following categories: primary, primary urban, secondary, and tertiary. As of December 31, 2004, the Commonwealth had 4,608 miles of highways and 11,328 miles of local streets and roads. The highway system comprises 379 miles of primary system highways, which are the more important interregional traffic routes and include the Luis A. Ferré (PR-52), the De Diego (PR-22), PR-53 and Martínez Nadal (PR-20) toll highways, 230 miles of primary urban system highways, 959 miles of secondary system highways serving the needs of intra-regional traffic and 3,041 miles of tertiary highways and roads and public housing development roads serving local, intra-regional traffic.

In August 1990, the Authority Act was amended to empower the Authority to enter into concession agreements, subject to approval by a government board of adjudications, with private parties for the design, construction, operation and maintenance of highway projects. Such projects, to be owned by the Authority and the Commonwealth, could be financed by such private parties by the imposition of tolls or otherwise. To date, the only highway facility subject to a private concession agreement is the Teodoro Moscoso Bridge which is operated by Autopistas de Puerto Rico y Compañía, S.E.

In March 1991, the Authority Act was further amended to authorize the Authority to work with and implement policies established by the Secretary of Transportation and Public Works for the purpose of developing a multi-modal transportation system for the Commonwealth to alleviate traffic congestion. Pursuant to this power, the Authority undertook the planning, design, construction and operation of Tren Urbano, a mass transit rail project for the San Juan Metropolitan area. The initial phase of Tren Urbano became fully operational in fiscal 2005. It consists of approximately 17 km. of trackway, running from Bayamón to Santurce, via Río Piedras and Hato Rey, sixteen stations and a maintenance and storage facility. Also, the Authority initially purchased 74 passenger rail cars. The total estimated cost of this initial phase was approximately \$2.25 billion, of which \$307.4 million was paid or is expected to be paid with funds provided by the federal government. Tren Urbano was constructed under seven separate design/build contracts. Siemens Transit Team ("Siemens") was the contractor under the largest of these contracts, which included: (i) the design and construction of two stations and a 2.6 km. test track; (ii) the design, procurement and installation of all systems for the project, such as the trackway, the train control system, and the communications system; (iii) the design and manufacturing of the vehicles; (iv) the design and construction of the maintenance and storage facility; (v) the responsibility for design and construction coordination among the several contractors; and (vi) operating Tren Urbano for a period of five years, with an additional five-year option exercisable by the Authority.

Organization

To carry out its responsibilities to develop the Commonwealth's transportation system, the Authority is organized into the Executive Director's Office, which provides overall management of the Authority, the office of the Senior Deputy Executive Director, who assists the Executive Director in the overall management of the Authority, and the offices of four Deputy Executive Directors, each of whom reports to the Executive Director and the Deputy Executive Director. The Deputy Executive Director for Infrastructure oversees the Planning Area, which is responsible for the development of the Construction Improvement Program as well as long-term planning, the Design Area, which is responsible for designing and supervising the design by consultants of Authority projects, the Property Acquisition Area, which acquires necessary easements and rights-of-way for Authority projects, and the Construction Area, which supervises and inspects the construction work performed by the Authority's contractors. The Deputy Executive Director for Administration and Finance oversees the Finance Area, which is responsible for the financial affairs of the Authority,

including budgetary services, the Administration Area, which provides administrative support to the Authority, and the Information Technologies Area, which oversees computer operations. The Deputy Executive Director for Human Resources oversees personnel services and recruitment. The Deputy Executive Director for Traffic and Toll Operations oversees all aspects of the operation, maintenance, and repair of the toll highways. Most construction, renovation and improvement of highway facilities is performed by private contractors selected through a public bidding process mandated by the Authority Act. The Authority plans, inspects and supervises such work.

Management

The Secretary of Transportation and Public Works, who has ultimate managerial power over the Authority, is Gabriel Alcaraz Emmanuelli, Ph.D. Dr. Alcaraz was appointed Secretary by the Governor of Puerto Rico in January of 2005, and the Legislature confirmed his appointment on June 25, 2005. Prior to his appointment, he was the Authority's Tren Urbano Project Manager/Director and assistant professor at the University of Florida in Gainesville, Florida. Dr. Alcaraz received a B.S. degree in civil engineering from the University of Puerto Rico, and a master's degree and a Ph.D. from the University of Florida in Gainesville, Florida. Dr. Alcaraz is also the Executive Director of the Authority, and in such capacity oversees the Authority's operations.

Other principal officers of the Authority include the following:

<u>Name</u>	<u>Position</u>	<u>Date of Appointment</u>
Fernando Vargas Arroyo	Senior Deputy Executive Director	August 2005
Jose Hernández Borges	Deputy Executive Director for Infrastructure	February 2001
Norberto Mass Bernard	Deputy Executive Director for Administration and Finance	February 2001
Luis Ortiz Alvarado	Deputy Executive Director for Human Resources	May 2005
Felipe Luyanda Andino	Deputy Executive Director for Traffic and Toll Operations	June 2003

The administrative offices of the Authority are in the Minillas Government Center, De Diego Avenue, Stop 22, San Juan, Puerto Rico. Its mailing address is P.O. Box 42007, San Juan, Puerto Rico 00940-2007. Its telephone number is (787) 721-8787.

Consultants

The Authority retains the firm of Roy Jorgensen Associates, Inc. as independent traffic engineers to carry out certain responsibilities under the 1968 Resolution and the 1998 Resolution. These include an annual evaluation of the Authority's master plan and Construction Improvement Program for capital improvements and the maintenance activities of the Department and the Authority with respect to Puerto Rico's highway system.

The Authority employs Ernst & Young LLP as independent accountants responsible for auditing the Authority's books and accounts.

Employee Relations

As of July 2005, the Authority employed 3,195 persons, of whom 226 were senior management officials, 1,434 were professionals and office workers, and 1,535 were technicians and laborers. Of the total number of employees, 2,455 were permanent employees and 740 were temporary employees. The Authority believes that relations with its employees are good.

In 1987, the Puerto Rico Supreme Court classified the Authority as a "private employer" for purposes of Puerto Rico labor law, permitting the Authority's employees to engage in collective bargaining. An independent union, representing approximately 1,244 of the Authority's 2,455 permanent employees, has been certified for collective bargaining purposes. The collective bargaining agreement of the Authority expired on June 30, 2005. The Authority is currently engaged in negotiations with the union to enter into a new collective bargaining agreement.

TRANSPORTATION SYSTEM REVENUES AND EXPENDITURES

Revenues

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

Sources of 1968 Resolution Revenues

General. The major sources of the Authority's 1968 Resolution Revenues are the gasoline tax and the gas oil and diesel oil tax allocated to the Authority pursuant to the Puerto Rico Internal Revenue Code, the motor vehicle license fee allocated to the Authority pursuant to Act No. 9, and the toll charges on the Authority's existing toll highways (which do not include the Eastern Corridor), including tolls collected on any extension thereof, however financed. In fiscal 2005, 1968 Resolution Revenues were derived 47.6% from gasoline taxes, 37.5% from toll charges, 8.5% from motor vehicle license fees, 4.3% from gas oil and diesel oil taxes, and 2.1% from investment earnings.

Gasoline and Gas Oil Taxes. The Puerto Rico Internal Revenue Code, which currently imposes a \$0.16 per gallon tax on gasoline and an \$0.08 per gallon tax on gas oil and diesel oil, provides for the deposit of the entire \$0.16 tax on gasoline and \$0.04 of the tax on gas oil and diesel oil in the Special Fund of the Authority, and authorizes the Authority to pledge such amounts to the payment of the principal of and interest on its bonds and other obligations or for any other lawful purpose of the Authority. The Authority has pledged such tax receipts to the holders of the Highway Revenue Bonds, but such pledge is subject to the Constitution of Puerto Rico, which permits the Commonwealth to apply such taxes to payment of certain Commonwealth debts to the extent other Commonwealth moneys are insufficient therefor. The Authority has also pledged such tax receipts to the holders of the Transportation Revenue Bonds, subject to the prior application of such tax receipts to the payment of debt service on Highway Revenue Bonds and the maintenance of a reserve therefor. The Commonwealth has agreed and committed in the Puerto Rico Internal Revenue Code that the tax on gasoline will not be reduced below \$0.16 per gallon and the tax on gas oil and diesel oil will not be reduced below \$0.04 per gallon and that the amount of such taxes allocated to the Authority will not be reduced until all obligations of the Authority secured by the pledge thereof, together with the interest thereon, are fully paid. Gasoline taxes and gas oil and diesel oil taxes which may be levied or collected from time to time other than the amounts of the taxes and fees described in this paragraph are not required to be allocated to the Authority or pledged by the Authority to the holders of the Highway Revenue Bonds or the Transportation Revenue Bonds.

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

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

Tolls on Existing Toll Highways. Until the 1968 Resolution is repealed and canceled, all tolls collected on the Authority's existing toll highways (which do not include the Eastern Corridor), including any extension or improvement thereof, however financed (including extensions or improvements financed with the proceeds of Transportation Revenue Bonds) (the "Existing Toll Facilities Revenues"), will constitute 1968 Resolution Revenues. As such, they will be pledged to the payment of the Highway Revenue Bonds and, subject to the prior application of such toll revenues to the payment of debt service on the Highway Revenue Bonds and the maintenance of a reserve therefor, will be additionally pledged to the payment of Transportation Revenue Bonds.

Under the 1968 Resolution, the Authority has covenanted not to reduce or eliminate any tolls and other charges for the use of Traffic Facilities if such tolls and other charges have been taken into account in the calculation of 1968 Resolution Revenues for purposes of satisfying the tests for the issuance of additional bonds under the 1968 Resolution and if the 1968 Resolution Revenues for any 12 consecutive months out of the immediately preceding 15 months prior to the proposed adjustment, after adjusting such revenues for the proposed decrease in tolls, would have been less than 150% of the maximum Principal and Interest Requirements for any fiscal year thereafter for all Highway Revenue Bonds then outstanding. Toll and other charges in effect prior to the 2005 toll increase had been taken into account for satisfying such additional bonds test under the 1968 Resolution.

The Authority has also covenanted, under the 1998 Bond Resolution, that it will not reduce or eliminate any tolls or other charges imposed for the use of its Toll Facilities unless the 1998 Resolution Revenues received by the Authority

for any 12 consecutive months out of the 15 months immediately prior to such reduction (adjusted to give effect for such entire 12 months to moneys allocated to and pledged by the Authority to the payment of the Transportation Revenue Bonds under legislation enacted and toll rate changes made effective on or prior to the effective date of any such toll reduction, and tolls from Toll Facilities which have begun operations or been removed from operation during such 12 months) is at least equal to 150% and 100% of the maximum Principal and Interest Requirements for any fiscal year thereafter for all Senior Transportation Revenue Bonds then outstanding and for all Transportation Revenue Bonds then outstanding, respectively.

Tolls are currently imposed on the Luis A. Ferré toll highway (PR-52), which extends 67 miles from San Juan to Ponce and has four ramps and five toll stations; the De Diego toll highway (PR-22), which extends 52 miles from San Juan to Arecibo and has one ramp and six toll stations; PR-53, which will connect Fajardo and Salinas upon its completion, a distance of 57 miles, of which 37 miles have been completed, and has five toll stations; and the Martínez Nadal Expressway (PR-20), which extends six miles, connecting PR-2 with PR-1 at the La Muda sector near Caguas and has one toll station. The Authority expects to inaugurate the first toll station of the PR-5 toll highway (which connects PR-2 to PR-199, the Las Cumbres avenue) in fiscal year 2006.

Effective on September 10, 2005, after conducting public hearings, the Authority increased toll rates by approximately 43%. The new toll rates are taken into consideration in the Authority's financing plan for its Construction Improvement Program. Under the new toll structure, the total minimum toll for a vehicle passing all tolls stations from San Juan to Ponce by the Luis A. Ferré toll highway (PR-52) was increased from \$3.80 to \$6.00 (roundtrip); the total minimum toll for a vehicle passing through all six stations from San Juan to Arecibo by the De Diego toll highway (PR-22) was increased from \$4.30 to \$7.00 (roundtrip); the minimum toll for the Martínez Nadal Expressway was increased from \$0.50 to \$0.75; the total minimum toll for PR-53 was increased from \$3.10 to \$5.00 (roundtrip); and the minimum toll for PR-5 will be \$0.50 (one way).

The Authority recently implemented a highway-speed electronic toll collection system known as AutoExpreso. This technology, which has exceeded the Authority's usage and performance expectations, employs radio transmissions from transponder-equipped vehicles to plaza-mounted antennas, and video systems for violation enforcement, has significantly increased vehicle circulation throughout toll plazas without costly infrastructure expansion, and has resulted in reduced travel time and increased convenience for customers. Direct benefits to the Authority include reduced cost of toll collection, enhanced auditing capabilities, additional payment option offering and receipt of toll payments in advance. The AutoExpreso has been implemented on eleven toll stations.

The Authority's toll highway revenues have always exceeded its toll highway operation and maintenance expenses. Toll highway revenues and projected operation and maintenance expenses for fiscal 2005 were \$146.3 million and \$45.6 million, respectively, compared to \$141.4 million and \$41.0 million, respectively, for fiscal 2004.

Motor Vehicle License Fees. Under the Vehicle and Traffic Law (Act No. 141 of July 20, 1960, as amended), the Commonwealth imposes annual license fees on various classes of motor vehicles. The current license fees range from \$25 to \$40 for passenger cars and vary for other vehicles. Act No. 9 increased the per vehicle annual motor vehicle license fees by \$15 and provided for the deposit of the proceeds of the \$15 increase in the Special Fund of the Authority, which may pledge such proceeds to the payment of debt service on obligations of the Authority or any other legal purpose of the Authority. As with the gasoline and gas oil and diesel oil taxes described above, the Authority has pledged such license fees to the holders of the Highway Revenue Bonds and, subject to the prior application of such fees to the payment of debt service on Highway Revenue Bonds and the maintenance of a reserve therefor, the Authority has also pledged such fees to the holders of the Transportation Revenue Bonds. Such fees are also collected by the Department of the Treasury and the portion of such fees allocated to the Authority is transferred to the Authority at least monthly, as such fees are collected. Under Act No. 9, the Commonwealth has agreed and pledged that the license fees allocated to the Authority, as described herein, will not be reduced so long as such proceeds remain pledged to the payment of such obligations.

Investment Earnings. Moneys held for the credit of the 1968 Bond Service Account and the 1968 Redemption Account shall, as nearly as may be practicable, be continuously invested and reinvested at the written direction of the Authority in Government Obligations. Moneys held for the credit of the 1968 Reserve Account shall, as nearly as may be practicable, be continuously invested and reinvested at the written direction of the Authority in Investment Obligations. Such Government Obligations and Investment Obligations shall mature, or be subject to redemption, at the option of the holder, not later than the respective dates when moneys held for the credit of such Accounts will be required for the purposes intended; provided, however, that the amounts on deposit in the 1968 Reserve Account shall be invested in Investment Obligations which mature not later than the final maturity date of any Highway Revenue Bonds outstanding. Income from investments of moneys held for the credit of the 1968 Construction Fund is not considered 1968 Resolution Revenues under the 1968 Resolution.

Sources of 1998 Resolution Revenues

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

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

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

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

COLLECTIONS OF PETROLEUM PRODUCTS TAX

Fiscal Year Ended June 30,	Number of Barrels Taxed (millions)	Average Annual Tax Rate ⁽¹⁾ (per barrel)	Total Tax Collected (in millions)
1987	23.67	\$4.91	\$119.90
1988	22.13	4.41	98.54
1989	25.11	5.00	128.23
1990	22.74	4.91	112.79
1991	26.80	4.16	112.17
1992	24.07	5.00	120.37
1993	26.09	5.00	130.47
1994	28.27	5.42	152.91
1995	27.90	5.00	139.59
1996	31.55	5.00	157.74
1997	32.29	4.92	158.74
1998	32.20	5.33	171.64
1999	31.70	6.00	190.10
2000	32.20	4.50	144.80
2001	34.82	3.50	121.90
2002	35.88	4.42	158.60
2003	34.80	3.50	121.90 ⁽²⁾
2004	36.50	3.16	115.30
2005 ^(e)	36.80	3.00	110.30

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

(2) Does not include \$11.0 million collected from taxes in arrears paid by a delinquent insolvent taxpayer that filed for protection under the Bankruptcy Code.

(e) Estimated

Source: Department of the Treasury and the Authority.

The Authority has been adversely affected during the last two fiscal years by reductions in collections of these taxes resulting from high oil prices. For the first time since 1991, collections of petroleum product taxes in fiscal years 2004 and 2005 were below the \$120 million maximum allocated to the Authority. As long as crude oil prices remain at their present levels, the Authority believes that petroleum taxes collected will continue to be less than \$120 million per fiscal year.

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

Tolls and Other Charges. The Authority Act grants to the Authority plenary power to fix, impose, alter and collect tolls and other reasonable charges for the use of the Transportation Facilities operated by the Authority or for services rendered thereby. The Authority is obligated to take into account in setting or changing such tolls and other charges such factors as will promote the use of the Transportation Facilities in the broadest and most varied manner economically possible. Prior to fixing or altering such tolls or other charges, the Authority must hold a public hearing to receive comments with respect thereto.

Until the 1968 Resolution is repealed and canceled, all Existing Toll Facilities Revenues will constitute 1968 Resolution Revenues and are pledged to the payment of the Transportation Revenue Bonds only to the extent they become Excess 1968 Resolution Revenues. Upon the repeal and cancellation of the 1968 Resolution, the Existing Toll Facilities Revenues will constitute 1998 Resolution Revenues and will be pledged to the payment of the Transportation Revenue Bonds. To date, the only planned toll facility that will provide revenues constituting 1998 Resolution Revenues is the Eastern Corridor. The Authority expects to inaugurate the Eastern Corridor toll highway during fiscal 2006, with a minimum roundtrip toll of \$3.00.

The Authority is not pledging the fare box revenues of Tren Urbano to the payment of the bonds issued under the 1998 Resolution or the 1968 Resolution.

Excess 1968 Resolution Revenues. Before the repeal and cancellation of the 1968 Resolution, the Excess 1968 Resolution Revenues (which consist of all unencumbered 1968 Resolution Revenues remaining after payment of debt service and required reserves on the outstanding Highway Revenue Bonds issued under the 1968 Resolution) are included as 1998 Resolution Revenues. After the payment or defeasance of all Highway Revenue Bonds and the repeal and cancellation of the 1968 Resolution, all 1968 Resolution Revenues will become 1998 Resolution Revenues.

Investment Earnings. Moneys held for the credit of the 1998 Senior Bond Service Account, the 1998 Senior Bond Redemption Account, the 1998 Subordinated Bond Service Account and the 1998 Subordinated Bond Redemption Account shall, as nearly as may be practicable, be continuously invested and reinvested at the written direction of the Authority in Government Obligations. Moneys held for the credit of the 1998 Senior Bond Reserve Account and each account in the 1998 Subordinated Bond Reserve Fund shall, as nearly as may be practicable, be continuously invested and reinvested at the written direction of the Authority in Investment Obligations. Such Government Obligations and Investment Obligations shall mature, or be subject to redemption, at the option of the holder, not later than the respective dates when moneys held for the credit of such Accounts will be required for the purposes intended; provided, however, that the amounts on deposit in the 1998 Senior Bond Reserve Account and each account in the 1998 Subordinated Bond Reserve Fund shall be invested in Investment Obligations which mature not later than the final maturity date of any Senior Transportation Revenue Bonds or Subordinated Transportation Revenue Bonds outstanding. Income from investments of moneys held for the credit of the 1998 Construction Fund is not considered 1998 Resolution Revenues under the 1998 Resolution.

Historical Revenues

The following table presents the Authority's revenues, debt service and debt service coverage ratio for the five fiscal years ended June 30, 2001 to June 30, 2005. Under the 1998 Resolution, the Excess 1968 Resolution Revenues representing unencumbered funds in the 1968 Construction Fund must be deposited monthly in the 1998 Revenue Fund and are available for the payment of debt service on Transportation Revenue Bonds, for required deposits to the reserve accounts established thereunder and for other authorized purposes under the 1998 Resolution. See "APPENDIX IV – SUMMARY OF CERTAIN PROVISIONS OF THE 1998 RESOLUTION."

HISTORICAL REVENUES AND DEBT SERVICE COVERAGE
(dollars in thousands)

Fiscal Year ended June 30

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>1968 Resolution Revenues:</u>					
Gasoline taxes ⁽¹⁾	\$169,782	\$174,885	\$173,507	\$188,529	\$185,883
Gas oil and diesel oil taxes ⁽²⁾	<u>20,491</u>	<u>18,922</u>	<u>15,298</u>	<u>14,556</u>	<u>16,679</u>
Subtotal	\$190,273	\$193,807	\$188,805	\$203,085	202,562
Motor vehicle license fees	<u>29,772</u>	<u>30,693</u>	<u>31,920</u>	<u>32,491</u>	<u>32,385</u>
Subtotal	\$220,045	\$224,500	\$220,725	\$235,576	234,947
Toll receipts	125,695	130,498	135,352	141,378	146,286
Investment income	<u>10,260</u>	<u>10,168</u>	<u>12,947</u>	<u>9,264</u>	<u>9,587</u>
Total 1968 Resolution Revenues	<u>\$356,000</u>	<u>\$365,166</u>	<u>\$369,024</u>	<u>\$386,218</u>	<u>\$390,820</u>
Debt Service on Highway Revenue Bonds	\$181,727	\$177,400	\$95,120	\$120,723	\$153,925
1968 Resolution Coverage Ratio	1.96	2.06	3.88	3.20	2.54
Excess 1968 Resolution Revenues	<u>\$174,273</u>	<u>\$187,766</u>	<u>\$273,904</u>	<u>\$265,495</u>	<u>\$236,895</u>
<u>1998 Resolution Revenues:</u>					
Petroleum Products Tax	\$120,000	\$120,000	\$120,000	\$115,295	\$110,262
Excess 1968 Resolution Revenues	174,273	187,766	273,904	265,495	236,895
Investment income	<u>7,456</u>	<u>11,198</u>	<u>11,586</u>	<u>10,017</u>	<u>15,841</u>
Total 1998 Resolution Revenues	<u>\$301,729</u>	<u>\$318,964</u>	<u>\$405,490</u>	<u>\$390,807</u>	<u>\$362,998</u>
Debt Service on Senior Transportation Revenue Bonds	\$102,194	\$116,150	\$135,068	\$165,499	\$178,022
1998 Resolution Senior Coverage Ratio ⁽³⁾	2.95	2.75	3.00	2.36	2.04
Debt Service on Subordinated Transportation Revenue Bonds	\$3,795	\$3,795	\$6,654	\$20,398	\$20,398
Total Debt Service on Transportation Revenue Bonds	\$105,989	\$119,945	\$141,722	\$185,897	\$198,420
1998 Resolution Senior and Subordinated Coverage Ratio ⁽⁴⁾	2.85	2.66	2.86	2.10	1.83
Aggregate Revenues ⁽⁵⁾	<u>\$483,456</u>	<u>\$496,364</u>	<u>\$500,610</u>	<u>\$511,530</u>	<u>\$516,923</u>
Aggregate Debt Service ⁽⁶⁾	\$303,171	\$314,565	\$251,258	\$306,620	\$352,345
Aggregate Coverage Ratio ⁽⁷⁾	1.59	1.58	1.99	1.67	1.47

(1) Excludes \$2.7 million for fiscal year 2001 in delinquent taxes owed by one taxpayer.

(2) Excludes \$28,000 for fiscal year 2001 in delinquent taxes owed by one taxpayer.

(3) Equals ratio of Total 1998 Resolution Revenues to Debt Service on the Senior Transportation Revenue Bonds.

(4) Equals ratio of Total 1998 Resolution Revenues to Debt Service on the Senior Transportation Revenue Bonds and the Subordinated Transportation Revenue Bonds.

(5) Represents the sum of Total 1968 Resolution Revenues and Total 1998 Resolution Revenues (less Excess 1968 Resolution Revenues).

(6) Represents the sum of Debt Service on all Highway Revenue Bonds, all Transportation Revenue Bonds and a \$300 million loan from the federal government (repaid in full in April 2003) incurred to finance a portion of the costs of construction of Tren Urbano.

(7) Aggregate Revenues divided by Aggregate Debt Service.

The Authority's 1968 Resolution Revenues rose at a compound annual rate of 2.3% during the period from fiscal year 2001 through fiscal year 2005 due primarily to the growth in tax collections and toll receipts.

Gasoline tax revenues, which accounted for approximately 47.6% of 1968 Resolution Revenues for fiscal 2005, grew at a compound rate of 2.3% during this five-year period. In fiscal year 2005, revenues from gasoline taxes decreased by 1.4% when compared to fiscal year 2004. However, this decrease was primarily due to the fact that a payment of \$2.8 million made by a taxpayer in fiscal year 2003 was credited to the Authority in fiscal year 2004. In addition, the Legislature of Puerto Rico enacted Act Number 80 of March 15, 2004, which made certain changes to the way gasoline taxes are collected. The changes introduced by this new law resulted in a decrease in gasoline tax revenues of approximately \$2.0 million in fiscal year 2005, and of \$0.6 million in fiscal 2004. Excluding the effect of these two factors, gasoline tax revenues increased slightly in fiscal year 2005 when compared with fiscal year 2004.

Gasoline tax revenues are closely related to gasoline consumption. In the last five fiscal years, gasoline consumption has followed an upward trend, despite an 18.1% increase in the price of gasoline. The main factor explaining the growth in gasoline consumption is the continued increase in the number of vehicles in circulation in Puerto Rico, which increased to approximately 2.2 million in fiscal year 2005.

Gas oil and diesel oil tax receipts, which accounted for approximately 4.3% of 1968 Resolution Revenues for fiscal 2005, decreased from fiscal 2001 through fiscal 2004. This decrease resulted primarily from the decision by the Puerto Rico Electric Power Authority to increase the amount of electricity purchased from private co-generation plants using natural gas and coal as fuels. However, these revenues rose by 14.6% during fiscal year 2005, primarily as a result of an increase in the use of diesel fuel by vehicles, which is expected to continue. An increase in the use of diesel by the Electric Power Authority is also expected during fiscal 2006 due to the operation of new diesel generators in the Electric Power Authority's San Juan power plant.

Toll receipts rose at an average compound annual rate of 3.5% during the period from fiscal 2001 through fiscal 2005, increasing every year during that period. Toll receipts have grown as a percentage of total 1968 Resolution Revenues over the last five fiscal years, from 35% in 2001 to 37% in fiscal 2005. This increase corresponds principally to the growing number of vehicles using toll roads, and the expansion of the toll highway network.

Motor vehicle license fees accounted for approximately 8.3% of 1968 Resolution Revenues for fiscal year 2005. From fiscal 2001 to fiscal 2005, license fee collections rose at a compound annual rate of 2.4%.

