

\$1,092,550,000
Puerto Rico Infrastructure Financing Authority
\$1,037,750,000 Special Obligation Bonds, 2000 Series A
\$54,800,000 Special Obligation Bonds, 2000 Series B

The Special Obligation Bonds, 2000 Series A and 2000 Series B (collectively, the “2000 Series Bonds”) are being issued by Puerto Rico Infrastructure Financing Authority (the “Authority”) pursuant to a Trust Agreement, dated as of October 1, 2000, with State Street Bank and Trust Company, N.A. (the “Trustee”).

The 2000 Series Bonds are limited obligations of the Authority, payable solely from, and secured by a pledge of, all interest received by the Authority from United States Treasury securities and other eligible obligations described herein deposited in a subaccount (the “2000 Trust Agreement Subaccount”) of the Corpus Account of the Infrastructure Development Fund, an irrevocable and permanent trust fund established pursuant to the Puerto Rico Infrastructure Financing Authority Act (the “Enabling Act”). See “Infrastructure Development Fund” in *The Authority*. The United States Treasury securities and other obligations on deposit in the 2000 Trust Agreement Subaccount are hereinafter referred to as the “Corpus Account Obligations.”

The 2000 Trust Agreement Subaccount will be held by the Trustee. The Trust Agreement provides that at all times the Corpus Account Obligations must consist of at least \$1 billion of United States Treasury securities and the balance may consist of United States Treasury securities or other obligations which at the time of deposit to the credit of the 2000 Trust Agreement Subaccount must be rated in the highest rating category. On the date of delivery of the 2000 Series Bonds, the Corpus Account Obligations will consist of \$1.2 billion of United States Treasury securities. For a discussion of the securities which may be substituted, to the extent permitted by the Trust Agreement, for such initial Corpus Account Obligations, see *Security for the Bonds*.

Under the Trust Agreement, the Authority is required to transfer to the Trustee for deposit in a Special Account held by the Trustee all interest received from the Corpus Account Obligations. Moneys in the Special Account will be used to make payments of principal of and interest on the 2000 Series Bonds. The interest payable on the Corpus Account Obligations will be sufficient to pay when due the principal of, and interest on, the 2000 Series Bonds. See *Security for the Bonds* and *Verification of Mathematical Computations*.

The 2000 Series Bonds will have the following characteristics:

- The 2000 Series Bonds will be dated their date of delivery.
- The 2000 Series Bonds will be registered under The Depository Trust Company’s book-entry only system. Purchasers of the 2000 Series Bonds will not receive definitive 2000 Series Bonds.
- The 2000 Series Bonds are subject to optional redemption as described in this Official Statement, the earliest possible date of optional redemption being October 1, 2010. The 2000 Series Bonds are also subject to mandatory redemption, as described herein.
- Interest on the 2000 Series Bonds will be payable on April 1, 2001 and on each October 1 and April 1 thereafter.
- The inside cover page of this Official Statement contains information concerning the maturity schedules, interest rates and prices or yields of the 2000 Series Bonds.
- Subject to continuing compliance with certain tax covenants, interest on the 2000 Series Bonds will not be includable in gross income for federal income tax purposes, and interest on the 2000 Series Bonds is exempt from state, Commonwealth of Puerto Rico (the “Commonwealth”) and local income taxation under existing law. However, see *Tax Matters*, beginning on page 12 of this Official Statement, for alternative minimum tax consequences with respect to interest on the 2000 Series Bonds and other tax considerations.
- It is expected that settlement for the 2000 Series Bonds will occur on or about October 11, 2000.

The 2000 Series Bonds do not constitute an indebtedness of the Commonwealth or any of its political subdivisions, other than the Authority, and neither the Commonwealth nor any of its political subdivisions, other than the Authority, is liable therefor.

GOLDMAN, SACHS & CO.

BEAR, STEARNS & CO. INC.

MERRILL LYNCH & CO.

MORGAN STANLEY DEAN WITTER

PAINWEBBER INCORPORATED

SALOMON SMITH BARNEY

RAYMOND JAMES & ASSOCIATES, INC.

J.P. MORGAN & CO.

PRUDENTIAL SECURITIES

SAMUEL A. RAMIREZ & CO., INC.

\$1,037,750,000 Special Obligation Bonds, 2000 Series A

\$249,560,000 Serial Bonds

Due October 1	Principal Amount	Interest Rate	Price or Yield	Due October 1	Principal Amount	Interest Rate	Price or Yield
2001	\$10,685,000	4 ¹ / ₂ %	3.72%	2011	\$11,980,000	4 ³ / ₄ %	100%
2002	6,980,000	4.10	100	2012	12,700,000	4 ³ / ₄	4.85
2003	7,405,000	4 ¹ / ₈	4.15	2013	13,460,000	4 ⁷ / ₈	4.95
2004	7,850,000	4.20	100	2014	14,275,000	5	5.03
2005	8,325,000	4 ³ / ₄	4.25	2015	15,125,000	5.10	5.13
2006	8,870,000	4 ³ / ₄	4.33	2016	16,035,000	5 ³ / ₈	5.20*
2007	9,440,000	4 ³ / ₈	4.40	2017	16,995,000	5 ¹ / ₂	5.25*
2008	10,010,000	4.40	4.47	2018	18,060,000	5 ¹ / ₂	5.30*
2009	10,615,000	5	4.54	2019	19,150,000	5 ¹ / ₂	5.35*
2010	11,300,000	4.60	4.63	2020	20,300,000	5 ¹ / ₂	5.41*

\$ 94,130,000 5³/₈% Term Bonds due October 1, 2024 - Yield 5.50%
\$268,875,000 5¹/₂% Term Bonds due October 1, 2032 - Yield 5.57%
\$ 89,205,000 5¹/₂% Term Bonds due October 1, 2034 - Yield 5.60%
\$335,980,000 5¹/₂% Term Bonds due October 1, 2040 - Yield 5.63%

\$54,800,000 Special Obligation Bonds, 2000 Series B Term Bonds due October 1, 2040 - Price 100%

The 2000 Series B Bonds are variable rate bonds. The 2000 Series B Bonds will bear interest (computed on the basis of a 360-day year consisting of twelve 30-day months) during each Index Rate Period at a rate equal to the sum of (i) the average of The Bond Market Association™ Municipal Swap Index (as described herein) for each day during such period (such average being computed on the basis of the actual number of days in such period), and (ii) .65% (such sum being called the "Index Rate"). Each Index Rate Period will begin on an interest payment date for said Bonds and end on the day preceding the next interest payment date, except that the Initial Index Rate Period will begin on the date of delivery of the 2000 Series B Bonds and end on March 31, 2001. The Bond Market Association™ Municipal Swap Index is the seven-day high-grade market index comprised of tax exempt variable rate demand obligations calculated and published weekly by Municipal Market Data (based upon its Municipal Market Database) on Wednesday of each week (unless such Wednesday is not a business day in which case it is published on the next business day of such week) and is effective as of such Wednesday (whether or not such Wednesday is a business day) and applicable to the period of time from such effective date to, but not including, the next Wednesday. The Index Rate on the 2000 Series B Bonds for any Index Rate Period may not be less than 1% per annum and may not be more than 7.5% per annum. Prospective purchasers of 2000 Series B Bonds should carefully review the description of the Index Rate herein and the circumstances under which the Index Rate may be based on the alternate index (described herein). Capitalized terms are defined under the caption "Interest on 2000 Series B Bonds" in *The 2000 Series Bonds*.

*Yield to October 1, 2011 par call.

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 2000 Series Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. No dealer, broker, sales representative or other person has been authorized to give any information or to make any representations other than those contained or incorporated by reference herein and, if given or made, such other information or representations must not be relied upon. The information set forth or incorporated by reference 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 information or opinions set forth herein since the date hereof. This Official Statement is submitted in connection with the sale of the 2000 Series Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 2000 SERIES BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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\$1,092,550,000
Puerto Rico Infrastructure Financing Authority
\$1,037,750,000 Special Obligation Bonds, 2000 Series A
\$54,800,000 Special Obligation Bonds, 2000 Series B

INTRODUCTORY STATEMENT

The purpose of this Official Statement is to provide certain information in connection with the issuance and sale by Puerto Rico Infrastructure Financing Authority (the "Authority") of its \$1,037,750,000 Special Obligation Bonds, 2000 Series A (the "2000 Series A Bonds") and \$54,800,000 Special Obligation Bonds, 2000 Series B (the "2000 Series B Bonds" and, together with the 2000 Series A Bonds, the "2000 Series Bonds"). Certain capitalized terms used in this Official Statement are defined in *Definition of Certain Terms and Summary of Trust Agreement* in Appendix I.

The 2000 Series Bonds are being issued pursuant to Act No. 44 of the Legislature of Puerto Rico, approved June 21, 1988, as amended (the "Enabling Act"), a Trust Agreement, dated as of October 1, 2000 (the "Trust Agreement"), between the Authority and State Street Bank and Trust Company, N.A., as trustee (the "Trustee"), and a resolution of the Board of Directors of the Authority adopted on September 28, 2000 (the "Bond Resolution"). The 2000 Series Bonds are being issued to repay certain notes issued by the Authority to Government Development Bank for Puerto Rico ("Government Development Bank") and to finance certain aqueduct and sewer infrastructure development projects.

The 2000 Series Bonds are limited obligations of the Authority, payable solely from, and secured by a pledge of, all interest received by the Authority from United States Treasury securities and other eligible obligations described herein deposited in a subaccount (the "2000 Trust Agreement Subaccount") of the Corpus Account of the Infrastructure Development Fund, an irrevocable and permanent trust fund established pursuant to the Enabling Act. The 2000 Trust Agreement Subaccount will be held by the Trustee. See "Infrastructure Development Fund" in *The Authority*. The United States Treasury securities and other obligations on deposit in the 2000 Trust Agreement Subaccount are hereinafter referred to as the "Corpus Account Obligations". The principal of the Corpus Account Obligations has not been pledged.

On the date of delivery of the 2000 Series Bonds, the Corpus Account Obligations will consist of \$1.2 billion of United States Treasury securities. See "Infrastructure Development Fund" in *The Authority*. The Trust Agreement permits the Authority to substitute for the initial Corpus Account Obligations other United States Treasury securities and other obligations which are permitted by the Enabling Act and, at the time of deposit to the credit of the 2000 Trust Agreement Subaccount, are rated in the highest rating category by both Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"). See "Substitution of Corpus Account Obligations" in *Security for the Bonds*. The Trust Agreement provides that at all times the Corpus Account Obligations must consist of at least \$1 billion of United States Treasury securities and the balance may consist of United States Treasury securities or other obligations which at the time of deposit to the credit of the 2000 Trust Agreement Subaccount must be rated in the highest rating category by both Moody's and Standard & Poor's.

Under the Trust Agreement the Authority is required to transfer to the Trustee for deposit in the Special Account (defined in "Infrastructure Development Fund" in *The Authority*) held by the Trustee all interest received from the Corpus Account Obligations. Moneys in the Special Account will be used to make payments of principal of and interest on the 2000 Series Bonds. The interest payable on the Corpus Account Obligations will be sufficient to pay when due the principal of, and interest on, the 2000 Series Bonds. See "Flow of Funds" in *Security for the Bonds* and *Verification of Mathematical Computations*.

This Official Statement includes brief descriptions of the Enabling Act, the 2000 Series Bonds, the Bond Resolution, and the Trust Agreement. Such descriptions do not purport to be complete and are qualified in their entirety by reference to such documents. All references to the 2000 Series Bonds are qualified in their entirety by reference to the definitive forms thereof contained in the Trust Agreement. Copies of all such documents and agreements are available for inspection during regular business hours at the offices of Government Development Bank, located at 140 Broadway, 38th Floor, New York, N.Y. 10005 and at the Government Development Bank for Puerto Rico Building, Minillas Government Center, Santurce, Puerto Rico 00940, or at the corporate trust office of the Trustee at 61 Broadway, New York, New York 10008.

THE AUTHORITY

General

The Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico") established the Authority in 1988 as a public corporation and instrumentality with two principal functions: (i) providing financial, administrative and other types of assistance to public corporations of the Commonwealth responsible for developing and operating infrastructure facilities, and (ii) providing an alternative means for directly financing those facilities.

Since its creation in 1988, the Authority's primary undertaking has been to provide financial and other assistance to Puerto Rico Aqueduct and Sewer Authority ("PRASA") pursuant to the terms of an agreement between PRASA and the Authority (the "PRIFA-PRASA Agreement").

