

DISCLAIMER

This document is a proposed draft of the final form required under Chapter II “Act for the Revitalization of the Puerto Rico Aqueduct and Sewer Authority” approved in Act No. 68 of July 12, 2016 (“Act 68-2016”). This document was prepared with the objective of complying with the publication requirements of Act 68-2016 and is subject to changes resulting from the public hearing process to be undertaken pursuant to Article 7(b) of Act 68-2016. All references to specific articles and defined terms used herein are subject to conforming changes to be made following the publication of the official English translation of Act 68-2016 to be prepared and provided by the Office of Legislative Services of the Legislature of the Commonwealth of Puerto Rico.

MEMORANDUM

TO: Puerto Rico Aqueduct and Sewer Authority Revitalization Corporation

FROM: Melissa L. Pomales, PE
President
Arcadis Caribe, PSC

John Mastracchio, CFA
Vice-President
Arcadis US, Inc.

DATE: July 27, 2016

RE: Draft Supporting Memorandum on the proposed calculation methodology of the Revitalization Charges and the Adjustment Mechanism included in the Financing Resolution, and presentation of preliminary results

1. Introduction

This memorandum is prepared on behalf of the Puerto Rico Aqueduct and Sewer Revitalization Corporation (the "Corporation") and is made in support of the “Report in Support of the Proposed Financing Resolution Issued by the Board of Directors of the Puerto Rico Aqueduct and Sewer Authority Revitalization Corporation” (the “Report”), presented pursuant to the “Puerto Rico Aqueduct and Sewer Authority Revitalization Act” (the “Revitalization Act”), as may be amended from time to time, created under Act No. 68 of July 12, 2016 (“Act 68-2016”). The primary purpose of this memorandum is to explain how the proposed Calculation Methodology for the Revitalization Charges and Adjustment Mechanism (collectively, the “Calculation Methodology”) operates to distribute Financing Costs and derive and adjust specific Revitalization Charges in a manner that ensures the full and timely payment of the Revitalization

Bonds issued under the Financing Resolution (the “Bonds”) and other Ongoing Financing Costs, in compliance with the requirements of Act 68-2016. The Calculation Methodology has been verified and confirmed by the Puerto Rico Aqueduct and Sewer Authority (“PRASA” or the “Authority”).

Specifically explained herein are: (1) the determination of Customer classes among which Bond and Ongoing Financing Costs are distributed and the mechanics of how those allocations are made; (2) the calculation of preliminary Revitalization Charges for Non-Residential Customers based upon historic consumption of water and/or sewer service data; and (3) the calculation of preliminary Revitalization Charges for Residential Customers and Fixed Charge Customers on a per Customer (per capita) basis, based on the water and/or sewer consumption history.

The analysis presented herein is based on a set of assumptions included in this memorandum and in the Financing Agreement, and relies on information provided by others including but not limited to the Authority, its financial consultants, and legal counsel for both PRASA and the Corporation. Information provided by others includes, but is not limited to: PRASA’s historical consumption, accounts and collection data, scenario and preliminary models and results for the projected issuance of New Money Bonds and Tender/Exchange Offer Bonds, and interpretations of Act 68-2016 requirements. The Calculation Methodology was developed in collaboration with PRASA and is hereby presented

List of Exhibits

Attached are the following exhibits:

Exhibit 1: Customer Categories and Customer Classes;

Exhibit 2: Historical consumption and customer account billed data; and

Exhibit 3: Preliminary Revitalization Charges and future Adjustments

2. Qualifications

Arcadis has more than a century-long history of consulting with a concentration on water, infrastructure, environment and buildings, and currently generates more than \$3.8 billion in revenue through its worldwide projects. Our public-sector clients range from small municipalities to large cities, and agencies of governments around the world. In the private sector, our industrial clients range from single-plant manufacturing facilities to Fortune 500 companies with locations worldwide. Our clients have access to Arcadis’ approximately 27,000 engineers, scientists, planners, management consultants, and support staff worldwide. We have a network of more than 160 offices located around the U.S. and 300 offices around the world, enabling us to offer a global perspective combined with local knowledge.

Leading Experts Improving Investor Confidence

Arcadis is one of the leading experts in technical and financial due diligence in the water and wastewater industry. Through this experience, we have developed a strong reputation in the financing industry and with numerous “Wall Street” financial institutions (e.g., rating agencies and bond insurance providers) and have built confidence on behalf of our clients from which they have directly benefited. We also completed a due diligence for the large water public-private partnership (P3) in the U.S. for a UK-based investment bank.

Procurement Transaction Support for Water and Wastewater Utilities

Arcadis brings some of the industry’s most pertinent transactional and procurement consulting due diligence experience. Our specialized procurement experience is derived from involvement in over \$10 billion in public/private partnership contracts and concessions for utility and environmental management systems. We have supported procurement transactions with alternative delivery analysis, privatization and outsourcing approaches, and assessment of the condition and operation of facilities to support such transactions. We have provided technical and financial due diligence for the asset owner, project developer, and for potential private investors.