The revenues allocated to the Authority from the petroleum products tax are capped at \$120 million in each fiscal year. The Authority received this amount each year during fiscal years 2001, 2002 and 2003. For fiscal years 2004 and 2005, the petroleum products tax collected amounted to \$115.3 million and \$110.3 million, respectively. This was due primarily to the rise in the price of petroleum products, which resulted in a lower tax rate and lower collections.

The foregoing discussion of past revenue growth is not intended to be predictive of future revenue growth. Economic conditions in Puerto Rico, as well as the price of oil and petroleum products and the levels of automobile registration and usage, will affect the Authority's revenues in the future.

Projected 1968 Resolution Revenues and 1998 Resolution Revenues

The following table presents the Authority's estimates of 1968 Resolution Revenues, 1998 Resolution Revenues, debt service on Highway Revenue Bonds and Transportation Revenue Bonds (including the Bonds and other bonds expected to be issued during this period), and debt service coverage for each of the five fiscal years ending June 30, 2006 to June 30, 2010. The projected 1968 Resolution Revenues and 1998 Resolution Revenues shown below are based on tax rates and allocations to the Authority now in effect, on the toll rates implemented on September 10, 2005, and on the toll rates expected to be implemented on toll highways under construction, and debt service is based on Highway Revenue Bonds and Transportation Revenue Bonds currently outstanding and projected to be issued during the forecast period. Such projections are subject to periodic review and may be adjusted to reflect such factors as changes in general economic conditions, in the demand for gasoline and other petroleum products and in the levels of automobile registration and usage. The projections are based on assumptions that the Authority believes to be reasonable; however, there is no assurance that the projections will prove to be accurate. The projections have been prepared by, and are the responsibility of the management of the Authority. The Authority's auditors have neither examined nor compiled the projections, and accordingly they have not expressed an opinion or any other form of assurance with respect thereto.

PROJECTED REVENUES AND DEBT SERVICE COVERAGE ⁽¹⁾
(dollars in thousands)

Fiscal Year Ended June 30

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
1968 Resolution Revenues					
Gasoline Taxes	\$187,940	\$192,980	\$197,730	\$202,340	\$207,380
Gas oil and diesel oil taxes	17,120	22,000	22,060	22,070	22,180
Subtotal	205,060	214,980	219,790	224,410	229,560
Motor vehicle license fees	<u>34,190</u>	<u>35,040</u>	<u>35,890</u>	<u>36,740</u>	<u>37,600</u>
Subtotal	239,250	250,020	255,680	261,150	267,160
Toll receipts	199,616	218,755	234,820	245,352	255,263
Investment Income	<u>9,672</u>	<u>9,389</u>	<u>9,199</u>	<u>9,198</u>	<u>9,199</u>
Total 1968 Resolution Revenues	<u>\$448,538</u>	<u>\$478,164</u>	<u>\$499,699</u>	<u>\$515,700</u>	<u>\$531,622</u>
Debt Service on Highway Revenue Bonds	145,080	140,840	137,976	137,949	137,985
1968 Resolution Coverage Ratio	3.09	3.40	3.62	3.74	3.85
Excess 1968 Resolution Revenues	<u>\$303,458</u>	<u>\$337,324</u>	<u>\$361,723</u>	<u>\$377,751</u>	<u>\$393,637</u>
1998 Resolution Revenues					
Petroleum Products Tax	\$111,933	\$114,996	\$117,829	\$120,000	\$120,000
Investment Income	16,857	17,322	18,180	18,179	20,109
Eastern Corridor Toll Receipts	13,100	26,800	27,800	28,800	31,800
Subtotal	141,890	159,118	163,809	166,979	171,909
Excess 1968 Resolution Revenues	<u>303,458</u>	<u>337,324</u>	<u>361,723</u>	<u>377,751</u>	<u>393,637</u>
Total 1998 Resolution Revenues	<u>\$445,348</u>	<u>\$496,442</u>	<u>\$525,532</u>	<u>\$544,730</u>	<u>\$565,546</u>
Debt Service on 1998 Senior Transportation Revenue Bonds ⁽²⁾⁽³⁾	\$196,617	\$246,635	\$249,303	\$249,299	\$308,060
1998 Resolution Senior Coverage Ratio ⁽⁴⁾	2.27	2.01	2.11	2.19	1.84
Additional Bond Test, Senior Transportation Revenue Bonds ⁽²⁾⁽⁵⁾	1.65	1.84	1.94	1.68	1.75
Debt Service on 1998 Subordinated Transportation Revenue Bonds	\$24,018	\$28,269	\$30,365	\$30,321	\$30,344
Total Debt Service on Transportation Revenue Bonds	\$220,636	\$274,904	\$279,668	\$279,619	\$338,404
1998 Resolution Senior and Subordinate Debt Service Coverage Ratio	2.02	1.81	1.88	1.95	1.67
Aggregate Revenues ⁽⁶⁾	<u>590,428</u>	<u>637,282</u>	<u>663,508</u>	<u>682,679</u>	<u>703,531</u>
Aggregate Debt Service ⁽⁷⁾	\$365,715	\$415,744	\$417,644	\$417,569	\$476,389
Aggregate Coverage Ratio ⁽⁸⁾	1.61	1.53	1.59	1.63	1.49

(1) Assumes that all taxes will be collected on their due dates.

(2) Assumes issuance of additional Transportation Revenue Bonds in June 2009 at a 7% interest rate with a 30-year final maturity.

(3) Net of fiscal year 2006 capitalized interest.

(4) Equals ratio of Total 1998 Resolution Revenues to debt service on the Senior Transportation Revenue Bonds.

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

(6) Represents the sum of the Total 1968 Resolution Revenues and Total 1998 Resolution Revenues (less Excess 1968 Resolution Revenues).

(7) Represents total debt service on all Highway Revenue Bonds and all Transportation Revenue Bonds, net of capitalized interest.

(8) Aggregate Revenues divided by Aggregate Debt Service.

Total 1968 Resolution Revenues and 1998 Resolution Revenues for the period from fiscal 2006 through fiscal 2010 are projected to grow at a compound annual rate of 4.0% and 4.4%, respectively. The projected growth in gasoline tax revenues is based on econometric models prepared for the Authority by Applied Research, Inc., an independent firm, which project increases in disposable income in Puerto Rico. The Authority has found such projections to be the most reliable indicator of future growth in gasoline tax receipts. The Authority's projections of growth in its other revenues is based on historic trends and, in the case of toll revenues, on the additional receipts expected from the increase in toll rates, increase in traffic, the impact of the 2005 toll increase on highway traffic, and the opening of new toll plazas such as those located on PR-5 and the Eastern Corridor.

Operating Expenses and Capital Expenditures

Operation and Maintenance- Highway Facilities

The Department of Transportation has the responsibility for maintaining Puerto Rico's highway system, except for the toll highways and related connecting roads, which are maintained by and at the expense of the Authority. The maintenance expenses of the Department are paid with moneys appropriated annually by the Legislature of Puerto Rico. On occasion, the Authority advances funds to pay the costs of emergency repairs that are the responsibility of the Department, and is subsequently reimbursed for these advances. To the extent funds are not provided by the Legislature, the Authority has agreed under the 1998 Resolution that it will pay from available moneys in the 1998 Construction Fund the costs of maintenance of the Traffic Facilities financed with proceeds of Highway Revenue Bonds and Transportation Revenue Bonds. The 1998 Resolution requires the Authority to pay from available moneys in the 1998 Construction Fund (and not from moneys in the 1968 Construction Fund) the costs of any necessary repairs to, or renewals or replacements of, Traffic Facilities financed with proceeds of Highway Revenue Bonds and Transportation Revenue Bonds, as recommended by the transportation engineers retained by the Authority.

The Authority's operation and maintenance expenses payable from available moneys in the 1998 Construction Fund consist of the expenses of operating and maintaining the toll highways and related roads and, beginning in fiscal 2005, the expenses of operating and maintaining Tren Urbano. Under the 1998 Resolution, these expenses are payable from available moneys in the 1998 Construction Fund after payment of debt service on the Highway Revenue Bonds and Transportation Revenue Bonds and any required deposits to the 1998 Senior Bond Reserve Account and the accounts in the 1998 Subordinated Bond Reserve Fund. Other expenses of the Authority, including its administration costs, are included in the Construction Improvement Program and are capitalized.

The following table sets forth the annual toll highway operation and maintenance expenses paid by the Authority from unencumbered moneys in the 1998 Construction Fund for each of the five fiscal years in the five-year period ended June 30, 2005, as well as the annual amount contributed by the Authority to the Department to help pay the cost of maintaining the non-toll highways (which amount is not reimbursed by the Department to the Authority). The table also sets forth the Authority's projected annual toll highway operation and maintenance expenses to be paid by the Authority from unencumbered moneys in the 1998 Construction Fund for the five fiscal years ending June 30, 2010, as well as the projected contributions by the Authority to the Department for maintenance of non-toll highways.

HIGHWAY FACILITIES OPERATION AND MAINTENANCE EXPENSES (in thousands)

Fiscal Year Ended June 30	Contributions of the Authority to the Department	Toll Highway Maintenance	Toll Highway Operation	Electronic Toll Collection	Total ⁽¹⁾
2001	5,000	21,130	18,720	-	\$39,850
2002	6,902	21,060	16,233	-	37,293
2003	15,200	21,902	16,882	-	38,784
2004	13,074	26,107	14,908	-	41,015
2005	8,271	23,693	21,870	-	45,563
2006 ^(p)	10,000	25,421	20,799	\$ 7,400	53,620
2007 ^(p)	10,000	26,268	21,492	8,500	56,260
2008 ^(p)	10,000	26,818	21,942	9,300	58,060
2009 ^(p)	10,000	27,354	22,381	10,137	59,872
2010 ^(p)	10,000	28,038	22,940	10,188	61,166

(1) Total does not include the Contributions of the Authority to the Department.

(p) Projected.

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

The traffic engineers retained by the Authority under the 1968 Resolution and 1998 Resolution conduct an annual evaluation of the level of maintenance of the highway system. In their most recent evaluation completed in July 2005, the traffic engineers found that the current level of maintenance was generally adequate. For fiscal year 2000, the Authority incurred a higher increase in toll highway maintenance expense than what it had experienced in prior years due to the purchase of equipment that was not capitalized. For fiscal 2001 and subsequent years, the Authority has increased the amounts budgeted for toll highway maintenance to reflect an expanded toll highway network and increased levels of maintenance. The projected maintenance budgets for the next five fiscal years reflect an average annual rate of growth of 2.5% for both non-toll roads and toll highways. The traffic engineers believe that the Authority's maintenance program represents an adequate level of maintenance to preserve the investment and provide an acceptable level of service. The results of the traffic engineers' most recent maintenance evaluation are summarized in the letter of such traffic engineers included as Appendix V.

Operation and Maintenance - Tren Urbano

After several months of operating free of charge, Tren Urbano began revenue operations in June 2005. All construction work of Phase I of Tren Urbano has now been completed. As of August 2005, the average daily ridership is 23,100 passengers on weekdays and 8,300 passengers on weekends. Additional and extended Tren Urbano service is provided for special events.

The Authority has entered into a Systems and Test Track Turnkey Contract with Siemens covering, among other things, the operation and maintenance of Tren Urbano. Under the agreement, Siemens is responsible for operating and maintaining Tren Urbano and is entitled to receive for such services an annual base compensation, which is subject to an inflation adjustment for changes in the cost of labor (based on changes in the consumer price index) and materials (based on changes in the producer price index). The base compensation does not include the cost of insurance and electricity which is paid separately by the Authority. In addition, Siemens is entitled to receive incentive compensation, and is subject to penalties, based on meeting or not meeting certain operating and maintenance performance measures. The contract with Siemens, has an initial term that expires on June 5, 2010, with an option by the Authority to extend the term for an additional five years.

In addition to the direct costs of operating Tren Urbano, the Authority funds the costs associated with the technical, administrative and contractual oversight of Tren Urbano and its intermodal operations, which is done through the Integrated Transportation Alternative (ATI, by its Spanish acronym), a division within the Authority. Additional costs related to Tren Urbano include a contract for security services with the Puerto Rico Police Department, a subsidy of fixed-route feeder services for operators of private jitney services (*carros públicos*), and paratransit feeder bus services provided by the Metropolitan Bus Authority. These additional operating costs totaled \$38.1 million in fiscal year 2005, and are projected to increase to \$42.2 million per year during the first five years of service.

The table below shows the Authority's estimate of the annual operating and maintenance expenses of Tren Urbano for the first five years of service. These estimates are based upon the terms of the Authority's contract with Siemens and include an inflation adjustment and the Authority's estimate of the cost of insurance and electricity. They also include the costs of the ATI oversight organization, financial incentives for *carros públicos*, security services, and feeder bus services.

**Estimated Annual Operating and Maintenance Expenses for
Tren Urbano and Intermodal Service
(in millions)**

Fiscal Year	Estimated Annual Operating and Maintenance Expenses
2006	\$102.3
2007	103.4
2008	104.4
2009	105.8
2010	112.3

The Authority projects the net annual operating costs of Tren Urbano to increase during the first five years of operation from \$90.6 million in fiscal year 2006 to \$99.5 million per year in fiscal year 2010. This estimate is based, among other factors, on costs and revenue experience to date for train operations, and projected average daily ridership of 30,580 passengers on weekdays and 9,085 passengers on weekends by fiscal year 2010, with annual ridership growth of between 1% to 6% annually during that period.

The costs of operation and maintenance of Tren Urbano will be covered by passenger fares and available moneys in the 1998 Construction Fund. When Tren Urbano reaches its projected ridership levels, revenues from passenger fares are expected to cover approximately 11% of the operation and maintenance costs.

Operation and Maintenance – Ferry Service

Since July 1, 2005, the Authority is responsible for the operation and maintenance of part of the ferry transportation system known as Aquaexpreso. The Authority is in charge of the operations of the ferry covering the route from San Juan to Cataño. The other ferries comprising the Aquaexpreso system continue under the management of the Puerto Rico Ports Authority.

The operating cost of the San Juan-Cataño ferry is projected to be \$10 million per year. The Authority expects to receive annual appropriations from the Commonwealth in the amount of \$6.0 million to assist in the cost of the ferry operations.

Construction Improvement Program

As required by the 1968 Resolution and the 1998 Resolution, the Authority has developed a master plan to serve as the basis for the long-term planning of Puerto Rico’s transportation facilities, which it supplements as necessary. To implement the plan, the Authority prepares a five-year Construction Improvement Program that is updated annually. Since completing the construction of Tren Urbano in fiscal year 2005, the Authority has focused its current Construction Improvement Program on improving the primary and primary urban highway facilities, while also addressing the most essential needs of secondary and tertiary roads. The Authority has also included in its Construction Improvement Program the cost of repairs, renewals and replacements to the highway system bridges in the Puerto Rico strategic network, plans for dealing with urban congestion and for local improvements, and certain capitalized expenditures.

The following table presents the Authority’s current Construction Improvement Program for the five fiscal years ending June 30, 2010 and the sources of funds required to finance such program. The Construction Improvement Program is subject to various changing factors, including cost increases, variations in availability of internal and external funds, availability of qualified construction resources, the need for emergency repairs and changing traffic patterns. The Authority’s projections assume no changes in the statutory taxes and license fees currently allocated to the Authority, and that the Authority will not be required to assume the payment of the Special Facility Revenue Refunding Bonds, 2003 Series A, described under “Teodoro Moscoso Bridge” below.

CONSTRUCTION IMPROVEMENT PROGRAM

Fiscal Year Ending June 30,
(in thousands)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>TOTAL</u> ⁽³⁾
Sources of Funds:						
Internally Generated Funds ⁽¹⁾	\$ 59,730	\$ 60,119	\$ 75,847	\$ 88,606	\$ 53,568	\$ 337,871
Federal aid for highways	152,039	137,035	107,073	107,055	107,050	610,253
Federal aid for Tren Urbano	44,263	10,559	-	-	23,038	77,860
External Financing ⁽²⁾	341,641	280,345	266,853	177,528	233,748	1,300,116
Total ⁽³⁾	\$597,674	\$488,059	\$449,773	\$373,190	\$417,404	\$2,326,100
Uses of Funds:						
Design	\$10,920	\$10,000	\$10,000	\$10,000	\$3,721	\$ 44,641
Rights of Way	32,000	10,000	10,000	10,000	33,686	95,686
Construction	449,755	363,059	324,773	248,190	228,920	1,614,697
Capitalized Expenditures	105,000	105,000	105,000	105,000	105,000	525,000
Tren Urbano	-	-	-	-	46,077	\$46,077
Total ⁽³⁾	\$597,674	\$488,059	\$449,773	\$373,190	\$417,404	\$2,326,100

- (1) Includes funds on hand, current revenues available after provision for debt service and reserve requirements for bonds and toll highway maintenance and operating expenses and investment income. To the extent such funds are held in the 1998 Construction Fund, the holders of the Transportation Revenue Bonds have a claim on such funds in certain circumstances.
- (2) Includes short-term financing, net proceeds of borrowing.
- (3) Totals may not add up due to rounding.

In the five-year period from fiscal year 2001 through fiscal year 2005 the Authority expended approximately \$3.65 billion on its Construction Improvement Program, a significant portion of which represented the cost of Tren Urbano. The current five-year Construction Improvement Program projects an expenditure of approximately \$2.3 billion from fiscal year 2006 through fiscal year 2010.

The Authority's internally generated funds available to finance its current Construction Improvement Program consist primarily of 1998 Resolution Revenues remaining after payment of debt service on the Highway Revenue Bonds and Transportation Revenue Bonds, provision for reserve requirements for the Highway Revenue Bonds and the Transportation Revenue Bonds, and payment of expenses for operating and maintaining the toll highways and the Tren Urbano (which became operational in fiscal 2005). Such internally generated funds are estimated to aggregate approximately \$408.8 million during the five-year period from fiscal year 2006 through fiscal year 2010, including investment income, which is estimated at approximately \$138.3 million for the five-year period.

The current Construction Improvement Program contemplates new construction borrowings, including the issuance of the Series K Bonds, aggregating approximately \$1.527 billion of principal to produce \$1.408 billion of net proceeds from fiscal year 2006 to fiscal year 2010.

Highway Construction. Highway construction projects included by the Authority in its current Construction Improvement Program are designed to address the transportation needs of the people of Puerto Rico and to enhance the economic development of Puerto Rico. The current Construction Improvement Program includes all the construction projects that the Authority believes are required at the present time to complete the Puerto Rico highway network. Projects include new highway construction, principally of primary roads and toll highways, and construction of improvements designed to alleviate the traffic congestion of the San Juan metropolitan area as well as to provide access to the proposed Port of the Americas that is currently planned for the southern region of Puerto Rico. It also includes reconstruction of existing highways, a bridge program and installation of safety features and other projects.

The Authority's current Construction Improvement Program includes the investment of approximately \$72.1 million in the construction of Phase I of the Eastern Corridor. The Eastern Corridor is a nine-mile, four-lane toll highway

from Carolina to Río Grande, with a total estimated cost of construction of \$249.3 million, that is expected to reduce vehicular congestion on highway PR-3 between the San Juan metropolitan area and the eastern region of Puerto Rico. This project, originally named PR-66, was halted in fiscal 2000 as a result of litigation. After revisions designed to take into consideration the objections raised in the litigation, construction continued in the summer of 2003. The Authority projects that Phase I of the Eastern Corridor (Carolina to Canóvanas) will be finalized during fiscal year 2006. Construction of Phase II of the Eastern Corridor (Canóvanas to Río Grande) is expected to begin in fiscal year 2007 at an estimated cost of \$177.2 million.

Other major highway projects that have strategic importance for Puerto Rico's highway network include the construction of sections of PR-53 from Yabucoa to Maunabo and the design of the section that will complete the toll highway from Maunabo to Guayama (which includes the first highway tunnel through a mountain in Puerto Rico), the construction of the section of PR-10 from Utuado to Adjuntas (which will complete the connector between the north and south areas of the island), the conversion into an expressway of the section of PR-2 from Mayagüez to Ponce, which, together with PR-10, will service the proposed transshipment port to be known as "Port of Las Américas," the widening of sections of PR-22, the construction of the PR-5 toll highway connecting PR-2 to Las Cumbres Avenue, and the conversion of a portion of PR-2 in San Juan into an expressway.

The Authority receives aid for highway construction from the Federal Highway Administration ("FHWA"). Such aid is recorded as related costs that are billed to the FHWA, regardless of the year of appropriation. In fiscal years, 2001, 2002, 2003, 2004 and 2005 such aid from FHWA amounted to \$50.0 million, \$34.7 million, \$55.5 million, \$46.9 million, and \$45.2 million respectively.

Federal aid for highway construction is received under a number of federal programs, including those directed to construction of new roads and repair and reconstruction of existing roads. The programs provide for matching federal assistance, ranging generally from 80% to 90% of the cost of a project. The level of federal highway aid is dependent upon Congressional authorizations that are apportioned or allocated to the states and the Commonwealth. The U.S. Department of Transportation has broad discretion to release funds for spending within the limits set by Congress. Upon its approval of a state's program, funds are reserved but not committed. Federal-aid funds are committed when the U.S. Department of Transportation approves the detailed plans for specific projects. Congress has authorized funding for the federal highway programs through September 30, 2009. Federal highway legislation has liberalized certain types of federal highway aid and granted more flexibility to the states and the Commonwealth in the use of such aid in highway or other transportation projects. No assurance can be given that the level of federal highway aid will be maintained at the levels projected in the above table. In the event of material reductions in such aid, the Construction Improvement Program will be appropriately adjusted in the absence of internally generated funds, external financing or other sources of funds shown in the above table available to offset any such reductions.

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

The traffic engineers retained by the Authority under the 1968 Resolution and the transportation engineers under the 1998 Resolution, if different, annually review the Construction Improvement Program and the Authority's estimates of revenue sources available for its implementation. In their most recent evaluation, dated September 30, 2004, the traffic engineers concluded that the Authority's 2005-2009 Construction Improvement Program was a reasonable response to the immediate and short-term transportation needs and is generally consistent with the Authority's long-term transportation master plan. The traffic engineers also concluded that revenue projections have been reasonably accurate and provide a sound basis for determining the size of future programs. The results of that review are summarized in the traffic engineers' letter included as Appendix V. The traffic engineers have not yet evaluated the Authority's 2006-2010 Construction Improvement Program.

Tren Urbano. All construction and testing for Phase I of Tren Urbano, which consists of approximately 17 km. of trackway running from Bayamón to Santurce via Río Piedras and Hato Rey, and 16 stations, was substantially completed in fiscal 2005. Therefore, no significant amounts are included in the Construction Improvement Program for Tren Urbano for the 2006 – 2010 period, except for \$46.1 million allocated in fiscal year 2010 for the commencement of construction of Phase II, the Carolina Extension.

The final cost of construction of Phase I of Tren Urbano is estimated to be \$2.25 billion, of which \$2.15 billion have already been incurred through July 2005. Of that amount, approximately \$252.6 million has already been paid with federal funds pursuant to the Full Funding Grant Agreement between the Authority and the Federal Transit Administration ("FTA"). The Authority expects to receive an additional \$54.8 million in funds assigned by the FTA to

the Authority for Tren Urbano as part of the federal appropriations for fiscal years 2005 and 2006. The Authority's estimate of the total cost of Tren Urbano includes a contingency for the aggregate amount that the Authority estimates may be required to resolve various claims from contractors, most of which relate to cost overruns or damages allegedly suffered because of delays in the design and construction of the project. Some of these claims, including one from Siemens, are currently being litigated in court. No assurance can be given that these claims will be resolved for the amounts estimated by the Authority.

Teodoro Moscoso Bridge

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

Construction of the bridge was financed through the issuance by the Authority of Special Facility Revenue Bonds in the principal amount of approximately \$116.8 million. In October 2003, the Authority refunded the Special Facility Revenue Bonds by issuing its Special Facility Revenue Refunding Bonds, 2003 Series A (the "Special Facility Revenue Refunding Bonds") in the principal amount of approximately \$153.2 million. The proceeds derived from the sale of the Special Facility Revenue Refunding Bonds were loaned by the Authority to APR, and such proceeds were used to refund the Special Facility Revenue Bonds. APR agreed to repay the loan in amounts sufficient to pay the principal of and interest on the bonds. Pursuant to the terms of the Special Facility Revenue Refunding Bonds, APR will continue operating the bridge pursuant to the aforementioned concession agreement with the Authority and the bridge will continue being owned by the Authority. The Special Facility Revenue Refunding Bonds will be payable primarily from net toll revenues from the bridge collected by APR, after payment of bridge operating expenses.

Under the Special Facility Revenue Refunding Bonds, the Authority has covenanted that if net toll revenues, together with available reserves, are insufficient to pay the Special Facility Revenue Refunding Bonds, or if the concession agreement is terminated, the Authority will assume APR's obligation to pay the Special Facility Revenue Refunding Bonds. If the Authority assumes the obligation to pay the Special Facility Revenue Refunding Bonds, the Authority will be required to exchange the Special Facility Revenue Refunding Bonds for new bonds issued under the 1998 Resolution, provided it meets the requirements for the issuance of such new bonds. These new bonds would be issued as either Senior Transportation Revenue Bonds or Subordinated Transportation Revenue Bonds, at the option of the Authority, and would have the same interest rates, maturity dates and redemption provisions as the Special Facility Revenue Refunding Bonds. If the Authority cannot issue such new bonds in exchange for the Special Facility Revenue Refunding Bonds, the Special Facility Revenue Refunding Bonds would continue to be payable from revenues available to the Authority after payment of debt service on the Transportation Revenue Bonds.

DEBT

Debt of the Authority

The outstanding debt of the Authority as of the date of this Official Statement, as adjusted for the issuance of the Bonds, the refunding of the Refunded Bonds, and the repayment of the line of credit provided by the Government Development Bank, is shown on the following table.

	Outstanding	As Adjusted⁽²⁾
Highway Revenue Bonds	\$1,773,375,000	\$1,764,815,000
Senior Transportation Revenue Bonds ⁽¹⁾	3,397,936,327	4,179,491,327
Subordinated Transportation Revenue Bonds	395,595,000	395,595,000
Government Development Bank Line of Credit	453,000,000	-
Total	\$6,019,906,327	\$6,339,901,327

(1) Includes accretion on capital appreciation bonds through July 1, 2005. Does not include the Bonds being offered under this Official Statement. Does not include the bonds issued to finance the Teodoro Moscoso Bridge and the Grant Anticipation Bonds issued by the Authority in April of 2004.

(2) Adjusted to include the Bonds and to reflect the refunding of the Refunded Bonds and the payment of the Government Development Bank Line of Credit.