The Authority has broad powers under the Enabling Act, including, among others, the power to (i) borrow money and issue bonds to finance the construction, rehabilitation, acquisition, repair, preservation and replacement of portions of the infrastructure of Puerto Rico and (ii) pledge all or a portion of the income derived from the Corpus Account Obligations for the payment of the principal of and interest on the 2000 Series Bonds.

The executive offices of the Authority are located at Capital Center Building, Suite 1601, 235 Arterial Hostos Avenue, San Juan, Puerto Rico 00918-1454. The telephone number is (787) 763-5757.

Management

The Enabling Act provides that the Board of Directors of the Authority (the "Board") shall be composed of the Board of Directors of Government Development Bank and the Secretary of the Treasury of Puerto Rico (in the event the Secretary of the Treasury is not a member of the Government Development Bank Board of Directors). The Secretary of the Treasury is the Chairperson of the Board. The current members of the Board are:

<u>Name</u>	<u>Term Ends</u>	<u>Occupation</u>
Xenia Vélez Silva	Ex Officio	Secretary of the Treasury
Angel Morey	September 22, 2000*	Secretary of State and Chief of Staff
José Salas Soler	September 22, 2000*	Attorney
Norma E. Burgos Andújar	September 22, 2002	Consultant
Carlos J. Vivoni Nazario	September 22, 2002	Consultant
Sara Villamil	September 22, 2003	Businessperson
Antonio Pérez Cuetara	September 22, 2003	Businessperson

*Continues to serve until reappointed, or successor is appointed, to the Board.

The Board appoints officers and employs agents and employees who are responsible for the general operation of the Authority. Set forth below are brief biographical descriptions of the Executive Director and certain officers of the Authority.

Miguel A. Cordero, Executive Director, is also the Executive Director of Puerto Rico Electric Power Authority ("PREPA"). Mr. Cordero was appointed Executive Director of PREPA effective January 24, 1993 and Executive Director of the Authority effective January 3, 2000. Mr. Cordero is a licensed professional electrical engineer with 32 years of service with PREPA where he has occupied various executive level positions, such as San Juan Regional Director, Head of the Distribution Division, Director of Electric Distribution, and Director of Transmission and Distribution.

Perfecto Ocasio, Deputy Executive Director, was appointed on October 22, 1999. Prior to his appointment, from March 1999 to October 1999, he was Director of Contract Administration of the Authority and, from January 1998 to March 1999 he was Executive Director of PRASA. From 1982 to 1998 Mr. Ocasio was general manager of a private security company. He is a graduate of the University of Puerto Rico, where he obtained a Bachelor of Science in Civil Engineering, and of Georgia Institute of Technology, where he obtained a Master of Science in Civil Engineering.

Lourdes M. Rovira, Secretary, is also the President of Government Development Bank. Ms. Rovira became President of Government Development Bank in October 1998. She is a graduate of the University of Puerto Rico, where she obtained a Bachelor's degree in Business Administration. Ms. Rovira had served as Executive Vice President of Government Development Bank since early 1997 and prior thereto had occupied the position of Principal. Prior to her appointment at Government Development Bank in 1996, Ms. Rovira had been the Chief Financial Officer of the University of Puerto Rico.

Infrastructure Development Fund

The Enabling Act was amended by Act No. 92 of the Legislature of Puerto Rico, approved June 24, 1998 ("Act 92"), to establish the Infrastructure Development Fund as a public, special, irrevocable and permanent trust fund within and under the control and custody of the Authority, for the purpose of providing a mechanism to finance infrastructure development projects.

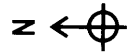
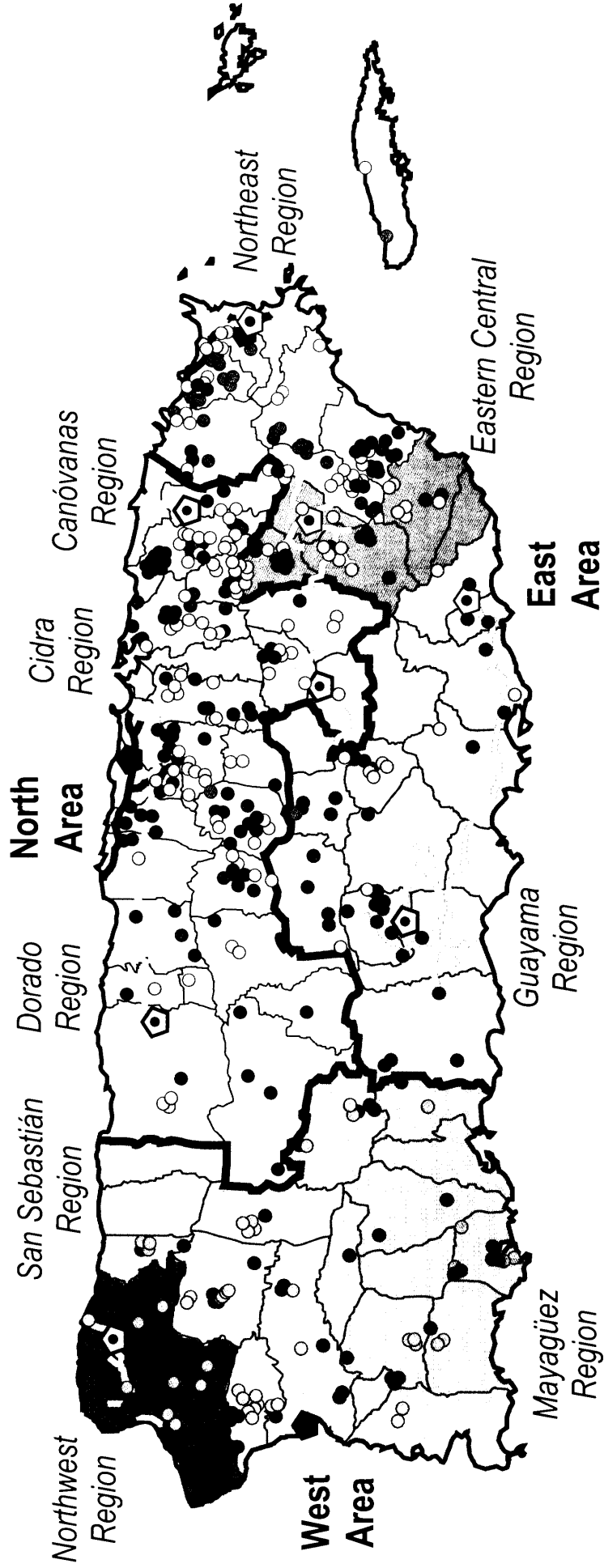
The Infrastructure Development Fund was initially funded in March 1999 with \$1.2 billion of proceeds received by the Puerto Rico Telephone Authority (the "Telephone Authority") from the sale of its controlling interest in the Puerto Rico Telephone Company, a subsidiary of the Telephone Authority. Under Act 92, this initial amount must remain permanently deposited in a segregated, perpetual account of the Infrastructure Development Fund, designated the "Corpus Account". Act 92 provides that the principal on deposit in the Corpus Account may never be reduced for any reason.

Act 92 provides that at least \$1 billion of funds on deposit in the Corpus Account must be invested exclusively in direct or unconditionally guaranteed obligations of the United States, certificates of deposit insured by federal deposit insurance or collateralized by such direct or guaranteed obligations, or certain tax-exempt obligations the payment of the principal of and interest on which is secured by such direct or guaranteed obligations ("Qualified Obligations"). The balance of the funds on deposit in the Corpus Account may be invested in Qualified Obligations, other obligations or instruments approved by Government Development Bank ("Approved Obligations"), or other securities in which public corporations in Puerto Rico generally are permitted to invest.

Act 92 also provides that the income from such Corpus Account investments can only be used to finance, or to pay debt service on bonds issued to finance, those infrastructure projects related to PRASA's water and sewer systems, the construction of which was contracted for after August 4, 1997 (the "PRASA Improvements"). The 2000 Series Bonds, which are payable solely from the investment income produced by the Corpus Accounts Obligations, are being issued to finance or refinance the cost of various infrastructure projects constituting PRASA Improvements. The maps appearing on the following pages illustrate the locations of such projects.

Under Act 92 the Authority is authorized, among other things, to (i) create other accounts within the Infrastructure Development Fund, which in the law are designated "Additional Accounts"; (ii) deposit in any such Additional Account the income produced by the investments of the moneys on deposit in the Corpus Account; and (iii) pledge such investment income to the payment of bonds and other obligations issued to finance the costs of PRASA Improvements. Under the Trust Agreement the Authority has created one such Additional Account, which is designated in the Trust Agreement the "Puerto Rico Infrastructure Financing Authority Corpus Account Obligations Special Account" (the "Special Account"). Moneys in the Special Account will be used to make payments of principal of and interest on the 2000 Series Bonds. The interest payable on the Corpus Account Obligations has been pledged to the payment of and will be sufficient to pay when due the principal of, and interest on, the 2000 Series Bonds. See "Flow of Funds" in *Security for the Bonds and Verification of Mathematical Computations*.

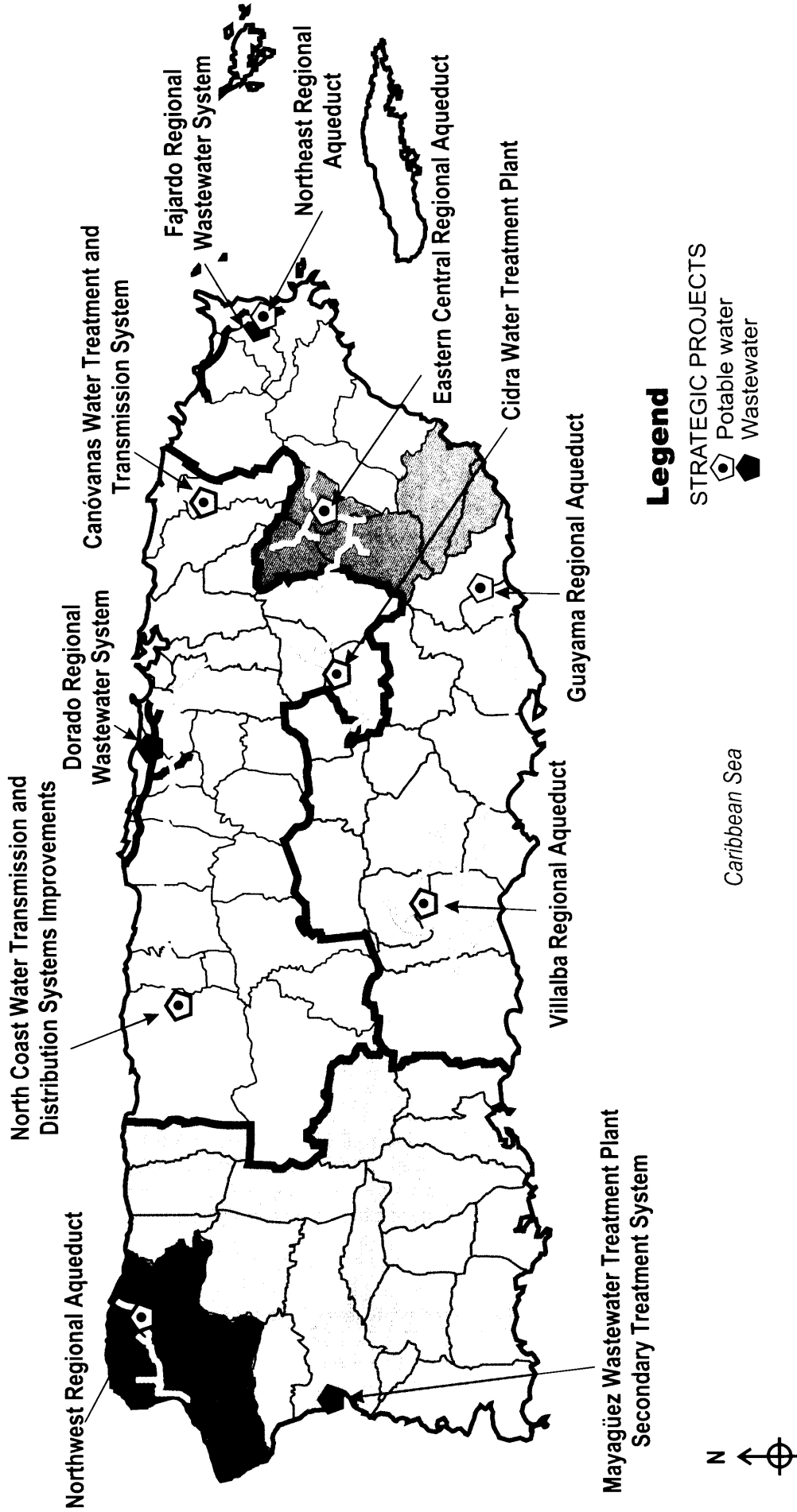
Potable Water and Wastewater Projects



Legend

- STRATEGIC PROJECTS**
- ◻ Potable water
 - ◼ Wastewater
- IAP PROJECTS**
- Completed
 - Under construction (June 2000)
 - Under construction (Dec 2000)

Strategic Projects



PLAN OF FINANCING

The net proceeds of the 2000 Series Bonds will be deposited in a special construction fund established under the Trust Agreement (the "Construction Fund") and applied shortly after delivery of the 2000 Series Bonds to repay notes (the "Notes") issued by the Authority under a line of credit provided by Government Development Bank to finance the cost of PRASA Improvements and the balance will be disbursed upon request by the Authority to pay the cost of PRASA Improvements.