Financing Transaction Support for Water and Wastewater Utilities

Arcadis is a leader in providing services in the role of independent engineer and offers financial opinions and certifications for infrastructure evaluations, rate case analysis and preparation of reports that support utility system revenue bond issuances. Based on our strong engineering and financial experience and expertise, we provide thorough assessments in support of revenue bond offering statements. Arcadis has developed a strong reputation in the financing industry and with numerous “Wall Street” financial institutions, e.g., rating agencies, private equity firms, investment banking firms, and bond insurance providers, from which our clients have directly benefited.

As part of our financing transaction support services, we provide a full range of rate and financial planning services. Our involvement on these efforts has ranged from recommending utility rates for newly established entities to reviewing, revising and updating existing rate structures to meet our client’s strategic objectives, and presenting recommendations to governing bodies.

Other Business Advisory Services

Arcadis provides a broad spectrum of business advisory services that support our due diligence efforts, including our management consulting expertise in asset management, master planning, strategic and financial planning, rate studies, information technology, risk and resiliency, sustainable facility operations, energy management, and organizational strengthening and leadership services. The integration of our technical and management consulting expertise enables our clients to have confidence that the due diligence services that are provided are thorough, accurate, and complete.

For additional information regarding Arcadis, please visit our website, www.arcadis.com.

3. Disclaimer

This memorandum was prepared solely for the benefit of and use by the Corporation for the discrete purposes set forth herein. The Corporation did not request Arcadis to provide, and Arcadis does not offer to provide, nor did or will it provide, any services constituting the services of a “municipal advisor” as defined by the Securities Exchange Act of 1934, as amended by the Dodd–Frank Wall Street Reform and Consumer Protection Act (Pub.L. 111-203, H.R. 4173) and regulations promulgated thereunder, or any successor statute or provisions thereto. Accordingly, Arcadis is not a municipal advisor registered with the U.S. Securities and Exchange Commission (SEC).

In the performance of its services on behalf of the Corporation, Arcadis did not intend to create, and hereby expressly denies the creation of, any right on the part of any third party to rely upon this document. Except as otherwise provided by statute not subject to waiver, the Corporation is not permitted to distribute copies of this memorandum to third parties without the prior written consent of Arcadis and, further, any such distribution of this memorandum is for only informational purposes, and third parties have no right to rely hereon. Use of this document should not, and does not, absolve the third party from using due diligence in verifying the memorandum’s contents.

Arcadis is required to make disclosures stating the limitations of the work contained within the document and its use. In accordance with the Securities Exchange Act of 1934, the following disclosure statements are incorporated into this memorandum prepared by Arcadis. This memorandum was prepared by Arcadis for the Corporation; hereinafter referred to individually as the “Authorized Recipient.”

In the performance of its services on behalf of the Authorized Recipient, Arcadis is (a) not recommending any action on behalf of the Authorized Recipient to municipal financial products or the issuance of municipal securities; (b) is not acting as a municipal advisor to the Authorized Recipient, and does not owe a fiduciary duty to the Authorized Recipient pursuant to Section 15B of the Securities Exchange Act of 1934, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act, with respect to the information and material prepared in connection with this scope of work; and (c) acting for its own interests. The Corporation shall engage a registered municipal advisor and shall discuss any information and material prepared in connection with this memorandum with any and all internal and external registered municipal advisors and other financial advisors and experts who the Authorized Recipient deems appropriate before acting on this information and material.

The Corporation acknowledges that: (a) it shall retain the services of an independent registered municipal advisor, which, during the past two years, was not associated with Arcadis, and that (b) Arcadis is required to comply with the requirements set forth in the federal Exchange Act, Municipal Advisor Rule (17 CFR 200, 240, 249), which requires that the engineering company (i) receive from the municipal entity a representation in writing that it is represented by, and will rely on the advice of, an independent registered municipal advisor; (ii)

provide written disclosure to the municipal entity that Arcadis is not serving as a municipal advisor and, with respect to the municipal entity, is not subject to the statutory fiduciary duty applicable to municipal advisors under the federal Exchange Act, and (iii) provide a copy of such disclosure to the municipal entity's independent registered municipal advisor. Arcadis does not provide opinions on or advocates for using a financial product (issuing debt) or the choice of financial products employed. As such, Arcadis submitted its work products to the Corporation for review and approval.

Arcadis devoted effort is consistent with (i) that degree of care and skill ordinarily exercised by members of the same profession currently practicing under same or similar circumstances and (ii) the time and budget available for its work in its efforts to endeavor to ensure that the data contained in the memorandum is accurate as of the date of its preparation. This analysis was based on estimates, assumptions and other information developed by Arcadis from its independent research effort, general knowledge of the industry, and information provided by and consultations with the Authorized Recipient and the Authorized Recipient's representatives and consultants. No responsibility was assumed for inaccuracies in reporting by the Authorized Recipient, the Authorized Recipient's agents and representatives, or any third-party data source used in preparing or presenting this memorandum.