Principal and Interest Requirements of the Bonds

The Principal and Interest Requirements for the outstanding Highway Revenue Bonds and Transportation Revenue Bonds and for the Bonds for each of the fiscal years 2006 through 2045 (after taking into account the refunding of the Refunded Bonds) are set forth in the following table:

Years Ending June 30,	Unrefunded Transportation Revenue Bonds and Highway Revenue Bonds	Bonds			Total Debt Service*
		Principal	Interest	Total*	
2006	\$338,632,720	-	\$56,205,008	\$ 56,205,008	\$394,837,728
2007	332,511,607	\$ 7,450,000	75,782,034	83,232,034	415,743,641
2008	334,410,492	7,675,000	75,558,534	83,233,534	417,644,026
2009	334,335,067	7,920,000	75,312,934	83,232,934	417,568,001
2010	334,395,251	8,350,000	75,051,574	83,401,574	417,796,825
2011	346,223,769	9,500,000	74,705,354	84,205,354	430,429,123
2012	346,244,484	9,985,000	74,293,676	84,278,676	430,523,160
2013	346,209,946	10,440,000	73,837,754	84,277,754	430,487,700
2014	347,418,386	10,950,000	73,334,610	84,284,610	431,702,996
2015	347,419,414	11,445,000	72,833,671	84,278,671	431,698,085
2016	346,257,101	11,905,000	72,378,041	84,283,041	430,540,143
2017	327,214,891	31,475,000	71,794,696	103,269,696	430,484,588
2018	313,216,884	43,515,000	70,170,759	113,685,759	426,902,643
2019	327,674,981	24,635,000	67,916,146	92,551,146	420,226,128
2020	327,666,258	23,070,000	66,654,234	89,724,234	417,390,492
2021	298,173,219	34,085,000	65,604,824	99,689,824	397,863,043
2022	225,618,946	85,205,000	63,849,999	149,054,999	374,673,945
2023	246,887,903	24,325,000	59,413,099	83,738,099	330,626,002
2024	249,052,421	23,405,000	58,174,224	81,579,224	330,631,645
2025	256,008,195	17,605,000	56,985,549	74,590,549	330,598,743
2026	256,029,493	18,475,000	56,116,763	74,591,763	330,621,256
2027	256,077,724	19,400,000	55,191,013	74,591,013	330,668,736
2028	256,091,745	20,375,000	54,218,913	74,593,913	330,685,658
2029	232,420,139	36,275,000	53,197,950	89,472,950	321,893,089
2030	251,066,974	22,355,000	51,344,675	73,699,675	324,766,649
2031	251,065,251	23,475,000	50,224,750	73,699,750	324,765,001
2032	236,585,319	39,135,000	49,050,138	88,185,138	324,770,456
2033	209,937,956	67,765,000	47,056,263	114,821,263	324,759,219
2034	209,410,334	71,790,000	43,562,350	115,352,350	324,762,684
2035	208,886,244	76,020,000	39,861,850	115,881,850	324,768,094
2036	177,872,938	89,465,000	35,944,913	125,409,913	303,282,850
2037	122,507,575	94,085,000	31,319,963	125,404,963	247,912,538
2038	122,511,319	98,950,000	26,456,063	125,406,063	247,917,381
2039	57,677,463	104,070,000	21,340,525	125,410,525	183,087,988
2040	57,679,525	72,675,000	15,960,150	88,635,150	146,314,675
2041	57,678,125	76,405,000	12,232,175	88,637,175	146,315,300
2042	57,677,450	38,575,000	8,312,750	46,887,750	104,565,200
2043	24,331,181	40,500,000	6,384,000	46,884,000	71,215,181
2044	-	42,525,000	4,359,000	46,884,000	46,884,000
2045	-	44,655,000	2,232,750	46,887,750	46,887,750

* Totals may not add up due to rounding.

Upon the issuance of the Bonds, the remaining average life of the Highway Revenue Bonds and the Transportation Revenue Bonds will be approximately 20.154 years.

TAX MATTERS

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

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

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

A portion of the interest on the Bonds earned by certain corporations may be subject to a federal corporate alternate minimum tax. In addition, interest on the Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations.

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

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

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

Original Issue Discount

The Bonds identified in the following table (the “Discount Bonds”) are being offered and sold to the public at an original issue discount (“OID”).

Series K		Series L		Series BB	
Maturity July 1	Interest Rate	Maturity July 1	Interest Rate	Maturity July 1	Interest Rate
2007	3%	2011	3.30%	2012	3.30%
2008	3.20	2012	3½	2013	3½
2009	3.30	2013	3⅞	2014	3.60
2010	3.40	2014	3.70	2015	3.60
2011	3⅝	2015	3.80	2016	3.70
2012	3¾	2016	3⅞		
2013	3⅞	2020	4.00		
2014	3⅞	2025	4¼		
2015	4	2035	4¼		
2020	4.30				
2025	4.40				
2035	4.50				

OID is the excess of the stated redemption price at maturity (the principal amount) over the “issue price” of a Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner’s gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Bonds, and (ii) is added to the owner’s tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. A purchaser of a Discount Bond in the initial public offering at the price for that Discount Bond stated on the inside cover page of this Official Statement who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

Owners of Discount Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID properly accruable in any period with respect to the Discount Bonds and as to other federal tax consequences and the treatment of OID for purposes of state and local taxes on, or based on, income.

Original Issue Premium

The Bonds identified in the following table (the “Premium Bonds”) are being offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. That excess constitutes bond premium.

Series K		Series L		Series BB	
Maturity July 1	Interest Rate	Maturity July 1	Interest Rate	Maturity July 1	Interest Rate
2010	5%	2017	5¼%	2017	5¼%
2011	5	2018	5¼	2018	5¼
2012	5	2019	5¼	2022	5¼
2013	5	2021	5¼		
2014	5	2022	5¼		
2016	5	2023	5¼		
2017	5	2024	5¼		
2018	5	2030	5¼		
2019	5	2035	5¼		
2020	5	2038	5¼		
2021	5	2041	5¼		
2022	5				
2023	5				
2024	5				
2025	5				
2026	5				
2027	5				
2030	5				
2035	5				
2040	5				
2045	5				

For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the authorization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the inside cover page of this Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bonds, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Owners of Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of bond premium properly accruable in any period with respect to the Premium Bonds and as to other federal tax consequences and the treatment of bond premium for purposes of state and local taxes on, or based on, income.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Bonds from the Authority at an aggregate discount of \$9,553,166.01 from the initial offering prices of the Bonds set forth or derived from information set forth on in the inside cover pages thereof. The obligations of the Underwriters are subject to certain conditions precedent, and they will be obligated to purchase, in each case, 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 Brothers"), a managing underwriter, had previously entered into a written agreement with Santander Securities Corporation ("Santander Securities"), pursuant to which Santander Securities had agreed to cooperate with Lehman Brothers in connection with Lehman Brothers' provision of underwriting and investment banking services to the Authority with respect to the Bonds. In accordance with amendments to Rule G-38 of

the Municipal Securities Rulemaking Board that went into effect on August 29, 2005, this agreement has been terminated. However, pursuant to this agreement, the existence of which had been disclosed to the Authority and Government Development Bank, and as permitted by amended Rule G-38, Santander Securities will be entitled to receive a portion of Lehman Brothers' actual net profits, if any, in connection with the underwriting of the Bonds, for work done prior to the termination of the agreement.

Other generally similar agreements existed between some of the underwriters and other Puerto Rico-based investment banks. These have been terminated as a result of the adoption of the amendments to Rule G-38, but payments may be made for work done prior to the termination of the agreement. In addition, other agreements exist between some of the underwriters and other Puerto-Rico based investment banks that are not subject to Rule G-38. The underwriters that have or had these agreements are Banc of America Securities LLC and Oriental Financial Services Corporation; JP Morgan Securities, Inc. and R-G Investments Corporation; Goldman, Sachs & Co. and FirstBank Puerto Rico; Merrill Lynch & Co. and BBVA Capital Markets of Puerto Rico, Inc.; and Morgan Stanley & Co. Incorporated and Popular Securities, Inc.

VERIFICATION OF MATHEMATICAL ACCURACY

Causey Demgen & Moore Inc. will verify, from the information provided to them, the mathematical accuracy as of the date of delivery of the Series L Bonds and the Series BB Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in such schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the Refunded Bonds, and (ii) the computations of yield on the securities and the 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. Causey Demgen & Moore Inc. will express no opinion on the assumptions provided to them, nor as to the exclusion from gross income for Federal income tax purposes of the interest on the Bonds.

LITIGATION

There is no pending litigation of any nature restraining or enjoining or seeking to restrain or enjoin the issuance, sale or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds, the resolutions or the proceedings of the Authority taken with respect to the authorization, issuance or sale thereof, or the pledge or application of any moneys under the 1968 Resolution, the 1998 Resolution, or the existence or powers of the Authority.

The Authority is involved as defendant in various legal proceedings arising in the normal course of its business. Many of these proceedings involve claims against the Authority based on breach of contract, claims for additional compensation under construction contracts, claims for damages from automobile accidents allegedly caused by alleged defects in highway construction or maintenance and challenges to public bidding procedures conducted by the Authority, among others. The Authority and its General Counsel do not believe that liability from any such legal proceedings, in excess of available insurance coverage and the provision for losses not covered by insurance, as shown on the financial statements, will have a material adverse effect on the financial condition of the Authority.

LEGAL MATTERS

The forms of opinions of Squire, Sanders & Dempsey L.L.P., Miami, Florida, Bond Counsel, are set forth in Appendix II to this Official Statement. Certain legal matters will be passed upon for the Underwriters by O'Neill & Borges, San Juan, Puerto Rico.

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.

GOVERNMENT DEVELOPMENT BANK

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

RATINGS

The Bonds have been assigned ratings of “Baa2” (with negative outlook) by Moody’s and of “BBB+” (with negative outlook) by Standard & Poor’s. Moody’s had lowered its rating on the Commonwealth’s outstanding general obligation bonds from “Baa1” to “Baa2” earlier in the year, and simultaneously had lowered its rating on the Authority’s outstanding bonds from “Baa1” to “Baa2.” The Standard & Poor’s rating also reflects a downgrade from the Authority’s previous “A” rating. Standard & Poor’s had also lowered its rating on the Commonwealth’s general obligation bonds earlier in the year, but had not made any change to the Authority’s ratings at that time. Moody’s and Standard & Poor’s are expected to give ratings of “Aaa” and “AAA,” respectively, to the Insured Bonds.

The ratings reflect only the respective opinions of such rating agencies. Any explanation of the significance of such ratings must be obtained from the respective rating agency. There is no assurance that the ratings will continue for any given period of time or will not be revised downward or withdrawn entirely by any or all of such rating agencies. Any such downward revision or withdrawal of the ratings could have an adverse effect on the market prices of the Bonds.

CONTINUING DISCLOSURE

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

1. Each of the Authority and the Commonwealth will agree to file within 305 days after the end of each fiscal year, beginning with its fiscal year ending on June 30, 2005, with each NRMSIR and with any Commonwealth state information depository (“SID”), core financial information and operating data for the prior fiscal year, including (i) its audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data (including financial information and operating data) on the Authority and the Commonwealth, as the case may be, and information as to revenues, expenditures, financial operations and indebtedness of the Authority and the Commonwealth, as the case may be, in each case, generally found or incorporated by reference in this Official Statement; and

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

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

With respect to the following events:

Events (c) and (d). For a description of the Bonds, see “THE BONDS.” 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 (e). For information on the tax status of the Bonds, see “TAX MATTERS.”

Event (g). The Authority does not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if (i) the terms, dates and amounts of redemption are set forth in detail in this Official Statement under “The Bonds”-“Redemption of the Bonds,” (ii) the only open issue is which Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Bondholders as required under the terms of the Bonds, the 1968 Resolution or 1998 Resolution, and (iv) public notice of the redemption is given pursuant to Securities Exchange Act of 1934 Release No. 3423856 of the Securities and Exchange Commission, even if the originally scheduled amounts are reduced by prior optional redemptions or purchases of Bonds.

As of the date of this Official Statement, there is no Commonwealth SID, and the nationally recognized municipal securities information repositories are: Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; Standard & Poor's, Securities Evaluation, Inc., 55 Water Street, 45th Floor, New York, New York 10041; FT Interactive Data, Attn. NRMSIR, 100 William Street, 15th Floor, New York, New York 10038; and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024.

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

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

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

The Covenants may only be amended if:

(1) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the 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 Securities and Exchange Commission at the date of the adoption of such Rule, ceases to be in effect for any reason, and the Authority or the Commonwealth, as applicable, elects that the Covenants shall be deemed amended accordingly.

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

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

MISCELLANEOUS

The foregoing references to and summaries of certain provisions of the 1968 Resolution and 1998 Resolution, 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.

There are appended to this Official Statement the financial statements of the Authority for the fiscal year ended June 30, 2004, which are being restated as described in the note preceding such financial statements (Appendix I), the proposed forms of opinions of Bond Counsel (Appendix II), the Summary of the 1968 Resolution (Appendix III), the Summary of the 1998 Resolution (Appendix IV), the letter of the Traffic Engineers (Appendix V), the Specimen of the CIFG NA Bond Insurance Policy (Appendix VI), the Specimen of the FGIC Bond Insurance Policy (Appendix VII), the Specimen of the MBIA Bond Insurance Policy (Appendix VIII), the Specimen of the FSA Bond Insurance Policy (Appendix IX), and the Specimen of the Ambac Bond Insurance Policies (Appendix X).

The information in the Commonwealth Report incorporated by reference in this Official Statement was supplied by certain officials of the Commonwealth or certain of its agencies or instrumentalities, in their respective official capacities, or was obtained from publications of the Commonwealth or certain of its agencies or instrumentalities, and is incorporated by reference in this Official Statement on the authority of such officials or the authority of such publications as public official documents, respectively. The information pertaining to DTC was supplied by DTC. The remaining information set forth in this Official Statement, except the information appearing in “UNDERWRITING,” was supplied by the Executive Director of the Authority in his official capacity and is included in this Official Statement on his authority.

This Official Statement will be filed with each NRMSIR and with the Municipal Securities Rulemaking Board.

**PUERTO RICO HIGHWAYS AND
TRANSPORTATION AUTHORITY**

By: /s/ Gabriel Alcaraz Emmanuelli
Executive Director

FINANCIAL STATEMENTS OF THE AUTHORITY

Note

Financial Statements of the Authority Will Be Restated

The financial statements included in this Official Statement treat interest and other financing expenses incurred by the Authority in connection with the construction of its transportation facilities as an expense in the year in which it was incurred. The Authority's independent auditors, Ernst & Young, recently concluded that, in light of the recent implementation of GASB accounting pronouncement No. 34 at the Authority, FASB No. 34 does not permit this expense recognition treatment and, accordingly, that the Authority should have capitalized these expenses, with expense recognition occurring in the form of depreciation expense over the life of the applicable project. The Authority and its independent auditors are in the process of restating the financial statements to reflect the accounting treatment of these expenses as required by the pronouncements mentioned above. This restatement is expected to result in a decrease in interest expense for fiscal year 2004 and prior fiscal years, an increase in depreciation expense for fiscal year 2004 and prior fiscal years, and an increase in the Authority's reported net assets as of the end of fiscal year 2004 and each such prior fiscal year.

The Authority and its independent auditors expect to finalize the restatement of the Authority's financial statements shortly. However, the closing of the sale of the Bonds is not conditioned on the completion of the restatement or the availability of such restated financial statements. Such restated financial statements will be made publicly available when they are completed.

The changes to be reflected in the restated financial statements do not affect the Authority's cash flow, or the amount of revenues pledged to pay the Bonds, or the coverage ratios shown in this Official Statement, all of which are computed and presented on a cash basis.

The financial statements included in this Official Statement had been audited by the Authority's auditors. However, since these financial statements are being restated, the report of such auditors has not been included herein.

FINANCIAL STATEMENTS

Puerto Rico Highways and Transportation Authority

Years Ended June 30, 2004 and 2003

Puerto Rico Highways and Transportation Authority

Financial Statements

Years Ended June 30, 2004 and 2003

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Puerto Rico Highways and Transportation Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2004

This Section of the Authority's financial report represents a discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2004 and 2003. Please read this information in conjunction with the Authority's Financial Statements.

FINANCIAL HIGHLIGHTS

1. Operating revenues for fiscal year 2004, 2003 and 2002 were approximately **\$504 million**, \$485 million and \$480 million, respectively.
2. Operating expenses for fiscal year 2004, 2003 and 2002 were approximately **\$92 million**, \$113 million and \$57 million, respectively.
3. Total net assets at June 30, 2004, 2003 and 2002 amounted to approximately **\$7.56 billion**, \$7.61 billion and \$7.64, respectively.
4. Total capital assets (net of accumulated depreciation) at June 30, 2004, 2003 and 2002 were approximately **\$12.8 billion**, \$12.3 billion and \$11.8, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements provide both long-term and short-term information about the Authority's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by other financial information that further explains and supports the information in the financial statements, which is presented in the Required Supplemental Information section.

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board (GASB). The Authority has implemented the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for States and Local Governments* (Statement 34) for the fiscal year beginning July 1, 2001. Under Statement 34, the operations of the Authority are accounted for as an Enterprise Fund of the Commonwealth of Puerto Rico and the financial statements are presented on the accrual basis of accounting in order to recognize the flow of economic resources.

The Statements of Net Assets, on the accompanying financial statements, present the Authority's assets and liabilities and any underlying restrictions on such assets and liabilities. Net assets, which is the difference between the Authority's assets and liabilities, is one-way to measure the Authority's financial health or position.

Puerto Rico Highways and Transportation Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Assets

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by approximately **\$7.56 billion** at the close of the 2004 fiscal year and \$7.61 billion in 2003.

The largest portion of the Authority's net assets consists of capital assets (i.e., rights-of-way, roads, bridges, buildings, etc.) less any related debt still outstanding used to acquire those assets, which total approximately **\$6.99 billion** by the end of fiscal year 2004 and \$7.07 billion in 2003. The Authority uses these capital assets to provide services, and consequently, these assets are not available to liquidate liabilities or cover other spending. In addition, net assets amounting to approximately **\$535 million** by the end of fiscal year 2004 and \$504 million in 2003 are restricted for debt service and construction.

Changes in Net Assets

Net assets at June 30, 2004 declined by approximately **\$47 million** or **1.0%** from the net assets at June 30, 2003 and \$27 million or .04% from the restated net assets at June 30, 2002. Major components of the change in net assets consist of the following:

- Total operating revenues increased by **3.9%** during fiscal year 2004 to approximately **\$504 million** and 1% during fiscal year 2003 to approximately \$485 million. The major component of this increase was related to the increase in gasoline excise taxes of 8.7% when compared with fiscal year 2003 and an increase in toll revenues of 3.7% when compare with fiscal year 2002.
- Total operating expenses decreased by **18.4%** to approximately **\$92 million** during fiscal year 2004 and increased by 98% to approximately \$112.6 during fiscal year 2003. The decrease was mainly caused by the decrease of "Repair and Maintenance of Roads and Bridges" in the Statements of Revenues, Expenses and Changes in Net Assets which decreased by \$26 million approximately when compare with fiscal year 2003 and an increase caused by the change in the accounting policy of capitalization of cost implemented during 2002 to comply with Statement GASB 34.
- Non-operating expenses were approximately **\$265 million** in 2004, a decrease of approximately **7.0%** over the \$285 million in 2003, an increased of approximately 34% over the \$213 million in 2002. A major component of the change was a decrease in interest expense of approximately **4.8%** due to the issuance of Grant Anticipation Revenue Bonds, Transportation Revenue Refunding Bonds, and Transportation Revenue Bonds for capital improvements and refunding purposes and an increased of approximately 30% due to the issuance of additional Transportation Revenues Bonds for Capital Improvements.

Puerto Rico Highways and Transportation Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL ANALYSIS OF THE AUTHORITY (continued)

Changes in Net Assets (continued)

- Contributions, primarily from the US Federal Government, amounted to approximately **\$74 million** during fiscal year 2004, \$153 million during 2003 and \$201 million during 2002.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the Authority had invested approximately **\$12.8 billion** in capital assets (net of related depreciation) including roads, bridges, buildings, land and equipment. At June 30, 2003, the Authority had invested approximately \$12.3 billion in capital assets.

In 1994, the Authority began planning and designing and in 1996 began construction of a new mass transit rail project for the San Juan Metropolitan area known as "Tren Urbano". Through June 30, 2004, the Authority has incurred approximately **\$2.2 billion** in costs for this project. Tren Urbano is the largest single project included in the Authority's current Construction Improvement Program. Its initial phase consists of approximately 17 km. of track running from Bayamón to Santurce. The Authority has contracted with various private parties for the construction of the project and has entered into a five-year contract for the operation and maintenance of the system.

Debt Administration

The Authority's bond sales must be approved by the Secretary of Transportation and Public Works, who exercises the powers of the Governing Board of the Authority in coordination with the Government Development Bank for Puerto Rico, Fiscal Agent of the Commonwealth of Puerto Rico. The Authority must comply with certain rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission relating to such sales.

Long-term debt includes Highway Revenue Bonds issued pursuant to the 1968 Bond Resolution (No. 68-18), Transportation Revenue and Subordinated Transportation Revenue Bonds issued pursuant to the 1998 Bond Resolution (No. 98-06), and Grant Anticipation Revenue Bonds issued pursuant to the 2004 Bond Resolution (No. 04-18). At June 30, 2004, the Authority had approximately **\$5.8 billion** principal amount of Highway, Transportation, and Grant Anticipation Revenue Bonds outstanding, net of unamortized discounts and net losses on advance refundings. That amount represents an increase of approximately **10.2%** from June 30, 2003, most of which increase resulted from the issuance of Grant Anticipation Revenue Bonds (Series 2004), Transportation Revenue Refunding Bonds (Series I), and Transportation Revenue Bonds (Series J) amounting to **\$628 million** to finance part of the Authority's Construction Improvement Program of **\$1.6 billion** for 2005 through 2009 and to refinance at lower rates other

Puerto Rico Highways and Transportation Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Debt Administration (continued)

outstanding Transportation Revenue Bonds. At June 30, 2003, the Authority had approximately **\$5.8 billion** principal amount of Highway, transportation Revenues Bonds outstanding, net unamortized discounts and net losses on advances refundings. That amount represents an increase of approximately 21% from June 30, 2002, most of which increase resulted from the issuance of Transportation Revenue Bonds to finance part of the Authority's Construction Improvement Program of **\$2.2 billion** for 2004 through 2008 and to refinance at lower rates other outstanding Transportation Revenue Bonds.

More detailed information about the Authority's long-term debt is presented in notes 4 and 5 to the financial statements.

The principal amount by the end of fiscal year 2004 of the Highway, Transportation, and Grant Anticipation Revenues Bonds outstanding, net of unamortized discounts and net losses on advance refunding approximately **\$2.9 billion** is insured and rated Aaa by Moody's Investors Service (Moody's) and AAA by Standard & Poor's (S&P). The remaining uninsured bonds are rated Baa1 by Moody's and A by S&P, except for the Subordinated Transportation Revenue Bonds, which are rated Baa2 and A-, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy of Puerto Rico must be analyzed as a region within the U.S. economy, since it is part of the U.S. monetary and banking system, as well as within its territorial boundaries. The main driver of the Puerto Rico economy is a huge external sector closely tied to the flow of merchandise, tourists, and capital between Puerto Rico and the Mainland. Thus, historically, the real growth rates of the Puerto Rico economy have closely followed those of the U.S. economy. In fiscal year 2004, Puerto Rico continued to follow a recovery path, posting a 3.4% gain in real GDP, and showing significant gains in real consumption and payroll employment. In line with the economic recovery, the consumption of gasoline, which is the main source of recurrent revenues of the Authority, increased by 3.89%. This is the highest growth rate of gasoline consumption since fiscal year 1999. During fiscal year 2003 in spite of economic slowdown, the consumption of gasoline posted just a 0.7% decrease.

The economy of Puerto Rico is expected to remain on a growth path in fiscal year 2005, advancing at above 3% in real terms, according to the latest forecast prepared by the Interamerican University of Puerto Rico. The Authority expects this sustained expansion in economic performance to contribute to achieving the conservative income projections of the Authority for fiscal year 2005.

Puerto Rico Highways and Transportation Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (continued)

The Authority adopted the 2005 fiscal year Budget on July 1, 2004. The pledged revenues for fiscal year 2005 are projected to amount approximately **\$535 million**. The Authority adopted the 2004 fiscal year Budget on July 1, 2003 and the pledge revenues for fiscal year 2004 were projected to approximately \$518 million. The Authority also receives aid for highway construction from the Federal Highway Administration (FHWA) and the Federal Transportation Administration (FTA), which are estimated in the amount of **\$307 million** for fiscal year 2005. This budget includes a total of **\$571 million** for the Construction Improvement Program (CIP), which includes Tren Urbano project, the strategic network, congestion relief projects and others. It represents a decrease of approximately 1.25% in fiscal year 2005 from fiscal year 2004.

Highway construction projects included by the Authority in its CIP are designed to enhance the economic development of Puerto Rico. Projects include new highway construction, principally of primary roads and toll ways, and construction improvements designed to alleviate the traffic congestion of the San Juan Metropolitan area. It also includes reconstruction of existing highways, a bridge program and installation of safety features and other projects. The major highway projects include construction of the Eastern Corridor, sections of PR-53, Yabucoa-Maunabo and Maunabo-Guayama (which includes the first highway tunnel through a mountain in Puerto Rico) and of PR-10 from Utuado-Adjuntas, conversion to expressway of PR-2 from Mayagüez to Ponce and PR-22 to PR-2 from Arecibo-Aguadilla, the construction of the PR-5 toll way connecting PR-2 to Las Cumbres Avenue (PR-199), the relocation of the PR-167 (PR-148) from Bayamón to Comerío and Naranjito, the relocation of the PR-137 in Vega Baja and PR-156 in Aguas Buenas, Las Cumbres Avenue, from Trujillo Alto to Bayamón, and the conversion to expressway of PR-2.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, patrons, and other interest parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have question or need additional financial information, contact the Puerto Rico Highways and Transportation Authority, Finance Area, P.O. Box 42007, San Juan, Puerto Rico 00940-2007.

Puerto Rico Highways and Transportation Authority
Statements of Net Assets

	June 30	
	2004	2003
Assets:		
Current assets:		
Cash and cash equivalents	\$ 34,171,140	\$ 42,525,193
Accounts receivable, net of allowance for uncollectible accounts of \$41,519,649 in 2004 and \$41,061,833 in 2003	4,983,128	3,641,587
Prepaid expenses and other assets	4,030,992	3,608,106
Total current assets	43,185,260	49,774,886
Restricted assets:		
Cash and cash equivalents	43,306,932	48,861,221
Cash and investments with trustee	821,374,809	762,645,778
Receivables:		
Puerto Rico Treasury Department	253,840	199,395
US Federal government	6,964,910	7,511,371
Accrued interest and other	3,235,324	2,194,242
Total restricted assets	875,135,815	821,412,007
Capital assets:		
Land	1,713,473,209	1,713,011,071
Construction work in progress	5,965,692,470	5,282,310,698
Property and equipment, net of accumulated depreciation of \$6,038,445,514 in 2004 and \$5,780,759,049 in 2003	5,086,055,132	5,324,028,714
Total capital assets	12,765,220,811	12,319,350,483
Revenue bond issuance costs, net of accumulated amortization of \$20,637,762 in 2004 and \$16,306,885 in 2003	96,756,716	89,046,964
Advances to governmental entities for construction projects	23,979,233	20,506,234
Total assets	\$13,804,277,835	\$13,300,090,574

	June 30	
	2004	2003
Liabilities		
Current liabilities:		
Accounts payable	\$ 9,629,484	\$ 21,354,664
Other liabilities	14,913,460	13,598,490
Liabilities payable from restricted assets:		
Accounts payable	159,463,226	188,406,790
Accrued interest payable	135,923,968	108,995,758
Other liabilities	15,302,491	9,485,635
Current portion of bonds payable	29,135,000	10,435,000
Total current liabilities	<u>364,367,629</u>	<u>352,276,337</u>
Long-term debt:		
Accrued legal claims	18,000,000	18,000,000
Accrued vacation and sick leave	16,022,329	16,234,980
Bonds payable, net of unamortized discount and net loss on advance refundings	5,842,874,232	5,303,959,351
Total long-term debt	<u>5,876,896,561</u>	<u>5,338,194,331</u>
Total liabilities	<u>6,241,264,190</u>	<u>5,690,470,668</u>
Net Assets		
Invested in capital assets, net of related debt	6,985,080,966	7,070,203,116
Restricted for debt service	507,186,709	437,667,218
Restricted for construction	28,124,421	66,421,606
Unrestricted	42,621,549	35,327,966
Total net assets	<u>7,563,013,645</u>	<u>7,609,619,906</u>
Total liabilities and net assets	<u><u>\$13,804,277,835</u></u>	<u><u>\$13,300,090,574</u></u>

See accompanying notes.