Estimated Sources and Uses of Funds

Sources:

Principal Amount of 2000 Series Bonds	\$1,092,550,000.00
Net Original Issue Discount	<u>(10,952,250.35)</u>
 Total	 <u>\$1,081,597,749.65</u>

Uses:

Deposit to Construction Fund*	\$1,071,946,538.35
Underwriters' Discount, Legal, Printing and Other Financing Expenses	<u>9,651,211.30</u>
 Total	 <u>\$1,081,597,749.65</u>

*Shortly after delivery of the 2000 Series Bonds, the Authority will repay approximately \$167,000,000 representing principal of and accrued interest on the Notes.

THE 2000 SERIES BONDS

General

The 2000 Series Bonds will be dated their date of delivery and will mature on the dates and in the principal amounts set forth on the inside cover of this Official Statement. The 2000 Series Bonds will be issued in fully registered form, in denominations of \$5,000 or any multiple thereof, and when issued will initially be registered only in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the 2000 Series Bonds. The 2000 Series Bonds are subject to redemption at the times and in the manner set forth below.

Interest on 2000 Series A Bonds

The 2000 Series A Bonds will bear interest at the rates set forth on the inside cover of this Official Statement, payable on April 1 and October 1 in each year, commencing on April 1, 2001. Interest will accrue from the date of authentication and delivery of said Bonds calculated on the basis of a 360-day year of twelve 30-day months. The regular Record Date for each interest payment date will be the 15th day of the month next preceding such interest payment date.

Interest on 2000 Series B Bonds

The 2000 Series B Bonds will bear interest (computed on the basis of a 360-day year consisting of twelve 30-day months) at the Index Rate described below (which Index Rate for any Index Rate Period hereinafter mentioned may not be less than 1% per annum or more than 7.5% per annum). Interest on the 2000 Series B Bonds will initially accrue from

the date of authentication and delivery of said Bonds through March 31, 2001 (the "Initial Index Rate Period") and thereafter will accrue from each interest payment date for said Bonds to but excluding the next succeeding interest payment date or if earlier, the date of redemption of any of said Bonds (each such period, together with the Initial Index Rate Period, being herein called an "Index Rate Period"). Interest will be payable in arrears, commencing on April 1, 2001 and on each October 1 and April 1 thereafter (each date of payment of interest on the 2000 Series B Bonds including (i) the stated maturity date and (ii) the day of any redemption, being herein referred to as a "Floating Rate Bond Payment Date"). The regular Record Date for each Floating Rate Bond Payment Date will be the 15th day of the month next preceding such Floating Rate Bond Payment Date.

Unless the interest rate on the 2000 Series B Bonds is based on the alternate index described below, such bonds will bear interest during each Index Rate Period at a rate equal to the sum of (i) the average of The Bond Market Association™ Municipal Swap Index for each day during such period (such average being computed on the basis of the actual number of days in such period), and (ii) .65% (such sum being called the "Index Rate"). The Bond Market Association™ Municipal Swap Index is the seven-day high-grade market index comprised of tax-exempt variable rate demand obligations calculated and published weekly by Municipal Market Data (based upon its Municipal Market Database) on Wednesday of each week (unless such Wednesday is not a business day, in which case it is published on the next business day of such week), and is effective for the period from such Wednesday (whether or not such Wednesday is a business day) until, but not including, the following Wednesday.

If and for so long as The Bond Market Association™ Municipal Swap Index is not calculated and published by Municipal Market Data, the Authority shall appoint a firm of favorable repute in the area of calculating such indexes to act as independent indexing agent (the "Indexing Agent") for the purpose of determining the alternate index. The Indexing Agent shall determine the alternate index to said Municipal Swap Index on the basis of those issues of bonds that said Indexing Agent reasonably believes are representative of the tax-exempt variable rate demand note market, each satisfying the following criteria: (A) have an outstanding principal balance of at least \$10,000,000, (B) be rated in the highest short-term rating category (without regard to any gradations within such category) by Moody's and Standard & Poor's, (C) be issued by issuers most closely resembling the component issuers selected by Municipal Market Data in its most recently published Municipal Swap Index, (D) be subject to tender by the holders thereof for purchase on not more than seven days' notice and (E) the interest on which is (i) variable and calculated on a weekly basis, (ii) payable monthly and (iii) excludable from gross income of the recipients thereof for federal income tax purposes. The alternate index shall be calculated by the Indexing Agent each Wednesday and shall be effective as of such Wednesday. If any such Wednesday is not a business day, the Indexing Agent shall calculate the alternate index on the following business day (such alternate index to be effective as of the preceding Wednesday). The Indexing Agent shall advise the Trustee and the Authority of such alternate index by the close of business of such Wednesday (or if different, the day on which such alternate index is so calculated by the Indexing Agent). Each alternate index so calculated by the Indexing Agent, for so long as such alternate index shall be in effect, shall be considered The Bond Market Association™ Municipal Swap Index for purposes of calculating the Index Rate during each Index Rate Period.

Until such time as the Authority shall have appointed an Indexing Agent, the interest rate on the 2000 Series B Bonds shall be 70% of the offered rate for deposits in United States dollars in the London Interbank Market for a period of one month, as such rate appears on Telerate Page 3750 as of 11:00 a.m., London time, on the day that the Index Rate would otherwise have been determined (effective on the same day that the Index Rate would have been effective). If such rate does not appear on said Telerate Page 3750, then the interest rate shall be determined by the Trustee based on the average of quotes of offered rates for such deposits provided by at least four major banks (selected by the Trustee) in the London interbank market.

Redemption Provisions

Optional Redemption

The 2000 Series A Bonds maturing on or after October 1, 2011 may be redeemed at the option of the Authority prior to maturity, upon not less than thirty (30) days' prior notice, either in whole or in part, in such order of maturity as is directed by the Authority, on any date not earlier than October 1, 2010, from any moneys available therefor (other than moneys held by the Trustee in respect of an Amortization Requirement or to pay principal of serial bonds at their stated maturity), at the following prices expressed as percentages of the principal amount, plus accrued interest to the redemption date:

Period During Which Redeemed (both dates inclusive)	Redemption Price
October 1, 2010 through September 30, 2011	101%
October 1, 2011 and thereafter	100

The 2000 Series B Bonds may be redeemed at the option of the Authority prior to maturity, upon not less than thirty (30) days' prior notice, either in whole or in part, on any date not earlier than October 1, 2010, from any moneys available therefor (other than moneys held by the Trustee in respect of an Amortization Requirement or to pay principal of serial bonds at their stated maturity), at a price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium.

Prior to any optional redemption of any 2000 Series B Bond (other than a redemption of all the 2000 Series Bonds then Outstanding), the Authority must provide the Trustee with an unqualified opinion of counsel to the effect that such optional redemption will not adversely affect the federal income tax treatment of interest on the 2000 Series Bonds.

Amortization Requirements

The 2000 Series A Bonds maturing October 1, 2024, October 1, 2032, October 1, 2034 and October 1, 2040 shall be redeemed in part on October 1, 2021, October 1, 2025, October 1, 2033 and October 1, 2035, respectively, and each October 1 thereafter, and the 2000 Series B Bonds shall be redeemed in part on October 1, 2001 and each October 1 thereafter, in each case in the principal amounts equal to their respective Amortization Requirements (less the principal amount of any 2000 Series A Bonds or 2000 Series B Bonds, as applicable, retired by purchase) from moneys in the Redemption Account at par plus accrued interest in the years and amounts set forth below:

Amortization Requirements for 2000 Series Bonds due October 1,

<u>October 1,</u>	<u>2000 Series A</u>				<u>2000 Series B</u>
	<u>2024</u>	<u>2032</u>	<u>2034</u>	<u>2040</u>	<u>2040</u>
2001					\$ 315,000
2002					390,000
2003					410,000
2004					435,000
2005					460,000
2006					485,000
2007					515,000
2008					545,000
2009					575,000
2010					610,000
2011					645,000
2012					680,000
2013					725,000
2014					765,000
2015					810,000
2016					860,000
2017					910,000
2018					965,000
2019					1,015,000
2020					1,075,000
2021	\$21,520,000				1,140,000
2022	22,805,000				1,210,000
2023	24,180,000				1,280,000
2024	25,625,000*				1,355,000
2025		\$ 27,160,000			1,440,000
2026		28,800,000			1,520,000
2027		30,525,000			1,610,000
2028		32,355,000			1,710,000
2029		34,300,000			1,810,000
2030		36,355,000			1,920,000
2031		38,530,000			2,035,000
2032		40,850,000*			2,150,000
2033			\$ 43,305,000		2,280,000
2034			45,900,000*		2,415,000
2035				\$ 48,680,000	2,545,000
2036				51,395,000	2,695,000
2037				54,270,000	2,850,000
2038				57,310,000	3,010,000
2039				60,505,000	3,190,000
2040				63,820,000*	3,445,000*
Totals	<u>\$94,130,000</u>	<u>\$268,875,000</u>	<u>\$ 89,205,000</u>	<u>\$335,980,000</u>	<u>\$54,800,000</u>
Average life (years) . . .	22.5	28.8	33.5	37.6	27.5

*Maturity.

If before and during any Bond Year the total principal amount of term Bonds of any Series and maturity retired by purchase or redemption or called for redemption exceeds the amount of the Amortization Requirement for the term Bonds of such Series for such Bond Year, then at the close of such Bond Year the amount of the Amortization Requirements for the term Bonds of such Series and maturity shall be reduced for such subsequent Bond Years in such amounts aggregating the amount of such excess as shall be determined by the Executive Director of the Authority in an order filed with the Trustee on or before the 15th day of October following the close of such Bond Year.

Notice of Redemption

At least thirty (30) days prior to any redemption, notice thereof will be sent by certified mail or other agreed method to DTC or if the book-entry only system is discontinued as described below, by first class mail, postage prepaid to the registered owners of the 2000 Series Bonds to be redeemed and to the national information services whose names and addresses are included in the most recent list thereof furnished to the Trustee by the Authority, as set forth in the Trust Agreement. Each notice of redemption shall contain, among other things, the CUSIP identification number and the number of the 2000 Series Bonds (or portions thereof) being called for redemption, the redemption date and price and the address at which 2000 Series Bonds are to be surrendered for payment of the redemption price. Any defect in such notice or the failure so to mail any such notice to DTC in respect of, or the registered owner of, any 2000 Series Bond will not affect the validity of the proceedings for the redemption of any other 2000 Series Bond. Any defect in such notice or the failure so to mail any such notice to any such national information service will not affect the effectiveness of a call for redemption.

Selection of 2000 Series Bonds to be Redeemed

If less than all of the 2000 Series Bonds of any one maturity are called for redemption, the particular 2000 Series Bonds or portions thereof to be redeemed will be selected by the Trustee by such method as it deems fair and appropriate, except that so long as the book-entry only system shall remain in effect, in the event of any such partial redemption, DTC shall reduce the credit balances of the applicable DTC Participants (as defined below) in respect of the 2000 Series Bonds and such DTC Participants shall in turn select those Beneficial Owners whose ownership interests are to be extinguished by such partial redemption, each by such method as DTC or such DTC Participant, as the case may be, in its sole discretion deems fair and appropriate.