The opinion presented herein is based upon information provided by, and consultations with, PRASA. Arcadis did not independently verify the accuracy of the information provided by the Corporation and others in creating this opinion; however, Arcadis' opinion is based upon the supposition that such sources are reliable and the information obtained therefrom is appropriate for the analysis undertaken and the conclusions reached. To the extent the information provided to Arcadis by the Corporation and others is not accurate, or not inclusive of all details, the conclusions and recommendations contained in the opinion may vary, and are subject to change. Arcadis assumed and assumes no responsibility for inaccuracies in reporting by the Corporation or any third-party data source used in preparing such opinion.

Arcadis' findings represent its professional judgment. Neither Arcadis nor its parent corporation, or their respective subsidiaries and affiliates, makes any warranty, expressed or implied, with respect to any information or methods disclosed in this memorandum. Excluding the Authorized Recipient, no recipient of the memorandum shall have any claim against Arcadis, its parent corporation, and its and their subsidiaries and affiliates, for any liability for direct, indirect, consequential, or special loss or damage arising out of its receipt and use of this document whether arising in contract, warranty (express or implied), tort or otherwise, and irrespective of fault, negligence and strict liability.

No recipient of this memorandum other than the Authorized Recipient may abstract, excerpt, or summarize this document without the prior written consent of Arcadis. Any changes made to this memorandum, or any use of this document not specifically identified or otherwise expressly approved in writing by Arcadis, shall be at the sole risk of the party making such changes or adopting such use.

Arcadis relied on assumptions, forecasts, data and statistics provided by the Corporation, PRASA, its other consultants, and published industry references. Forward-looking statements included in this memorandum, which may be identified by the use of words like “anticipate”, “believe”, “estimate”, “expect”, “intend”, “may”, “plan”, “project”, “will”, “should”, “seek”, and similar expressions, refer to Arcadis’ views and assumptions with respect to future events as of the date of this document and are subject to future economic conditions, results, and other risks and uncertainties. Actual and future results and trends could differ materially from those set forth in such statements due to various factors, including, without limitation, those mentioned in this document. These factors are beyond Arcadis’ ability to control or predict. Accordingly, Arcadis makes no warranty or representation that any of the projected values or results contained in this memorandum will actually be achieved.

This memorandum is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.

4. CALCULATION METHODOLOGY

a. The Revenue Requirement and Its Distribution to Customer Classes

Costs to be Recovered from the Revitalization Charge

As stated in the proposed draft of the Financing Resolution, the Approved Financing Costs to be paid through the issuance of the Bonds and recovered through Revitalization Charges shall include the costs of (a) principal, interest and redemption premiums of the Bonds; (b) any payment required under the terms of any Ancillary Agreement and any amount required to fund or replenish funds (or to reimburse third parties for replenishing said funds) of debt service reserve fund or account, an operating reserve fund or account, or any other account or fund established pursuant to a Trust Agreement, Ancillary Agreement, resolution or other financing document relating to the Bonds; (c) any federal or state tax or charge, including federal or state payments or contributions made in lieu of taxes, franchise fees or license fees applied to the Revitalization Charge Revenues (but excluding any tax, fee or contribution, or payment in lieu of taxes that are local or that originate in the Commonwealth); (d) any cost related to the administration of the Corporation, Bonds, the Financing Property, including costs for implementing the Adjustment Mechanism, of the Trustee (and other similar trustee), legal, accounting and other consultants, depository, calculation agent, administrator, rating agencies fees and expenses, and Servicing Fees and servicing expenses, in each case subject to the provision of the Act; (e) any costs related to the protection of the status of the Financing Property and collection of Revitalization Charges, including any costs related to any judicial proceedings or similar proceedings that the Corporation or the Trustee or any owner of all or a portion of the Financing Property considers necessary to demand payment or to collect the Revitalization Charge Revenues or to protect the Financing Property or any other costs referred to in Article 10 of the Act, in each case subject to the provisions of the Act; and (f) any other costs related to issuing Bonds, or the administration and servicing of the Financing Property and the Bonds, including the costs of calculating adjustments to the Revitalization Charges, the Servicing Fees

and servicing expenses, costs and expenses of the Trustee (or similar trustee), legal costs and expenses, accounting costs and expenses, administrative costs and expenses, placement costs and expenses, underwriting costs and expenses, printing and marketing costs, marketing or listing costs, costs and expenses of the Corporation's other consultants, if any, costs of rating, agencies and any other costs approved by the Board of the Corporation, as necessary or desirable to achieve the purposes of the Act.