Puerto Rico Highways and Transportation Authority
Statements of Revenues, Expenses and Changes in Net Assets

	Years Ended June 30	
	2004	2003
Operating revenues		
Excise taxes:		
Gasoline	\$ 188,528,630	\$ 173,506,662
Diesel oil	14,556,444	15,297,932
Petroleum Tax	115,295,041	120,000,000
Vehicle license fees	32,491,112	31,920,258
Toll fares	141,377,853	135,351,684
Other	11,578,724	8,916,239
Total operating revenues	503,827,804	484,992,775
Operating expenses		
Toll highways administration and maintenance	40,302,885	38,783,798
Repair and maintenance of roads and bridges	15,022,430	40,723,313
General and administrative	35,143,394	31,823,722
Other	1,378,927	1,241,077
Total operating expenses before depreciation and amortization	91,847,636	112,571,910
Operating income before depreciation and amortization	411,980,168	372,420,865
Depreciation and amortization	267,462,746	267,393,484
Operating income	144,517,422	105,027,381
Non-operating revenues (expenses)		
Interest earned on investments	22,720,697	27,605,343
Net decrease in fair value of investments	(8,330,291)	(4,402,184)
Interest on TIFIA loan and line of credit	(854,975)	(15,405,341)
Interest expenses on revenue bonds outstanding	(278,750,079)	(292,848,341)
Net non-operating expenses	(265,214,648)	(285,050,523)
Loss before contributions	(120,697,226)	(180,023,142)
Contributions from US Federal government and other	74,090,965	152,649,502
Change in net assets	(46,606,261)	(27,373,640)
Net assets at beginning of year	7,609,619,906	7,636,993,546
Net assets at end of year	\$7,563,013,645	\$7,609,619,906

See accompanying notes.

Puerto Rico Highways and Transportation Authority
Statements of Cash Flows

	Years Ended June 30	
	2004	2003
Cash flows from operating activities		
Receipts from excise taxes and vehicle licenses fees	\$ 350,816,782	\$ 340,763,286
Receipts from toll fares	141,377,853	135,351,684
Receipts from other sources	11,578,724	8,916,239
Other receipts	(2,222,243)	4,639,305
Payments to employees	(34,898,229)	(3,391,852)
Payments to others	(90,241,160)	(203,387,975)
Net cash flows provided by operating activities	<u>376,411,727</u>	<u>282,890,687</u>
Cash flows from non-capital financing activities		
Payments to the Department of Transportation and Public Works	(3,472,999)	(2,624,957)
Net cash flows used in non-capital and financing activities	<u>(3,472,999)</u>	<u>(2,624,957)</u>
Cash flows from capital and related financing activities		
Payments of bond issuance costs, including net loss on advance refunding	(9,409,111)	(97,531,372)
Receipts from U.S. Federal government and Commonwealth of Puerto Rico grants	74,637,426	150,552,328
Acquisition and construction of capital assets	(712,432,765)	(756,463,624)
Proceeds from bond issuance	645,828,931	1,753,711,608
Principal payments to retire revenue bonds	(87,415,000)	(855,930,000)
Interest payment on line of credit	(854,975)	-
Interest payments on revenue bonds	(251,821,869)	(311,883,272)
Principal payment and interest to cancel loan payable	-	(300,000,000)
Net cash flows used in capital and related financing activities	<u>(341,467,363)</u>	<u>(417,544,332)</u>
Cash flows from investing activities		
Net (purchases) sales of investments	(67,059,322)	100,668,917
Interest received	21,679,615	29,204,801
Net cash flows (used in) provided by investing activities	<u>(45,379,707)</u>	<u>129,873,718</u>
Net decrease in cash and cash equivalents	<u>(13,908,342)</u>	<u>(7,404,884)</u>
Cash and cash equivalents at beginning of year, including restricted cash and cash equivalents	<u>91,386,414</u>	<u>98,791,298</u>
Cash and cash equivalents at end of year, including restricted cash and cash equivalents	<u>\$ 77,478,072</u>	<u>\$ 91,386,414</u>

Puerto Rico Highways and Transportation Authority
Statements of Cash Flows

	Years Ended June 30	
	2004	2003
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 144,517,422	\$105,027,381
Adjustments to reconcile operating income to net cash provided by operating activities:		
Bad debt provision	457,816	2,589,412
Depreciation and amortization	267,462,746	267,393,484
Changes in assets and liabilities:		
Accounts receivable	(1,853,801)	2,041,232
Prepaid expenses	(422,886)	47,094
Accounts payable	(33,536,918)	(90,816,064)
Accrued vacation and sick leave	(212,651)	(3,391,852)
Total Adjustment	231,894,305	177,863,306

Net cash flows provided by operating activities	\$ 376,411,727	\$282,890,687
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See accompanying notes.

Puerto Rico Highways and Transportation Authority

Notes to Financial Statements

June 30, 2004

1. Organization and Summary of Significant Accounting Policies

Puerto Rico Highways and Transportation Authority (the Authority) is a public corporation and instrumentality of the Commonwealth of Puerto Rico, created by Act No. 74 of June 23, 1965, as amended, to provide roads and other facilities for the movement of persons, vehicles and vessels, and for the planning, promotion and feasibility of mass transportation systems. The Authority is a component unit of the Commonwealth of Puerto Rico and accordingly is included in the general-purpose financial statements of the Commonwealth. The powers normally exercised by a Board of Directors are vested with the Secretary of the Department of Transportation and Public Works (DTPW). The Authority is exempt from the payment of any taxes on its revenues and properties.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies:

Basis of Accounting

The authority prepares and presents its financial statements in accordance with the provisions of GASB Statement No. 34, "Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments" (Statement 34).

Under Statement 34, the operations of the Authority are accounted for as an enterprise fund on the accrual basis in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the Authority are included in the Statements of Net Assets. The principal revenues of the Authority are excise taxes and toll revenues. Operating expenses for the Authority consist of the costs of operating and maintaining Puerto Rico's toll highways and related general and administrative expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

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

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make 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 reporting period. Actual results could differ from those estimates.

The implementation of Statement 34 involves the use of assumptions and estimates in the determination of the cost of general infrastructure assets, such as roads, highways, bridges and land. The cost of such assets is estimated based on current costs for similar assets deflated using the general price index through the estimated average age of the assets.

Cash Equivalents

The Authority considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. As of June 30, 2004 and 2003, cash equivalents consisted of time deposits and repurchase agreements.

Investments

The Authority reports investments at fair value in the accompanying Statements of Net Assets and the changes in the fair value of investments in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

Restricted Assets

Restricted assets of the Authority represent bond proceeds designated for construction, and other monies required to be restricted for debt service, operations, maintenance, administration, renewal, and replacement.

Advances to the Department of Transportation and Public Works

The Authority periodically advances funds to DTPW to carry out its participation in the construction improvement program of the Authority. These advances are presented as non-current assets in the accompanying Statements of Net Assets.

1. Organization and Summary of Significant Accounting Policies (continued)

Capital Assets

Cost Basis

All capital assets are recorded at historical cost or estimated historical cost. The cost of property and equipment includes costs for infrastructure assets (rights-of-way and bridge substructures and highways and bridges), toll facilities, equipment and other related costs (including software), buildings and furniture and equipment. Highways and bridge substructures include road sub-base, grading, land clearing, embankments, and other related costs. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses paid from construction monies.

Capitalization Policy

Costs to acquire additional capital assets, which replace existing assets or otherwise prolong their useful lives, are capitalized for toll equipment, buildings, toll facilities, and other related costs.

Depreciation is provided using the straight-line method over an estimated useful live of 40 years for roads and highways and 50 years for bridges. Furniture and equipment is stated at cost. Depreciation for furniture and equipment is provided using the straight-line method over an estimated useful life of 10 years.

Project costs incurred on the Tren Urbano, a rail mass transportation project, are recorded at cost and included in Construction in Progress in the accompanying Statements of Net Assets.

Net Assets

Invested in Capital Assets, Net of Related Debt

Investment in capital assets, net of related debt consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgage, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted for Debt Service

Net assets restricted for debt service consists of restricted assets for the principal and interest payment of the bonds payable. This restriction is imposed by the bondholders through debt covenants.

1. Organization and Summary of Significant Accounting Policies (continued)

Net Assets (continued)

Restricted for Construction

Net assets restricted for construction consists of restricted assets for the specific purpose of pay the construction projects, including Tren Urbano project. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted

Unrestricted net assets consist of net assets that do not meet the definition of “restricted for debt service”, “restricted for construction” or “invested in capital assets, net of related debt”.

Unamortized Losses on Advance Refunding

Losses resulting from current or advance refunding of debt are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount deferred is reported as a reduction of the debt and the amount amortized is reported as a component of interest expense.

Vacation and Sick Leave

Employees earn annual vacation leave at the rate of 30 days per year up to a maximum permissible accumulation of 60 days for regular employees. Employees accumulate sick leave at the rate of 18 days per year. Sick leave is only payable if the regular employee resigns and has more than 10 years of employment, or retires and takes a pension. Maximum permissible accumulation for sick leave is 90 days for all employees, and the excess is paid within the next year. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrue to employees.

Bond Premiums/Discounts and Bond Issuance Costs

Bond premiums/discounts are presented in the accompanying Statements of Net Assets as an increase/reduction of the face amount of bonds payable. Bond issuance costs are presented as a deferred asset in the accompanying Statements of Net Assets. The premiums/discounts and issuance costs are amortized over the life of the bonds on a method that approximates the effective interest method. Amortization expense related to bond premium/discounts was approximately \$8,593,000 and \$8,917,000 for the years ended June 30, 2004 and 2003, respectively, and is included as a component of interest expense in the accompanying Statements of Revenues, Expenses and Changes in Net Assets. Depreciation and amortization expense in the accompanying Statements of Revenues, Expenses and Changes in Net Assets includes amortization of bond issuance costs for the years ended June 30, 2004 and 2003 of approximately \$3,167,000 and \$3,757,000, respectively.

1. Organization and Summary of Significant Accounting Policies (continued)

Claims and Judgments

The estimated amount of the liability for claims and judgments is recorded on the accompanying Statements of Net Assets based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected.

Operating and Non-Operating Revenues and Expenses

Revenues associated with excise taxes, vehicles license fees, and toll fares are recorded as operating revenues, while expenses related to the administration and maintenance of toll highways, repair and maintenance of roads and bridges, and administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.

Contributions

Contributions are funds assigned by the federal and local governments, agencies and/or private companies such as Federal Highway Administration (FHWA), Federal Transit Administration (FTA), and Federal Emergency Management Agency (FEMA) to the Authority for the exclusive purpose of the construction of specific projects or infrastructure repair and maintenance.

Budgetary Data

The Authority prepares its annual budget following the cash basis of accounting while the financial statements are presented under generally accepted accounting principles (GAAP) and standards established by the GASB. The actual results of operations presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual are in accordance with the budgetary basis of accounting to provide a meaningful comparison of actual with budget.

The Authority uses the following procedures in establishing the budgetary data reflected in the financial statements:

1. The Executive Director submits to the Commonwealth Secretary of Transportation and Public Works (the Secretary) a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved through a resolution by the Secretary.
3. After the approval of the operating budget, the Secretary is authorized to transfer budgeted amounts within any funds.

1. Organization and Summary of Significant Accounting Policies (continued)

Budgetary Data (continued)

The major differences between the budgetary basis of accounting and GAAP are:

1. Revenues are recorded when payments are received (budgetary), as opposed to when earned (GAAP).
2. Expenditures are recorded when payments are made (budgetary) as opposed to when the liability is incurred (GAAP).
3. Advances to governmental entities for construction projects are recorded when paid (budgetary) as opposed to being capitalized as property and equipment when costs are incurred (GAAP).

New Accounting Pronouncements

In March 2003, the GASB issued GAS No. 40 (Statement 40), *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3*. The objective of Statement 40 is to disclose in the financial statements the common deposit and investment risks related to credit risk, concentration of credit risk, interest risk, and foreign currency risk. As an element of interest risk, Statement 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rate. In addition, Statement 40 requires the disclosures of the deposit and investment policies related to the risk identified in this statement. This statement is effective for financial statements for fiscal years beginning after June 15, 2004. The Authority is currently evaluating the impact on this pronouncement on its financial statements presentation.

In May 2003, the GASB issued GAS No. 41 (Statement 41), *Budgetary Comparison Schedules-Perspective Differences-an amendment of GASB Statement No.34*. The objective of Statement 41 is to clarify the budgetary presentation requirements for government with significant budgetary perspective differences that result in their not being able to present budgetary comparison information for their general fund and major special revenue funds. These governments are required to present budgetary comparison schedules as required supplementary information based on the fund, organization, or program structure. This statement is effective for financial statements for fiscal years beginning after June 15, 2002. The Authority evaluated the Statement 41's requirements and concluded that it does not have any impact on its financial statement presentation.

In November 2003, the GASB issued GAS No. 42 (Statement 42), *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The objective of Statement 42 is to establish accounting and financial reporting standards for impairment of capital assets. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for financial statements for fiscal years beginning after December 15, 2004. The Authority is currently evaluating the impact of this pronouncement on results of operations, financial position and cash flows.

1. Organization and Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

In April 2004, the GASB issued GAS No. 43 (Statement 43), *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The objective of Statement 43 is to establish a uniform financial reporting standards for other post employment benefits plans and superseded the interim guidance included in GAS No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. This statement is effective for financial statements for fiscal years beginning after December 15, 2005. The Authority is currently evaluating the impact on this pronouncement on its financial statement presentation.

In May 2004, the GASB issued GAS No. 44 (Statement 44), *Economic Condition Reporting: The Statistical Section-an amendment of NCGA Statement 1*. The objective of Statement 44 is to amend the portion of NCGA Statement No. 1, Governmental Accounting and Financial Reporting Principles, that provides guidance in the preparation of the statistical section. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. The Authority is currently evaluating the impact of this pronouncement on its financial statement presentation.

In June 2004, the GASB issued GAS No. 45 (Statement 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The objective of Statement 45 is to establish standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related assets/liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. This statement is effective for financial statements for fiscal years beginning after December 15, 2006. The Authority is currently evaluating the impact of this pronouncement on results of operations, financial position and cash flows and its financial statement presentation.

2. Cash, Cash Equivalents and Investments

Cash and cash equivalents at June 30, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Cash held by the Puerto Rico Department of the Treasury	\$ 33,106,128	\$ 21,503,069
Repurchase agreements	46,883,043	52,927,857
Restricted cash held by escrow agents	-	18,411,000
Puerto Rico State Infrastructure Bank deposits	4,537,021	3,744,549
Cash on hand and in banks	8,548,548	6,891,967
	93,074,740	103,478,442
Less checks issued in excess of bank balance	15,596,668	12,092,028
	<u>\$ 77,478,072</u>	<u>\$ 91,386,414</u>

2. Cash, Cash Equivalents and Investments (continued)

Cash with the Department of the Treasury is uninsured and uncollateralized. Repurchase agreements consist of notes from the U.S. and Puerto Rico Governments. These investments are held in the Authority's name.

During fiscal year 2004, the Authority released the restricted cash held by escrow agents for the Special Facilities Revenues Bonds under the concession agreement with Autopistas de Puerto Rico y Compañía S.E. (the Concession Agreement) (see Note 8) and the escrow account under the agreement with the U.S. Army Corps of Engineers (the Agreement). In fiscal year 2003, the restricted cash held by escrow agents amounted to \$18,411,000 and consisted of \$3,000,000, representing funds held in an escrow fund under the Agreement and \$15,411,000 representing funds held in an escrow account pursuant to the Concession Agreement.

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

Cash in banks is covered by federal depository insurance or collateral. The Authority is authorized to deposit funds only in institutions approved by the Department of the Treasury and such deposits should be maintained in separate accounts in the name of the Authority.

Resolutions 68-18, 98-06 and 04-18 (the Bond Resolutions) require that moneys in the debt service funds be held by the Fiscal Agent (JP Morgan Chase Bank) in trust and applied as provided in the Bond Resolutions.

The law governing the Authority does not limit the type of securities in which the Authority may invest. However, funds restricted for debt service must be invested only in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions. Accordingly, as permitted by the Bond Resolutions, cash and investments with Fiscal Agent restricted for debt service amounting to \$626,341,399 and \$525,131,335 at June 30, 2004 and 2003, respectively, consist of notes from the U.S. Government and Agencies. As per the matching share agreement with FHWA, the SIB reserve consists of \$15,010,735 of principal and \$4,537,021 of interest, which are included as restricted cash and investments with trustee and cash and cash equivalents, respectively at June 30, 2004. These investments are held in the Authority's name.

2. Cash, Cash Equivalents and Investments (continued)

Investments restricted for capital projects may be made in Investment Obligations, as defined in the Bond Resolutions. Investment Obligations include time deposits of any bank, which are either issued by a bank with combined capital and surplus of at least \$50 million, or collateralized by securities in direct obligations of the United States Government or guaranteed by the United States Government. Accordingly, as permitted by the Bond Resolutions, investments restricted for capital projects amounted to \$195,033,409 and \$237,514,443 at June 30, 2004 and 2003, respectively. As per the matching share agreement with FHWA, the SIB reserve of \$9,246,936 and \$26,264,302 at June 30, 2004 and 2003, respectively, consist of certain U.S. Government Securities maintained pursuant to an investment agreement with Bayerische Landesbank, New York Branch, which expires on April 29, 2005. These investments are held in the Authority's name.

A summary of changes in the investments restricted for capital projects related to all construction projects except for the SIB funds at June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Balance at the beginning of year	\$211,250,936	\$ 264,347,139
Interest revenue	675,411	2,381,414
Bonds issuance	360,000,000	332,475,795
Construction expenditures	(509,012,241)	(387,953,412)
Balance at the end of year	<u>\$ 62,914,106</u>	<u>\$ 211,250,936</u>

A summary of changes in the investments restricted for capital projects related to the SIB funds at June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Balance at the beginning of year	\$ 26,264,302	\$ 49,257,377
Interest revenue	104,738	1,280,359
Construction expenditures	(17,122,102)	(24,273,434)
Balance at the end of year	<u>\$ 9,246,938</u>	<u>\$ 26,264,302</u>

2. Cash, Cash Equivalents and Investments (continued)

A summary of changes in the investments restricted for debt service related to Resolution 68-18 at June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Balance at the beginning of year	\$157,965,833	\$176,432,000
Interest revenue	9,014,103	9,716,979
Transferred to Construction Fund	(4,586,748)	(28,183,146)
Transferred to Sinking Fund (for debt service)	11,545,084	-
Balance at the end of year	<u>\$173,938,272</u>	<u>\$157,965,833</u>

A summary of changes in the investments restricted for capital projects related to Resolution 04-18 (2004 Grant Anticipation Bonds) at June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Balance at the beginning of year	\$ -	\$ -
Bonds issuance	133,376,000	-
Construction expenditures	(10,502,847)	-
Balance at the end of year	<u>\$122,873,153</u>	<u>\$ -</u>

A summary of changes in the investments restricted for debt service related to Resolution 98-06 (Senior Transportation Revenue Bonds) at June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Balance at the beginning of year	\$200,861,703	\$165,452,000
Interest revenue	9,658,654	8,984,490
Transferred Bond Issuance to Construction Fund	(9,083,045)	(10,345,293)
Transferred to Sinking Fund	102,790,536	36,770,506
Balance at the end of year	<u>\$304,227,848</u>	<u>\$200,861,703</u>

2. Cash, Cash Equivalents and Investments (continued)

A summary of changes in the investments restricted for debt service related to Resolution 98-06 (Subordinated Transportation Revenue Bonds) at June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Balance at the beginning of year	\$26,512,201	\$ -
Interest revenue	629,695	209,888
Transferred to Bond Issuance Construction Fund	-	(209,888)
Bond issuance	-	26,512,201
Balance at the end of year	<u>\$27,141,896</u>	<u>\$26,512,201</u>

A summary of changes in the investments restricted for debt service related to Resolution 04-18 (2004 Grant Anticipation Bonds) at June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Balance at the beginning of year	\$ -	\$ -
Interest revenue	6,725	-
Transferred to Bond Issuance Construction Fund	(6,725)	-
Bond issuance	12,035,187	-
Balance at the end of year	<u>\$12,035,187</u>	<u>\$ -</u>

A summary of changes in the investments recorded which are restricted for debt service related to the SIB funds at June 30, 2004 and 2003 are as follows:

	<u>2004</u>		<u>2003</u>	
	<u>Reserve Account</u>	<u>Interest</u>	<u>Reserve Account</u>	<u>Interest</u>
Balance as of July 1	\$15,010,735	\$3,744,549	\$15,010,735	\$2,947,555
Interest revenue	-	792,472	-	796,994
Balance as of June 30	<u>\$15,010,735</u>	<u>\$4,537,021</u>	<u>\$15,010,735</u>	<u>\$3,744,549</u>

Resolution 68-18 established the Bond Service Account, the Redemption Account, and the Reserve Account. All revenues (except the proceeds of the petroleum products tax) under Resolution 68-18 (other than income from investments of moneys in the Construction Fund) are deposited in these accounts (see Note 4). The monies held in these funds are presented as restricted cash and cash equivalents in the balance sheets.

2. Cash, Cash Equivalents and Investments (continued)

At June 30, 2004, the carrying amount and bank balance of cash deposits held by the Fiscal Agent under Resolution 68-18 are as follows (in thousands):

	2004		2003	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Restricted:				
Held by the Fiscal Agent	\$53,153	\$53,153	\$49,634	\$49,634

Resolution 98-06 established the Revenue Fund. All revenues under Resolution 98-06 (other than income from investment of moneys in the Construction Fund) are deposited in the Revenue Fund. The monies held in this fund are presented as unrestricted cash and cash equivalents in the balance sheets.

At June 30, 2004, the carrying amount and bank balance of cash deposits held by the Fiscal Agent under Resolution 98-06 are as follows (in thousands):

	2004		2003	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Restricted:				
Held by the Fiscal Agent	\$41,249	\$41,249	\$104,550	\$104,550
Held by the Authority	–	–	91,386	98,158
	\$41,249	\$41,249	\$195,936	\$202,708

At June 30, 2004 and 2003, certain investments and cash deposits of the Authority were restricted to comply with long-term principal and interest debt service requirements (sinking funds). These restricted assets are held by the Fiscal Agent under the Bond Resolutions (see Note 4) in the following funds and accounts:

1968 Reserve Account - Reserve for payment of principal of and interest on Highway Revenue Bonds in the event moneys in Bond Service Account or Redemption Account under Resolution 68-18 are insufficient for such purpose.

1968 Bond Service Account and Redemption Account (Sinking Fund under Resolution 68-18) - Current year requirements for principal of and interest on Highway Revenue Bonds. As of June 30, 2004, cash and cash equivalents in this account amounted to \$67.6 million (2003 - \$45.5 million).

2. Cash, Cash Equivalents and Investments (continued)

1998 Senior Reserve Account - Reserve for payment of principal of and interest on Senior Transportation Revenue Bonds in the event moneys in Senior Bond Service Account or Senior Bond Redemption Account under Resolution 98-06 are insufficient for such purpose.

1998 Senior Bond Service Account and Senior Bond Redemption Account (Senior Bond Sinking Fund under Resolution 98-06) - Current year requirements for principal of and interest on Senior Transportation Revenue Bonds. As of June 30, 2004, cash and cash equivalents in this account amounted to \$90.4 million (2003 - \$69.5 million).

1998 Subordinated Reserve Fund - Reserve for payment of principal of and interest on Subordinated Transportation Revenue Bonds in the event moneys in Subordinated Bond Service Account or Subordinated Bond Redemption Account under Resolution 98-06 are insufficient for such purpose.

1998 Subordinated Bond Service Account and Subordinated Bond Redemption Account (Subordinated Bond Sinking Fund under Resolution 98-06) - Current year requirements for principal of and interest on Subordinated Transportation Revenue Bonds. As of June 30, 2004, cash and cash equivalents in this account amounted to \$2.7 million (2003 - \$4.8 million).

2004 Grand Anticipation Bond Reserve Account - Reserve for payment of principal of and interest on 2004 Grant Anticipation Bonds in the event insufficient funds for such purpose are available in the Bond Payment Fund.

At June 30, investments held by the Fiscal Agent consist of (in thousands):

	<u>2004</u>	<u>2003</u>
1968 Reserve Account	\$159,526	\$159,020
1968 Sinking Fund	67,565	45,518
1998 Senior Reserve Account	230,274	203,676
1998 Senior Sinking Fund	112,538	69,491
1998 Subordinated Reserve Fund	42,152	41,527
1998 Subordinated Sinking Fund	2,665	4,761
2004 Grand Anticipation Reserve Account	12,042	-
	<u>\$626,762</u>	<u>\$523,993</u>

Investments held by Fiscal Agent under the Bond Resolutions are invested exclusively in securities of the U.S. Government and its agencies.

3. Capital Assets

The Authority also has cash and investment securities held by the Fiscal Agent restricted for the following purposes:

1998 Construction Fund - Special fund created by the Resolution 98-06. The proceeds of any Transportation Revenue Bonds issued for the purpose of paying the cost of acquiring or constructing transportation facilities, together with the money received from any other source for such purpose, except proceeds which are (i) applied to the repayment of advances, (ii) deposited in the 1998 Senior Bond Reserve Account or 1998 Subordinated Bond Reserve Fund, (iii) deposited in the 1998 Senior or Subordinated Bond Service Account as capitalized interest or (iv) used for the payment of financing expenses, shall be deposited in the 1998 Construction Fund and held by the Fiscal Agent in trust.

At June 30, the 1998 Construction Fund consisted of investment in U.S. Government obligations of approximately \$62,914,106 and \$211,251,000 at June 30, 2004 and 2003, respectively.