Effect of Redemption

On the date designated for redemption, notice having been given as described above and moneys for payment of the principal of and redemption premium, if any, and accrued interest on the 2000 Series Bonds or portions thereof so called for redemption being held by the Trustee, interest on the 2000 Series Bonds or portions thereof so called for redemption shall cease to accrue. Subject to certain provisions of the Trust Agreement, 2000 Series Bonds and portions of 2000 Series Bonds which have been duly called for redemption under the provisions of the Trust Agreement, or with respect to which irrevocable instructions to call for redemption or to pay at maturity have been given, and for the payment of the principal of and redemption premium, if any, and the accrued interest on which sufficient moneys or investments permitted by law shall be held in separate trust for the owners of the 2000 Series Bonds or portions thereof to be paid or redeemed, shall not be deemed to be outstanding under the Trust Agreement, and the registered owners thereof shall have no rights in respect thereof except to receive payment of the principal thereof and the redemption premium, if any, and the accrued interest thereon from said separate trust.

Book-Entry Only System

The following information concerning DTC and DTC's book entry system has been obtained from DTC, and the Authority, the Trustee and the Underwriters take no responsibility for the accuracy thereof.

One fully registered bond will be issued for each Series and maturity of the 2000 Series Bonds and will be registered in the name of Cede & Co., as nominee for DTC, or in the name of such other nominee as may be requested by an authorized representative of DTC. So long as Cede & Co., as nominee of DTC, is the registered owner of the 2000 Series Bonds, references herein to the owners of the 2000 Series Bonds shall mean DTC and shall not mean the Beneficial Owners of the 2000 Series Bonds (referred to below).

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

Purchases of the 2000 Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2000 Series Bonds on DTC’s records. The ownership interest of each actual purchaser of a 2000 Series Bond (a “Beneficial Owner”) will in turn be recorded in the Direct or Indirect Participants’ records. Beneficial Owners will not receive written confirmations from DTC of their purchases, but Beneficial Owners are expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2000 Series Bonds will be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive definitive 2000 Series Bonds except in the event that use of the book-entry system for the 2000 Series Bonds is discontinued.

To facilitate subsequent transfers all 2000 Series 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 2000 Series Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the Beneficial Owners of the 2000 Series Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2000 Series Bonds are credited, which may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices will be sent to Cede & Co. If less than all of the 2000 Series Bonds of a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in the 2000 Series Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2000 Series Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the 2000 Series Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the 2000 Series Bonds will be made to DTC or to such other nominee as may be requested by DTC. DTC’s practice is to credit Direct Participants’ accounts on the payable date in accordance with their respective holdings shown on DTC’s records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name”, and will be the responsibility of such Participant and not of DTC, the Authority or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to DTC is the responsibility of the Authority or the Trustee, disbursement of such payments

to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2000 Series Bonds at any time by giving reasonable notice to the Authority or the Trustee. 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 use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, definitive 2000 Series Bonds will also be printed and delivered.

Payments and Transfers

No assurance can be given by the Authority that DTC will make prompt transfer of payments to the Participants or that Participants will make prompt transfer of payments to Beneficial Owners. Neither the Authority nor the Trustee is responsible or liable for payment by DTC or Participants or for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or Participants.

For every transfer and exchange of the 2000 Series Bonds, the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

Discontinuance of the Book-Entry Only System

In the event that the book-entry only system is discontinued, the following provisions will apply: principal of and redemption premium, if any, on the 2000 Series Bonds shall be payable in lawful money of the United States of America at the principal office of the Trustee in New York, New York. Interest on the 2000 Series Bonds will be payable by check mailed to the respective addresses of the registered owners determined as of the applicable Record Date thereof provided in the Trust Agreement as shown on the registration books of the Authority maintained by the Trustee. The 2000 Series Bonds will be issued only as registered bonds without coupons in denominations of \$5,000 or any multiple thereof. The transfer of the 2000 Series Bonds will be registrable and they may be exchanged at the corporate trust office of the Trustee in New York, New York, upon the payment of any taxes or other governmental charges required to be paid with respect to such registration of transfer or exchange.

SECURITY FOR THE BONDS

Limited Obligation - Pledge of Income from Corpus Account Obligations

The 2000 Series Bonds and any refunding bonds that the Authority may from time to time issue under the Trust Agreement (collectively the "Bonds") are limited obligations of the Authority payable solely from, and secured by a pledge of, all interest received by the Authority from the Corpus Account Obligations deposited in the 2000 Trust Agreement Subaccount of the Corpus Account of the Infrastructure Development Fund, an irrevocable and permanent trust fund established pursuant to the Enabling Act. See "Infrastructure Development Fund" in *The Authority*. The principal of the Corpus Account Obligations has not been pledged. The Authority may create additional subaccounts of the Corpus Account and may pledge the income produced by the funds or securities on deposit therein to secure other obligations of the Authority.

Under the Trust Agreement, the Authority agrees to maintain the 2000 Trust Agreement Subaccount with the Trustee and agrees not to pledge or create any liens upon any moneys or other assets in said Subaccount. The Authority also covenants not to issue any obligations or create any additional indebtedness (other than refunding bonds, discussed below), which is (i) secured by a charge or lien on the amounts held to the credit of the Special Account and payments of interest made in respect of the Corpus Account Obligations (other than excess interest paid to the Authority after all required deposits to the Bond Service Account, Redemption Account and the Rebate Fund are made, as described below), or (ii) payable from the Bond Service Account or Redemption Account.

On the date of delivery of the 2000 Series Bonds, \$1.2 billion on deposit in the 2000 Trust Agreement Subaccount will be invested in United States Treasury securities. The Trust Agreement permits the Authority to substitute for the initial Corpus Account Obligations other United States Treasury securities and other obligations which meet the rating and other requirements imposed by the Trust Agreement and the Enabling Act. See “Substitution of Corpus Account Obligations” below. The Trust Agreement requires that any amendment to the definition of eligible “Corpus Account Obligations” or to the provision relating to the requirements for substituting Corpus Account Obligations be approved by holders of not less than two thirds in aggregate principal amount of the Bonds Outstanding. See *Definition of Certain Terms and Summary of the Trust Agreement* in Appendix I.

Under the Trust Agreement, the Authority is required to transfer to the Trustee for deposit in the Special Account held by the Trustee all interest received from the Corpus Account Obligations. Moneys in the Special Account will be held by the Trustee in trust for the benefit of the holders of the Bonds and applied to make payments of principal of and interest on the 2000 Series Bonds as required by the Trust Agreement and, pending such application, shall be subject to a lien and charge in favor of the holders of the Bonds. See “Flow of Funds” below.

The interest payable on the Corpus Account Obligations will be sufficient to pay when due the principal of, and interest on, the 2000 Series Bonds. See *Verification of Mathematical Computations*.

Substitution of Corpus Account Obligations

Under the Trust Agreement, the Authority is not permitted to sell, transfer, exchange or otherwise dispose of, or request the redemption of, all or a portion of the Corpus Account Obligations then held in the 2000 Trust Agreement Subaccount and substitute therefor other securities or obligations (the “Substitute Securities”) unless, prior thereto, it files with the Trustee the following:

(1) an unqualified opinion of Bond Counsel stating that such substitution is not prohibited and will not cause interest on any Series of Bonds to be included in the gross income of the holders thereof for federal income tax purposes to the extent not otherwise includable on the date of the delivery of and payment for the Bonds of such Series; and

(2) written verification from a firm of favorable repute in the field of verifying computations, appointed by the Authority, addressed to the Authority and the Trustee, stating, that the scheduled payments of interest on the Substitute Securities, together with the scheduled payments of interest on the Corpus Account Obligations and uninvested moneys, if any, remaining in the 2000 Trust Agreement Subaccount, will be sufficient without reinvestment at a rate above 0% to pay, when due, (A) the remaining principal of and premium, if any, and interest on the Bonds at the time outstanding, and (B) such other liabilities of the Authority to be paid in each Bond Year in respect of the Bonds at the time outstanding, including liabilities which must be satisfied in order for the Authority to comply (to the extent applicable) with the tax covenant set forth in Section 707 of the Trust Agreement (the “Tax Covenant”). See *Definition of Certain Terms and Summary of the Trust Agreement* in Appendix I.

Any Substitute Securities must be United States Treasury securities or other obligations which are (i) set forth in the Enabling Act as permitted investments for moneys held to the credit of the Corpus Account at any time and from time to time, and (ii) rated at the time of purchase in the highest rating category by both Moody’s and Standard & Poor’s. The Trust Agreement provides that at all times the Corpus Account Obligations must consist of at least \$1 billion of United States Treasury securities and the balance may consist of United States Treasury securities or other obligations which at the time of deposit to the credit of the 2000 Trust Agreement Subaccount must be rated in the highest rating category by both Moody’s and Standard & Poor’s.

Any moneys resulting from any such permitted sale, substitution, transfer, disposition or redemption of Corpus Account Obligations which are not necessary for the acquisition of Substitute Securities that will provide sufficient funds to make the payments described in clauses (A) and (B) of paragraph (2) above will be transferred to the Authority for use for any lawful purpose of the Authority.

Flow of Funds

Under the Trust Agreement, on each date that interest on the Corpus Account Obligations is paid (a “Corpus Account Obligation Payment Date”) the Authority must transfer such interest to the Trustee for deposit to the Special Account. On each Corpus Account Obligations Payment Date, the Trustee must withdraw from the Special Account all moneys then on deposit therein and deposit such moneys as follows:

(a) first, to the credit of the Bond Service Account, (i) on each Corpus Account Obligation Payment Date occurring on April 1, the entire amount so withdrawn and (ii) on each Corpus Account Obligation Payment Date occurring on October 1, such amount as may be required to make the total amount then to the credit of the Bond Service Account equal to the sum of (A) the amount of interest then or to become within the current Bond Year due and payable on the Bonds then Outstanding and (B) the amount of principal of the Serial Bonds then or to become within the current Bond Year due and payable; and

(b) second, to the credit of the Redemption Account, such amount as may be required to make the total amount then to the credit of the Redemption Account equal to the Amortization Requirement for such Bond Year for the term Bonds then Outstanding.

Any balance remaining after making such deposits on October 1 in each year will be transferred to the Rebate Fund. See *Definition of Certain Terms and Summary of the Trust Agreement* in Appendix I.

If an interest payment date or a principal payment date is the first day of a Bond Year, such payment date shall be included for purposes of the above deposits as if occurring on the last day of the preceding Bond Year. For a discussion of how moneys on deposit in each of the foregoing Accounts and Funds are applied and, pending such application, invested, see *Definition of Certain Terms and Summary of the Trust Agreement* in Appendix I.

Refunding Bonds

Additional bonds may be issued solely for the purpose of refunding all or a portion of Bonds then Outstanding; provided, that, among other things, (i) the Authority must have certified in writing to the Trustee that the Principal and Interest Requirements on account of all Bonds Outstanding for each applicable Bond Year following the issuance of such refunding bonds and such other liabilities of the Authority to be paid in each Bond Year in respect of the Bonds to be refunded and such refunding Bonds, including any liabilities to be incurred by the Authority in satisfaction of the Tax Covenant, are equal to or less than, for each Bond Year thereafter, the sum of the moneys to be received by the Trustee in such Bond Year from the payments of interest on the Corpus Account Obligations (after giving effect to any substitution of Corpus Account Obligations) and any other Available Moneys; and (ii) the Authority provides to the Trustee written evidence that the ratings on all Bonds Outstanding, after such refunding and the issuance of such refunding bonds, will not be reduced as a result of such refunding. See *Definition of Certain Terms and Summary of the Trust Agreement* in Appendix I.

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 2000 Series Bonds or in any way contesting or affecting the validity of the 2000 Series Bonds, the Bond Resolution or the proceedings of the Authority taken with respect to the authorization, issuance or sale thereof, or the application of any moneys under the Trust Agreement, the Bond Resolution or the Enabling Act or the existence or powers of the Authority.

TAX MATTERS

The Internal Revenue Code of 1986, as amended (the “Code”), includes requirements regarding the use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States, if required, which the Authority and PRASA must continue to meet after the issuance of the 2000 Series Bonds

in order that interest on the 2000 Series Bonds not be included in gross income for federal income tax purposes. The failure by the Authority or PRASA to meet these requirements may cause interest on the 2000 Series Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. The Authority and PRASA have covenanted to comply to the extent permitted by the Constitution and the laws of the Commonwealth with the requirements of the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the 2000 Series Bonds. Brown & Wood LLP is not aware of any provision of the Constitution or laws of the Commonwealth which would prevent the Authority or PRASA from complying with the requirements of the Code.