As stated in the proposed draft of the Financing Resolution, because some of those costs are paid or financed by the Bonds themselves, the Calculation Methodology recovers those costs over time by establishing Revitalization Charges that recover "the sum of (a) principal of (in accordance with the scheduled maturity date or dates (including scheduled mandatory sinking fund redemption dates and interest on the Bonds when due and as accruing through and including the First Bond Payment Date, (b) any amount necessary or expected to be necessary to fund or replenish any debt service reserve fund or account, or any other restricted accounts or subaccounts required to be established by the Trust Agreement or any Ancillary Agreement as an additional reserve fund, to their required level, as and to the extent such funding or replenishment is required by the Trust Agreement or any Ancillary Agreement (as the case may be) on or prior to the First Bond Payment Date, and (c) all other Ongoing Financing Costs required to be paid or deposited on or prior to the First Bond Payment Date."

Estimated Revenue Requirements were provided to Arcadis by PRASA. Arcadis has not conducted an independent review of the assumptions and results of the preliminary models and results (including estimated amortization schedules) for the projected issuance of New Money Bonds and Tender/Exchange Offer Bonds.

Determination of Customer classes

The Revitalization Act defines "Customer" as: "any Person that is connected to or takes or receives water and/or sewer services within the Commonwealth of Puerto Rico, by means of the facilities that constitute part of System Assets"; where "System Assets" means "the Commonwealth Water System and/or the Commonwealth Sewer System, as defined in Act No. 40 of May 1, 1945, as amended. It also includes those parts of the system that exist or are subsequently acquired, property of the Authority as of the effective date of this Act or thereafter acquired for use by it, including any successor company, to provide water and/or sewer services to its customers."

The determination of Customer classes among which Ongoing Financing Costs are distributed and the distribution of Ongoing Financing Costs among Customer classes is addressed by the Financing Resolution and the proposed Calculation Methodology and Adjustment Mechanism to Establish and Adjust the Revitalization Charge (the "Calculation Methodology"). Exhibit 1 hereto lists each of PRASA's current rate classes and maps them to the "Residential", "Non-Residential", and "Fixed Charge" Customer classes for the purposes of the Calculation Methodology. If and when those PRASA rate classes evolve, the effective division will be preserved for Revitalization Charge calculation purposes.

Description of Customer groups captured in the “Residential”, “Non-Residential”, and “Fixed Charge” class

Residential Customers are those customers that use water and/or sewer services for domestic use, as classified in PRASA’s billing system. Whereas, for purposes of calculating the preliminary Revitalization Charges, all other Customers, including Governmental Customers, and excluding Fixed Charge Customers, are considered Non-Residential Customers. Fixed Charge Customers are those that use water and/or sewer services from PRASA but whose services are not metered and PRASA bills them based on pre-determined, established (fixed) charges.

The proposed Calculation Methodology, once made and approved as final, will not change over the life of the Bonds and, thus, it would undoubtedly become obsolete if it tracked PRASA’s current rate classes. Nor is there any need for a more granular allocation of the Revitalization Charges in the Calculation Methodology. Maintaining these broader Customer classes in the proposed Calculation Methodology gives more flexibility to make necessary adjustments in the future.

Description of Services “Residential” and “Non-Residential” class

A service type distinction is also made for the Residential and Non-Residential classes. For purposes of the proposed Calculation Methodology, Residential Customers and Non-Residential Customers are further divided into those that use both water and sewer services, and those that use either water or sewer services. This is to account for and calculate a more balanced and fair allocation of Revenue Requirements based on service uses. This does not apply to Fixed Charge Customers.

Distribution of Ongoing Financing Costs between the Customer Classes

The proposed Calculation Methodology established in the proposed draft of the Financing Resolution distributes the Ongoing Financing Costs to determine specific Customers Revenue Requirements for the Residential Customer Class, considering services used; Non-Residential Customer Class (including Government Customers), considering services used; and Fixed Charge Customers. In particular, the division is made based upon the share of the total actual historical cubic meters of water metered or estimated, and subsequently billed to Residential and Non-Residential (including Government) Customers, respectively, in the previous 12-month period ending with the last day of the most recently completed calendar semester for which data is available. Consumption for unmetered Fixed Charge Customers, will be calculated based on the number of accounts billed during the period times the higher of: (a) ten (10) cubic meters of estimated consumption (equal to the consumption allocation included in the Residential Customers base charge rate in PRASA’s rate structure), or (b) the then-current estimated amount of consumption (in cubic meters) established by PRASA for Fixed Charge

Customers in any given period. Additionally, an eighty percent (80%) sewer consumption scale-up factor shall be applied to the actual water metered consumption billed for Residential Customers with both water and sewer services in order to account for unmetered sewer discharges. Whereas, a sixty percent (60%) sewer consumption scale-up factor shall be applied to the actual water metered consumption billed for Non-Residential Customers with both water and sewer services in order to account for unmetered sewer discharges. These percentages are consistent with PRASA's design norms and with values for utilities in Latin America.