The following schedule summarizes property and equipment held by the Authority as of June 30, 2004:

	Ending Balance at June 30, 2003	Additions	Retirements	Reclassification	Ending Balance at June 30, 2004
Land	\$ 1,713,011,071	\$ -	\$ -	\$ 462,138	\$ 1,713,473,209
Construction in progress	5,282,310,698	710,974,803	-	(27,572,592)	5,965,712,909
Roads	8,390,478,257	-	-	19,438,481	8,409,916,738
Bridges	2,628,909,998	-	(354,332)	7,671,973	2,636,227,639
Property and equipment	85,399,508	2,623,037	(9,686,716)	-	78,335,829
	18,100,109,532	713,597,840	(10,041,048)	-	18,803,666,324
Accumulated depreciation	(5,780,759,049)	(266,562,436)	8,875,972	-	(6,038,445,513)
Total	\$12,319,350,483	\$ 447,035,404	\$ (1,165,076)	\$ -	\$12,765,220,811

In 1994, the Authority commenced the planning and design and in 1996 the construction of a rail mass transportation system known as "Tren Urbano". The initial phase of Tren Urbano consisted of approximately 17 km of trackway extending from Bayamón to Santurce, via Rio Piedras and Hato Rey, and sixteen stations. The project also includes the construction of a maintenance and storage facility and the purchase of 74 rail cars. As of June 30, 2004, the Authority has capitalized costs amounting to approximately \$2.2 billion, which includes \$166 million in claims from contractors, related to this project (see Note 8). Total contributions from the US Federal government and the Authority's funds for this project amount to approximately \$608,159,000 and \$1,533,660,000 respectively. The Tren Urbano is expected to be fully operational during fiscal year 2005.

4. Bonds Payable

The Bond Resolutions authorize the issuance of revenue bonds to obtain funds to pay the construction and related costs of transportation facilities. Bonds outstanding under the Bond Resolutions at June 30, 2004 were as follows:

	Issue Date	Original Amount	Maturing July 1	Interest Rate	Outstanding Principal Amount	Unamortized (Discount) Premium	Outstanding Balance
Serial bonds:							
FMHA-C	January 27, 1981	\$ 4,510,000	1983-2020	5.00	\$ 3,010,000	\$	\$ 3,010,000
W	July 15, 1993	24,700,000	2009	MCS	24,700,000	(135,360)	24,564,640
X	July 15, 1993	228,695,000	1994-2022	2.85-5.10	65,260,000	(710,135)	64,549,865
Y	April 9, 1996	213,190,000	1997-2022	5.00-6.25	102,165,000	(1,012,563)	101,152,437
Z	April 9, 1996	142,440,000	1996-2016	4.00-6.25	125,870,000	(1,360,000)	124,510,000
AA	April 29, 2004	436,135,000	2005-2023	4.65-6.50	436,135,000	32,384,869	468,519,869
*A	February 15, 1998	271,730,000	1999-2014	2.25-5.50	192,430,000	(1,859,044)	190,570,956
*B	May 15, 2000	174,180,000	2001-2027	5.50-5.75	95,280,000	(984,907)	94,295,093
*C	May 15, 2000	14,880,000	2029	6.00	14,880,000	(292,824)	14,587,176
*E	January 1, 2003	284,405,000	2011-2024	5.00-5.75	284,405,000	21,942,060	306,347,060
*F	January 1, 2003	118,615,000	2004-2011	5.00-5.25	112,585,000	3,658,847	116,243,847
*G	April 29, 2003	152,175,000	2011-2023	3.50-5.25	152,175,000	159,606	152,334,606
*H	April 29, 2003	12,630,000	2006-2023	2.25-5.00	12,630,000	186,414	12,816,414
*I	April 7, 2004	82,340,000	2006-2026	2.50-5.00	82,340,000	2,656,295	84,996,295
*J	April 7, 2004	114,115,000	2006-2029	2.50-5.50	114,115,000	2,132,045	116,247,045
**Series 2004	April 7, 2004	139,875,000	2005-2021	2.25-5.00	139,875,000	7,263,764	147,138,764
*Subordinated Bonds (1998)	July 15, 1998	16,990,000	2008-2014	2.30-5.75	16,990,000	(122,252)	16,867,748
*Subordinated Bonds (2003)	April 29, 2004	214,560,000	2006-2023	3.90-5.50	214,560,000	8,342,897	222,902,897
Total serial bonds		<u>\$2,646,165,000</u>			<u>\$2,189,405,000</u>	<u>\$72,249,712</u>	<u>2,261,654,712</u>
Term bonds:							
W	July 15, 1993	\$ 292,090,000	2013-2020	5.25-5.50	\$ 134,435,000	\$ (1,106,501)	133,328,499
X	July 15, 1993	288,565,000	2013-2021	5.25-5.50	79,435,000	(669,987)	78,765,013
Y	April 9, 1996	677,045,000	2011-2036	5.00	555,265,000	(12,012,356)	543,252,644
Z	April 9, 1996	42,600,000	2018	6.25	42,600,000	(801,394)	41,798,606
AA	April 29, 2003	281,230,000	2026-2035	5.00	281,230,000	24,029,504	305,259,504
*A	February 15, 1998	818,045,000	2028-2038	4.75-5.00	800,260,000	(14,207,613)	786,052,387
*B	May 15, 2000	386,625,000	2026-2039	5.88-6.50	49,085,000	(1,133,073)	47,951,927
*D	January 1, 2003	700,855,000	2027-2041	5.00-5.75	700,855,000	(6,612,518)	694,242,482
*G	April 29, 2003	411,475,000	2028-2042	5.00	411,475,000	455,565	411,930,565
*H	April 29, 2003	59,405,000	2028-2035	3.50-5.00	59,405,000	959,382	60,364,382
*J	April 7, 2004	291,780,000	2029-2043	5.00-5.12	291,780,000	5,538,375	297,318,375
*Subordinated Bonds (1998)	July 15, 1998	58,060,000	2018-2028	5.00	58,060,000	(596,307)	57,463,693
*Subordinated Bonds (2003)	April 29, 2003	105,985,000	2028	5.00	105,985,000	4,414,449	110,399,449
Total term bonds		<u>\$4,413,760,000</u>			<u>\$3,569,870,000</u>	<u>\$ (1,741,714)</u>	<u>3,568,127,526</u>
Less serial bonds payable on July 1, 2004							29,135,000
Bonds payable thereafter							5,800,647,238
Capital appreciation	Feb. 15, 1998	<u>\$ 39,868,740</u>	2015-2018	4.95-5.075			54,446,152
Total bonds payable after July 1, 2004							5,855,093,390
Less net loss on advance refunding							12,219,158
Total bonds payable, net of unamortized premium and net loss on advance refunding							<u>\$5,842,874,232</u>

* Issued under Resolution 98-06. All other bonds issued under Resolution 68-18.

** Issued under Resolution No. 04-18 Grant Anticipation Bonds

4. Bonds Payable (continued)

On April 7, 2004, the Authority issued Transportation Revenue Refunding Bonds (Series I) (the Series I Bonds), Transportation Revenue Bonds (Series J) (the Series J Bonds), and Grant Anticipation Revenue Bonds (Series 2004) (the 2004 Grant Anticipation Bonds).

The proceeds of the Series I Bonds were used to refund a portion of the Authority's outstanding Transportation Revenue Bonds (Series B) with an outstanding aggregate face amount of \$76,980,000, and pay costs of issuance of the Series I Bonds.

The proceeds of the Series J Bonds were used to finance the cost of various highway projects included in the Authority's current Construction Improvement Program and a portion of the costs of Tren Urbano, make a deposit to the 1998 Senior Bond Reserve Account and pay costs of issuance of the Series J Bonds.

The proceeds of the 2004 Grant Anticipation Bonds were used to finance a portion cost of certain qualified federal aid transportation projects included in the Authority's current Construction Improvement Program, make a deposit to the 2004 Grant Anticipation Bonds' Reserve Account and pay costs of issuance of the 2004 Grant Anticipation Bonds.

A summary of the Series I Bonds, Series J Bonds, and 2004 Grant Anticipation Bonds issued during fiscal year 2004 follows:

Serial Bonds	\$336,330,000
Term Bonds	<u>291,780,000</u>
Total	<u>\$628,110,000</u>

The Serial Bonds bear fixed interest-rates ranging from 2.25% through of 5.50% and mature from 2005 to 2029. The Term Bonds bear fixed interest rates ranging from 5.00% through 5.125% and mature from 2029 to 2043. Interests on the Serial Bonds and Term Bonds are payable on each January 1 and July 1.

4. Bonds Payable (continued)

A summary of the net proceeds of the Series I Bonds, Series J Bonds, and 2004 Grant Anticipation Bonds and their application follows:

	Series I	Series J	Series 2004
Principal amount	\$82,340,000	\$405,895,000	\$139,875,000
Less:			
Original issue premium, net	2,685,831	7,550,647	7,482,452
Plus:			
Amounts from refunded bonds accounts	1,146,200	-	-
Net Proceeds	\$86,172,031	\$413,445,647	\$147,357,452
Application of net proceeds:			
Deposit to construction fund	\$ -	\$360,000,000	\$133,376,000
Deposit to debt service reserve	-	46,380,498	12,035,187
Refunding escrow deposits	83,142,816	-	-
Costs of issuance	109,279	789,782	407,325
Underwriters' discount	512,832	2,872,312	834,940
Bond insurance premium	2,407,104	3,403,055	704,000
Total	\$86,172,031	\$413,445,647	\$147,357,452

The Series I Bonds, and Series J Bonds maturing after July 1, 2015 may be redeemed on any date on or after July 1, 2014 at the option of the Authority, either in whole or in part, from any available moneys (other than moneys deposited in the 1998 Senior Bonds Sinking Fund in respect of an Amortization Requirement) at a redemption price equal to the principal amount of the bonds to be redeemed plus accrued interest to the redemption date, without premium.

The 2004 Grant Anticipation Bonds are being issued by the Authority under Resolution No. 04-18 (the Resolution), adopted on April 7, 2004, for the purpose of financing a portion of the costs of certain qualified federal aid transportation projects in the Commonwealth of Puerto Rico (the "Commonwealth"), to fund a debt service reserve fund and to pay the costs of issuance of the 2004 Grant Anticipation Bonds. The 2004 Grant Anticipation Bonds are special and limited obligations of the Authority.

The 2004 Grant Anticipation Bonds, together with any additional Grant Anticipation Revenue Bonds that are subsequently issued on a parity therewith, are payable from, and secured solely by a pledge of, the Trust Estate (as defined in the Resolution), which consists primarily of Federal Transportation Funds (as defined in the Resolution) that are paid or payable to the Authority or Trustee in accordance with Title 23 (as defined in the Resolution), and amounts on deposit in the Bond Payment Fund (as defined in the Resolution) and the Debt Service Reserve Fund (as defined in the Resolution) and held by the Trustee.

4. Bonds Payable (continued)

The Bond Payments on the 2004 Grant Anticipation Bonds, and any additional Grant Anticipation Revenue Bonds (the “Additional Grant Anticipation Bonds”) that may be subsequently issued by the Authority on a parity with the 2004 Grant Anticipation Bonds (collectively, the “Grant Anticipation Bonds”), are payable from and secured solely by a pledge of the Trust Estate (as defined in the Resolution), which consists primarily of (i) Federal Transportation Funds that are paid to the Authority or Trustee in accordance with Title 23, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law (“Title 23”), the Federal Aid Agreements and the Assignment Agreement, (ii) amounts on deposit in the Puerto Rico Highways and Transportation Authority Grant Anticipation Revenue Bonds Bond Payment Fund (the “Bond Payment Fund”), and (iii) amounts that may be on deposit in the Puerto Rico Highways and Transportation Authority Grant Anticipation Revenue Bonds Debt Service Reserve Fund (the “Debt Service Reserve Fund”) for a particular Series of Bonds (collectively, the “Trust Estate”). The Bonds are special and limited obligations of the Authority.

On April 29, 2003, the Authority issued Highway Revenue Refunding Bonds (Series AA) (the Series AA Bonds), Transportation Revenue Bonds (Series G) (the Series G Bonds), Transportation Revenue Refunding Bonds (Series H) (the Series H Bonds), and Subordinated Transportation Revenue Bonds (Series 2003) (the 2003 Subordinated Bonds). The proceeds of the Series AA Bonds were used to refinance a portion of the Authority’s outstanding Highway Revenue Bonds (Series W, Series X, and Series Y) with an outstanding aggregate face amount of \$757,100,000, and pay costs of issuance of the Series AA Bonds. The proceeds of the Series G Bonds were used to finance the cost of various highway projects included in the Authority’s current Construction Improvement Program and a portion of the costs of Tren Urbano, make a deposit to the 1998 Senior Bond Reserve Account and pay costs of issuance of the Series G Bonds. The proceeds of the Series H Bonds were used to refund a portion of the Authority’s outstanding Transportation Revenue Bonds (Series A and Series B) with an outstanding aggregate face amount of \$45,795,000, and pay costs of issuance of the Series H Bonds. The proceeds of the 2003 Subordinated Bonds were used to repay a loan from the federal government incurred to finance a portion of the costs of Tren Urbano, make a deposit to the 2003 Subordinated Bonds Reserve Account and pay costs of issuance of the 2003 Subordinated Bonds.

A summary of the Series AA Bonds, Series G Bonds, Series H Bonds, and Series 2003 Subordinated Bonds issued during fiscal year 2003 follows:

Serial Bonds	\$ 815,500,000
Term Bonds	<u>858,095,000</u>
Total	<u><u>\$1,673,595,000</u></u>

4. Bonds Payable (continued)

The Serial Bonds (except for the Mandatory Tender Bonds referred to below) bear fixed interest rates ranging from 2.25% through of 5.50% and mature from 2005 to 2023. The Term Bonds (except for the Mandatory Tender Bonds referred to below) bear fixed interest rates ranging from 3.50% through 5.00% and mature from 2026 to 2035. Interest on the Serial Bonds and Term Bonds (except for the Mandatory Tender Bonds referred to below) is payable on each January 1 and July 1. The Mandatory Tender Bonds bear interest at a fixed rate of 5% through July 1, 2010 after which the interest rate will float.

A summary of the net proceeds of the Series AA Bonds, Series G Bonds, Series H Bonds, and Series 2003 Bonds and their application follows:

	Series AA	Series G	Series H	Series 2003
Principal amount	\$717,365,000	\$563,650,000	\$72,035,000	\$320,545,000
Less:				
Original issue premium, net	64,261,351	645,491	1,208,340	14,001,426
	<u>781,626,351</u>	<u>564,295,491</u>	<u>73,243,340</u>	<u>334,546,426</u>
Plus:				
Amounts from refunded bonds accounts	51,619,898	–	14,659,776	4,269,616
Net proceeds	<u>\$833,246,249</u>	<u>\$564,295,491</u>	<u>\$87,903,116</u>	<u>\$338,816,042</u>
Application of net proceeds:				
Deposit to construction fund	\$ –	\$522,475,795	\$ –	\$ –
Deposit to debt service reserve	10,884,473	32,603,720	4,166,786	26,512,201
Refunding escrow deposits	799,648,900	–	80,912,992	305,614,192
Costs of issuance	903,185	703,411	94,179	401,662
Underwriters' discount	4,068,066	3,638,325	464,981	2,039,775
Bond insurance premium	17,741,625	4,874,240	2,264,178	4,248,212
Total	<u>\$833,246,249</u>	<u>\$564,295,491</u>	<u>\$87,903,116</u>	<u>\$338,816,042</u>

The Series AA Bonds maturing 2026 and 2035 and a portion of the Series H Bonds maturing in 2035 are subject to mandatory tender (Mandatory Tender Bonds) for purchase on July 1, 2010, subject to a successful remarketing. The purchase price on July 1, 2010 is equal to the principal amount of the Mandatory Tender Bonds, plus accrued interest, if any, to the date of purchase. The Mandatory Tender Bonds may be redeemed on or after July 1, 2010 at the option of the Authority from any available moneys (other than moneys deposited in the 1968 Sinking Fund or the 1998 Senior Bond Sinking Fund, as the case may be, in respect of an Amortization Requirement) on any date, either in whole or in part, at a redemption price equal to the principal amount of the bonds to be redeemed plus accrued interest to the redemption date, without premium.

4. Bonds Payable (continued)

The Series AA Bonds, except for the Series AA Mandatory Tender Bonds, maturing on July 1, 2028 and 2035 may be redeemed on any date on or after July 1, 2013 at the option of the Authority, either in whole or in part, from any available moneys (other than moneys deposited in the 1968 Sinking Fund in respect of an Amortization Requirement) at a redemption price equal to the principal amount of the bonds to be redeemed plus accrued interest to the redemption date, without premium.

The Series G Bonds and Series H Bonds, except for the Series H Mandatory Tender Bonds, maturing after July 1, 2013 may be redeemed on any date on or after July 1, 2013 at the option of the Authority, either in whole or in part, from any available moneys (other than moneys deposited in the 1998 Senior Bonds Sinking Fund in respect of an Amortization Requirement) at a redemption price equal to the principal amount of the bonds to be redeemed plus accrued interest to the redemption date, without premium. The 2003 Subordinated Bonds maturing after July 1, 2013 may be redeemed on any date on or after July 1, 2013 at the option of the Authority, either in whole or in part, from any available moneys (other than moneys deposited in the 1998 Subordinated Bonds Sinking Fund in respect of an Amortization Requirement) at a redemption price equal to the principal amount of the bonds to be redeemed plus accrued interest to the redemption date, without premium.

Changes in serial and term bonds during fiscal year 2004 were as follows:

	Outstanding Beginning- of-Year (at face value)	Issued	Refunded	Redeemed	Outstanding End-of-Year (at face value)
Serial	\$1,866,910,000	\$336,330,000	\$ (3,400,000)	\$(10,435,000)	\$2,189,405,000
Term	3,351,670,000	291,780,000	(73,580,000)	-	3,569,870,000
CABs	51,814,635	2,631,517	-	-	54,446,152
	<u>\$5,270,394,635</u>	<u>\$630,741,517</u>	<u>\$(76,980,000)</u>	<u>\$(10,435,000)</u>	<u>5,813,721,152</u>
					70,507,238
					12,219,158
					<u>5,872,009,232</u>
					29,135,000
					<u>\$5,842,874,232</u>

4. Bonds Payable (continued)

The outstanding revenue bonds as of June 30, 2004 require future payments of principal and interest as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Due on July 1, 2004	\$ 29,135,000	\$ 274,753,717	\$ 303,888,717
2005	80,570,000	295,739,996	376,309,996
2006	98,375,000	292,060,094	390,435,094
2007	107,685,000	287,387,995	395,072,995
2008	114,750,000	282,180,433	396,930,433
2009	119,890,000	276,985,114	396,875,114
Thereafter	5,248,738,741	4,507,936,397	9,756,675,138
	<u>\$5,799,143,741</u>	<u>\$6,217,043,746</u>	<u>\$12,016,187,487</u>

The bonds are secured by a pledge of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes, a maximum of \$11 million monthly (but not more than \$120 million annually) derived from excise taxes over crude oil and its derivatives, \$15 per vehicle per year from certain motor vehicle license fees, the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority in the future and which the Authority may pledge, proceeds of any tolls or other charges which the Authority may impose for the use of any of its traffic facilities and certain investment earnings. The proceeds of the gasoline tax, the gas oil and diesel oil tax, the crude oil tax and the motor vehicle license fees allocated to the Authority are available taxes and revenues under the Constitution of the Commonwealth of Puerto Rico. Accordingly, if needed, they are subject to being applied first to the payment of debt service on the public debt of the Commonwealth, but such taxes and license fees are to be used for such payments only if and to the extent that all other available revenues of the Commonwealth under the Constitution are insufficient for such purpose. The Commonwealth has never applied these revenues for such payments.

The Bond Resolutions further provide that receipts of pledged revenues (other than investment earnings) be deposited with the Fiscal Agent to the credit of the following accounts in the following order:

Resolution 68-18:

- A. To the Bond Service Account in an amount equal to 1/6 of the amount of interest payable on all bonds on the next succeeding interest payment date and an amount equal to 1/12 of the next maturing installment of any serial bonds (in the case of variable rate bonds, the actual interest on such bonds is deposited monthly with the Fiscal Agent).

4. Bonds Payable (continued)

- B. To the Redemption Account in an amount equal to 1/12 of the amortization requirements (as defined in Resolution 68-18) for such fiscal year for the term bonds then outstanding plus an amount equal to 1/12 of the premium, if any, which would be payable on the first redemption date in the following fiscal year on a like principal amount of bonds if such principal amount of bonds should be redeemed prior to their maturity from moneys in the applicable Sinking Fund.
- C. To the Reserve Account in an amount equal to the lesser of the maximum principal and interest requirements (as defined in Resolution 68-18) for any fiscal year on all outstanding bonds and 10% of the original principal amount of each series of bonds outstanding (any increase in the applicable reserve requirement on account of bonds issued for construction purposes may be funded from revenues over five years. Excess funds in the Reserve Account can be transferred to the Construction Fund, the Bond Service Account or the Redemption Account, as determined from time to time by the Authority.

Resolution 98-06:

- D. Virtually identical monthly deposits of pledged revenues to those specified in the paragraphs A through C above are made into the Senior Bond Service Account, the Senior Bond Redemption Account and the Senior Bond Reserve Account in respect of the Senior Transportation Revenue Bonds. After making the required deposits specified in the preceding sentence, remaining pledged revenues shall be deposited to the Subordinated Bond Service Account in an amount equal to 1/6 of the amount of interest payable on all subordinated bonds on the next succeeding interest payment date and an amount equal to 1/12 of the next maturing installment of any serial subordinated bonds.
- E. To the Subordinated Bond Redemption Account in an amount equal to 1/12 of the amortization requirements (as defined in Resolution 98-06) for such fiscal year for the subordinated term bonds then outstanding plus an amount equal to 1/12 of the premium, if any, which would be payable on the first redemption date in the following fiscal year on a like principal amount of such subordinated bonds if such principal amount of bonds should be redeemed prior to their maturity from moneys in the Subordinated Sinking Fund.
- F. Funds remaining after making the deposits described in paragraphs D and E above, shall be deposited to each applicable account in the Subordinated Bond Reserve Fund in an amount, if any, needed to restore the respective account balances to the respective deposit requirements corresponding to each such account established by the Authority; provided, that notwithstanding the above, in the event that any Subordinated Reserve requirement shall have increased on account of the issuance of additional series of subordinated bonds issued for construction purposes, the Authority may provide for equal annual deposits and will ensure that the applicable subordinated reserve requirement is met not earlier than the end of a five year period following the issuance of such series of subordinated bonds.

4. Bonds Payable (continued)

G. Any revenues remaining after making the deposits referred to above shall be deposited in the Construction Fund under Resolution 98-06 for use by the Authority for any of its authorized purposes.

Under Resolution 68-18 the requirements specified in paragraphs A, B and C above are cumulative. Under Resolution 98-06 the requirements specified in paragraphs D, E and F above are cumulative.

If funds in the Reserve Account are used to cover any deficiency in the Bond Service Account or the Redemption Account established under the applicable Bond Resolution, the Excise Act provides that the Reserve Account shall be reimbursed, subject to the provisions of the Constitution of the Commonwealth relating to payment of Commonwealth debt, from the first proceeds received by the Commonwealth in the next fiscal year or years derived from (i) any other taxes which may then be in effect on any other fuels or propellants which are used, among other purposes, to propel highway vehicles, and (ii) any remaining portion of the tax on gasoline and gas oil and diesel oil (and in the case of the Senior Bond Reserve Account and Subordinated Bond Reserve Fund under Resolution 98-06, the tax on crude oil and derivatives) then in effect.

The Authority further covenants that any other funds which it receives from the Commonwealth or any other source to make up any deficiencies in the amounts needed to pay the principal of and interest on any bonds issued under the provisions of the Bond Resolutions will be applied first to any Resolution 68-18 bonds, then to the Senior Transportation Revenue Bonds and Subordinated Transportation Revenue Bonds under Resolution 98-06.

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

The Bond Resolutions permit the Authority (upon satisfaction of certain debt service coverage tests) to issue additional bonds for the purpose of providing funds for completing payment of the cost of any transportation facilities, including Tren Urbano, or for paying all or any part of the cost of any additional transportation facilities, including the payment of any outstanding notes of the Authority which were issued to temporarily finance the costs of the transportation facilities for which such bonds are to be issued, and for refunding at or prior to their maturity or maturities all or a portion of the outstanding Highway or Transportation Revenue Bonds.

4. Bonds Payable (continued)

The outstanding balances as of June 30, 2004 and 2003 of the bond issues defeased by the Authority are as follows:

	<u>2004</u>	<u>2003</u>
Series A	\$ 14,075,000	\$ 27,600,000
Series B	404,760,000	332,560,000
Series W	–	251,155,000
Series X	–	349,755,000
Series Y	167,830,000	191,190,000
Total outstanding defeased bond issues	<u>\$586,665,000</u>	<u>\$1,152,260,000</u>

As of June 30, 2004 and 2003, the Statements of Net Assets reflect net deferred debits of \$12,219,157 and \$13,802,520, respectively as a component of debt resulting from accounting losses or gains from bonds defeased by the Authority. The Statements of Revenues, Expenses and Changes in Net Assets reflect the amortization of this deferral as a component of interest expense of approximately \$3,572,000 in 2004 and \$53,770,000 in 2003.

5. Credit Agreement

On August 4, 2000, the Authority entered into a loan agreement of \$300,000,000 with FTA pursuant to the Transportation Infrastructure Finance and Innovation Act, as amended. The proceeds of the loan were used to cancel the outstanding balance of a line of credit amounting to \$269,999,583 with GDB in connection with the Tren Urbano project. The loan had a fixed interest rate of 5.74%. Interest was payable each July 1 and January 1, beginning January 1, 2001, and principal was payable each July 1, beginning July 1, 2007. On April 29, 2003, the Authority paid the outstanding balance of the loan with the proceeds of the Series 2003 Subordinated Bonds (see Note 4).

6. Changes in Amounts Invested in Capital Assets, net of Related Debt

The change in amounts invested in capital assets, net of related debt can be summarized as follows:

	<u>2004</u>	<u>2003</u>
Balance at the beginning of year	\$7,070,203,116	\$7,169,108,191
Change in capital assets	453,580,080	489,070,140
Change in related debt	(538,702,230)	(587,975,215)
Balance at the end of year	<u>\$6,985,080,966</u>	<u>\$7,070,203,116</u>

7. Retirement Plan

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

ERS provides retirement, death and disability benefits pursuant to Act No. 447, approved on May 15, 1951, as amended, which became effective on January 1, 1952. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Participants who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service (or who have attained an age of at least sixty five (65) years and have completed at least 10 years of service if hired after April, 1990) are entitled to an annual benefit, payable monthly for life.

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

Participants who have completed at least thirty (30) years of creditable service are entitled to receive a Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of such average compensation. Participants who have attained fifty-five (55) years of age will receive 75% of such average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of creditable service.