In the opinion of Brown & Wood LLP, subject to continuing compliance by the Authority and PRASA with the tax covenant referred to above, under existing Acts of Congress, regulations, rulings and court decisions, interest on the 2000 Series Bonds is not includable in gross income for federal income tax purposes. Interest on the 2000 Series Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the 2000 Series Bonds will be includable in adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax on corporations imposed by the Code. No opinion is rendered by Brown & Wood LLP as to the exclusion from gross income of the interest on the 2000 Series Bonds for federal income tax purposes (a) in the event that the Trust Agreement shall have been modified or amended in any manner that affects the exclusion from gross income of the interest on the 2000 Series Bonds without the approval of such counsel, or (b) on or after the date on which any action is taken upon the approval of counsel other than such firm. Brown & Wood LLP is further of the opinion that the interest on the 2000 Series Bonds is exempt from state, Commonwealth and local income taxation.

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

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

Prospective purchasers of the 2000 Series Bonds should consult their tax advisors as to applicability and impact of any collateral consequences.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the 2000 Series Bonds will not have an adverse effect on the tax-exempt status of the 2000 Series Bonds. Legislative or regulatory actions and proposals may also affect the economic value of tax exemption or the market prices of the 2000 Series Bonds.

Discount Bonds

The excess, if any, of the amount payable at maturity of any maturity of the 2000 Series Bonds over the initial public offering price to the public (excluding bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such maturity is sold constitutes original issue discount. The amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. Original issue discount accruing pursuant to the constant yield method described above will be excluded from gross income to the same extent as interest on the 2000 Series Bonds for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of the 2000 Series Bonds with original issue discount (the "Discount Bonds") that is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed herein. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

A purchaser in the initial offering who acquires a Discount Bond at an issue price equal to the initial offering price thereof as set forth or derived from information set forth on the inside cover page will be treated as receiving an amount of interest not includable in gross income for federal income tax purposes equal to the original issue discount accruing during the period he holds such Discount Bond and will increase his adjusted basis in such Discount Bond by the amount of such accruing discount for purposes of determining taxable gain or loss on the redemption, sale or other disposition of such Discount Bond for federal income tax purposes. The accrual of original issue discount and its effect on the redemption, sale or other disposition of Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above.

Owners of Discount Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount or interest properly accruable with respect to such Discount Bonds and with respect to state, Commonwealth and local income tax consequences of owning and disposing of Discount Bonds.

Premium Bonds

The excess, if any, of the tax basis of a 2000 Series Bond to a purchaser (other than a purchaser who holds such 2000 Series Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) who purchases such Bond as part of the initial offering and at the initial offering price over the amount payable at maturity of such Bond is "Bond Premium". Bond Premium is amortized over the term of such Bond for federal income tax purposes. No deduction is allowed for such amortization of Bond Premium; however, the regulations provide that Bond Premium is treated as an offset to qualified stated interest received on the 2000 Series Bond. Owners of such 2000 Series Bonds are required to decrease their adjusted basis in such 2000 Series Bonds by the amount of amortizable bond premium attributable to each taxable year such 2000 Series Bonds are held. Owners of such 2000 Series Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premium upon the redemption, sale or other disposition of such 2000 Series Bonds and with respect to the state, Commonwealth and local income tax consequences of owning and disposing of such 2000 Series Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore Inc., Denver, Colorado, will verify from the information appearing in the schedules provided to them by the Underwriters on behalf of the Authority the mathematical accuracy, as of the date of closing on the 2000 Series Bonds, of the (1) computations contained in such schedules to determine that the anticipated interest on the Corpus Account Obligations will be sufficient to pay, when due, the principal of and interest on the 2000 Series Bonds and the associated yield reduction and rebate payments to be made with respect to the Corpus Account Obligations, and (2) the computation of yield on both the Corpus Account Obligations and the 2000 Series Bonds derived from the information appearing in such schedules and used by Bond Counsel in its determination that the interest on the 2000 Series Bonds is not includable in gross income for federal income tax purposes. Causey Demgen & Moore Inc. will express no opinion on the assumptions provided to them, or as to the exclusion from gross income of the interest on the 2000 Series Bonds. Causey Demgen & Moore Inc. is not required to update its verification report after the date of closing on the 2000 Series Bonds. A copy of the Verification Report prepared by Causey Demgen & Moore Inc. may be obtained from the Authority upon request therefor submitted in writing to the Authority.

ELIGIBILITY OF BONDS

The 2000 Series Bonds will be eligible for deposit by banks in Puerto Rico to secure public funds and will be approved investments for insurance companies to qualify them to do business in Puerto Rico as required by law.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the 2000 Series A Bonds from the Authority at an aggregate underwriters' discount of \$7,171,678.32 from the initial public offering prices for such bonds set forth or derived from information set forth on the inside cover hereof. The obligations of the Underwriters

are subject to certain conditions precedent. The Underwriters will be obligated to purchase all 2000 Series A Bonds if any such bonds are purchased. The 2000 Series A Bonds may be offered and sold to certain dealers (including dealers depositing such bonds into investment trusts) and institutional purchasers at prices lower than the public offering prices, which may be changed, from time to time, by the Underwriters. The Authority has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the federal securities laws.

Goldman, Sachs & Co. ("Goldman Sachs") has agreed, subject to certain conditions, to purchase the 2000 Series B Bonds from the Authority at an aggregate underwriters' discount of \$389,845.48 from the initial public offering price for such bonds set forth or derived from information set forth on the inside cover hereof. The obligations of Goldman Sachs are subject to certain conditions precedent. Goldman Sachs will be obligated to purchase all 2000 Series B Bonds if any such bonds are purchased. The 2000 Series B Bonds may be offered and sold to certain dealers (including dealers depositing such bonds into investment trusts) and institutional purchasers at prices lower than the public offering price, which may be changed, from time to time, by Goldman Sachs. The Authority has agreed to indemnify Goldman Sachs against certain liabilities, including liabilities under the federal securities laws.

Goldman Sachs, the lead managing underwriter of the 2000 Series A Bonds and sole underwriter of the 2000 Series B Bonds, has entered into a written agreement with FirstBank Puerto Rico ("FirstBank"), a bank organized under the laws of the Commonwealth, pursuant to which FirstBank has agreed to act as a consultant to Goldman Sachs in connection with Goldman Sachs' provision of underwriting and investment banking services to the Authority with respect to the 2000 Series Bonds. Pursuant to this agreement, the existence of which has been disclosed to the Authority and Government Development Bank, FirstBank will be entitled to receive a portion of Goldman Sachs' actual net profits, if any, in connection with the underwriting of the 2000 Series Bonds.

Morgan Stanley & Co. Incorporated ("Morgan Stanley"), a managing underwriter of the 2000 Series A Bonds, has entered into a written agreement with Popular Securities, Inc. a subsidiary of Popular, Inc. ("Popular Securities"), pursuant to which Popular Securities has agreed to cooperate in connection with Morgan Stanley's provision of underwriting and investment banking services to the Authority with respect to the 2000 Series A Bonds. Pursuant to this arrangement, the existence of which has been disclosed to the Authority and Government Development Bank, Popular Securities will be entitled to receive a portion of Morgan Stanley's actual net profits, if any, in connection with the underwriting of the 2000 Series A Bonds.

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), a managing underwriter of the 2000 Series A Bonds, has entered into a written agreement with Santander Securities Corporation of Puerto Rico ("Santander Securities"), a subsidiary of Banco Santander, S.A., pursuant to which Santander Securities has agreed to cooperate in connection with Merrill Lynch's provision of underwriting and investment banking services to the Authority with respect to the 2000 Series A Bonds. Pursuant to this arrangement, the existence of which has been disclosed to the Authority and Government Development Bank, Santander Securities will be entitled to receive a portion of Merrill Lynch's actual net profits, if any, in connection with the underwriting of the 2000 Series A Bonds.

COMMONWEALTH COVENANT

Pursuant to the Enabling Act, the Commonwealth has pledged to all holders of the 2000 Series Bonds that it will not limit or alter the rights conferred to the Authority by the Enabling Act until the 2000 Series Bonds and the interest thereon are fully met and discharged.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

As required by Act No. 272 of the Legislature of Puerto Rico, approved May 15, 1945, as amended, Government Development Bank has acted as financial advisor to the Authority in connection with the offering of the 2000 Series Bonds. As financial advisor, Government Development Bank participated in the selection of the Underwriters of the 2000 Series 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 also participate in other financial transactions with Government Development Bank.

LEGAL MATTERS

Legal matters incident to the authorization, issuance, sale and delivery of the 2000 Series Bonds are subject to the unqualified approving legal opinion of Brown & Wood LLP, New York, New York, Bond Counsel. The form of the proposed opinion of Bond Counsel is set forth in Appendix II. Certain legal matters will be passed upon for the Underwriters by Pietrantonio Méndez & Alvarez LLP, San Juan, Puerto Rico.

RATINGS

The 2000 Series Bonds have been assigned ratings of Aaa by Moody's and AAA by Standard & Poor's. The ratings reflect only the respective opinions of such rating agencies. Any explanation of the significance of such ratings must be obtained only from the respective rating agency furnishing the same. 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 either or both of such rating agencies. Any such downward revision or withdrawal of the ratings could have an adverse effect on the market prices of the 2000 Series Bonds.

CONTINUING DISCLOSURE

In accordance with the requirements of Rule 15c2-12, as amended (the "Rule"), promulgated by the Securities and Exchange Commission (the "SEC"), the Authority has agreed to the following for the benefit of the Beneficial Owners:

(a) The Authority has agreed to file within 305 days after the end of each fiscal year beginning after its fiscal year ending on June 30, 2001, with each nationally recognized municipal securities information repository ("NRMSIR") and with any Commonwealth state information depository ("SID"), (1) its audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (2) a report prepared in accordance with generally accepted accounting principles in effect from time to time by an independent firm of certified public accountants (which may be the same firm that audits the Authority's financial statements) setting forth the results of their audit of the 2000 Trust Agreement Subaccount, Special Account and all other funds and accounts established under the Trust Agreement, and stating the following:

- (i) a description of the Bonds issued, paid, purchased or redeemed and the outstanding principal amount of the Bonds as of the end of the preceding fiscal year;
- (ii) for the preceding fiscal year, the amount of all deposits to the credit of, and the amount of all withdrawals from, the 2000 Trust Agreement Subaccount, the Special Account and all other funds and accounts established under the Trust Agreement;
- (iii) a description of the Corpus Account Obligations held by the Authority and the outstanding principal amount of the Corpus Account Obligations as of the end of the preceding fiscal year, and the amounts held for the credit of the Special Account and each fund and account established under the Trust Agreement at the end of such fiscal year, and the details of any investments thereof;
- (iv) a balance sheet as of the end of such fiscal year for the 2000 Trust Agreement Subaccount, the Special Account and each fund and account established under the Trust Agreement; and,
- (v) the finding of such accountants as to whether the moneys received under the provisions of the Trust Agreement during such fiscal year have been applied in accordance with the provisions thereof.

(b) The Authority has agreed to file in a timely manner, with each NRMSIR or with the Municipal Securities Rulemaking Board ("MSRB"), and with any Commonwealth SID, notice of its failure to comply with clause (a) above and notice of any of the following events with respect to the 2000 Series Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;

- (vi) adverse opinions or events, affecting the exclusion from gross income for Federal income tax purposes of interest on the 2000 Series Bonds;
- (vii) modifications to rights of security holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the 2000 Series Bonds; and
- (xi) rating changes.

Events (iii), (iv) and (v) are included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers, dated September 19, 1995. However, events (iii), (iv) and (v) may not be applicable, since the terms of the 2000 Series Bonds do not provide for “debt service reserves,” “credit enhancements” or “liquidity providers”, respectively. For a description of the 2000 Series Bonds, see *The 2000 Series Bonds*.

In addition, with respect to the following events:

Events (iv) and (v). The Authority does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the 2000 Series Bonds, unless the Authority applies for or participates in obtaining the enhancement.

Event (vi). For information on the tax status of the 2000 Series Bonds, see *Tax Matters*.