The historical usage and accounts billed data for Residential Customers and Fixed Charge Customers, and Non-Residential Customers including Governmental Customers that is used in the calculation of the preliminary Revitalization Charges and the projected Adjustments, is provided in Exhibit 3, along with prior historical data for reference and information purposes Exhibit 2. This data, provided by PRASA, includes, in most cases, usage that is directly measured (e.g., with a meter), but also includes usage that is estimated (e.g., non-metered), or estimated (e.g., where a meter fails or cannot be read). This data is the basis of the distributions of the preliminary Revenue Requirements calculated for each Customer class and of the calculations underlying the estimated and preliminary Revitalization Charges discussed in the Corporation's filing. Actual Revitalization Charges will depend on the plan of finance and terms of issuance of New Money Bonds and Tender/Exchange Offer Bonds and, over time, will be based on updated data that may vary from historical results.

b. Proposed Calculation and Adjustment of Revitalization Charges (Calculation Methodology)

For both Residential and Non-Residential Customers, the proposed Calculation Methodology distributes Ongoing Financing Costs and determines class-specific Revenue Requirement mathematically. The proposed Calculation Methodology, further described in the proposed draft of the Financing Resolution was developed in accordance with Act 68-2016 which states that:

“The determination and distribution of Revitalization Charges between Customer categories and to fix and adjust the Revitalization Charges to be included in the proposed Financing Resolution shall comply with the following criteria:

- (A) The portion of Financing Costs to be recovered from each Customer category shall be calculated based on historical consumption data of water and/or sewer services for each Customer category, as such information is provided by the Authority, and as determined by the Corporation, in a manner that is not arbitrary or capricious, which can be better managed and ensures the full and timely payment of the Bonds in accordance with their terms, as well as other Ongoing Financing Costs.
- (B) Once the Financing Costs to be recovered from each Customer category are distributed, (i) the Revitalization Charges for Customers (other than residential Customers) shall be based on historical consumption data of water and/or sewer services and (ii) the Revitalization Charges for all residential customers shall be charged per Customer (per capita), based on historical consumption data of water and/or sewer services, as such information is provided by the Authority, and as determined by the Corporation, in a non-arbitrary or capricious manner, which can be better managed and ensures the full and

timely payment of Bonds in accordance with its terms, as well as other Ongoing Financing Costs.

- (C) The delinquency of any category of Customers shall be added to the income requirement for the next periods and shall be distributed among all categories of Customers, as provided in subparagraphs (A) and (B) of this paragraph. Similarly, any excess or surplus over the revenue estimate as a result of the prompt payment of any category of Customers shall be allocated and distributed among all categories of Customers for the next period or cycle of the Charge.

Proposed Adjustment Mechanism of Revitalization Charges

For all Customer classes, the proposed Adjustment Mechanism of the Revitalization Charges, to be applied at least semi-annually and which is further described in the proposed draft of the Financing Resolution, was developed in accordance with the Adjustment Mechanism definition included in Act 68-2016 which states that:

“The formulaic adjustment mechanism contained and approved in [the] 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 [Act 68-2016] regarding the correction of mathematical errors and Article 7 of [Act 68-2016] with respect to the approval of the Adjustment Mechanism.”

Treatment of Excess (Surplus)/Deficit of Revitalization Charge Revenues for timely payment

As provided in Article 7(b)(1)(C) of any excess (surplus) or deficit of the estimated revenues for the prompt payment of any category of Customers will be allocated and distributed among all categories of Customers in the next Revitalization Charge period or cycle.

Treatment of Delinquencies

As provided in Article 7(b)(1)(C) of the Act payment delinquencies of any Customer class will be added to the Revenue Requirement for the next periods and shall be distributed among all Customer categories and will be included in the preliminary Revitalization Charge and proposed Adjustment Mechanism.

Composite Collection Curve and Updating

A Composite Collection Curve is used to determine the appropriate gross-up factor for the collections lag. Using historical data, the Composite Collection Curve calculates the estimated time it takes all Customers to pay their bills. This estimated time is then used to determine the amount of collections relative to when debt service payments are due. PRASA recommended a collection

curve for all Customers (the “Composite Collection Curve”) reflects a reasonable expectancy of the timing of payments of the billed amounts during a 12-month period. The Composite Collection Curve also considers the assumption for delinquencies based on historical data of billed amounts not collected, established initially at six percent (6%). The Composite Collection Curve shall be recalculated as part of the proposed Adjustment Mechanism, considering historical and actual results going forward

At the time and issuance of this memorandum, Arcadis was not able to independently review and validate the data and analysis employed in the calculation of the proposed Composite Collection Curve. Nevertheless, prior to the calculation of the final Revitalization Charges and Adjustment Mechanism, this review shall be completed and recommendations shall be made if deemed necessary.

c. Practicable to Administer and Assurance of Full and Timely Payment

Full and Timely payment of Revitalization Bonds and Ongoing Costs

As is demonstrated by way of this memorandum, the proposed Calculation Mechanism should ensure that the Revitalization Bonds will receive full and timely payment. To the extent that the information provided to Arcadis or that actual results (e.g., consumption, accounts, collections) used in the development of this proposed Calculation Methodology are inconsistent or significantly vary, the projected results could in turn vary and, as such, the preliminary Revitalization Charges would require adjustment(s) following the proposed Adjustment Mechanism.