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

Commonwealth law requires employees hired on or before March 31, 1990 to contribute to the ERS 5.775 percent for the first \$550 of their monthly gross salary and 8.275 percent for their salary in excess of \$550. The contribution for employees hired after April 1, 1990 is 8.275 percent of their gross salary. The Authority is required to contribute 9.275 percent of the participants' gross salaries to the ERS. The contribution requirement for the years ended June 30, 2004 and 2003 were approximately \$11,440,000 and \$8,890,000, respectively, which consisted of approximately \$6,065,000 from the Authority and \$5,375,000 from its employees in 2004 and \$4,743,000 from the Authority and \$4,147,000 from its employees in 2003. The payroll for employees covered by ERS for the years ended June 30, 2004 and 2003, was approximately \$63,012,000 and \$54,953,000, respectively, and the Authority's total payroll cost was approximately \$105,565,000 and \$90,788,000, respectively. For the two preceding fiscal years the Authority contributed \$4,743,000 and \$4,547,000, respectively, which represented all required contributions.

On September 24, 1999 the law, which created ERS was amended for the purpose of establishing a defined contribution plan know as System 2000.

7. Retirement Plan (continued)

System 2000 became effective on January 1, 2000. Authority employees participating in the defined-benefit plan system at December 31, 1999, had the option to either stay in the defined benefit plan or transfer to System 2000. Persons employed by the Authority 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 will be a pool of plan assets, which will be invested by ERS, together with those of the defined-benefit plan. Benefits at retirement age will not be guaranteed. The annuity will be based on a formula which assumes that each year the participants' contributions (with a minimum of 8.275% of the participants' salary up to a maximum of 10%) will be invested as instructed by the participant 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 ERS'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 being granted under System 2000. The employers' contributions (9.275% of the employee's salary) will be used to fund the defined benefit plan instead of System 2000.

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

Additional information on the System is provided in its financial statements for the year ended June 30, 1998, a copy of which can be obtained from Mrs. Marisol Marchand, Administrator, Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities, PO Box 42004 Minillas Station, Santurce, P.R. 00940.

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

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

7. Retirement Plan (continued)

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

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

8. Commitments and Contingent Liabilities

Construction

As of June 30, 2004 and 2003, the Authority had commitments for approximately \$896,315,000 and \$886,770,000, respectively, related to construction contracts.

Leases

The Authority has various noncancelable operating leases for office space with the Puerto Rico Public Buildings Authority and other lessors, the latest of which expires in 2025. The rental expense for the years ended June 30, 2004 and 2003 were approximately \$1,252,000 and \$730,000, respectively. Future rental payments as of June 30, 2004 under these leases are as follows:

2005	\$ 1,322,000
2006	1,322,000
2007	1,320,000
2008	1,320,000
2009	1,320,000
Thereafter	11,055,000
Total future rental payments required	<u>\$17,659,000</u>

8. Commitments and Contingent Liabilities (continued)

Litigation

The Authority is defendant or co-defendant in various lawsuits for alleged damages. Substantially all of these cases are in connection with construction projects, which are generally either fully or partially covered by insurance. The contractors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless the Authority from lawsuits brought on account of damages relating to the construction of the projects.

The Authority, based on legal advice, has recorded an adequate provision to cover probable losses on those claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of the insurance coverage and/or the recorded provision that may arise from such claims would not be significant to affect to the Authority's financial position or results of operations.

Special Facility Revenue Bonds

On December 20, 1992, the Authority and Autopistas de Puerto Rico y Compañía S.E. (Autopistas) entered into a concession agreement (the Concession Agreement), amended in 1992, and again in 2004, for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge (the Bridge), a toll bridge, which traverses the San Jose Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994. The initial term of this agreement is 35 years, expiring on April 3, 2027.

In March 1992, the Authority issued Special Facility Revenue Bonds, 1992 Series A, B and C amounting to approximately \$117 million for the purpose of facilitating the construction of the Bridge. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, the borrower, pursuant to a loan agreement (the Loan Agreement) by and between Autopistas and the Authority.

On October 30, 2003, the Authority issued Special Facility Revenue Refunding Bonds, 2004 Series A amounting to approximately \$153 million for the purpose of refunding the Authority's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the Bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, pursuant to a new loan agreement by and between Autopistas and the Authority.

Under certain circumstances, the Concession Agreement may be terminated and the Authority is then obligated to assume all of the Autopistas's obligations to pay principal of and interest on the bonds, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Bridge. The Authority does not currently expect the Concession Agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2004 and 2003 amounted to approximately \$153,856,000 and \$143,948,000, respectively.

8. Commitments and Contingent Liabilities (continued)

Metrobus

In connection with the responsibilities of the Authority for mass transportation systems, the Metrobus project was developed. The project consists of bus operations in part of the San Juan metropolitan area named Metrobus I, which operations are conducted by First Transit, a private company, under an agreement of \$2,610,000, which expired on December 31, 2004. In addition, the project consists of bus operations between Bayamón and Stop 18 named Metrobus II, which operations are conducted by the Metropolitan Bus Authority (MBA), a public corporation, under a thirty-six month agreement of \$12,705,000, which expired on April 30, 2005.

On January 28, 2004, the Authority amended the MBA service contract for the purpose of add certain additional routes to the mass transportation system. This service contract amounting to \$39,356,704 with a term of thirty-six months expires on January 30, 2007.

During 1995, MBA entered into a contract agreement with the Authority to operate and maintain one of Metrobus' route from Rio Piedras to Old San Juan, provide service for Para-transit and maintain the transfer stations. This contract is renewable every year with an increase of 6% over the last year contract amount. The total amount of this contract is approximately \$972,000 and expires on December 31, 2004.

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

Federal Assistance Programs

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

8. Commitments and Contingent Liabilities (continued)

Tren Urbano Project

Operation and Maintenance Contract

The Authority has entered into a Systems and Test Track Turnkey Contract (STTT Contract) with Siemens Transportation Partnership Puerto Rico, S.E., Juan R. Requena y Asociados, and Alternate Concepts, Inc. (all together known as "Siemens") for the purpose of operate and maintain the Tren Urbano once it begins operations. The STTT Contract will become effective upon the execution of the contract for an initial term of five years with an option by the Authority to extend the term for an additional five years. The compensation is based on a schedule included in the master agreement which approximate \$4 million on a monthly base. The total estimate annual operation and maintenance cost including cost of insurance and electricity for the first year of operations is approximately \$96.1 million. The Authority expects that the Tren Urbano begins operations during the fiscal year 2005.

Integrated Transportation Alternative

The Authority plans to contract the services of over 500 minibus drivers and integrate these services with Tren Urbano and with the MBA's services to provide an integrated mass transportation services named "Alternativa de Transporte Integrado" or ATI. The costs of this initiative are included in the Tren Urbano's operating costs. The Authority projects that the annual net operating costs of Tren Urbano, after deducting expected operating revenues from operating and maintenance costs will increase during the first ten years of operation from \$70.6 million to \$83.8 million per year.

Claims

During 2001, a number of contractors presented claims related to the Authority's Tren Urbano project. These contractors' claims, which are at various stages of analysis to reach a final resolution, amounted to \$289,081,096, from these amounts, \$165,892,000 have been categorized as merited claims and recorded as accounts payable for restricted assets. The outstanding balance of these claims at June 30, 2004 and 2003 amounted to approximately \$49,224,000 and \$53,647,000, respectively.

The effect of the resolution of these claims, if any, in future years would be to increase the amounts being capitalized for the Tren Urbano project and increase the accounts payable in the accompanying Statements of Net Assets.

9. Subsequent Event

On August 25, 2004 the Board of Directors of GDB approved a Loan Agreement of \$70 million. The line of credit will expire on June 30, 2006 and the interest rate will be a monthly variable interest rate plus 150 basis points. Of that amount the Authority used \$45 million for Construction Improvement Program from August to September 2004.

Required Supplemental Information

Puerto Rico Highway and Transportation Authority

Combined Statement of Revenues, Expenditures
and Changes in Fund Balance

Budget and Actual - Budgetary Basis

Year Ended June 30, 2004

	Budget (Cash Basis)	Actual (Cash Basis)	Variance Favorable (Unfavorable)
Revenues:			
Excise taxes and vehicle license fees	\$ 354,280,000	\$ 350,816,782	\$ (3,463,218)
Toll fares	141,960,000	141,377,853	(582,147)
Grants:			
Federal Government and others	148,483,000	55,861,325	(92,621,675)
Interest and other revenue	30,300,000	50,270,013	19,970,013
Total revenues	<u>675,023,000</u>	<u>598,325,973</u>	<u>(76,697,027)</u>
Other financing sources (uses):			
Bond issuance	124,000,000	645,828,931	521,828,931
Payments to refunded bond escrow agent	-	(126,765,691)	(126,765,691)
SIB Projects	26,264,000	-	(26,264,000)
Proceeds from line of credits	145,291,000	200,081,407	54,790,407
Total revenues and other financings sources	<u>970,578,000</u>	<u>1,317,470,620</u>	<u>346,892,620</u>
Expenditures:			
Construction, equipment and administrative	857,043,000	760,992,113	96,050,887
Toll highways administration and Metrobus	61,020,000	75,446,279	(14,426,279)
Payment of debt services and Credit line	301,359,000	422,816,671	(121,457,671)
Net Sale of Investments	-	67,059,322	(67,059,322)
Payment of interests	4,359,000	-	4,359,000
Advances to Department of Transportation and Public Works	-	3,472,999	(3,472,999)
Transfers to proprietary fund	-	-	-
Other expenditures	1,250,000	1,591,578	(341,578)
Total expenditures	<u>1,225,031,000</u>	<u>1,331,378,962</u>	<u>(106,347,962)</u>
Excess (deficiency) of revenues and other financing sources over/under expenditures	(254,453,000)	(13,908,342)	<u>\$(240,544,658)</u>
Funds carried forward from prior year	254,453,000	-	
Fund balance at beginning of year	-	1,419,951,843	
Fund balance at end of year	<u>\$ -</u>	<u>\$1,406,043,501</u>	

Adjustments necessary to convert the revenues and expenses and fund balances at end-of-year from GAAP basis to the budgetary basis are as follows (in thousands):

	<u>Revenues</u>	<u>Excess of Revenues over Expenses</u>
GAAP Basis	\$592,309,175	\$ (46,606,261)
Adjustment:		
Accounts receivable, accrued interest and other	(2,313,493)	(2,313,493)
Accounts payable and accrued liabilities	-	(33,749,569)
Decrease in fair value of investments	8,330,291	8,330,291
Proceeds from bond issuance	-	845,910,338
Sales of investment	-	(67,059,322)
Construction costs capitalized on GAAP basis	-	(592,654,026)
Toll highway administration and maintenance	-	(3,472,999)
Payment on redemption of bonds	-	(269,076,999)
Depreciation	-	267,462,746
Transfer to proprietary fund	-	(120,679,048)
Per Combined Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budgetary Basis	<u>\$598,325,973</u>	<u>\$ (13,908,342)</u>

FORMS OF OPINIONS OF BOND COUNSEL

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

October 4, 2005

Hon. Gabriel Alcaráz Emmanuelli
Secretary of Transportation and Public Works
San Juan, Puerto Rico

Re: \$800,000,000 Puerto Rico Highways and Transportation Authority Transportation Revenue Bonds (Series K) and \$598,285,000 Puerto Rico Highways and Transportation Authority Transportation Revenue Refunding Bonds (Series L)

Dear Sir:

We have served as bond counsel in connection with the issuance by the Puerto Rico Highways and Transportation Authority (the "Authority"), a body corporate and politic constituting a public corporation and government instrumentality of the Commonwealth of Puerto Rico, of its \$800,000,000 aggregate principal amount of Transportation Revenue Bonds (Series K) (the "Series K Bonds") and \$598,285,000 aggregate principal amount of Transportation Revenue Refunding Bonds (Series L) (the "Series L Bonds" and, together with the Series K Bonds, the "Bonds"). The Bonds are dated, mature on July 1 of the years and in such principal amounts, bear interest at the rates and are subject to redemption, all as set forth in the Series Resolution referred to hereinbelow. The Bonds are issuable as fully registered bonds without coupons, in authorized denominations of \$5,000 or any multiple thereof, in the manner and in accordance with the terms and conditions of the Bond Resolution.

In our capacity as bond counsel, we have examined the transcript of the proceedings (the "Transcript") of the Authority relating to the issuance of the Bonds, including, without limitation, (i) Act No. 74 of the Legislature of Puerto Rico, approved June 23, 1965, as amended (the "Enabling Act"); (ii) the Puerto Rico Internal Revenue Code of 1994 (Subtitle B of Act No. 120 of the Legislature of Puerto Rico, approved October 31, 1994, as amended among other things by Act No. 34 of the Legislature of Puerto Rico, approved July 16, 1997, as amended), which allocated (a) the proceeds of the sixteen cents per gallon tax imposed on gasoline and four cents of the eight cents per gallon tax on gas oil and diesel oil (the "Allocated Gasoline Tax Proceeds") and (b) the proceeds (up to \$120 million per fiscal year) of the tax imposed on crude oil, unfinished oil and derivative products (the "Allocated Crude Oil Tax Proceeds") to the Authority for use for its corporate purposes; (iii) the Vehicle and Traffic Law of Puerto Rico (Act No. 141 of the Legislature of Puerto Rico, approved July 20, 1960, as amended), which allocated the proceeds of the fifteen dollar increase in the motor vehicle license fees for public and private service automobiles imposed by Act No. 9 of the Legislature of Puerto Rico, approved August 12, 1982 (the "Allocated Additional

License Fees”), to the Authority for use for its corporate purposes; (iv) Reorganization Plan No. 6 of 1971 (Act No. 113 of the Legislature of Puerto Rico, approved June 21, 1968), which attached the Authority to the Department of Transportation and Public Works; (v) Resolution No. 68-18, adopted by the Authority on June 13, 1968, as amended (the “1968 Resolution”); (vi) Resolution No. 98-06 adopted by the Authority on February 26, 1998 (the “1998 Resolution”); (vii) Resolution No. 2005-28, duly adopted by the Authority on September 22, 2005 (the “Series Resolution” and, together with the 1998 Resolution, the “Bond Resolution”); and (viii) such other documents as we have deemed necessary to render this opinion. Capitalized words used herein without definitions have the meanings ascribed thereto in the Bond Resolution.

We have also examined a copy of a Series K Bond and a Series L Bond, as executed and authenticated. We assume that all other such Bonds have been similarly executed and authenticated.

From such examination, we are of the opinion that:

1. The Enabling Act is valid.
2. Said proceedings have been validly and legally taken.
3. The Series K Bonds have been duly authorized and issued to provide funds to pay all or a portion of the cost of constructing various highway, road, transportation and other facilities included in the Authority’s current Construction Improvement Program, including the payment of a portion of certain notes issued under a line of credit with Government Development Bank for Puerto Rico, and to make a deposit to the Senior Bond Reserve Account in the Senior Bond Sinking Fund hereinafter mentioned.
4. The Series L Bonds have been duly authorized and issued to provide funds to refund certain of the Authority’s outstanding bonds issued under the 1998 Resolution and certain of the Authority’s outstanding bonds issued under the 1968 Resolution.
5. The Authority has heretofore issued various series of bonds under and in compliance with the provisions of the 1968 Resolution (the “Highway Revenue Bonds”). The 1968 Resolution provides for the issuance of additional Highway Revenue Bonds under the conditions and limitations therein set forth, and the Authority has covenanted in the 1998 Resolution to limit the issuance of such additional Highway Revenue Bonds.
6. The 1998 Resolution provides for the issuance of additional bonds on a parity with the Bonds under the conditions, limitations and restrictions therein set forth (the Bonds and such additional parity bonds being herein called the “Senior Transportation Revenue Bonds”) for any lawful purpose of the Authority and for the purpose of refunding any bonds issued by the Authority under the 1998 Resolution and any other obligations of the Authority, including outstanding Highway Revenue Bonds. In addition, the 1998 Resolution provides for the issuance of bonds subordinate to the Senior Transportation Revenue Bonds as to their lien on the revenues and other moneys of the Authority, as described below, under the conditions, limitations and restrictions and

for the purposes set forth therein (the Senior Transportation Revenue Bonds and such bonds subordinate thereto being herein collectively called the “Transportation Revenue Bonds”).

7. The 1998 Resolution provides for the creation of a special fund designated “Puerto Rico Highways and Transportation Authority Transportation Revenue Fund” (the “Revenue Fund”), and, subject to the limitations of the next two paragraphs, for the deposit to the credit of said special fund of all moneys received by the Authority (a) from the Allocated Crude Oil Tax Proceeds, (b) from the Allocated Gasoline Tax Proceeds, (c) from the Allocated Additional License Fees, (d) from any tolls or other charges imposed by the Authority for the use of any Toll Facilities and (e) from the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority and expressly authorizes the Authority to pledge to the payment of the principal of and interest on bonds or other obligations issued by the Authority and which are pledged by the Authority to the payment of the principal of and interest on Transportation Revenue Bonds issued under the provisions of the 1998 Resolution.

The Allocated Gasoline Tax Proceeds, the Allocated Crude Oil Tax Proceeds and the Allocated Additional License Fees, and any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority, are subject to first being applied to the payment of interest and amortization of the public debt in accordance with the provisions of, and to the extent provided by, Section 8 of Article VI of the Constitution of Puerto Rico if needed for such purpose.

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

8. The Bonds are valid and binding special obligations of the Authority, payable solely from the special fund created by the 1998 Resolution and designated “Puerto Rico Highways and Transportation Authority Transportation Revenue Bonds Interest and Sinking Fund” (the “Senior Bond Sinking Fund”). The Authority has covenanted to deposit to the credit of said Senior Bond Sinking Fund a sufficient amount of the moneys held to the credit of the Revenue Fund, together with any other funds of the Commonwealth of Puerto Rico allocated to the Authority and available under the 1998 Resolution for the payment of the principal of and interest on the Senior Transportation Revenue Bonds, to pay the principal of and the interest on all Senior

Transportation Revenue Bonds (including the Bonds) issued under the provisions of the 1998 Resolution as the same become due and payable and to create and maintain a reserve for such purpose. The Senior Bond Sinking Fund is pledged to and charged with the payment of the principal of and the interest on all Senior Transportation Revenue Bonds (including the Bonds) issued under the provisions of the 1998 Resolution.

9. The Bonds do not constitute a debt of the Commonwealth of Puerto Rico or of any of its municipalities or other political subdivisions, and neither the Commonwealth of Puerto Rico nor any such municipality or other political subdivision is liable thereon, and the Bonds, are payable only out of the revenues and other moneys of or allocated to the Authority, to the extent provided in the 1998 Resolution.

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

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

In giving the opinion set forth in numbered paragraph 10. hereof, we have relied upon and assumed continuing compliance with the Authority's covenants and the accuracy, which we have not independently verified, of the representations and certifications of the Authority contained in the Transcript. The accuracy of those representations and certifications, and the Authority's continuing compliance with those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain of those covenants subsequent to issuance of the Bonds may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Authority has covenanted to comply with the requirements of the Code to the extent permitted by the Constitution and laws of the Commonwealth. We are not aware of any provisions of the Constitution or laws of the Commonwealth of Puerto Rico that would prevent the Authority from complying with the requirements of the Code.

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

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

Respectfully submitted,

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

October 4, 2005

Hon. Gabriel Alcaráz Emmanuelli
Secretary of Transportation and Public Works
San Juan, Puerto Rico

Re: \$101,625,000 Puerto Rico Highways and Transportation Authority Highway Revenue Refunding Bonds (Series BB)

Dear Sir:

We have served as bond counsel in connection with the issuance by the Puerto Rico Highways and Transportation Authority (the "Authority"), a body corporate and politic constituting a public corporation and government instrumentality of the Commonwealth of Puerto Rico, of its \$101,625,000 aggregate principal amount of Highway Revenue Refunding Bonds (Series BB) (the "Bonds"). The Bonds are dated, mature on July 1 of the years and in such principal amounts, bear interest at the rates and are subject to redemption, all as set forth in the Series Resolution referred to hereinbelow. The Bonds are issuable as fully registered bonds without coupons, in authorized denominations of \$5,000 or any multiple thereof, in the manner and in accordance with the terms and conditions of the Bond Resolution.

In our capacity as bond counsel, we have examined the transcript of the proceedings (the "Transcript") of the Authority relating to the issuance of the Bonds, including, without limitation, (i) Act No. 74 of the Legislature of Puerto Rico, approved June 23, 1965, as amended (the "Enabling Act"); (ii) the Puerto Rico Internal Revenue Code of 1994 (Subtitle B of Act No. 120 of the Legislature of Puerto Rico, approved October 31, 1994, as amended, among other things by Act No. 34 of the Legislature of Puerto Rico, approved July 16, 1997, as amended), which allocated the proceeds of the sixteen cents per gallon tax imposed on gasoline and four cents of the eight cents per gallon tax on gas oil and diesel oil (the "Allocated Gasoline Tax Proceeds") to the Authority for use for its corporate purposes; (iii) the Vehicle and Traffic Law of Puerto Rico (Act No. 141 of the Legislature of Puerto Rico, approved July 20, 1960, as amended), which allocated the proceeds of the fifteen dollar increase in the motor vehicle license fees for public and private service automobiles imposed by Act No. 9 of the Legislature of Puerto Rico, approved August 12, 1982 (the "Allocated Additional License Fees"), to the Authority for use for its corporate purposes; (iv) Reorganization Plan No. 6 of 1971 (Act No. 113 of the Legislature of Puerto Rico, approved June 21, 1968), which attached the Authority to the Department of Transportation and Public Works; (v) Resolution No. 68-18 adopted by the Authority on June 13, 1968 (the "1968 Resolution"); (vi) Resolution No. 2005-29, duly adopted by the Authority on September 22, 2005 (the "Series Resolution" and, together with the 1968 Resolution, the "Bond Resolution"); and (vii) such other documents as we have deemed necessary to render this opinion. Capitalized words used herein without definitions have the meanings ascribed thereto in the Bond Resolution.

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

From such examination, we are of the opinion that:

1. The Enabling Act is valid.
2. Said proceedings have been validly and legally taken.
3. The Bonds have been duly authorized and issued to provide funds to refund certain of the Authority's outstanding bonds issued under the 1968 Resolution.

4. The Authority has heretofore issued various series of bonds under and in compliance with the provisions of the 1968 Resolution (the "Highway Revenue Bonds"). The 1968 Resolution provides for the issuance of additional bonds under the conditions and limitations therein set forth, and the Authority has covenanted in Resolution No. 98-06 adopted on February 26, 1998, as amended (the "1998 Resolution"), to limit the issuance of such additional bonds.

5. The Bonds are valid and binding special obligations of the Authority payable solely from the special fund created by the 1968 Resolution and designated "Puerto Rico Highways and Transportation Authority Highway Revenue Bonds Interest and Sinking Fund". The Authority has covenanted to deposit to the credit of said Interest and Sinking Fund a sufficient amount of the Revenues, together with any other funds of the Commonwealth of Puerto Rico allocated to the Authority for the payment of its bonds and pledged by the Authority to the payment of principal and interest on the Highway Revenue Bonds (including the Bonds) as the same may become due and payable and to create and maintain a reserve therefore. Said Interest and Sinking Fund is pledged to and charged with the payment of the principal of and the interest on all such Highway Revenue Bonds (including the Bonds) issued by the Authority under the provisions of the 1968 Resolution.

The Allocated Gasoline Tax Proceeds and the Allocated Additional License Fees, and any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority, are subject to first being applied to the payment of interest and amortization of the public debt in accordance with the provisions of, and to the extent provided by, Section 8 of Article VI of the Constitution of Puerto Rico if needed for that purpose.

6. The Bonds do not constitute a debt of the Commonwealth of Puerto Rico or of any of its municipalities or other political subdivisions, and neither the Commonwealth of Puerto Rico nor any such municipality or other political subdivision is liable thereon, and the Bonds are payable only out of the revenues and other moneys of or allocated to the Authority, to the extent provided in the 1968 Resolution.

7. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on

individuals and corporations. The Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. We express no opinion as to any other tax consequences regarding the Bonds.

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

In giving the opinion set forth in numbered paragraph 7. hereof, we have relied upon and assumed continuing compliance with the Authority's covenants and the accuracy, which we have not independently verified, of the representations and certifications of the Authority contained in the Transcript. The accuracy of those representations and certifications, and the Authority's continuing compliance with those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain of those covenants subsequent to issuance of the Bonds may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Authority has covenanted to comply with the requirements of the Code to the extent permitted by the Constitution and laws of the Commonwealth. We are not aware of any provisions of the Constitution or laws of the Commonwealth of Puerto Rico that would prevent the Authority from complying with the requirements of the Code.

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

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

Respectfully submitted,

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

SUMMARY OF CERTAIN PROVISIONS OF THE 1968 RESOLUTION

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

Definition of Certain Terms

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

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

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

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

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

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

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

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

“Government Obligations” means (i) direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America; (ii) municipal obligations, the payment of the principal of and interest and redemption premium, if any, on which are irrevocably secured by obligations described in clause (i) above and which obligations are not subject to redemption prior to the date on which the proceeds attributable to the principal of the obligations are to be used and have been deposited in an escrow account which is irrevocably pledged to the payment

of the principal of and interest and redemption premium, if any, on such municipal obligations; (iii) evidences of ownership of proportionate interests in future interest or principal payments on obligations specified in clauses (i) and (ii) above held by a bank (including the 1968 Fiscal Agent) or trust company as custodian, under which the owner of said interests is the real party in interest and has the right to proceed directly and individually against the issuer of the underlying obligations described in said clauses (i) and (ii) and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated; and (iv) secured time deposits.

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

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

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

(i) Government Obligations;

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

(iii) bankers’ acceptances, certificates of deposit or time deposits of any bank, national banking association (including the 1968 Fiscal Agent), trust company or savings and loan association (including any investment in pools of such bankers acceptances, certificates of deposit or time deposits), which to the extent that such obligations are not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, are either (A) issued by a bank, trust company, or savings and loan association having a combined capital and surplus aggregating at least \$50,000,000 or (B) collateralized at all times by such securities as are described in clause (i) or (ii) above or (iv) or (v) below, having a market value at least equal to the principal amount of such bankers’ acceptances, certificates of deposit or time deposits (or portion thereof not so insured); provided that the 1968 Fiscal Agent has a perfected first security interest in the collateral and that such collateral is held free and clear of claims by third parties;

(iv) obligations issued by any state or territory of the United States, which are rated, on the date of investment therein, in one of the three highest rating categories (without regard to any gradation within such category) by both Moody’s or any successors thereto and S&P or any successors thereto;

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

(vi) any repurchase, reverse repurchase or investment agreement with any bank or trust company organized under the laws of any state of the United States or the Commonwealth or any national banking association (including the 1968 Fiscal Agent), insurance company, or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation, which agreement is secured by any one or more of the securities described in clause (i) or (ii) above, provided that the 1968 Fiscal Agent has a perfected first security interest in the collateral and that such collateral is held free and clear of claims by third parties;

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

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

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

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

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

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

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

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

(a) in the case of Variable Rate Bonds the interest rate thereon shall be assumed to be the greater of (A) one hundred ten percent (110%) of the average interest rate on such Variable Rate Bonds during the twelve months ending with the month preceding the date of calculation or such shorter period that such Variable Rate Bonds shall have been outstanding, (B) the actual rate of interest on such Variable Rate Bonds on the date of calculation and (C) the lesser of the maximum rate then permitted by law and the maximum rate permitted on such Variable Rate Bonds by the resolution authorizing the issuance thereof; provided, however, that if the Authority has notified the 1968 Fiscal Agent that a Swap agreement is in effect in respect of such Variable Rate Bonds, then for all purposes of this paragraph the interest rate on such Variable Rate Bonds shall be the Swap rate under such Swap agreement.

