

STATEMENT MEMORANDUM

TO: Puerto Rico Fiscal Agency and Financial Advisory Authority

FROM: Ricardo Fishman Koffman

DATE: July 27, 2016

RE: Statement Memorandum in Support of the Report and proposed Financing Resolution of the Puerto Rico Aqueduct and Sewer Authority Revitalization Corporation

In connection with the actions required from the Puerto Rico Aqueduct and Sewer Authority Revitalization Corporation (the “Corporation”), under Chapter I, Article 7(1) of the “Puerto Rico Aqueduct and Sewer Authority Revitalization Act” (the “Revitalization Act”), as may be amended from time to time, created under Chapter II of Act No. 68 of July 12, 2016 (“Act 68-2016”), I deliver this written statement memorandum (the “Statement”) in support of the Report¹ and Proposed Financing Resolution² adopted by the Board of Directors of the Corporation (the “Board”) and issued on behalf of the Corporation on July 27, 2016.

Additionally, this Statement describes the interaction between the Corporation and the Puerto Rico Fiscal Agency and Financing Advisory Authority (“PRFAFAA”), Commonwealth of Puerto Rico’s (the “Commonwealth”) fiscal agent and financial advisor, during the drafting period and attest as to its to active role in advising the Corporation as required under the Revitalization Act.

I. INTRODUCTION AND BACKGROUND

Currently, I am the Executive Vice President at PRFAFAA appointed by the Authority’s Executive Director, Victor Suárez-Meléndez, to oversee financings matters for the Commonwealth of Puerto Rico and its instrumentalities as head of the Financial Advisory area and a senior member of the PRFAFAA debt restructuring group, and in my capacity as head of

¹ The Revitalization Act requires the Corporation to issue a detailed explanatory report with supporting attachments (the “Report”), stating the grounds and circumstances in support of the issued proposed Financing Resolution (“Financing Resolution”), together with all pertinent information, data, reports, analysis and other required documents.

² “Financing Resolution” (“*Resolución de Financiamiento*”) means “a resolution of the Board of the Corporation adopted pursuant to the Revitalization Act, which creates the Financing Property, approves the imposition and collection of Revitalization Charges and the financing of Approved Financing Costs through the issuance of Bonds and which contains the Adjustment Mechanism, as provided for in Article 6 of the Revitalization Act”. Article 3(28) of the Revitalization Act.

the Financial Advisory unit have been involved not only in the fiscal evaluation of the proposed transaction to be carried out by the Corporation, as per the attached Report and proposed Financing Resolution issued by the latter on July 27, 2016, but also on the preparation of the Report and said proposed Financing Resolution on behalf of the Corporation.

Prior to being appointed to PRFAFAA, I was a senior advisor to the President of the Government Development Bank of Puerto Rico (“GDB”), covering topics which included financial and strategic issues, debt restructuring, management and exchange considerations, operational transformation, process improvement, public private partnerships initiatives, and new financings, amongst others. Attached hereto is my Curriculum Vitae and summary of qualifications and experience, as Appendix A.

In rendering the above referenced services and executing the above referenced functions for GDB, PRFAFAA, and the Corporation, I have gained a thorough understanding and knowledge of the financial situation, fiscal obligations, liability, debts, senior and subordinated debts, contractual obligations with bondholders, operations, statutory and regulatory obligations requiring capital investments the Puerto Rico Aqueduct and Sewer Authority (the “Authority”) which as detailed below, is the entity expected to benefit from the proceeds of the proposed issuance of Bonds by the Corporation and/or an exchange or tender of its current bonds for the purposes contemplated under the Act, as well as serve as Servicer³ for the Corporation in such regard.

In preparation for the submission of this Statement, as well as in the process of drafting the Report and proposed Financial Resolution I analyzed, reviewed and inquired about the overall details regarding the Authority’s historical and current fiscal situation, as well as its proposed future plans as contemplated under the Revitalization Act.