Practicability of calculations and allocation of Ongoing Financing Costs

The calculation supporting the distribution of Ongoing Financing Costs to each Customer class (i.e. Residential, Non-Residential, Fixed Charge) is based upon actual billed consumption in cubic meters. The data required to perform these calculations is produced in the normal course of business at PRASA and is readily available. The data values provided by PRASA appear to be reasonable. A sample of these are included in Exhibit 2.

Calculations of distributions ensure full and timely payment

The proposed Calculation Methodology should provide reasonable assurance that timely payment of the Bonds should occur. The proposed draft of the Financing Resolution, and Appendices thereto, set forth the proposed Calculation Methodology and contain a form of Servicing Agreement under which PRASA, as the initial Servicer, will remit Revitalization Charge Revenues which are each designed to ensure adequate funds are available to pay debt service on the Bonds when due as well as other Ongoing Financing Costs. We have compared the projections of the Ongoing Financing Costs to the revenues expected from the preliminary Revitalization Charges and conclude that the proposed Calculation Methodology, including the periodic application of the proposed Adjustment Mechanism, should ensure that the Revitalization Charge Revenues are sufficient to provide for the timely payment of Ongoing Financing Costs. To the extent that the information provided to Arcadis or that actual results (e.g., consumption, accounts, collections) used in the development of this proposed Calculation Methodology are inconsistent or significantly

vary, the projected results could in turn vary and, as such, the preliminary Revitalization Charges would need to be modified and/or would require adjustment(s) following the proposed Adjustment Mechanism.

5. REASONABLENESS AND FAIRNESS OF THE PROPOSED REVITALIZATION CHARGE

Compared to other alternatives, the proposed securitization transaction and the preliminary Revitalization Charges appear to be more reasonable and fair than the estimated impact that modifications to PRASA's rate structure (i.e., rate increases) would have on PRASA's customers in the case that: (a) PRASA implements a "pay-go" policy to fund its capital program with Authority Revenues and federal loans which are considered Commonwealth Guaranteed Debt and are currently under forbearance agreements (estimated rate increase could be upwards of 30% for all customers); or (b) PRASA seeks a traditional municipal bond issue which would likely result in a high interest rate and much higher Ongoing Financing Costs (assuming PRASA is able to access the municipal bond market and obtain favorable terms, which is unlikely given PRASA's current non-investment grade ratings and the uncertainties around the Puerto Rico Oversight, Management, and Economic Stability (PROMESA) Act and the Fiscal Control Board).

A thorough assessment of reasonableness and fairness of the final Revitalization Charges (to be calculated) shall be performed, and will be included with the final recommendation of the Revitalization Charges to be calculated reflecting the final issuance terms for of New Money Bonds and Tender/Exchange Offer Bonds, among other assumptions to be updated at such time as it is required and possible.

6. CONCLUSION

A preliminary analysis has been performed to develop a proposed Calculation Methodology for the establishment of Revitalization Charges for each Customer category and the proposed Adjustment Mechanism of said Revitalization Charges. The results herein presented should be considered preliminary and subject to change pending final determination of issuance terms of New Money Bonds and Tender/Exchange Offer Bonds; updated PRASA consumption, accounts, and collection data; as well as considering the input from the Corporation's Board of Directors, the public hearings process, and other involved stakeholders as applicable.

Based upon the foregoing, and subject to the assumptions and information further discussed in this memorandum, to the best of our understanding and under the assumption that the information provided by others and presented in this memorandum have been reviewed and validated by the Corporation, PRASA, and others as delegated and as necessary; the preliminary Revitalization Charges and the proposed Adjustment Mechanism should generate sufficient revenue to provide for the full and timely payment of the Bonds in accordance with the assumed terms and all other Ongoing Financing Costs during the term of the Bonds if fully and properly

implemented with necessary oversight from the Servicer (PRASA) and the Corporation. However, this conclusion shall be revisited and accordingly updated upon receipt of final terms for the issuance of New Money Bonds and Tender/Exchange Offer Bonds, as well as upon receipt of updated PRASA data and other material information that may become available, as applicable, or upon receipt of any other information or occurrences that may be of consequence and that may impact the proposed Calculation Methodology, and the preliminary Revitalization Charges presented in Exhibit 3. An example of such material matters is the impact (unknown at this time) of the PROMESA Act on PRASA, the Corporation and the proposed Securitization transaction; and the creation and federal appointment of a Fiscal Control Board.