Event (viii). The Authority does not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms, dates and amounts of redemption are set forth in detail in this Official Statement in “Redemption Provisions” under *The 2000 Series Bonds*, the only open issue is which 2000 Series Bonds will be redeemed in the case of a partial redemption, notice of redemption is given to the Bondholders as required under the terms of the 2000 Series Bonds, and public notice of the redemption is given pursuant to Securities Exchange Act of 1934 Release No. 34-23856 of the SEC, even if the originally scheduled amounts are reduced by prior optional redemptions or 2000 Series Bonds purchases.

As of the date of this Official Statement, there is no Commonwealth SID, and the nationally recognized municipal securities information repositories are: Bloomberg Municipal Repositories, P.O. Box 840, Princeton, New Jersey 08542-0840; Standard & Poor's J.J. Kenny Repository, 55 Water Street, 45th Floor, New York, New York 10041; Interactive Data, Attn: Repository, 100 Williams Street, New York, New York 10038; and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024.

The Authority may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of the Authority, such other events are material with respect to the 2000 Series Bonds, but the Authority does not undertake to provide any such notice of the occurrence of any material event except those events listed above.

The Authority acknowledges that its undertakings pursuant to the Rule described above are intended to be for the benefit of the Beneficial Owners of the 2000 Series Bonds, and shall be enforceable by any such Beneficial Owners; provided that the right to enforce the provisions of its undertaking shall be limited to a right to obtain specific enforcement of the Authority'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 in paragraphs (a) or (b) above (the “Covenants”) or for any remedy for breach thereof, unless such Beneficial Owner shall have filed with the Authority written notice of any request to cure such breach, and the Authority 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 2000 Series Bonds benefited by the Covenants, and no remedy shall be sought or granted other than specific performance of the Covenant at issue. Notwithstanding the foregoing, no challenge to the adequacy of the information provided in accordance with the filings mentioned in paragraphs (a) or (b) above may be prosecuted by any Beneficial Owner except in compliance

with the remedial and enforcement provisions contained in Article VIII of the Trust Agreement. See *Definition of Certain Terms and Summary of the Trust Agreement* in Appendix I.

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 type of business conducted; the Covenants, as amended, would have complied with the requirements of the Rule at the time of award of the 2000 Series Bonds, after taking into account any amendments or change in circumstances; and the amendment does not materially impair the interests of Beneficial Owners, as determined by parties unaffiliated with the Authority; or

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

The Authority has further agreed that the annual financial information referred to in clause (a) above containing any amended information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of information being provided.

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

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

MISCELLANEOUS

The foregoing references to and summaries of certain provisions of the Trust Agreement, the Bond Resolution, the Enabling Act, and the 2000 Series Bonds are made subject to all the detailed provisions thereof. Such references and summaries do not purport to be complete and are qualified in their entirety by reference to such laws or documents. Copies of the Trust Agreement and the Bond Resolution are available for inspection during regular business hours at the offices of Government Development Bank or at the principal corporate trust office of the Trustee.

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

There is appended to this Official Statement an appendix entitled *Definition of Certain Terms and Summary of the Trust Agreement* (Appendix I) and the proposed form of opinion of Brown & Wood LLP, Bond Counsel (Appendix II).

The information set forth in this Official Statement, except the information appearing in *Underwriting* and as specified on the inside cover and the information pertaining to DTC, was supplied by the Executive Director of the Authority in his official capacity as such Executive Director and is included in this Official Statement on his authority. The information pertaining to DTC was supplied by DTC.

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

PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY

By: _____ /s/ Miguel A. Cordero
Executive Director

DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE TRUST AGREEMENT

The following is a summary of the definitions of certain terms contained in the Trust Agreement and used in this Official Statement:

“Amortization Requirement” means, for any Bond Year, the principal amount fixed or computed for such Bond Year as set forth in the Trust Agreement for the retirement of term bonds of each Series by purchase or redemption.

The Amortization Requirements for the term bonds of each Series shall be initially in the respective principal amounts for each Bond Year as fixed in a resolution of the Authority adopted prior to the issuance of the bonds of such Series, and the aggregate amount of such Amortization Requirements for the term bonds of such Series shall be equal to the aggregate principal amount of the term bonds of such Series.

If before and during any Bond Year the total principal amount of term bonds of any Series and maturity retired by purchase or redemption or called for redemption under the provisions of the Trust Agreement shall be in excess of the amount of the Amortization Requirement for the term bonds of such Series for such Bond Year, then at the close of such Bond Year the amount of the Amortization Requirements for the term bonds of such Series and maturity shall be reduced for such subsequent Bond Years in such amounts aggregating the amount of such excess as shall be determined by the Executive Director in an order filed with the Trustee on or before the 15th day of October following the close of such Bond Year.

“Available Moneys” means, for any Bond Year, the excess of the amount of moneys received by the Trustee in the immediately prior Bond Year from the payments of interest on the Corpus Account Obligations held to the credit of the 2000 Trust Agreement Subaccount over the Principal and Interest Requirements on account of the outstanding bonds for such prior Bond Year.

“Bond Year” means the period commencing on the 1st day of October of any year and ending on the last day of September of the following year.

“Investment Agreement” means any agreement for the investment of moneys entered into by the Trustee with a Qualified Financial Institution or collateralized at all times by Government Obligations, having a market value at least equal to the principal amount of such agreement, as to which collateral the Trustee has a perfected first priority security interest and which collateral is held by the Trustee or its agent free and clear of claims by third parties which collateralization will result in the agreement being rated in the highest rating category by both Moody’s and Standard & Poor’s.

“Principal and Interest Requirements” for any Bond Year, as applied to the bonds of any Series, means the sum of:

- (a) the amount required to pay the interest on all outstanding bonds of such Series which is payable on April 1 in such Bond Year and on October 1 in the following Bond Year;
- (b) the amount required to pay the principal of all outstanding serial bonds of such Series which is payable on October 1 in the following Bond Year;
- (c) the Amortization Requirements for the outstanding term bonds of such Series for such Bond Year.

“Qualified Depository” means the Trustee and one or more banks or trust companies, the deposits in which are insured by the United States of America or any state or territory thereof, including Puerto Rico, designated or permitted to be designated by the Secretary of the Treasury of Puerto Rico as a depository for funds of agencies and instrumentalities of the Commonwealth, which have been designated as depositaries of the Authority by resolution of the Board remaining in full force and effect.

“Qualified Financial Institution” means the Federal National Mortgage Association or any bank, trust company or national banking association or a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended or any government securities dealer, insurance company or other financial institution whose unsecured obligations or uncollateralized long term debt obligations (or obligations guaranteed by its parent entity) shall at all times during the term of the Investment Agreement issued by such Qualified Financial Institution have been assigned a rating by Standard & Poor’s and Moody’s in the highest rating category, or which has issued a letter of credit, contract or agreement in support of debt obligations which at all times shall have been so rated.

“Rebate Fund” means the Puerto Rico Infrastructure Financing Authority Special Obligation Bonds Rebate Fund, a special fund created and designated by the Trust Agreement.

“serial bonds” means the bonds of a Series designated as serial bonds, as determined by the Authority in the Trust Agreement or in a resolution of the Authority pursuant to the Trust Agreement.

“Tax Certificate” means the Tax Certificate and Agreement concerning certain matters pertaining to the use and investment of proceeds of the 2000 Series A Bonds and the 2000 Series B Bonds executed by the Authority on the date of their initial execution and delivery, including any and all exhibits attached thereto and each other similar certificate and agreement executed by the Authority pertaining to the same matters with respect to the proceeds of any other Series of bonds, the interest in which is not includable in the gross income of the holders thereof for federal income tax purposes, including any and all exhibits attached thereto.

“term bonds” shall mean the bonds of a Series designated as term bonds, as determined by the Authority in the Trust Agreement or in a resolution of the Authority pursuant to the Trust Agreement.

THE TRUST AGREEMENT

Construction Fund. The moneys in the Construction Fund will be held by a Qualified Depository in trust for the benefit of the holders of the bonds and shall be applied to the payment of the cost of any PRASA Improvements, and pending such application, shall be subject to a lien and charge created pursuant to the Trust Agreement in favor of the holders of the bonds issued and outstanding under the Trust Agreement and for the further security of such holders until paid out or transferred as provided in the Trust Agreement.

If at any time moneys held for the credit of the Bond Service Account are insufficient for the purpose of paying the interest on all bonds and the principal of the serial bonds as such interest and principal become due and payable, then the Authority shall transfer from any moneys held for the credit of the Construction Fund to the credit of the Bond Service Account an amount sufficient to make up any such deficiency. If at any time the moneys held for the credit of the Redemption Account are insufficient for the purpose of providing funds for the retirement of term bonds to the extent of the Amortization Requirements therefor at the end of any Bond Year, then the Authority shall transfer to the credit of the Redemption Account from any moneys held for the credit of the Construction Fund an amount sufficient to make up any such deficiency; provided, however, that no such transfer shall be made unless the moneys then held for the credit of the Bond Service Account are at least equal to the requirement therefor under the Trust Agreement. (Sec. 401)

The moneys in the Construction Fund shall be disbursed upon receipt of a written instrument by the Executive Director or by an officer or employee of the Authority designated by him for such purpose. (Sec. 403)

Funds and Accounts. The Trust Agreement creates a special fund designated the Puerto Rico Infrastructure Financing Authority Special Obligation Bonds Interest and Sinking Fund and creates two separate accounts within such Sinking Fund designated “Bond Service Account” and “Redemption Account”.

The Trust Agreement also creates a special account within the Infrastructure Development Fund designated the “Puerto Rico Infrastructure Financing Authority Corpus Obligations Special Account” (the “Special Account”) to be held by the Trustee.

The Authority shall maintain the Corpus Account of the Infrastructure Development Fund with a Qualified Depository and initially create one subaccount therein designated "2000 Trust Agreement Subaccount" to be held by the Trustee (or any successor trustee under the Trust Agreement) and no other Qualified Depository. The Authority shall not pledge or create any liens upon or otherwise encumber any moneys or other assets in the 2000 Trust Agreement Subaccount. The Authority shall on each Corpus Account Obligations Payment Date transfer all interest paid on Corpus Account Obligations held to the credit of the 2000 Trust Agreement Subaccount to the Trustee who shall deposit such interest as received to the credit of the Special Account.

Moneys in each of said Fund and Accounts shall be held by the Trustee in trust for the benefit of the holders of the bonds and applied as provided in the Trust Agreement with respect to each such Fund and Account, and pending such application shall be subject to a lien and charge created pursuant to the Trust Agreement in favor of the holders of the bonds issued and outstanding under the Trust Agreement and for the further security of such holders until paid out or transferred as therein provided. The Trustee shall on each Corpus Account Obligations Payment Date withdraw from the Special Account all moneys then on deposit therein and deposit the moneys so received to the credit of the following Accounts in the following order:

(a) the Bond Service Account, in respect of each Corpus Account Obligation Payment Date, occurring on April 1, the entire amount so withdrawn and in respect of each Corpus Account Obligations Payment Date occurring on October 1, such amount as may be required to make the total amount then to the credit of such Account equal to the amount of interest then due and payable on the bonds of each Series then outstanding and the amount of principal then due and payable on the serial bonds of each Series then outstanding; and

(b) the Redemption Account, such amount as may be required to make the amount deposited to the credit of such Account in the then current Bond Year equal to the Amortization Requirement, if any, for such year for the term bonds of each Series then outstanding.

Any balance remaining of said moneys on each October 1 shall be transferred by the Trustee to the Rebate Fund. (Sec. 501)

Rebate Fund. The Trust Agreement creates the "Puerto Rico Infrastructure Financing Authority Special Obligation Bonds Rebate Fund" (the "Rebate Fund"). Moneys in the Rebate Fund shall be held by the Trustee in trust for payment of moneys to the United States Treasury to the extent required to satisfy the requirements of the Tax Certificate and the covenant of the Authority set forth in the Tax Covenant of the Trust Agreement and shall not be subject to any lien or charge in favor of the holders of the bonds. There shall be deposited to the credit of the Rebate Fund such amounts as are required by the related provisions under the caption "*Sinking Fund*" above.

At the written direction of the Authority accompanied by a duly executed Form 8038-T (or similar information reporting form which may be substituted for said Form 8038-T in accordance with applicable United States Treasury regulations) deposited with the Trustee by the Authority, the Trustee shall withdraw from the Rebate Fund and remit to the United States of America in the manner set forth in said direction, such amounts as shall be set forth in said direction. Any balance remaining in the Rebate Fund after the making of such remission by the Trustee shall be transferred by the Trustee from the Rebate Fund to the Authority as promptly as practicable and may be used by the Authority for any lawful purpose.