This Statement is being delivered on behalf of the Corporation and for PRFAFAA (in my capacity as officer of the Fiscal Agent and Financial Advisor for both, the Authority and the Corporation), in support of the proposed Financing Resolution of the Corporation and the statements contained therein. I also provide information related to the Corporation and its organization, as well as attest to the actions, determinations and resolutions made by the Corporation in compliance with the Revitalization Act, and state that PRFAFAA has been complying with its statutory obligations thereunder, all in furtherance of the proposed issuance of the Bonds.

³ Article 3(22) "Servicer" - means the Authority, to the extent permitted by this Act and, if the Authority is replaced as Servicer under a Servicing Contract, means a Person or Persons authorized and required, by contract or otherwise, to impose, bill, or collect Revitalization Charges, to prepare periodic reports in relation to the billing and collection of Revitalization Charges, to remit collections by or on account of the Corporation or its assignees or creditors, including a Financing Entity, and to provide other related services, which may include the calculation of periodic adjustments to the Revitalization Charges or provide other services to the Corporation relating to the Financing Property; and it shall be understood to include any sub-Servicer, alternate Servicer (backup) (including if it becomes a Servicer under the Servicing Contract), substitute Servicer or the successors of any of the foregoing, authorized to act as such by a Financing Resolution.

By issuing this Statement I hereby confirm the factual determinations that the Corporation has made in connection with the Report and proposed Financing Resolution issued and adopted by the Corporation, that PRFAFAA had the opportunity to review and comment on the financial aspects of the proposed transactions for the issuance of Bonds as required under the Revitalization Act.

As provided under Article 7(b)(4) of the Revitalization Act, the attached Report and proposed Financing Resolution is to be redacted if necessary to safeguard confidential information, and are required to be uploaded to the websites of the GDB, PRFAFAA and the Corporation, respectively, on or before fifteen (15) days following the date of approval of the Act, that is, July 27th, 2016.

This Statement is to be taken into consideration together with the statements provided by Public Financing Management, Inc. (“PFM”) and Arcadis US, Inc. (“Arcadis”), providing additional supporting aspects, the transaction structure as well as the technical and financial reports attached to the Report (Attachments 3 and 4).

It is to be noted however, that in addition to the procedures established in the Revitalization Act, before issuing the Bonds it may become necessary to consult and get the approval from the Federal Oversight Board assisting the Commonwealth and its instrumentalities in managing its public finances, among other purposes, as provided under PROMESA⁴. To that effect, the Corporation and PRFAFAA will be looking into the applicable requirements which may impact the issuance of the Bonds, if any, and take the corresponding actions.

For convenience purposes, all capitalized terms used herewith have the meanings given such terms in Article 3 of the Revitalization Act, the Report and proposed Financing Resolution. Referenced to Articles, Sections and Subsections correspond to those included in the Spanish version of the approved Revitalization Act, since an official English translation was not available at the time this Statement is being rendered.

II. THE CORPORATION, ITS FORMATION, AUTHORITY AND COMPOSITION UNDER THE REVITALIZATION

The main purpose of the Revitalization Act approved under Act 68-2016 is to provide a legal mechanism to revitalize the Authority, in order to give it the necessary tools for it to regain an appropriate capitalization structure, finance a portion of the Authority’s Capital Improvement Program (“CIP”) and be able to continue providing quality water and sewer services for the benefit of the citizens of Puerto Rico.

The Revitalization Act, among other provisions, creates a new public corporation, known as the Puerto Rico Aqueduct and Sewer Authority Revitalization Corporation (the “Corporation”), as a single purpose, bankruptcy remote entity authorized to issue bonds for the

⁴ The Puerto Rico Oversight, Management, and Economic Stability Act, known as PROMESA. Public Act 5278 enacted on June 30, 2016.

benefit of the Authority by fixing and collecting a new securitization charge, the proceeds of which may be used by the Authority for its CIP, refinancing bond anticipation notes and for the cancelation, defeasance and refinancing of its Bonds, among other approved financing costs, within certain parameters and subject to certain conditions, therefore providing for the financing and development of the Authority through its provisions.