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

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

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

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

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

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

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

"Reserve Account Insurance Policy" means the insurance policy, surety bond or other acceptable evidence of insurance, which policy, bond or other evidence of insurance constitutes an unconditional senior obligation of the issuer thereof. The issuer shall be a municipal bond insurer whose senior debt obligations, ranking *pari passu* with its obligations under such policy, bond or other evidence of insurance, are rated at the time of deposit to the credit of the 1968 Reserve Account in any of the three highest rating categories (without regard to any gradation within any such category) of either Moody's or any successors thereto or S&P or any successors thereto.

"Reserve Account Letter of Credit" means the irrevocable, transferable letter of credit, if any, which letter of credit constitutes an unconditional senior obligation of the issuer thereof. The issuer shall be a banking association, bank or trust company or branch thereof whose senior debt obligations, ranking *pari passu* with its obligations under such letter of credit, are rated at the time of deposit to be credit of the 1968 Reserve Account in any of the three highest rating categories (without regard to any gradation within any such category) of either Moody's or any successors thereto or S&P or any successors thereto.

"1968 Reserve Requirement" means the lesser of (a) the maximum Principal and Interest Requirements for any fiscal year on account of the outstanding Bonds and (b) ten percent (10%) of the original principal amount of each Series of Bonds outstanding (determined on the basis of their initial offering prices to the public).

"1968 Revenues" means (a) all moneys received by the Authority on account of the gasoline tax allocated to the Authority by Act No. 75, approved June 23, 1965; (b) Toll Revenues; (c) the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico has allocated or may hereafter allocate to the Authority and expressly authorize the Authority to pledge to the payment of the principal of and interest on bonds or other obligations of the Authority and which are pledged by the Authority to the payment of the principal of and interest on Bonds issued under the provisions of the Resolution; provided that written notice of such pledge has been delivered to S&P, Moody's and any other rating agency then rating the Bonds and (d) investment earnings on deposits to the credit of funds and accounts established under the Resolution, except for the Construction Fund.

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

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

“Swap rate” means the fixed rate per annum on the principal amount of Variable Rate Bonds covered by a Swap agreement equal to the percentage derived by dividing (i) the sum of the amounts in the last twelve months paid by the Authority in respect of interest on such bonds and to the Swap party less the amount paid to the Authority by the Swap party by (ii) such principal amount of Variable Rate Bonds; provided, however, that if such Swap agreement has been in effect for less than twelve months, such percentage shall be multiplied by 360 divided by the number of days between the effective date of such Swap agreement and the date of calculation determined on the basis of 30-day month; provided, further, that if no amount has been paid under the Swap agreement, the Swap rate shall be deemed to be the fixed rate per annum contracted to be paid by the Authority to the Swap party.

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

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

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

Sinking Fund

The Resolution creates the “Puerto Rico Highways Authority Highway Revenue Bonds Interest and Sinking Fund” (the “1968 Sinking Fund”). The “1968 Bond Service Account”, “1968 Redemption Account” and “1968 Reserve Account” are created within the 1968 Sinking Fund. (Section 401).

The moneys in each Account are held by the 1968 Fiscal Agent in trust and, pending application, are subject to a lien in favor of the holders of the outstanding Bonds and for the further security of such holders until paid out or transferred as provided in the Resolution. (Section 401).

All Revenues (other than investment earnings), and any other funds of the Commonwealth allocated to the Authority for the payment of principal of and interest on any Bonds, are deposited monthly with the 1968 Fiscal Agent as follows:

- (1) To the 1968 Bond Service Account, an amount equal to 1/6th of the amount of interest payable on all Bonds of each Series on the next succeeding interest payment date and an amount equal to 1/12th of the next maturing installment of principal of any serial bonds; provided, however, that the amount so deposited on account of the interest in each month after the delivery of the Bonds of any Series up to and including the month immediately preceding the first interest payment date thereafter of the Bonds of such Series shall be that amount which when multiplied by the number of such deposits will be equal to the amount of interest payable on such Bonds on such first interest payment date less the amount of any accrued interest paid on such Bonds and deposited to the credit of the 1968 Bond Service Account;
- (2) To the 1968 Redemption Account, an amount equal to 1/12th of the Amortization Requirement for such fiscal year for the term bonds of each Series then outstanding plus an amount equal to 1/12th of the premium, if any, which would be payable on the first redemption

date in the following fiscal year on a like principal amount of Bonds if such principal amount of Bonds should be redeemed prior to their maturity from moneys in the 1968 Sinking Fund;

(3) To the 1968 Reserve Account, such amount as is required to make the amount deposited to the credit of said Account in the then current fiscal year at least equal to 20% of the 1968 Reserve Requirement; provided, however, that such deposits shall only be made to the extent necessary to make the amount then in the 1968 Reserve Account equal to the 1968 Reserve Requirement; provided, further, that in the event of an increase in the 1968 Reserve Requirement due to the issuance of additional Series of Bonds, such increase may be funded by deposits in each of the five (5) years, commencing in the fiscal year in which such additional Series of Bonds is issued, of 20% of such increase in the Reserve Requirement; and

(4) Any 1968 Revenues remaining after making the deposits referred to above shall be deposited to the credit of the 1968 Construction Fund for use by the Authority for any of its authorized purposes. (Section 401).

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

In lieu of any required deposit of Revenues into the 1968 Reserve Account, or in substitution for all or a portion of the moneys then on deposit in the 1968 Reserve Account, the Authority may deposit into the 1968 Reserve Account a Reserve Account Insurance Policy or a Reserve Account Letter of Credit for the benefit of the holders in an amount equal to the required deposit, which Reserve Account Insurance Policy or Reserve Account Letter of Credit shall be payable or available to be drawn upon, as the case may be (upon the giving of notice as required thereunder), on any interest payment date on which a deficiency exists which cannot be cured by moneys in any other fund or account held by the 1968 Fiscal Agent pursuant to the Resolution and available for such purpose. If a disbursement is made under the Reserve Account Insurance Policy or the Reserve Account Letter of Credit, the Authority shall be obligated either to reinstate the limits of such Reserve Account Insurance Policy or Reserve Account Letter of Credit following such disbursement, or to deposit into the 1968 Reserve Account from Revenues, funds in the amount of the disbursement made under such Reserve Account Insurance Policy or Reserve Account Letter of Credit. (Section 401).

Moneys in the 1968 Redemption Account shall be applied to the retirement of Bonds as follows:

(a) Subject to the provisions of paragraph (c) below, the 1968 Fiscal Agent shall endeavor to purchase outstanding Bonds, whether or not such Bonds shall then be subject to redemption, at the most advantageous price obtainable with reasonable diligence, having regard to interest rate and price, such price not to exceed the principal of such Bonds plus the amount of the premium, if any, which would be payable on the next redemption date to the holders of such Bonds if such Bonds should be called for redemption on such date from moneys in the 1968 Sinking Fund. The 1968 Fiscal Agent shall pay the interest accrued on such Bonds to the date of delivery thereof from the 1968 Bond Service Account and the purchase price from the 1968 Redemption Account, but no such purchase shall be made within 45 days next preceding any interest payment date on which such Bonds are subject to redemption except from moneys in excess of the amounts set aside or deposited for the redemption of Bonds.

(b) Subject to the provisions of paragraph (c) below, the 1968 Fiscal Agent shall call for redemption on each interest payment date on which Bonds are subject to redemption from moneys in the 1968 Sinking Fund such amount of Bonds then subject to redemption as, with the redemption premium, if any, will exhaust the 1968 Redemption Account as nearly as may be; provided, however, that not less than \$50,000 principal amount of Bonds shall be called for redemption at any one time.

(c) Moneys in the 1968 Redemption Account shall be applied to the purchase or redemption of Bonds in the following order:

First, the term Bonds of each Series, if any, in the order of their issuance, to the extent of the Amortization Requirement, if any, of the then current fiscal year for such term Bonds and any deficiency in preceding fiscal years in the purchase or redemption of such term Bonds under the provisions of this subdivision; provided, however, that if none of the term Bonds of a Series shall be subject to redemption from moneys in the 1968 Sinking Fund and if the 1968 Fiscal Agent shall at any time be unable to exhaust

the moneys applicable to the Bonds of any such Series in the purchase of such Bonds under the provisions of paragraph (a) above, such moneys or the balance of such moneys, as the case may be, shall be retained in the 1968 Redemption Account and, as soon as it is feasible, applied to the retirement of the Bonds of such Series;

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

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

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

All expenses in connection with such purchase or redemption shall be paid from the 1968 Construction Fund. (Section 403).

Moneys in the 1968 Reserve Account shall be used for the purpose of paying interest on the Bonds and maturing principal of serial Bonds whenever and to the extent that the moneys held for the credit of the 1968 Bond Service Account shall be insufficient for such purpose and thereafter for the purpose of making deposits to the credit of the 1968 Redemption Account pursuant to the requirements mentioned in paragraph (2) above whenever and to the extent that the Revenues are insufficient for such purpose. Excess moneys in the 1968 Reserve Account shall be transferred to the 1968 Construction Fund, the 1968 Bond Service Account or the 1968 Redemption Account, as directed by the Authority. (Section 404).

1968 Construction Fund

Moneys in the 1968 Construction Fund may be used for any authorized purpose of the Authority, including, prior to the adoption of the 1998 Resolution, the payment of the cost of maintaining, repairing and operating the Traffic Facilities and the cost of necessary renewals and replacements of Traffic Facilities. (Sections 401, 604 and 605). Before any payment or withdrawal shall be made from moneys in the 1968 Construction Fund there shall be filed with the 1968 Fiscal Agent a certificate signed by a designated officer of the Authority setting forth the amount of money to be so disbursed and stating that such money will be used to pay the costs of constructing Traffic Facilities or for other purposes permitted by the Resolution. Upon receipt of such certificate the 1968 Fiscal Agent shall withdraw from the 1968 Construction Fund and deposit to the credit of a special checking account in its commercial department in the name of the Authority the amount so specified in such certificate. The 1968 Fiscal Agent shall also at any time at the written direction of the Authority transfer any part of the moneys in the 1968 Construction Fund to the credit of the 1968 Redemption Account. (Section 405).

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

Defeasance

If all the outstanding Bonds shall have been paid or deemed to have been paid as provided below, then and in that case the right, title and interest of the bondholders under the Resolution shall cease, terminate and become void, and such Bonds shall, except as described in the next sentence, cease to be entitled to any lien, benefit or security under the Resolution. In such event, the Authority shall repeal and cancel the Resolution and may apply any surplus in the 1968 Sinking Fund and all balances remaining in any other funds and accounts other than moneys held for the redemption or payment of Bonds to any lawful purposes of the Authority as the Secretary shall determine. Under the terms of the 1998 Resolution, all such surplus and balances are required upon the repeal and cancellation of the Resolution to be transferred to the 1998 Revenue Fund.

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

Neither the moneys nor Government Obligations deposited with the 1968 Fiscal Agent or other appropriate fiduciary institution acting as escrow agent nor principal or interest payments on any such obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and redemption premium, if any, and interest on the Bonds which have been defeased.

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

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

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

Issuance of Additional Bonds

As a result of the adoption of the 1998 Resolution and so long as the Authority shall have Transportation Revenue Bonds outstanding thereunder, the purposes for which additional Bonds may be issued are limited to refunding other Bonds for debt service savings and to exchange Bonds for Special Facility Bonds. See “Additional Bonds-Highway Revenue Bonds” under *The 2003 Bonds* above in this Official Statement.

Bonds may be issued under and secured by the Resolution, subject to the conditions hereinafter described, at any time or times for the purpose of providing funds to pay the cost of Traffic Facilities, to refund all or any part of the outstanding Bonds of any one or more Series by payment at maturity or redemption at a selected redemption date or dates, including the payment of any redemption premium thereon, to fund a deposit to the 1968 Reserve Account and to pay any costs of issuance of such Bonds. (Sections 208 and 209).

Before such Bonds shall be authenticated and delivered, there shall be filed with the 1968 Fiscal Agent, among other things, a certificate dated the date of original issuance of the Bonds, signed by the Executive Director, setting forth:

- (i) the amount of the Revenues for any twelve (12) consecutive calendar months out of the fifteen (15) calendar months immediately preceding the month in which such certificate is signed;
- (ii) the amount of the Toll Revenues for the twelve (12) calendar months for which the Revenues are shown in item (i) above;
- (iii) the difference between the amounts set forth in items (i) and (ii) above;
- (iv) the amount of the maximum Principal and Interest Requirement for any fiscal year thereafter on account of the Bonds then outstanding and the Bonds then requested to be delivered;
- (v) the percentage derived by dividing the amount in item (i) above by the amount in item (iv) above; and
- (vi) the percentage derived by dividing the amount in item (iii) above by the amount in item (iv) above. (Section 208).

The 1968 Fiscal Agent may only deliver such additional Bonds if the percentage shown in either item (v) or item (vi) is not less than 150%. (Section 208). The Authority need not deliver said certificate in connection with the issuance of refunding bonds if the Executive Director delivers a certificate to the effect that the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of the Bonds to be outstanding after the issuance of the refunding Bonds shall be equal to or less than the maximum Principal and Interest Requirements for any fiscal year thereafter on account of the Bonds outstanding prior to the issuance of such refunding Bonds. (Section 209).

If the percentage shown in item (vi) of the certificate mentioned above and filed with the 1968 Fiscal Agent in connection with the issuance of any additional Bonds is less than 150%, the Authority may not reduce the tolls or other charges imposed by it for the use of its Traffic Facilities such that, as of the effective date of such reduction, the amount of Revenues for any twelve (12) consecutive calendar months out of the fifteen (15) calendar months immediately preceding such effective date, adjusted to reflect the Toll Revenues it would have received, based on the volume of traffic for such twelve (12) months, if such reduction had been in effect for such twelve (12) months, is less than 150% of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all Bonds then outstanding. (Section 609).

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

Any increase in the 1968 Reserve Requirement resulting from the issuance of such additional Bonds may be satisfied by equal deposits of 20% of such increase into the 1968 Reserve Account in each of the next five years beginning with the fiscal year in which such additional Bonds were issued. (Section 401).

Other Indebtedness

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

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

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

Investment of Funds

Moneys held for the credit of the 1968 Bond Service Account and the 1968 Redemption Account shall, as nearly as may be practicable, be continuously invested and reinvested at the written direction of the Authority in Government Obligations, and moneys held for the credit of the 1968 Construction Fund and the 1968 Reserve Account shall, as nearly as may be practicable, be continuously invested and reinvested at the written direction of the Authority in Investment Obligations, which Government Obligations and Investment Obligations shall mature, or which shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when moneys held for the credit of such Fund or Accounts will be required for the purposes intended. Amounts on deposit in the 1968 Reserve Account shall be invested in Investment Obligations which mature not later than the final maturity date of any Bonds outstanding. (Section 502).

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

(a) investment earnings on moneys on deposit to the credit of the 1968 Construction Fund shall be retained to the credit of said Fund;

(b) investment earnings on moneys on deposit to the credit of the 1968 Reserve Account shall be retained in said Account at any time that the amounts on deposit to the credit of said Account are less than the 1968 Reserve Requirement and, if moneys on deposit therein are sufficient for such purposes, then such earnings shall be withdrawn and deposited to the credit of the 1968 Construction Fund, the 1968 Bond Service Account or the 1968 Redemption Account, as the Authority shall direct; and

(c) investment earnings on moneys on deposit to the credit of the 1968 Bond Service Account and the 1968 Redemption Account shall be transferred to the 1968 Construction Fund or at the option of the Authority retained in such Account. (Section 502).

In computing the amount in any Fund or Account created pursuant to the provisions of the Resolution, obligations purchased as an investment of moneys therein shall be valued at par if purchased at par or at amortized value if purchased at other than par, plus, in each case, accrued interest. Amortized value, when used with respect to an obligation purchased at a premium above or a discount below par,

means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of days remaining to maturity on such obligation at the date of such purchase and by multiplying the amount thus calculated by the number of days having passed since such purchase; and (1) in the case of an obligation purchased at a premium by deducting the product thus obtained from the purchase price, and (2) in the case of an obligation purchased at a discount by adding the product thus obtained to the purchase price. Valuation on any particular date shall include the amount of interest then earned or accrued to such date on any moneys or investments in such Fund or Account. The computation of the amount on deposit in or credited to the Fund and Accounts created under the Resolution and the valuation of the investments of such amount shall be performed by the 1968 Fiscal Agent as of the close of business on the last day of each fiscal year and at such other times as the Authority shall request, and such computation and valuation shall not be required to be performed at other times. (Section 503).

Modifications

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

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

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

Upon the adoption of any supplemental resolution pursuant to the provisions of the Resolution, the Resolution shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Resolution of the Authority, the 1968 Fiscal Agent and all holders of Bonds then outstanding shall thereafter be determined, exercised and enforced in all respects under the provisions of the Resolution as so modified and amended. (Section 802).

Miscellaneous Covenants

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

Costs of Maintenance, Repair and Operation of Traffic Facilities. The Authority covenants that, if and to the extent funds for the purpose of maintaining, repairing and operating all Traffic Facilities financed by the Authority in whole or in part by the issuance of Bonds of the Authority under the

provisions of the Resolution are not provided by the Commonwealth, the Authority will pay such costs from unencumbered funds then on deposit in the 1968 Construction Fund or from the Revenues thereafter deposited to the credit of the 1968 Construction Fund pursuant to the Resolution. (Section 604). As a result of the adoption of the 1998 Resolution and so long as the Authority shall have Transportation Revenue Bonds outstanding thereunder, the Authority's obligations under this paragraph will be payable from moneys in the 1998 Construction Fund instead of the 1968 Construction Fund.

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

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

If it appears from such report that repairs, renewals or replacements of any such Traffic Facilities are necessary, the Authority shall promptly cause the same to be made and if and to the extent that funds for such purpose have not been made available by the Commonwealth, moneys on deposit to the credit of the 1968 Construction Fund which have not theretofore been encumbered for other purposes, and moneys which are thereafter deposited to the credit of the 1968 Construction Fund pursuant to the Resolution shall first be applied for such purpose. (Section 605). As a result of the adoption of the 1998 Resolution and so long as the Authority shall have Transportation Revenue Bonds outstanding thereunder, the Authority's obligations under this paragraph will be payable from moneys in the 1998 Construction Fund instead of the 1968 Construction Fund.

SUMMARY OF CERTAIN PROVISIONS OF THE PROPOSED SUPPLEMENTAL RESOLUTIONS

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

The proposed supplemental resolution will provide as follows:

Modification with Consent of Holders of Majority of Bonds

Subject to the terms and provisions contained below, and not otherwise, the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding (or in case less than all of several Series of Bonds then outstanding are affected by the supplement thereto, the holders of a majority or more in principal amount of the Bonds of the Series so affected and outstanding at the time the consent and approval are given) shall have the right, from time to time, anything contained in the

Resolution to the contrary notwithstanding, to consent to and approve the adoption by the Authority of such resolution or resolutions supplemental thereto as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Resolution or in any supplemental resolution; provided, however, that nothing contained in the Resolution shall permit, or be construed as permitting, without the consent of the holders of one hundred percent (100%) of the Bonds outstanding (a) an extension of the maturity of the principal of or interest on any Bond issued thereunder (other than as provided for by the terms of an Extendible Maturity Bond), or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of Revenues ranking prior to or on a parity with the lien or pledge created by the Resolution, except for a parity lien on or pledge of Revenues given to any provider of a credit facility or liquidity facility under any reimbursement or similar agreement, or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to and approval of such supplemental resolution. Nothing contained in the Resolution, however, shall be construed as making necessary the approval by bondholders of the adoption of a supplemental resolutions that would otherwise not require their consent. Except as to supplemental resolutions containing changes described in clauses (a) through (e) of the proviso to the first sentence of this paragraph, the provider of any credit facility or liquidity facility shall have the right, in lieu of the holders of Bonds secured thereby, to give consent and approval to any supplemental resolution for which the consent of the holders of such Bonds is required under the Resolution, and all references to bondholders for purposes of such consent and approval shall mean instead the provider of said credit facility or liquidity facility; provided, however, that said provider of a credit facility or liquidity facility shall not be in default on its obligations in connection with said credit facility or liquidity facility.

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

Parity Liens to Providers of Credit Facilities and Liquidity Facilities

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

Calculation of Interest Rate on Variable Rate Bonds

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

The proposed supplemental resolution will provide as follows:

(a) in the case of Variable Rate Bonds, the interest rate thereon shall be assumed to be (A) in the case of Variable Rate Bonds outstanding on and before the date of calculation the greater of the average interest rate on such Bonds during the sixty months or twelve months ending in either case with the month preceding the date of calculation (or such shorter period (ending with the same month as aforesaid) that such Variable Rate Bonds shall have been Outstanding), and (B) in the case of Variable Rate Bonds first being delivered on such date of calculation and are being issued (1) on the basis that interest on such Variable Rate Bonds would be excludible from gross income of the owners thereof for federal income tax purposes, the greater of the average of the Bond Market Association Swap Index (the "BMA Index") (i) for the twelve month period and (ii) the sixty month period in either case ending seven days before the date of calculation plus 100 basis points, or (2) as Variable Rate Bonds not described in clause (B)(1), the greater of the average of the London Interbank Offered Rate ("LIBOR") for the time period most closely

resembling the reset period for the Variable Rate Bonds (i) for the twelve month period and (ii) for the sixty month period in either case ending seven days before the date of calculation plus 100 basis points (if the BMA Index or LIBOR shall cease to be published, the index to be used shall be that index which the Authority, in consultation with Government Development Bank for Puerto Rico, determines most closely replicates such index, as set forth in a certificate of the Executive Director filed with the Fiscal Agent); provided, however, that if the Authority has notified the Fiscal Agent that a Swap agreement is in effect in respect of Variable Rate Bonds, then for all purposes of this paragraph the interest rate on such Variable Rate Bonds shall be the Swap rate under such Swap agreement; and provided further, however, that in no event shall the interest rate so determined exceed the lesser of (x) the maximum rate then permitted by law and (y) the maximum rate permitted on such Variable Rate Bonds by the resolution authorizing the issuance thereof.

APPENDIX IV

SUMMARY OF CERTAIN PROVISIONS OF THE 1998 RESOLUTION

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

Definition of Certain Terms

“Accreted Value” means, with respect to any Capital Appreciation Bond or Capital Appreciation and Income Bond, an amount equal to the principal amount of such Bond on the date of original issuance plus the interest accrued on such Bond from the date of original issuance to the date of computation or the Interest Commencement Date, as the case may be, such interest to accrue at the rate set forth in the resolution providing for the issuance of said Bond, but not exceeding the maximum rate permitted by law, compounded periodically at the times provided for in such resolution.

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

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

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

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

No. 223 of November 30, 1995, as amended, and by said Act's predecessor statutes and (2) the proceeds of the \$15 increase per vehicle of annual motor vehicle license fees imposed by the Commonwealth and allocated to the Authority by Act. No. 9, approved August 12, 1982.

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

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

"Government Obligations" means (i) direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States Government, (ii) bonds, debentures or notes issued by any of the following Federal Agencies: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Banks, Export-Import Bank of the United States, Government National Mortgage Association or Federal Land Banks, (iii) obligations issued or guaranteed by an agency of the United States of America or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress, (iv) municipal obligations, the payment of the principal of and interest and redemption premium, if any, on which are irrevocably secured by obligations described in clause (i) of this definition and which obligations are not subject to redemption prior to the date on which the proceeds attributable to the principal of the obligations are to be used and have been deposited in an escrow account which is irrevocably pledged to the payment of the principal of and interest and redemption premium, if any, on such municipal obligations, and (v) evidences of ownership of proportionate interests in future interest or principal payments on obligations specified in clauses (i), (ii), (iii) and (iv) of this definition held by a bank (including the 1998 Fiscal Agent) or trust company as custodian and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated.

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

"Investment Obligations" means:

(i) Government Obligations,

(ii) direct and general obligations of any state or territory of the United States of America to the payment of the principal of and interest on which the full faith and credit of such state or territory is pledged, provided that such obligations are rated, on the date of investment therein, in any of the three highest rating categories (without regard to any gradations within any such category) by both Moody's or any successors thereto and S&P or any successors thereto,

(iii) bankers' acceptances, certificates of deposit or time deposits of any bank or national banking association (including the 1998 Fiscal Agent), trust company or savings and loan association (including any investment in pools of such bankers' acceptances, certificates of deposit or time deposits), which to the extent that such obligations are not insured by the Federal Deposit Insurance Corporation, are either (A) issued by a bank, trust company or savings and loan association having a combined capital and surplus aggregating at least \$50,000,000 or (B) collateralized at all times by such securities as are described in clauses (i) or (ii) above, having a market value at least equal to the principal amount of such bankers' acceptances, certificates of deposit or time deposits (or portion thereof not so insured); provided that the 1998 Fiscal Agent has a perfected first security interest in the collateral and that such collateral is held free and clear of claims by third parties,

(iv) any repurchase, reverse repurchase or investment agreement with any bank or trust company organized under the laws of any state of the United States or the Commonwealth or any

national banking association (including the 1998 Fiscal Agent), insurance company, or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation, which agreement is secured by any one or more of the securities described in clauses (i) or (ii) above, provided that the 1998 Fiscal Agent has a perfected first security interest in the collateral and that such collateral is held free and clear of claims by third parties,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(f) in the case of bonds (A) which are expected to be repaid from the proceeds of bonds or other indebtedness or (B) on which interest is payable periodically and for which twenty-five percent (25%) or more of the principal amount matures during any one year and for which no Amortization Requirements have been established, the debt service requirements of the bonds may be excluded and in lieu thereof the bonds shall be treated, for purposes of the computation of Principal and Interest Requirements, as debt securities having a comparable federal tax status as such bonds, maturing in substantially equal annual payments of principal and interest over a period of not more than thirty (30) years from the date of issuance thereof, bearing interest at a fixed rate per annum equal to the average interest rate per annum for such debt securities issued on the date of issuance of the bonds and issued by issuers having a credit rating, issued by Moody's or any successors thereto or S&P or any successors thereto, comparable to that of the Authority, as shown by a certificate of an underwriting or investment banking firm experienced in marketing such securities; and

(g) if all or a portion of the principal of or interest on a Series of bonds is payable from moneys irrevocably set aside or deposited for such purpose, together with projected earnings thereon to the extent such earnings are projected to be from Investment Obligations irrevocably set aside or deposited for such purpose on the date of computation, such principal or interest shall not be included in determining Principal

and Interest Requirements; provided that the above computation shall be supported by a verification report from a nationally recognized independent certified public accountant as to the sufficiency of such moneys set aside and projected earnings.