If said direction is not provided to the Trustee by November 15 in any year (or such later date permitted by the Trustee by which date the Trustee would still be able to comply with the provisions of this paragraph), the Trustee shall not later than the business day before the following November 30 withdraw from the Rebate Account the entire balance then to the credit thereof and remit said balance and said Form 8038-T (or its successor) to the United States Treasury. (Sec. 508)

Investment of Moneys. Moneys in the Construction Fund shall be invested by the Qualified Depository, at the written direction of the Authority, in Investment Obligations, which shall mature (in an amount not less than their purchase price), or which shall be subject to redemption at the option of the holder thereof, not later than the respective dates when the moneys held for the credit of said Fund will be required for the purposes intended. Moneys in the Sinking Fund and the Special Account shall be continuously invested by the Trustee, at the written direction of the Authority, in Corpus Account Obligations which shall mature (in an amount not less than their

purchase price), or which shall be subject to redemption at the option of the holder thereof not later than the respective dates when the moneys held for the credit of said Fund and Account will be required for the purposes intended. If no such written directions are provided by the Authority to the Trustee, the Trustee shall invest such moneys in United States Treasury bills (or in qualifying money market funds or accounts set forth in clause (viii) of the definition of Investment Obligations below in respect of the Special Account) which obligations shall mature (in an amount not less than their purchase price), or which shall be subject to redemption at the option of the holder thereof, not later than the next interest payment date on the bonds.

Moneys in the Rebate Fund shall be invested by the Trustee in Corpus Account Obligations or in qualifying money market funds or accounts set forth in clause (viii) of the definition of Investment Obligations below, which obligations shall mature or be subject to redemption at the option of the holder thereof not later than the respective dates when the moneys held for the credit of said Fund will be required for the purposes intended.

Obligations so purchased as an investment of moneys in any such Fund or Account shall be deemed at all times to be a part of such Fund or Account, and the interest accrued thereon and any profit realized from such investment shall be credited to such Fund or Account, and any loss resulting from such investment shall be charged to such Fund or Account. Neither the Trustee nor the Authority shall be liable or responsible for any loss resulting from any such investment, except that the Trustee shall be liable to the Authority for its failure to ensure that all moneys held to the credit of the Sinking Fund are continuously invested in the manner provided in the Trust Agreement and by the Tax Certificate.

The Trustee is authorized under the Trust Agreement to enter into one or more Investment Agreements upon the direction of the Authority and accompanied by an opinion of Bond Counsel to the effect that the entering into such Agreement will not cause the Authority to violate its "*Tax Covenant*" described below, and to take all actions contemplated by such Investment Agreements, subject to the requirement that any Investment Agreement must be an unconditional obligation of the Qualified Financial Institution and shall provide for payment of interest at a fixed rate (payable at least semiannually not later than each interest payment date) during the entire term of the Investment Agreement. (Sec. 602)

The term "Government Obligations" is defined under the Trust Agreement as (i) direct obligations of, or obligations the timely payment of principal of and the interest on which are unconditionally guaranteed by, the United States Government, (ii) direct obligations of, or obligations the principal of and interest on which shall be unconditionally guaranteed by, any of the following: Banks for Cooperatives, Federal Farm Credit Banks, Federal Home Loan Banks, Export-Import Bank of the United States, Federal Financing Bank, Government National Mortgage Association, Farmer's Home Administration, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association or Federal Housing Administration which obligations are rated at the time of purchase in the highest rating category by both Moody's and Standard & Poor's, (iii) all other obligations issued or unconditionally guaranteed as to principal and interest by an agency or instrumentality controlled or supervised by and acting as an instrumentality of the United States Government pursuant to authority granted by the Congress which obligations are rated at the time of purchase in the highest rating category by both Moody's and Standard & Poor's and (iv) receipts evidencing the ownership of payments of principal of or interest on any of such obligations which receipts are rated in the highest rating category by Moody's and Standard & Poor's.

The term "Investment Obligations" is defined under the Trust Agreement as (i) Government Obligations, (ii) time deposits, certificates of deposit or similar arrangements with, or banker's acceptances issued by, any bank, banking association or trust company, including the Trustee, which is a member of the Federal Deposit Insurance Corporation having a combined capital and surplus aggregating not less than \$150,000,000 and reported deposits of not less than \$250,000,000, (iii) repurchase agreements with banks mentioned in (ii) above, including the Trustee, or with primary government dealers having a capital and surplus in excess of \$150,000,000, with respect to any of the securities mentioned in (i) above, provided such securities are on deposit with the Trustee (or any duly appointed agent of the Trustee) and such agreements are structured as sale - purchase agreements rather than secured loans, (iv) obligations issued by the Commonwealth or any state or territory of the United States, which are rated in one of the three highest rating categories (without regard to any gradations within such category) by both Moody's and Standard & Poor's, (v) municipal obligations, the payment of the principal of and the interest on which is insured, which are rated in one of the three highest rating categories (without regard to any gradations within such category) by both Moody's and Standard & Poor's, (vi) commercial paper rated, or backed by a letter of credit or line of credit

the provider of which is rated, in the highest rating category (without regard to any gradations within such category) by both Moody's and Standard & Poor's, (vii) an Investment Agreement, (viii) money market accounts of the Trustee or any state, Commonwealth or federally chartered bank, banking association, trust company or subsidiary trust company that is rated or whose parent bank is rated in the highest short-term rating category or in the highest long-term rating category by Moody's or Standard & Poor's (without regard to any gradations within such category) or money market funds registered under the Investment Company Act of 1940, as amended, whose shares are registered under the Securities Act of 1933, as amended, and having in all cases a rating by Standard & Poor's of "AAAm-G" or "AAAm", (ix) units of beneficial interest in any non-arbitrage investment program pools created by Government Development Bank or any of its subsidiaries or affiliates, (x) any obligation permitted under the laws of the Commonwealth which are rated in one of the three highest rating categories (without regard to any gradations within such category) by both Moody's and Standard & Poor's, and (xi) any securities otherwise permitted as eligible collateral under Act No. 69 of the Legislature of Puerto Rico, approved August 14, 1991, as amended.

Limitation on Additional Indebtedness. The Authority will not issue or create any additional indebtedness (other than the bonds initially issued under and secured by the Trust Agreement) which will be secured by a charge or lien on the amounts held to the credit of the Special Account and payments of interest made in respect of the Corpus Account Obligations held to the credit of the 2000 Trust Agreement Subaccount or which will be payable from the Sinking Fund, except that bonds may be issued from time to time secured on a parity with the other bonds outstanding under the Trust Agreement and secured by an equal charge and lien on the amounts held to the credit of the Special Account and payments of interest made in respect of the Corpus Account Obligations held to the credit of the 2000 Trust Agreement Subaccount and payable equally and ratably from the Sinking Fund for the purpose of refunding any bonds then outstanding. (Sec. 703)

Substitution of Corpus Account Obligations. The Authority may not sell, transfer, exchange or otherwise dispose of, or request the redemption of, all or a portion of the Corpus Account Obligations then held in the 2000 Trust Agreement Subaccount and substitute therefor such other Corpus Account Obligations (the "Substituted Securities") unless prior thereto, there has been filed with the Trustee the following:

(1) an opinion of bond counsel, stating that such substitution is not prohibited and will not cause interest on any Series of bonds to be included in the gross income of the holders thereof for federal income tax purposes to the extent not otherwise includable on the date of the delivery of and payment for the bonds of such Series under the Trust Agreement; and

(2) written verification from a firm of favorable repute in the field of verifying computations as to the sufficiency of the type referred to in this clause (2), appointed by the Authority, addressed to the Authority and the Trustee, stating, that the pledged payments on the Substituted Securities, together with the pledged scheduled payments on the Corpus Account Obligations and uninvested moneys, if any, remaining in the 2000 Trust Agreement Subaccount will be sufficient without reinvestment at a rate higher than 0% per annum to pay, when due, the remaining principal of and premium, if any, and interest on the bonds at the time outstanding and such other liabilities of the Authority to be paid in each Bond Year in respect of the bonds at the time outstanding, which liabilities must be satisfied in order for the Authority to comply (to the extent applicable) with its "Tax Covenant" set forth below.

Any moneys resulting from such sale, substitution, transfer, disposition or redemption of Corpus Account Obligations, which moneys are stated in the written verification referred to in clause (2) above not to be necessary for the acquisition of Substituted Securities or the payment when due of the principal of and premium and the interest on the bonds at the time outstanding thereunder and such other liabilities as are referred to in clause (2) of the preceding paragraph shall be transferred to and may be used for any lawful purpose of the Authority. (Sec. 704)

Effect of Pledge of Special Account. The pledge of the interest payments on the Corpus Account Obligations deposited to the credit of the Special Account for the benefit of the holders of the bonds shall be valid and binding from and after the date or dates of the delivery of and payment for the bonds, and such payments of interest made in respect of such Corpus Account Obligations shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, such payments shall be held in trust by the Trustee, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof. (Sec. 705)

Tax Covenant. The Authority shall comply, to the extent permitted by the Constitution and laws of the Commonwealth, with the requirements of the Internal Revenue Code of 1986, as amended, regarding use, expenditure and investment of the proceeds of the bonds (the interest on which is intended to be excluded from gross income of the recipients thereof for federal income tax purposes) and timely payment of certain investment earnings to the Treasury of the United States, if any, so that interest on such bonds shall remain excludable from existing federal income taxes to the same extent it is so excludable on the respective dates of delivery of and payment for such bonds. (Sec. 707)

Authorization of Refunding Bonds. Refunding bonds of the Authority may be issued under and secured by the Trust Agreement, at any time or times, for the purpose of providing funds, together with any other available funds, for paying at or redeeming prior to their maturity or maturities all or any part of the outstanding bonds of any Series, including the payment of any redemption premium thereon, and, if deemed necessary by the Authority, for paying the interest to accrue thereon to their maturity or the date fixed for their redemption and any expenses incurred in connection with such refunding. Before any Refunding Bonds shall be issued the Authority shall establish to the Trustee in writing, among other things that (1) for each Bond Year after the issuance of such refunding bonds, the sum of the moneys to be received by the Trustee in such Bond Year from the payments of interest on the Corpus Account Obligations held in the 2000 Trust Agreement Subaccount, after giving effect to any modifications to be made pursuant to the caption "*Substitution of Corpus Account Obligations*" above, and any other Available Moneys, is not less than the sum of (i) the amount of the Principal and Interest Requirements for each Bond Year thereafter on account of all bonds to be outstanding under the Trust Agreement after the issuance of such refunding bonds and the payment or redemption of the bonds to be refunded and (ii) such other liabilities of the Authority to be paid in each Bond Year in respect of the bonds to be refunded and such refunding bonds, including liabilities in respect of such outstanding bonds and said bonds to be refunded which liabilities must be satisfied in order for the Authority to comply (to the extent applicable) with its covenant set forth under the caption "*Tax Covenant*" above; and (2) written evidence that the ratings on the bonds outstanding under the Trust Agreement immediately after the issuance of said refunding bonds and the refunding of the bonds to be refunded will not be reduced. (Sec. 209)

Enforcement of Remedies. There are no events of default under the Trust Agreement. The Trustee may, and at the request of the holders of not less than twenty percent (20%) of the aggregate principal amount of the bonds then outstanding, the Trustee shall, proceed subject to the provisions of the Trust Agreement, to protect and enforce its rights and the rights of the bondholders under applicable laws and under the Trust Agreement, by such suits, actions or special proceedings, in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, for the specific performance of any covenant or agreement, in aid or execution of any power herein or therein granted or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Trust Agreement the Trustee shall be entitled, in its own name and as trustee of an express trust, to sue for, enforce payment of and recover judgment for, any and all amounts then or after any default becoming, and at any time remaining, due from and unpaid by the Authority for principal, interest or otherwise under any of the provisions of the Trust Agreement or the bonds, with interest on overdue payments of principal and of interest at the rate of interest specified in the bonds, together with any and all costs and expenses of collection and of all proceedings under the Trust Agreement and under the bonds, without prejudice to any other right or remedy of the Trustee or of the bondholders, and to recover and enforce any judgment or decree against the Authority, but solely as provided therein and in the bonds, for any portion of such amounts remaining unpaid and interest, costs and expenses as provided under this caption, and to collect, in any manner provided by law, the moneys adjudged or decreed to be payable. (Sec. 801)

Control of Proceedings by Bondholders. Anything in the Trust Agreement to the contrary notwithstanding, the holders of a majority in principal amount of the bonds then outstanding thereunder shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee thereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Trust Agreement. (Sec. 804)

Eligibility of the Trustee. The Trustee shall be a corporation organized and doing business under the laws of the United States of America, the Commonwealth or any state, authorized under such laws to exercise

corporate trust powers, having, or being a part of a holding company system having, a combined capital and surplus of at least \$50,000,000 (or whose obligations thereunder are guaranteed by a bank, banking association or trust company duly authorized to exercise corporate trust powers and subject to examination by federal, Commonwealth or state authority, of good standing, and having at the time of the appointment of such Trustee, a combined capital and surplus of at least such amount), subject to supervision or examination by federal, Commonwealth or state authority, and having its corporate trust office in the Commonwealth or in one of the states of the United States of America. (Sec. 911)

Resignation and Removal of Trustee. The Trustee may resign at any time by giving written notice thereof to the Authority. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within thirty (30) days after the giving of such notice of resignation, the retiring Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

The Trustee may be removed at any time by demand of the holders of a majority in principal amount of the bonds then outstanding, signed in person by such holders or by their attorneys, legal representatives or agents and delivered to the Trustee and the Authority (such demand to be effective only when received by the Trustee and the Authority).