Act 68-2016 not only establishes the required process for the authorization and issuance of debt through the Revitalization Act, but also amends various portions of the Authority's Enabling Statute, Act No. 40 of May 1, 1945, as amended, mostly with respect to its governance and its obligations under the Revitalization Act.

The Revitalization Act authorizes the Corporation to issue Bonds to assist the Authority in meeting its obligations to its CIP contractors, as well as resuming its CIP commitments. Moreover, the legal protections set forth in the Revitalization Act are intended to permit the Corporation to access the capital markets. These legal protections include, inter alia, provisions which authorized (a) an Adjustment Mechanism, to be applied by the Corporation (or by a Servicer on behalf of the Corporation) to adjust the Revitalization Charge, no less often than at least once semi-annually, to ensure that Revitalization Charge Revenues are sufficient to provide for the timely payment of the Bonds and related Ongoing Financing Costs, (b) provisions to make the Revitalization Charge non-bypassable to Customers, and (c) the statutory agreements, covenants and pledges of the Commonwealth including, inter alia, providing that the Commonwealth shall not limit, alter, reduce, impair, postpone or terminate the rights conferred in the Revitalization Act, any Financing Resolution and related agreements.

A. THE CORPORATION

1. The Corporation was created on July 12, 2016, pursuant to Article 4 of the Revitalization Act.

2. The Corporation is a special purpose, bankruptcy remote public corporation and autonomous instrumentality of the Commonwealth, which is empowered to exercise essential governmental and public powers, and is not organized for the purpose of obtaining profits.

3. The Corporation is an entity separate and distinct from the Authority.

4. A three-member Board of Directors governs the Corporation.

5. As of the date of issuance of the proposed Financing Resolution, and until independent directors are designated by the Governor of the Commonwealth and confirmed by the Puerto Rico Senate, the ex-officio interim directors of the Corporation are the President of the Government Development Bank for Puerto Rico, the Secretary of State of Puerto Rico and the Secretary of the Treasury of Puerto Rico.

6. Article 4 of the Revitalization Act describes the powers of the Board of Directors of the Corporation, and the scope of its responsibilities. Pursuant to the aforementioned provisions, the Corporation is empowered to among others:

a. adopt Financing Resolutions;

- b. provide financial assistance to the Authority, and in such regard fix, impose and collect Revitalization Charges in relation to the financing of Approved Financing Costs and other Financing Costs through the issuance of Bonds for the benefit of the Authority, including (A) making such Revitalization Charges Non-bypassable for Customers and (B) approving an Adjustment Mechanism prior to the issuance of the Bonds;
- c. to issue Bonds contemplated by a Financing Resolution and pledge the Financing Property for payment thereof;
- d. establish and approve the use of the proceeds of the Bonds on behalf of the Authority pursuant to a Financing Resolution and the Trust Agreement executed by the Corporation in relation to such Bonds; and
- e. contract for the management and servicing of the Financing Property and of the Bonds as well as for administrative service, including executing Servicing Contracts, and compensation these services as provided in the Revitalization Act.

7. The Revitalization Act provides for the issuance of up to \$900,000,000 of New Money Bonds (“New Money Bonds”) to fund the development of the Authority’s CIP, bond anticipation notes and other permitted uses.

8. Under Article 7(a) of the Revitalization Act, the Corporation may also issue one or more series of Tender/Exchange Offer Bonds (“Tender/Exchange Offer Bonds”) to be issued in an aggregate principal amount not to exceed the difference between the \$900,000,000 and the maximum amount of the Bonds that can be financed with the Revitalization Charge in order to retire, cancel (defease) or refinance all or part of the debt issued by the Authority, upon meeting the conditions, if any, established for it in any existing Trust Agreement, and additionally subject to compliance with the following conditions:

- a) that the bonds to be redeemed, called or exchanged are at a value not greater than eighty-five percent (85%) of their nominal or face value;
- b) that the Bonds to be issued for the redemption, cancellation (defeasance), or refinancing do not require payment of principal for at least the first five (5) years from the date in which they are issued; and
- c) that the interest rate of the Tender/Exchange Offer Bonds to be issued are established according to the credit rating conferred to the Bonds, consistent with the following table:

<i>Interest Rate</i>	For Current Interest Bond Payments: <ul style="list-style-type: none"> • the weighted average interest rates across maturities (based on the yield curve) be set at specified rates, subject to the final classification of investment grade as follows: AAA: 4.00% AA+/AA/AA-: 4.25% A+/A/A-: 4.50% BBB+/BBB/BBB- or less: 4.75%	For Convertible Capital Appreciation Bonds: <ul style="list-style-type: none"> • the weighted average interest rates/ appreciation through the maturities (based on the yield curve) be set at specified rates, subject to the final classification of investment grade as follows: AAA: 4.50% AA+/AA/AA-: 4.75% A+/A/A-: 5.25% BBB+/BBB/BBB- or less: 5.50%
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9. The Board has approved the Corporation’s Resolution 2016- , dated July 27, 2016, stating the actions approved by the Board to be taken by the Corporation in connection with the Revitalization Act.

B. DETERMINATIONS OF THE CORPORATION CONCERNING THE PROPOSED FINANCING RESOLUTION, AS PRELIMINARILY DISCUSSED AND AQUIESECED BY PRFAFAA

1. RESOLUTION AND PROCEDURAL DETERMINATIONS

Pursuant to Resolution 2016- , the Corporation has determined, and authorized the [Chairperson] to act upon the approval, issuance and submission of the:

- a. Initial drafts and supporting documents to PRFAFAA ;
- b. Proposed Financing Resolution issued by the Corporation on July 27, 2016 and the supporting materials for public dissemination, which in compliance with the requirements set forth in the Revitalization Act, includes:
 - i. setting forth terms of the Bonds that the Corporation may issue, including the \$900,000,000 Bonds that may be issued to raise funding for the Authority’s CIP and other uses established in the Revitalization Act;
 - ii. imposing and authorizing the collection of Revitalization Charges,

- iii. establishing the related Adjustment Mechanism,
 - iv. authorizing the financing of Approved Financing Charges through Bonds, and
 - v. Creating Restructuring Property (including without limitation, the Corporation's right to receive Revitalization Charges);
- c. draft of the Initial Servicing Agreement substantially in the form attached to the Proposed Financing Resolution as Appendix 5 Attachment of the Corporation's proposed Financing Resolution, as the contract between the Corporation and the Initial Servicer (in this case, the Authority) that governs the administration and servicing of the Restructuring Property;
 - d. draft of Trust Agreement to be entered into by the Corporation and its Bondholders in connection with the Revitalization Act; and
 - e. drafts of other Ancillary Agreements and other documents.

2. CORPORATION'S REVITALIZATION CHARGE DESIGN RELATED DETERMINATIONS

- a. The Corporation, after due consideration and with the advice of the Authority and PRFAFAA and as provided in Resolution 2016- , has determined to calculate the Revitalization Charges for residential Customers upon historical consumption data on a per capita basis, and for commercial Customers upon historical consumption data, as authorized by the Revitalization Act.
- b. Appendix 2 to the proposed Financing Resolution explains the Calculation Methodology and other facts and determinations supporting and explaining the Calculation Methodology and how all the Financing Costs are to be recovered from Residential and Commercial as indicated therein, as well as their impact, following the parameters established in the Revitalization Act in determining in the Calculation Methodology. The reasons behind this determination and the conclusion that it will not interfere with the full and timely payment of the Bonds in accordance with their terms and all other Ongoing Financing Costs during the term of the Bonds, derive from the expert advice received from the Authority included in Appendix 1 to the proposed Financing Resolution. 1
- c. Attachment 4 to the Report also explains the steps needed to implement this determination, the operation of the Calculation Methodology, and how it ensures the timely payment of the Bonds without resulting in an administrative impracticability.