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

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

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

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

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

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

“Swap party” means a person who is party to a Swap agreement and whose senior obligations are rated at the time of the execution and delivery of such Swap agreement in one of the three highest rating

categories (without regard to any gradations within any such category) by (i) S&P or its successors and (ii) Moody's or its successors.

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

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

“Traffic Facilities” means any of the following facilities for which 1968 Resolution Bonds or bonds or other obligations shall be issued by the Authority under the provisions of the 1998 Resolution the cost of which facilities paid from the proceeds of such bonds or other obligations shall not have been reimbursed to the Authority from funds not encumbered by the 1998 Resolution or the 1968 Resolution:

(i) roads, avenues, streets, thoroughfares, speedways, bridges, tunnels, channels, stations, terminals and any other land or water facilities necessary or desirable in connection with the movement of persons, freight, vehicles or vessels;

(ii) parking lots and structures and other facilities necessary or desirable in connection with parking, loading or unloading of all kinds of vehicles or vessels; and

(iii) all property rights, easements, and interests therein necessary or desirable for the construction, maintenance, control, operation or development of such traffic facilities.

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

“Transportation Facilities” means all Traffic Facilities, all Mass Transit Facilities, and any other highway, road, transportation or other facilities or undertakings permitted from time to time by the enabling act for which bonds or other obligations shall be issued by the Authority under the provisions of the 1998 Resolution the cost of which facilities paid from the proceeds of such bonds or other obligations shall not have been reimbursed to the Authority from funds not encumbered by the 1998 Resolution.

Sinking Funds

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

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

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

The 1998 Resolution also creates the “Puerto Rico Highways and Transportation Authority Transportation Revenue Fund” (the “Revenue Fund”). The Authority has covenanted that all Revenues (except investment earnings on deposits to the credit of the funds and accounts established under the 1998 Resolution) will be deposited when received to the credit of the Revenue Fund. Until the outstanding 1968

Resolution Bonds have been paid or provision has been made for their payment and the repeal and cancellation of the 1968 Resolution, the Authority shall on or before the last day of the month during which the 2003 Bonds shall be issued and on or before the 25th day of each month thereafter withdraw from the 1968 Construction Fund and transfer to the credit of the Revenue Fund all unencumbered moneys held for the credit of the 1968 Construction Fund (herein “unencumbered 1968 Construction Fund moneys”), such transfer to be made on the books of the Authority as of the close of the preceding month. (Section 401).

The moneys in each Fund or Account are held by the 1998 Fiscal Agent in trust and, pending application, are subject to a lien in favor of the holders of the outstanding bonds and for the further security of such holders until paid out or transferred as provided in the 1998 Resolution. (Section 401).

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

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

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

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

(4) to the Subordinated Bond Service Account, an amount equal to one-sixth (1/6) of the amount of interest payable on all Subordinated Transportation Revenue Bonds of each Series on the interest payment date next succeeding and an amount equal to one-twelfth (1/12) of the next maturing installment of principal of such serial bonds of such Series until the amount in the Subordinated Bond Service Account equals the amount of interest payable on such interest payment date and the amount of such principal installment; but the amount so deposited on account of interest in each month after the delivery of the Subordinated Transportation Revenue Bonds of any Series up to and including the month immediately preceding the first interest payment date thereafter of the bonds of such Series shall be that amount which when multiplied by the number of such deposits will be equal to the amount of interest payable on such bonds on such first interest payment date less the amount of any accrued interest paid on such bonds and deposited with the 1998 Fiscal Agent to the credit of the Subordinated Bond Service Account;

(5) to the Subordinated Bond Redemption Account, an amount equal to one-twelfth (1/12) of the Amortization Requirement for such fiscal year for the term bonds of each Series of Subordinated Transportation Revenue Bonds then outstanding plus one-twelfth (1/12) of the premium, if any, which would be payable on the first redemption date in the following fiscal year on a like principal amount of

bonds if such principal amount of bonds should be redeemed prior to their maturity from moneys in the Subordinated Bond Sinking Fund;

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

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

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

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

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

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

(a) Subject to the provisions of paragraph (c) below, the 1998 Fiscal Agent shall endeavor to purchase outstanding senior bonds, whether or not such bonds shall then be subject to redemption, at the most advantageous price obtainable with reasonable diligence, having regard to interest rate and price, such price not to exceed the principal of such bonds plus the amount of the premium, if any, which would be payable on the next redemption date to the holders of such bonds if such bonds should be called for redemption on such date from moneys in the Senior Bond Sinking Fund. The 1998 Fiscal Agent shall pay the interest accrued on such bonds to the date of delivery thereof from the Senior Bond Service Account and the purchase price from the Senior Bond Redemption Account, but no such purchase shall be made within 45 days next preceding any interest payment date on which such bonds are subject to redemption except from moneys in excess of the amounts set aside or deposited for the redemption of senior bonds.

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

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

First, the term bonds of each Series of senior bonds, if any, in the order of their issuance, to the extent of the Amortization Requirement, if any, of the then current fiscal year for such term bonds and any

deficiency in preceding fiscal years in the purchase or redemption of such term bonds under the provisions of this subdivision; but if none of the term bonds of a Series of senior bonds shall be subject to redemption from moneys in the Senior Bond Sinking Fund and if the 1998 Fiscal Agent shall at any time be unable to exhaust the moneys applicable to the bonds of any such Series in the purchase of such bonds under the provisions of paragraph (a) above, such moneys or the balance of such moneys, as the case may be, shall be retained in the Senior Bond Redemption Account and, as soon as it is feasible, applied to the retirement of the bonds of such Series;

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

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

Fourth, after the retirement of all term senior bonds, any balance shall be applied to the retirement of serial senior bonds of each Series in proportion to the aggregate principal amount of each such Series originally issued.

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

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

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

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

The Authority may deposit into the Senior Bond Reserve Account or any account in the Subordinated Bond Reserve Fund, a Reserve Account Insurance Policy or a Reserve Account Letter of Credit in an amount equal to all or a portion of the applicable reserve requirement, which Reserve Account Insurance Policy or Reserve Account Letter of Credit shall be payable or available to be drawn upon, as the case may be (upon the giving of notice as required thereunder), on any interest payment date on which a deficiency exists in the applicable reserve account which cannot be otherwise cured. If a disbursement is made under the Reserve Account Insurance Policy or the Reserve Account Letter of Credit, the Authority shall be obligated either to reinstate the limits of such Reserve Account Insurance Policy or Reserve Account Letter of Credit following such disbursement, or to deposit into the Senior Bond Reserve Account

or any account in the Subordinated Bond Reserve Fund from Revenues, funds in the amount of the disbursement made under such Reserve Account Insurance Policy or Reserve Account Letter of Credit, and any moneys held in any such reserve account may be applied for such purpose. (Sections 401, 405, 408).

1998 Construction Fund

Before any payment or withdrawal shall be made from moneys in the 1998 Construction Fund there shall be filed with the 1998 Fiscal Agent a certificate signed by a designated officer of the Authority setting forth the amount of money to be so disbursed and stating that such money will be used to pay the costs of constructing Transportation Facilities or for other authorized purposes. Upon receipt of such certificate the 1998 Fiscal Agent shall withdraw from the 1998 Construction Fund and deposit to the credit of a special checking account in its commercial department in the name of the Authority the amount so specified in such certificate. The 1998 Fiscal Agent shall also at any time at the written direction of the Authority transfer any part of the unencumbered moneys in the 1998 Construction Fund to the credit of any account in the Senior Bond Sinking Fund and shall make the transfers to the Senior Bond Service Account and Senior Bond Redemption Account to cure deposit deficiencies therein as described above. (Section 409).

Defeasance

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

Any outstanding bond shall be deemed to have been paid within the meaning and with the effect expressed in the 1998 Resolution when the whole amount of the principal of, redemption premium, if any, and interest on such bond shall have been paid or duly provided for and the conditions set forth in clause (c) below have been satisfied, when (a) in case such bond has been called for redemption or the Authority shall have given to the 1998 Fiscal Agent irrevocable instructions to call such bond for redemption, (b) there shall have been deposited with the 1998 Fiscal Agent Government Obligations the principal of and interest on which are sufficient, without any reinvestment thereof, to pay when due the principal of and premium, if any, and interest due and to become due on such bond on or prior to the redemption date or maturity date thereof, as the case may be, and (c) if such bond does not mature and is not to be redeemed within the next succeeding sixty (60) days, the Authority shall have given the 1998 Fiscal Agent irrevocable instructions to give, as soon as practicable, a notice to the holder of such bond by first-class mail, postage prepaid, stating that the deposit of moneys or Government Obligations required by clause (b) of this paragraph has been made with the 1998 Fiscal Agent or other appropriate fiduciary institution acting as escrow agent for the holder of such bond, and that such bond is deemed to have been paid in accordance with the 1998 Resolution and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of and premium, if any, and interest on such bond.

Neither the moneys nor Government Obligations deposited with the 1998 Fiscal Agent nor principal or interest payments on any such obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and redemption premium, if any, and interest on the bonds which have been defeased.

As to Variable Rate Bonds, the amount required for the interest thereon shall be calculated at the maximum rate permitted by the terms of the provisions of the resolution which authorized the issuance of such Variable Rate Bonds. (Section 1001).

Issuance of Additional Bonds

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

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

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

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

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

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

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

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

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

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

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

Subordinated Transportation Revenue Bonds theretofore issued under the provisions of the 1998 Resolution and then outstanding and the Subordinated Transportation Revenue Bonds then requested to be delivered is not less than 125%. (Section 210).

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

Other Indebtedness

The Authority will not incur any indebtedness nor create or suffer to be created any lien, pledge, assignment, encumbrance or charge upon the Revenues ranking equally with or prior to the senior bonds issued under the 1998 Resolution, except the lien and charge of the senior bonds secured by the 1998 Resolution, or ranking equally with the Subordinated Transportation Revenue Bonds except the lien and charge of the Subordinated Transportation Revenue Bonds secured by the 1998 Resolution. Any other indebtedness incurred by the Authority after the effective date of the 1998 Resolution under documents not in effect on the effective date of the 1998 Resolution shall contain a statement that such indebtedness is junior, inferior and subordinate in all respects to the bonds. For purposes of the above limitation on incurrence of indebtedness, indebtedness shall not be deemed to include contracts entered into in the ordinary course of business, agreements to repay advances received from the Federal government or agreements to repay (to the extent drawn) all or a portion of the stated amount drawn under any Credit Facility, Liquidity Facility, Reserve Account Letter of Credit or Reserve Account Insurance Policy. Nothing in the 1998 Resolution shall be deemed to prohibit the Authority from entering into currency swaps, interest rate swaps or other arrangements for hedging of interest rates on any indebtedness. (Section 602).

Nothing in the 1998 Resolution is to be construed as preventing the Authority from financing any facilities authorized by the act creating the Authority, as amended, by the issuance of bonds or other obligations which are not secured under the provisions of the 1998 Resolution. (Section 1101).

Investment of Funds

Moneys held for the credit of the Revenue Fund, Senior Bond Service Account, Senior Bond Redemption Account, Subordinated Bond Service Account, and Subordinated Bond Redemption Account shall, as nearly as may be practicable, be continuously invested and reinvested at the written direction of the Authority in Government Obligations, and moneys held for the credit of the 1998 Construction Fund, Senior Bond Reserve Account and each account in the Subordinated Bond Reserve Fund shall, as nearly as may be practicable, be continuously invested and reinvested at the written direction of the Authority in Investment Obligations, which Government Obligations and Investment Obligations shall mature, or which shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when moneys held for the credit of said Fund or Accounts will be required for the purposes intended. Amounts on deposit in the Senior Bond Reserve Account and each account in the Subordinated Bond Reserve Fund shall be invested in Investment Obligations which mature not later than the final maturity date of any senior bonds or Subordinated Transportation Revenue Bonds outstanding, as the case may be. (Section 502).

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

(a) Investment earnings on moneys on deposit to the credit of the Senior Bond Service Account, the Senior Bond Redemption Account, the Subordinated Bond Service Account, the Subordinated Bond Redemption Account and the 1998 Construction Fund shall be transferred to the credit of or retained in the 1998 Construction Fund; but the Authority may elect to have such investment earnings remain to the credit

of the Senior Bond Service Account, the Senior Bond Redemption Account, the Subordinated Bond Service Account or the Subordinated Bond Redemption Account to fund the next payment of principal of, Amortization Requirements for and interest on the senior bonds or the Subordinated Transportation Revenue Bonds, in which event the Authority shall receive a credit against the amounts required to be deposited in said Accounts as applicable;

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

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

In computing the amount in any Fund or Account created pursuant to the provisions of the 1998 Resolution, obligations purchased as an investment of moneys therein shall be valued at par if purchased at par or at amortized value if purchased at other than par, plus, in each case, accrued interest. Amortized value, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of days remaining to maturity on such obligation at the date of such purchase and by multiplying the amount thus calculated by the number of days having passed since such purchase; and (1) in the case of an obligation purchased at a premium by deducting the product thus obtained from the purchase price, and (2) in the case of an obligation purchased at a discount by adding the product thus obtained to the purchase price. Valuation on any particular date shall include the amount of interest then earned or accrued to such date on any moneys or investments in such Fund or Account. The computation of the amount on deposit in or credited to the Fund and Accounts created under the 1998 Resolution and the valuation of the investments of such amount shall be performed by the 1998 Fiscal Agent as of the close of business on the last day of each fiscal year and at such other times as the Authority shall request, and such computation and valuation shall not be required to be performed at other times. (Section 503).

Modifications

The Authority may adopt resolutions supplemental to the 1998 Resolution without the consent of the bondholders to cure any ambiguity, formal defect or omission, or to correct any inconsistent provisions or errors in the 1998 Resolution or any supplemental resolution, or to grant or confer upon the bondholders any additional rights, remedies, powers, authority or security, or to add to the conditions, limitations and restrictions on the issuance of bonds under the provisions of the 1998 Resolution or to add to the covenants and agreements of the Authority in the 1998 Resolution or to surrender any right or power reserved to or conferred upon the Authority, or to amend the conditions, limitations and restrictions on the issuance of Subordinated Transportation Revenue Bonds or the covenants and agreements relating to the Subordinated Transportation Revenue Bonds (as shall not adversely affect the interests of the holders of any senior bonds) as may be required to enable the Authority to comply with the provisions of any federal legislation, rules or regulations or court decisions or orders relating to the receipt by the Authority of grants or other assistance from the United States Government. (Section 801).

The holders of not less than a majority in aggregate principal amount of the senior bonds and of the Subordinated Transportation Revenue Bonds then outstanding and affected thereby shall have the right to consent to and approve the adoption of such resolution or resolutions supplemental to the 1998 Resolution as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding any of the terms and provisions contained in the 1998 Resolution or in any supplemental resolution; but nothing contained in the 1998 Resolution shall permit, or be construed as permitting, without consent of the holders of all bonds affected thereby, (a) an extension of the maturity of the principal of or the interest on any bond, or (b) a reduction in the principal amount of any bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of Revenues other than the lien and pledge created by the 1998 Resolution, or (d) a preference or priority of any bond or bonds over any other bond or bonds, or (e) a reduction in the aggregate principal amount of the

bonds required for consent to such supplemental resolution, or (f) a change in the subordination provisions. (Section 802).

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

Whenever, at any time within one year after the date of the mailing of such notice, the Authority shall obtain an instrument or instruments in writing purporting to be executed by the holders of not less than a majority in aggregate principal amount of the senior bonds and of the Subordinated Transportation Revenue Bonds then Outstanding, which instrument or instruments shall refer to the proposed supplemental resolution described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, and the Authority shall deliver to the 1998 Fiscal Agent a certificate signed by the Executive Director that the holders of such required percentages of bonds have filed such consents, thereupon, but not otherwise, the Authority may adopt such supplemental resolution in substantially such form, without liability or responsibility to any holder of any bond, whether or not such holder shall have consented thereto. (Section 802).

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

Upon the adoption of any supplemental resolution pursuant to the provisions of the 1998 Resolution, the 1998 Resolution shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the 1998 Resolution of the Authority, the 1998 Fiscal Agent and all holders of bonds then outstanding shall thereafter be determined, exercised and enforced in all respects under the provisions of the 1998 Resolution as so modified and amended. (Section 803).

Miscellaneous Covenants

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

Costs of Maintenance, Repair and Operation of Traffic Facilities. The Authority covenants that, if and to the extent funds for the purpose of maintaining, repairing and operating all Traffic Facilities financed by the Authority in whole or in part by 1968 Resolution Bonds and all Transportation Facilities financed by the Authority in whole or in part by bonds under the provisions of the 1998 Resolution are not provided by the Commonwealth, the Authority will pay such costs from unencumbered funds then on deposit in the 1998 Construction Fund or from the Revenues or unencumbered 1968 Construction Fund moneys thereafter deposited to the credit of the 1998 Construction Fund pursuant to the 1998 Resolution and not from funds then on deposit or thereafter deposited to the credit of the 1968 Construction Fund. (Section 604).

The Authority further covenants that it will cause an annual general evaluation to be made by the Transportation Engineers of the level of maintenance of all Traffic Facilities and Transportation Facilities

financed in whole or in part by the issuance of bonds under the provisions of, respectively, the 1968 Resolution and the 1998 Resolution, which Facilities shall be, in the judgment of the Authority and of the Traffic Engineers, material to the overall system of Transportation Facilities of the Authority. (Section 604).

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

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

If it appears from such report that repairs, renewals or replacements of any such Facilities are necessary, the Authority shall promptly cause the same to be restored to a condition of good repair and to sound operating condition, and if and to the extent that funds for such purpose have not been made available by the Commonwealth, moneys on deposit to the credit of the 1998 Construction Fund which have not theretofore been encumbered for other purposes, and moneys which are thereafter deposited to the credit of the 1998 Construction Fund pursuant to the 1998 Resolution shall first be applied for such purpose. No funds then on deposit or thereafter deposited to the credit of the 1968 Construction Fund shall be applied for such purpose. (Section 605).

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

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

The Authority covenants that so long as any 1968 Resolution Bonds are outstanding under the provisions of the 1968 Resolution it will cause to be made the deposits to the credit of the 1968 Construction Fund required by the 1968 Resolution. The Authority further covenants that except for any withdrawals required to be made as set forth in the third sentence of the fourth paragraph of "Sinking Funds" above, it will not withdraw, expend, pledge or otherwise encumber moneys held to the credit of the 1968 Construction Fund whether for the purpose of satisfying the Authority's Construction Improvement Program or otherwise.

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

Additional 1968 Resolution Bonds. The Authority covenants that so long as any bonds shall be outstanding under the provisions of the 1998 Resolution it will not issue additional 1968 Resolution Bonds which mature after July 1, 2036 and except for refunding bonds.

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

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

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

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

(iii) the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all senior bonds and all Subordinated Transportation Revenue Bonds theretofore issued under the provisions of the 1998 Resolution and then outstanding and it shall appear from such certificate that the percentages derived by dividing the sum of the amounts shown in item (i) of such certificate for any twelve (12) consecutive months by the amount shown in item (ii) of said certificate and by the amount shown in item (iii) of said certificate, shall not be less than one hundred fifty per centum (150%) and one hundred per centum (100%), respectively. (Section 614).

SUMMARY OF CERTAIN PROVISIONS OF THE PROPOSED SUPPLEMENTAL RESOLUTION

The following is a summary of certain provisions of a resolution proposing to amend the 1998 Resolution, which resolution will be adopted when the consent of owners of a majority in aggregate principal amount of the Transportation Revenue Bonds and of the Subordinated Transportation Revenue Bonds has been obtained. Such statements do not purport to be complete and reference is made to the proposed supplemental resolution, copies of which are available from the Authority or the 1998 Fiscal

Agent. See “Modifications” in *Summary of Certain Provisions of the 1998 Resolution* for limitations as to the ability of the Authority to modify the 1998 Resolution further.

The proposed supplemental resolution will provide as follows:

(iii) the interest rate on bonds issued with a variable, adjustable, convertible or similar rate of interest shall be in the case of (A) in the case of such bonds outstanding on and before the date of calculation the greater of the average interest rate on such bonds during the sixty months or twelve months ending in either case with the month preceding the date of calculation (or such shorter period (ending with the same month as aforesaid) that such bonds shall have been Outstanding), and (B) in the case of such bonds first being delivered on such date of calculation and are being issued (1) on the basis that interest on such bonds would be excludible from gross income of the owners thereof for federal income tax purposes, the greater of the average of the Bond Market Association Swap Index (the “BMA Index”) (i) for the twelve month period and (ii) the sixty month period in either case ending seven days before the date of calculation plus 100 basis points, or (2) as bonds not described in clause (B)(1), the greater of the average of the London Interbank Offered Rate (“LIBOR”) for the time period most closely resembling the reset period for such bonds (i) for the twelve month period and (ii) for the sixty month period in either case ending seven days before the date of calculation plus 100 basis points (if the BMA Index or LIBOR shall cease to be published, the index to be used shall be that index which the Authority, in consultation with Government Development Bank for Puerto Rico, determines most closely replicates such index, as set forth in a certificate of the Executive Director filed with the Fiscal Agent); provided, however, that if the Authority has notified the Fiscal Agent that a Swap agreement is in effect in respect of such bonds, then for all purposes of this paragraph, except for the purpose of determining the required deposits to the Senior Bond Sinking Fund or the Subordinated Bond Sinking Fund pursuant to Section 401 hereof, the interest rate on such bonds shall be the Swap rate under such Swap agreement; and if such Swap rate is a variable rate, the interest rate on such bonds (except for the purpose specified above in this paragraph) shall be the average Swap rate for the preceding sixty months (or such shorter period that the Swap agreement has been in effect), or if such Swap agreement has not been in effect prior to the date of calculation, the Swap rate on the date of calculation.

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San Juan, Puerto Rico 00940-2007

Dear Dr. Emmanuelli:

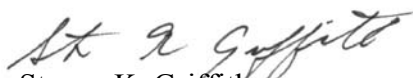
This letter summarizes the results of our evaluation of the level of maintenance of the Puerto Rico Highway and Transportation Authority's Traffic Facilities and our review of the Construction Improvement Program. Our study was conducted in accordance with Resolution No. 68-18, adopted June 13, 1968, as amended, and Resolution No. 98-06, adopted February 26, 1998. Results of the study are documented in our Final Report, entitled "Maintenance Evaluation and Program Review – 2004-2005", dated July 2005.

Based on our field inspections, we find that the overall level of maintenance is generally adequate to preserve the investment and provide an acceptable level of service to users of the road and other traffic facilities. Maintenance work methods and levels of service have been in general conformance to accepted maintenance policies and procedures in transportation and public works agencies throughout North America.

We have reviewed the 5-year Construction Improvement Program for Fiscal Years 2005-2009. In our opinion, the program is a reasonable response to the immediate and short-term transportation needs of the Commonwealth and is generally consistent with the Authority's long-range transportation master plan. Funding for the program appears to be adequate, based on revenue projections that have been reasonably accurate in the past and provide a sound basis for determining the size of future programs.

Please let us know if you need any additional information.

Sincerely,



Steven K. Griffith
Senior Associate



CDC IXIS Financial Guaranty North America, Inc.
 825 Third Avenue, Sixth Floor
 New York, NY 10022
 For information, contact (212) 909-3939
 Toll-free (866) 243-4212

FINANCIAL GUARANTY INSURANCE POLICY

ISSUER: Policy No.: CIFG NA-#
 CUSIP: Effective Date:
 OBLIGATIONS:

CDC IXIS FINANCIAL GUARANTY NORTH AMERICA, INC. ("CIFGNA"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to each Policyholder, subject only to the terms and conditions of this Policy (which includes each endorsement hereto), the full and complete payment by or on behalf of the Issuer of Regular Payments of principal of and interest on the Obligations.

For the further protection of each Policyholder, CIFGNA irrevocably and unconditionally guarantees:

(1) payment of any amount required to be paid under this Policy by CIFGNA following CIFGNA's receipt of notice and instruments of assignment as described in Endorsement No. 1 hereto and

(2) payment of the amount of any distribution of principal of and interest on the Obligations made during the Term of this Policy to such Policyholder that is subsequently avoided in whole or in part as a preference payment under applicable law (such payment to be made by CIFGNA in accordance with Endorsement No. 1 hereto).

CIFGNA shall be subrogated to the rights of each Policyholder to receive payments under the Obligations to the extent of any payment by CIFGNA hereunder. Upon disbursement in respect of an Obligation, CIFGNA shall become the owner of the Obligation, appurtenant coupon, if any, and all rights to payment of principal thereof or interest thereon.

The following terms shall have the meanings specified below, subject to and including any modifications set forth in any endorsement hereto, for all purposes of this Policy. "Policyholder" means, if the Obligations are in book-entry form, the registered owner of any Obligation as indicated on the registration books maintained by or on behalf of the Issuer for such purpose or, if the Obligations are in bearer form, the holder of any Obligation; *provided, however, that* any trustee acting on behalf of and for the benefit of such registered owner or holder shall be deemed to be the Policyholder to the extent of such trustee's authority. "Regular Payments" means payments of interest and principal which are agreed to be made during the Term of this Policy in accordance with the original terms of the Obligations when issued and without regard to any amendment or modification of such Obligations thereafter; payments which become due on an accelerated basis as a result of (a) a default by the Issuer or any other person, (b) an election by the Issuer to pay principal or other amounts on an accelerated basis or (c) any other cause, shall not constitute "Regular Payments" unless CIFGNA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. "Term of this Policy" shall have the meaning set forth in Endorsement No. 1 hereto.

This Policy sets forth in full the undertaking of CIFGNA, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto or to the Obligations, except a contemporaneous or subsequent agreement or instrument given by CIFGNA or to which CIFGNA has given its written consent, or by the merger, consolidation or dissolution of the Issuer. The premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Policy may not be cancelled or revoked during the Term of this Policy, including for nonpayment of premium due to CIFGNA. Payments under this Policy may not be accelerated except at the sole option of CIFGNA.

In witness whereof, CDC IXIS FINANCIAL GUARANTY NORTH AMERICA, INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

CDC IXIS FINANCIAL GUARANTY NORTH AMERICA, INC.

By _____
 Authorized Officer



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Endorsement
 To Financial Guaranty Insurance Company
 Insurance Policy

Policy Number: _____ **Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

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

[PAR]
[LEGAL NAME OF ISSUE]

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

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

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

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

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

COUNTERSIGNED:

MBIA Insurance Corporation

Resident Licensed Agent

President

City, State

Attest:

Assistant Secretary

STD-RCS-7
01/05



**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

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

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

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

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

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

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)

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.



Form No.: 2B-0012 (1/01)

Authorized Officer of Insurance Trustee