In providing the information, projections and conclusions in this memorandum, Arcadis has relied upon information from a number of third parties, including PRASA and several third-party legal counsels of both the Corporation and PRASA, without independently verifying that information. This includes, without limitation, PRASA's customer classes, their historic water and/or sewer usage, customer payment information and other matters relating to its operations and costs, as well as the preliminary Securitization debt assumptions and amortization schedule (provided to Arcadis on July 27, 2016).

Exhibit 1: Customer Categories and Classes

Customer Category	Customer Class
Residential	Residential
Residential with PAN/TANF subsidy	Residential
Commercial	Non-Residential
Non-Profits	Non-Residential
Industrial	Non-Residential
Government (General Fund)	Non-Residential
Government (Others)	Non-Residential
Public Housing	Fixed Charge
Fixed Charge	Fixed Charge

Exhibit 2: Historical consumption and customer accounts billed data;

Consumption Data January 2015 – June 2016

Residential Customers (cubic meters)

Residential

	Water	Water & Sewer	Sewer
Jan-15	7,977,169	10,150,413	6,230
Feb-15	7,878,168	10,469,927	6,902
Mar-15	7,536,216	10,019,771	6,930
Apr-15	7,646,244	10,081,888	6,857
May-15	7,903,583	10,192,229	6,140
Jun-15	7,903,582	9,984,838	6,346
Jul-15	7,713,568	9,439,027	5,920
Aug-15	7,539,647	8,956,038	5,647
Sep-15	7,589,690	8,788,430	4,929
Oct-15	7,513,098	8,839,636	4,899
Nov-15	7,136,846	8,627,042	5,215
Dec-15	7,607,059	9,172,295	5,285
Jan-16	7,640,705	9,399,274	5,210
Feb-16	7,389,687	9,226,636	4,935
Mar-16	7,155,580	8,919,537	6,835
Apr-16	6,866,297	8,715,728	5,187
May-16	7,394,031	9,429,669	5,528
Jun-16	7,404,577	9,443,431	5,530

Exhibit 2: Continued.

Non-Residential Customers (cubic meters)

Commercial (includes non-profits)

	Water	Water & Sewer	Sewer
Jan-15	685,737	2,024,250	99,371
Feb-15	685,805	2,034,041	99,428
Mar-15	681,643	2,109,104	124,885
Apr-15	719,585	2,242,233	102,626
May-15	681,818	2,151,495	112,413
Jun-15	678,824	2,049,402	115,705
Jul-15	670,471	1,849,497	124,812
Aug-15	670,213	1,884,009	126,136
Sep-15	616,409	1,758,089	111,613
Oct-15	634,842	1,860,556	103,756
Nov-15	601,308	1,772,069	81,100
Dec-15	639,554	1,882,119	98,164
Jan-16	654,827	1,897,054	132,593
Feb-16	630,400	1,791,642	105,913
Mar-16	635,301	1,775,811	111,395
Apr-16	617,916	1,836,777	106,262
May-16	609,053	1,916,944	115,220
Jun-16	623,345	1,878,589	117,470

Industrial

	Water	Water & Sewer	Sewer
Jan-15	345,768	344,654	423,771
Feb-15	366,849	392,747	418,692
Mar-15	363,057	388,609	391,600
Apr-15	279,727	426,925	411,695
May-15	478,588	369,620	512,099
Jun-15	434,915	380,564	489,250
Jul-15	319,568	315,217	465,776
Aug-15	358,702	352,941	472,204
Sep-15	365,511	352,552	488,527
Oct-15	384,429	341,386	438,929
Nov-15	302,661	348,352	405,912
Dec-15	421,843	323,073	419,094
Jan-16	309,162	319,995	365,977
Feb-16	408,617	347,380	402,887
Mar-16	345,537	332,084	423,775
Apr-16	376,921	351,481	392,942
May-16	391,327	357,578	471,885
Jun-16	379,612	336,192	437,594

Government (all customers)

	Water	Water & Sewer	Sewer
Jan-15	607,878	1,864,900	31,966
Feb-15	547,894	1,866,155	36,914
Mar-15	558,862	1,809,383	30,742
Apr-15	580,183	1,932,063	36,667
May-15	594,175	1,933,429	43,320
Jun-15	625,754	1,747,492	36,836
Jul-15	468,347	1,490,621	38,052
Aug-15	503,690	1,859,845	35,687
Sep-15	527,124	1,435,620	44,512
Oct-15	538,195	1,649,106	37,428
Nov-15	619,415	1,709,137	32,508
Dec-15	473,667	1,810,126	33,119
Jan-16	572,309	1,646,589	38,525
Feb-16	510,055	1,646,569	37,154
Mar-16	567,729	1,560,729	32,261
Apr-16	587,850	1,675,721	33,649
May-16	576,091	1,721,708	28,825
Jun-16	608,038	1,652,768	32,980

Exhibit 2: Continued.