- d. The Report sets forth a final estimate of the Upfront Financing Costs and the estimated Ongoing Financing Costs for the term of the Bonds not later than [] days following their issuance.
- e. **All Servicer reports**, including any notice of any proposed adjustment of the Revitalization Charge, at the same time as such notice is submitted to the Corporation, as required by Article 7(h) of the Revitalization Act and provided in Resolution 2016- [] at the same time as such notice is submitted by the Servicer to the Corporation, and that such report will show all Ongoing Financing Costs being paid from Revitalization Charges on an ongoing basis.
- f. With respect to the Servicing Agreement, the Corporation, as discussed and preliminarily agreed to with PRFAFAA, have determined that the Corporation will enter into a Servicing Agreement with the Authority, for the latter to act as the Initial Servicer for the Bonds. The proposed form of the Initial Servicing Agreement is included with the proposed Financing Resolution as Appendix 5.
- g. The Authority, as the Servicer will have the responsibility to calculate, bill, and collect (itself and through Depositories) Revitalization Charges and remit those collections to the Depository for the Corporation. The Servicer also will adjust the Revitalization Charges billed to each Customer in accordance with the Adjustment Mechanism. Finally, the Servicer will take action, as required by the Servicing Agreement, to secure payment of the Revitalization Charges in full. The structure and operational implementation details of the Servicing Agreement are described in Attachment 3, to the Report.
- h. As provided in the Revitalization Act, the Servicing Agreement will provide for an [annual] fee in an amount at least equal to the Authority's reasonable incremental costs related to its servicing functions, as advised by the Authority and its advisors.
- i. As provided in Article 3 of the Revitalization Act the Corporation has determined that the servicing costs proposed to be recovered by the Authority as Servicer are reasonable and, based on the analysis of Statement of PFM included in Attachment 3 to the Report, and data and information provided by the Authority, are sufficient to compensate the Authority for the reasonable incremental costs of performing the servicing functions as set out in the proposed Servicing Agreement. This determination is also included in the proposed Financing Resolution.
- j. Article 7 of the Revitalization Act is met and the proposed Financing Resolution provides for and direct the use of proceeds of Bonds under

a proposed Financing Resolution and a Trust Agreement to be executed by the Corporation in connection with such Bonds; contract for the administering and servicing of Restructuring Property and Bonds and for other administrative services, including by hiring a manager or administrator that is not an employee of the Authority; and

- k. Once Bonds are issued, the Corporation also has continuing duties regarding their servicing and the collection of Revitalization Charges and payments to the Trustee.

III. THE FINANCIAL INFORMATION AND DOCUMENT EXCHANGE WITH PRFAFAA

Articles 7(a) and 7(b) of the Revitalization Act provide the statutory requirements for the Corporation's proposed Financing Resolution, and the supporting materials, reports and statements required to be discussed in the proposed Financing Resolution, as well as the procedural steps required under the Revitalization Act to accomplish the public hearing process, the approval of the proposed Financing Resolution by PRFAFAA and thereupon, the validation of the Revitalization Act and Final Financing Resolution and the issuance of Bonds.

As mandated by Article 7(b)(1) of the Revitalization Act, the relevant and pertinent information related to the proposed Financing Resolution was shared and discussed with PRFAFAA, which provided the necessary feedback to the Corporation, the Authority and their respective counsels and advisors, and enabled the completion of the required financial analysis and technical reports required for the preparation of these documents. I attest to the veracity of the aforementioned facts.

IV. THE PROPOSED FINANCING RESOLUTION ISSUED BY THE CORPORATION

The Corporation has determined to initiate the formalities required under the Revitalization Act, and to issue accordingly and adopt the proposed Financial Resolution to commence the process for the issuance of Bonds for the benefit of the Authority.