If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Authority shall promptly appoint a successor Trustee.

If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by an instrument or concurrent instruments in writing executed by the holders of a majority in principal amount of the bonds then outstanding delivered to the Authority and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Authority. If no successor Trustee shall have been so appointed by the Authority or the bondholders and accepted appointment in the manner hereinafter provided, any bondholder who has been a bona fide holder of a bond for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

The Authority shall give written notice by first-class mail, postage prepaid, of each resignation and each removal of the Trustee and each appointment of a successor Trustee to all bondholders. Each notice shall include the name and address of the principal office of the successor Trustee where its corporate trust business shall be administered. (Sec. 912)

Supplements and Amendments not Requiring Bondholder Consent. The Authority and the Trustee may, without the consent or approval of, or notice to, any of the bondholders, at any time and from time to time, enter into such supplements and amendments to the Trust Agreement, in form satisfactory to the Trustee (which supplements and amendments shall thereafter form a part thereof):

(a) to cure any ambiguity or formal defect or omission, to correct or supplement any provision therein which may be inconsistent with any other changes therein, or to make any other changes with respect to matters or questions arising under the Trust Agreement which shall not be inconsistent with the provisions of the Trust Agreement and shall not, in the opinion of the Trustee (which may be based upon such opinions, certificates, reports, studies and the like as the Trustee shall not judge unreliable), be detrimental to the interests of the bondholders, or

(b) to grant to or confer upon the Trustee for the benefit of the bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the bondholders or the Trustee, or

(c) to add to the conditions, limitations and restrictions on the issuance of bonds under the provisions of the Trust Agreement other conditions, limitations and restrictions thereafter to be observed, or

(d) to permit the issuance under the Trust Agreement of capital appreciation bonds or other types of bonds that may be created from time to time, or

(e) to add to the covenants of the Authority for the benefit of the bondholders or to surrender any right or power therein conferred upon the Authority. (Sec. 1101)

Supplements and Amendments Requiring Consent of Holders of a Majority in Principal Amount of Bonds. All other amendments to the Trust Agreement will require the written consent of the holders of not less than a majority (two-thirds in the case of any amendment (otherwise requiring such consent but subject to the proviso below in this paragraph) (a) to the provisions (1) set forth above under "*Substitution of Corpus Account Obligations*", (2) relating to the pledge of funds in the Trust Agreement or (3) requiring that at least \$1 billion held in the 2000 Trust Agreement Subaccount be invested in United States Treasury securities or (b) to the definition of Corpus Account Obligations) in aggregate principal amount of the bonds at the time outstanding, provided, however, that nothing shall permit, or be construed as permitting, without the consent of each bondholder so affected, (a) an extension of the time for the payment 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 any lien upon or a pledge of the interest payments on the Corpus Account Obligations held to the credit of the 2000 Trust Agreement Subaccount and the moneys and securities in the funds and accounts under the Trust Agreement other than the lien and pledge created by the Trust 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 such supplement or amendment or any waiver thereunder. Written bondholders consent is not required for the execution of any supplemental agreement as authorized in the previous caption "*Supplements and Amendments not Requiring Bondholder Consent*". (Sec. 1102)

Defeasance. Any outstanding bond, or any portion thereof, shall be deemed to have been paid within the meaning of this caption when the whole amount of the principal of and interest on such bond or such portion shall have been paid or duly provided for (assuming that any variable rate bond bears interest at its highest permitted rate from the date such interest shall have been duly provided for until its date of payment) and the conditions set forth in clause (c) below have been satisfied or when (a) in the event such bond or such portion shall have been duly called for redemption or irrevocable instructions to call such bond or such portion for redemption shall have been given to the Trustee by the Authority, (b) whether or not such bond or portion thereof has been so called for redemption, there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Government Obligations, which shall not contain provisions permitting the redemption thereof at the option of the issuer, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee available therefor, shall be sufficient, to pay when due the principal of and premium, if any, and interest due and to become due on such bond or such portion on or prior to the maturity or redemption date thereof (assuming that any variable rate bond bears interest at the highest permitted rate from the date of deposit of such Government Obligations (or, if earlier, the preceding date to which interest shall have been paid or duly provided for) to its maturity or redemption date), verified by a firm of independent certified public accountants, and (c) in the event such bond or such portion does not mature and is not to be redeemed within the next succeeding 60 days, the Authority shall have given the Trustee irrevocable instructions to give, as soon as practicable, a notice to the holder of such bond or such portion 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 Trustee and that such bond or such portion is deemed to have been paid in accordance with this caption and stating the 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 or such portion. (Sec. 1201)

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October __, 2000

Puerto Rico Infrastructure
 Financing Authority
 San Juan, Puerto Rico

Gentlemen:

We have examined the Puerto Rico Infrastructure Financing Authority Act (Act No. 44 of the Legislature of Puerto Rico, approved June 21, 1988, as amended) creating the Puerto Rico Infrastructure Financing Authority (the "Authority"), a public corporation and instrumentality of the Commonwealth of Puerto Rico. We have also examined certified copies of the legal proceedings of the Board of Directors of the Authority in authorizing the execution and delivery of that certain Trust Agreement, dated as of October 1, 2000 (the "Trust Agreement"), by and between the Authority and State Street Bank and Trust Company, N.A., trustee (the "Trustee"), and certified copies of the proceedings and the proofs submitted relative to the authorization, issuance and sale of the following described bonds (the "2000 Series A Bonds" and the "2000 Series B Bonds", respectively, and collectively, the "2000 Bonds"):

\$1,037,750,000

**PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
 SPECIAL OBLIGATION BONDS, 2000 SERIES A**

and

\$54,800,000

**PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
 SPECIAL OBLIGATION BONDS, 2000 SERIES B**

Issued in such denominations, dated, transferable and exchangeable, bearing interest at such rates and payable on such dates, maturing on October 1 in the years and in such principal amounts, and subject to redemption prior to maturity, all as set forth in the Trust Agreement and a resolution of the Authority authorizing the issuance of the 2000 Bonds.

We have also examined one of each of the 2000 Bonds, as executed and authenticated.

From such examination we are of the opinion that:

1. The Puerto Rico Infrastructure Financing Authority Act is valid.
2. Said proceedings have been validly and legally taken.
3. The 2000 Bonds have been duly authorized and issued to provide funds to (i) repay certain notes of the Authority the proceeds of which have been used to finance a portion of the cost of various capital improvements on behalf of Puerto Rico Aqueduct and Sewer Authority ("PRASA"), the construction (or similar) contracts for which have been entered into after August 4, 1997, and (ii) pay a portion of the cost of various other capital improvements of PRASA similarly contracted for.
4. As authorized by the Puerto Rico Infrastructure Financing Authority Act and by said proceedings, the Trust Agreement has been duly authorized, executed and delivered by the Authority and contains reasonable and sufficient covenants and provisions in accordance with law with respect to the custody and application of the proceeds of bonds issued thereunder, the collection and disposition of the moneys pledged for the payment of the bonds issued under the Trust Agreement, including the 2000 Bonds, the conservation and application of all funds, the safeguarding of moneys on hand or on deposit and the rights and remedies of the Trustee and the holders of all bonds issued thereunder.
5. The Trust Agreement provides for the issuance of additional Puerto Rico Infrastructure Financing Authority Special Obligation Bonds for refunding other outstanding Special Obligation Bonds, including the 2000 Bonds, under the conditions and limitations therein set forth.
6. The 2000 Bonds are valid and binding special obligations of the Authority, payable solely from the interest income on certain United States Treasury obligations and other securities and obligations held to the credit of the 2000 Trust Agreement Subaccount, a special account in the Corpus Account of the Infrastructure Development Fund, a public, special, irrevocable and permanent trust fund established within and under the control of the Authority under the Puerto Rico Infrastructure Financing Authority Act. Under the Trust Agreement, the Authority has pledged all of said interest income to the Trustee for the benefit of the holders from time to time of the bonds issued and outstanding under the Trust Agreement, including the 2000 Bonds, and has agreed to deposit with the Trustee as received all of said interest income to the credit of the Puerto Rico Infrastructure Financing Authority Corpus Account Obligations Special Account, a special account created by the Authority under the Puerto Rico Infrastructure Financing Authority Act. On each date on which such interest is deposited to the credit of said Special Account, the Trustee is required to withdraw the amount so deposited and transfer to the credit of the Puerto Rico Infrastructure Financing Authority Special Obligation Bonds Interest and Sinking Fund, a special fund created under the Trust Agreement, a sufficient amount of said interest income to pay the principal of and the interest on all bonds issued under the provisions of the Trust Agreement, including the 2000 Bonds, as the same become due and payable.
7. The Trust Agreement is a valid and binding agreement of the Authority and effects a valid and binding pledge of all payments of interest (but not principal) made in respect of the Corpus Account Obligations held to the credit of the 2000 Trust Agreement Subaccount of

the Corpus Account and all funds and accounts established under the Trust Agreement, including the Special Account, as security for the payment of the bonds issued and outstanding thereunder, including the 2000 Bonds.

8. The bonds issued under the provisions of the Trust Agreement, including the 2000 Bonds, do not constitute a debt of the Commonwealth of Puerto Rico or of any of its political subdivisions, other than the Authority, and neither the Commonwealth of Puerto Rico nor any of its political subdivisions, other than the Authority, shall be liable for the payment of the principal of or interest thereon, and such bonds, including the 2000 Bonds, are payable solely from said interest income, as further described in the Trust Agreement.

9. Under the provisions of the Acts of Congress now in force and under existing regulations and judicial decisions, (i) subject to continuing compliance with the covenant referred to below and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of the proceeds of the 2000 Bonds and the timely payment of certain investment earnings to the Treasury of the United States, if required, interest on the 2000 Bonds is not includable in gross income for federal income tax purposes; and (ii) the 2000 Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation.

Interest on the 2000 Bonds is not an item of tax preference for the purpose of computing the alternative minimum tax on individuals and corporations imposed by the Code. Such interest will, however, be includable in the computation of the alternative minimum tax on corporations imposed by the Code. The Code contains other provisions that could result in tax consequences, upon which we express no opinion, as a result of (a) ownership of the 2000 Bonds or (b) the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of interest that is excluded from gross income. We also express no opinion as to the exclusion from gross income of the interest on the 2000 Bonds for federal income tax purposes (i) in the event and on or after the effective date on which the Trust Agreement shall have been modified or amended in any manner which affects the exclusion of interest on the 2000 Bonds for federal income tax purposes, without our approval or (ii) on or after the effective date on which any change contemplated by said document occurs or action is taken upon the approval of counsel other than ourselves.

The Authority has covenanted to comply, to the extent permitted by the Constitution and laws of the Commonwealth of Puerto Rico, with the requirements of the Code so that interest on the 2000 Bonds will remain exempt from federal income taxes to which it is not subject on the date of issuance of the 2000 Bonds. We are not aware of any provisions of the Constitution or laws of the Commonwealth of Puerto Rico which would prevent the Authority from complying with the requirements of the Code.

Respectfully submitted,

[To be signed "Brown & Wood LLP"]

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