Accounts Data January 2015 – June 2016

Residential Customers

Residential

	Water	Water & Sewer	Sewer
Jan-15	455,946	656,135	281
Feb-15	455,353	655,969	279
Mar-15	454,739	656,983	280
Apr-15	453,976	657,209	274
May-15	452,143	657,214	274
Jun-15	453,821	658,383	271
Jul-15	453,056	658,773	271
Aug-15	448,900	651,506	270
Sep-15	453,577	657,627	266
Oct-15	452,902	657,618	267
Nov-15	438,987	646,617	267
Dec-15	452,133	659,162	265
Jan-16	448,548	655,611	259
Feb-16	451,816	661,398	260
Mar-16	453,362	660,813	269
Apr-16	443,528	645,345	256
May-16	450,375	660,566	265
Jun-16	449,584	661,308	267

Fixed Charge Customers

Fixed Charge

	All
Jan-15	54,953
Feb-15	54,986
Mar-15	54,807
Apr-15	54,555
May-15	54,538
Jun-15	54,193
Jul-15	54,534
Aug-15	54,270
Sep-15	54,394
Oct-15	54,068
Nov-15	54,304
Dec-15	54,218
Jan-16	54,616
Feb-16	54,401
Mar-16	54,513
Apr-16	52,621
May-16	54,178
Jun-16	54,419

Exhibit 2: Continued.

Non-Residential Customers

Commercial (includes non-profits)

	Water	Water & Sewer	Sewer
Jan-15	15,528	36,658	45
Feb-15	15,444	36,510	45
Mar-15	15,361	36,397	45
Apr-15	15,262	36,381	44
May-15	15,152	36,250	47
Jun-15	15,146	36,183	46
Jul-15	15,088	36,328	46
Aug-15	14,920	35,850	46
Sep-15	15,080	36,067	46
Oct-15	14,983	35,979	44
Nov-15	14,420	35,472	47
Dec-15	14,918	35,966	47
Jan-16	14,721	35,728	49
Feb-16	14,892	35,958	49
Mar-16	14,905	35,909	49
Apr-16	14,496	34,542	48
May-16	14,696	35,745	49
Jun-16	14,774	35,811	50

Industrial

	Water	Water & Sewer	Sewer
Jan-15	162	673	60
Feb-15	163	667	60
Mar-15	149	644	55
Apr-15	158	657	59
May-15	161	639	59
Jun-15	163	638	61
Jul-15	162	641	61
Aug-15	163	633	61
Sep-15	166	632	60
Oct-15	163	630	60
Nov-15	159	623	59
Dec-15	166	625	63
Jan-16	163	619	62
Feb-16	165	624	63
Mar-16	165	619	64
Apr-16	162	612	60
May-16	167	616	64
Jun-16	167	614	64

Government (all customers)

	Water	Water & Sewer	Sewer
Jan-15	3,527	6,811	7
Feb-15	3,540	6,778	7
Mar-15	3,463	6,624	7
Apr-15	3,435	6,591	7
May-15	3,430	6,553	7
Jun-15	3,509	6,732	7
Jul-15	3,495	6,742	7
Aug-15	3,469	6,710	7
Sep-15	3,363	6,392	7
Oct-15	3,433	6,529	7
Nov-15	3,383	6,478	7
Dec-15	3,433	6,672	7
Jan-16	3,328	6,324	5
Feb-16	3,287	6,368	7
Mar-16	3,455	6,609	7
Apr-16	3,455	6,622	7
May-16	3,435	6,629	7
Jun-16	3,433	6,637	7

Exhibit 3: Preliminary Revitalization Charges and future Adjustments

<i>Preliminary Proposed Revitalization Charges (Subject to Change)</i>	Period	Period	Period	Period
	01/01/2017-06/30/2018	7/1/2018-6/30/2021	7/1/2021-12/31/2024	1/1/2025-6/30/2047
Residential Customer Water and Sewer Revitalization Charge (\$/per service agreement)	\$6.83	\$9.78	\$13.02	\$12.97
Residential Customer Water or Sewer Revitalization Charge (\$/per service agreement)	\$4.53	\$6.49	\$8.64	\$8.61
Non-Residential and Government Customer Water and Sewer Revitalization Charge (\$/m3)	\$0.28	\$0.40	\$0.53	\$0.53
Non-Residential and Government Customer Water or Sewer Revitalization Charge (\$/m3)	\$0.28	\$0.40	\$0.53	\$0.52
Fixed Charge Customer Revitalization Charge (\$/per service agreement)	\$4.96	\$7.09	\$9.44	\$9.41

Note: The values presented in this table will vary based on changes in the assumptions and material information considered in their calculation. These preliminary Revitalization Charges shall not be considered final and shall be revised as updated information regarding issuance terms of New Money Bonds and Tender/Exchange Offer Bonds becomes available; updated PRASA consumption, accounts, and collection data is provided (to reflect the most recent 12-month period prior to the implementation of the proposed Revitalization Charges); as well as considering the input from the Corporation’s Board of Directors, the public hearings process, and all other involved stakeholders as applicable.