Having evaluated all the background information relating to the Authority's financial needs, the Corporation understands that time is of the essence and that it is necessary and convenient for the Corporation to act upon the immediate financing needs of the Authority and to materialize assistance in the form of the new Bonds, in order to provide funds to the Authority to facilitate that it continues to carry out its CIP projects, which serves its essential public function of providing safe drinking water and sanitary water disposal services to the citizens of Puerto Rico.

On this date, the Corporation issued the proposed Financing Resolution, along with other report specified in Article 7(b) of the certifying that:

- a. the Financing Resolution complies with the Act;
- b. the calculation methodology, determination and distribution for the Revitalization Charges, and the Adjustment Mechanism to be applied to adjust the Revitalization Charges from time to time, together with related matters, are just and reasonable in comparison to other public utilities in the United States of America,
- c. all public notices of the enactment of the Act and the celebration of public hearings will be made in accordance with the Act, and
- d. the issuance of the Bonds will allow for the Authority to meet the objective of its CIP, as required by Article 7(b) of Act.
- e. The proposed Financing Resolution as per Article 6 of the Revitalization Act, in addition to other matters required to be included in accordance therewith:
 - i. specifies the maximum amount of Bonds⁵ authorized to be issued, including parameters or limitations for their maturities, scheduled maturities, interest rates and interest rates determination methods and other Bond details as the Board deems appropriate;
 - ii. describes the Approved Financing Costs to be paid through the issuance of Bonds and to be recovered through the Revitalization Charges;
 - iii. specifies the qualitative or quantitative limitations of the Financing Costs to be recovered (which shall not adversely affect the ability to pay and to service the Bonds in accordance with their terms);
 - iv. specifies the methodology to determine the amount of Revitalization Charges;
 - v. describes the Adjustment Mechanism⁶ that shall apply, based on

⁵ Article 7(4) "Bonds" - means the Bonds or other evidences of long-term indebtedness issued by the Corporation pursuant to the Revitalization Act, any Financing Resolution and Trust Agreement related thereto: (a) the proceeds of which are used, directly or indirectly, to finance or refinance Approved Financing Costs; (b) which are directly or indirectly guaranteed by, or payable from, the Financing Property; and (c) which duration does not exceed thirty-five (35) years.

⁶ Article 3(23) "Adjustment Mechanism" - means the formulaic adjustment mechanism contained and approved in a Financing Resolution that is to be applied by the Corporation periodically, and at least semi-annually, to adjust the Revitalization Charges to ensure the collection of Revitalization Charge Revenues sufficient to meet the timely payment of Ongoing Financing Costs. The establishment and adjustment of the Revitalization Charges carried out by the Corporation in relation to the Adjustment Mechanism shall not be subject to legislative review or any other government review or approval, except as provided in Article 6 of the Revitalization Act regarding the correction of mathematical errors and Article 7 of the Revitalization Act with respect to the approval of the Adjustment Mechanism.

the methodology for the allocation of Revitalization Charges, to reconcile the actual collections with projected collections at least semi-annually, to ensure that the collection of the Revitalization Charges are adequate to pay on their due date the principal and interest of the associated Bonds, pursuant to the expected amortization schedule, to finance at the required levels all debt service reserve funds or accounts, and to pay, when appropriate, all Ongoing Financing Costs;

vi. describes the benefit for Customers and for the Authority that are expected to result from the issuance of the Bonds;

vii. concludes that the calculation methodology in accordance with clause (iv) and the Adjustment Mechanism in accordance with clause (v) are practicable to administer and shall assure the full and punctual payment of the Bonds;

viii. authorizes the creation of the Financing Property and specifying that it to be created and vested into the Corporation after the issuance of the Bonds, and addressing other matters, as may be necessary or desirable for the marketing or servicing of the Bonds or the servicing of the Financing Property;

ix. authorizes the imposition, billing and collection of Revitalization Charges to pay debt service on the Bonds and other Ongoing Financing Costs;

x. describes the Financing Property that to be created pursuant to the Financing Resolution and vested upon the issuance of the Bonds to the Corporation and that may be used to pay and secure the payment of the Bonds;

xi. authorizes the execution and delivery by the Corporation of one or more servicing, billing or collection contracts with one or more Servicers and other agents and permit the designation of co-Servicers or sub-Servicers upon the occurrence of the events that the Corporation, being advised by its consultants, determines enhances the marketability of the Bonds;

xii. authorizes the execution and delivery by the Corporation of one or more depository, trust or escrow agreements with financial institutions or other Persons providing for the deposit (escrowing) and allocation of the collections of Customer bills between the Authority and the Corporation, as the Corporation, in consultation with its advisers deems appropriate, and determines that enhances the probability of sale of the Bonds;

xiii. requires the filing of billing and collection reports relating to the

Revitalization Charges as the Corporation may require of a Servicer (at least on a monthly basis);

xiv. approves and authorizes the form, execution and delivery of a Trust Agreement;

xv. details other conclusions, determinations and authorizations that the Corporation, being advised by its consultants, deems appropriate; and,

xvi. certifies that the Revitalization Charges related to the Bonds issued and to be issued shall not exceed, in the aggregate, twenty percent (20%) of the charges billed by the Authority;

xvii. itemizes which projects within the Authority's CIP to be financed with such issuance, which as of the date of the approval of the Revitalization Act, must include all infrastructure projects that were postponed, halted or stopped because of the Authority's lack of funds, as itemized in Resolution No. 2984 approved by the Authority's Governing Board on June 3, 2016⁷.

V. RATIONALE IN FAVOR OF THE PROPOSED FINANCING RESOLUTION

The approval by PRFAFAA of the proposed Financing Resolution will provide significant benefits to the citizens of Puerto Rico, and alleviate the current lack of market access and CIP funding shortfalls of the Authority. The benefits to the Authority and for the Commonwealth include:

- a) Access to the capital markets to enable the Authority to pay the approximately \$150 million dollars due to its contractors, as well as providing a new source of financing for its CIP;
- b) Providing the opportunity, subject to compliance with the conditions stated in the Act for the Authority to refinance, cancel or defease, whether through an exchange, redemption or purchase of its existing indebtedness, and accrue substantial net debt service savings. Although the total potential net savings to the Authority cannot be precisely determined in advance of an actual transaction, since it is dependent on external factors and uncertainties, compliance with the provisions of the Act, including exchange discounts, interest rates and other terms specified therein, should provide sufficient present value savings for the benefit of the Authority, the Commonwealth and its residents.
- c) Enable the Authority the continuation of its regulatory capital investment

⁷ Included CIP projects are listed in the Revitalization Act (Article 6) and the Authority's Governing Board Resolution 2984 attached to the Report as Attachment 5.

projects for the modernization, efficiency and regulatory requirement compliance, as more particularly set forth in the 2015 Consent Decree entered into by the Authority and the United States Environmental Protection Agency (“EPA”) and in the Settlement Agreement entered into by the Authority with the Department of Health (“PRDOH”) of the Commonwealth

- d) Enable an influx of capital for its CIP program, for at least the next three (3) years, which requires funds to be invested in order to modernize, foster efficiency and comply with regulatory requirements.
- e) If the Authority were unable to receive the benefits availed to it under the Revitalization Act it would be challenging for the Authority to continue operating without having to modify its current rate structure, thereby substantially increasing Customers charges.
- f) The implementation of the CIP is among the highest priorities for the Authority, and without access to the proceeds of the Bonds, it would not be able to continue its projects, plan for future CIP projects, or meet the future needs of its Customers at a reasonable cost.
- g) The Authority’s revitalization should result in the promotion of private capital investment and new economic activity in the Commonwealth.

VI. CLOSING COMMENTS

With the presentation of the proposed Financial Resolution, together with the respective attachments, it is my opinion that the Corporation has fully complied with the requirements that will permit the initiation of the public hearing process and subsequent validation described in the Revitalization Act, after the conclusion of which, the Financing Resolution will become final and approved, and the Corporation may issue the Revitalization Bonds.