

This document is a proposed draft of the Financing Resolution 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.

PUERTO RICO AQUEDUCT AND SEWER AUTHORITY REVITALIZATION CORPORATION

FINANCING RESOLUTION NO. 1

This financing resolution (this “Financing Resolution”) is adopted by Puerto Rico Aqueduct and Sewer Authority Revitalization Corporation (the “Corporation”) pursuant to Chapter II of Act No.68- 2016 of the Legislature of Puerto Rico, approved July 12, 2016 (the “Act”) to authorize and approve, among other things, (a) the issuance by the Corporation of Bonds in an aggregate principal amount not to exceed the principal amounts hereinafter set forth (the Bonds approved pursuant to this Financing Resolution are hereinafter defined as the “Bonds”); (b) the Approved Financing Costs to be paid through the issuance of the Bonds and recovered from authorized Revitalization Charges; (c) the creation of the Financing Property described in this Financing Resolution including, without limitation, the right to impose, bill and collect the Revitalization Charges described in this Financing Resolution, as adjusted from time to time in accordance with the Adjustment Mechanism adopted by this Financing Resolution; (d) the imposition, billing and collection of such Revitalization Charges from Customers as approved in this Financing Resolution; (e) the execution and delivery of an initial servicing agreement (the “Servicing Agreement”) by and between the Corporation and Puerto Rico Aqueduct and Sewer Authority (the “Authority”), as the initial servicer, and of a trust agreement (the “Trust Agreement”), and [ANY ANCILLARY AGREEMENT] related to the Bonds; and (f) other related matters as required in accordance with the Act.

Capitalized terms used, but not defined, herein shall have the meanings given such terms in Article 3 of Chapter II of the Act (the “Securitization Chapter”).

STATUTORY OVERVIEW AND HISTORY

The Authority, a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the “Commonwealth” or “Puerto Rico”), was created by Act No. 40 of the Legislative Assembly of Puerto Rico, approved May 1, 1945, as amended and reenacted (“Act No. 40”), for the purpose of owning and operating the public water supply and sewer systems in the Commonwealth and is the sole provider of public water and sewer services in Puerto Rico. The Authority is currently the sole provider of public water and sewer services in Puerto Rico.

The Authority’s water supply system (the “Water System”) serves most (approximately 97%) of Puerto Rico’s population. The Authority’s sewer system (the “Sewer System” and, together with the Water System, the “Systems”) serves more than half (approximately 59%) of Puerto Rico’s population.

Since 2014, the Authority has been facing unprecedented financial pressures, primarily as a result of the financial condition of the Commonwealth. The Authority diligently took affirmative action to ameliorate the stress on its finances, and sought alternatives to obtain funding for its Capital Improvement Program (the “CIP”), including reducing its operating costs; entering into amendments to its collective bargaining agreements to reduce labor costs; obtaining a statutory preferential reduced electricity rate; restructuring its lines of credit and commercial loans; implementing efficiencies and cost reduction initiatives to maintain the system and guarantee a reliable and safe services; as well as unsuccessfully attempting to issue additional revenue bonds last year. These efforts notwithstanding, for reasons outside of its control, the Authority was unable to gain market access, which has made it increasingly difficult to deal with its accumulated CIP costs which are now upwards of \$150 million and for which the Authority has no source of payment.

The current strain on the Authority’s finances and the lack of viable options to resolve the above mentioned situation has been a result of a combination of adverse circumstances. Some of the external factors that have aggravated its financial situation include the negative outlook of the Commonwealth’s finances and that of its agencies and instrumentalities; the downgrade of the Commonwealth’s general bond obligations, which in turn resulted in downgrades to the Authority’s bonds (both currently non-investment grade); the negative reaction of the investment community to the enactment of certain local legislation and the ensuing filing of judicial action seeking authorization for public corporations of the Commonwealth to request and obtain bankruptcy like relief either through a local statute or through the United States Bankruptcy Code; the impact of the Government of the Commonwealth’s statements concerning its ability and that of other public corporations to timely pay their debts; and lastly a severe drought which not only required implementing rationing plans throughout the Island for several months, but also resulted in lost revenues and additional operating costs, for an aggregate negative impact of approximately \$70 million in Fiscal Year 2016.

In light of the foregoing and the lack of external financing to cover immediate CIP related expenses, the Authority had to utilize operating funds to cover its CIP projects, which historically, have been funded with external financing and federal assistance. Although the Authority was not among the Commonwealth’s instrumentalities in jeopardy of becoming insolvent, its overtures to the investment community received a negative reception in large part due to the Authority being linked to the challenges being faced by the Commonwealth and certain other public agencies and the anticipation that the Authority would be negatively affected by the Commonwealth’s fiscal woes. As a result, potential financing costs for the Authority

significantly increased and the prospects for long term financing from both traditional and non-traditional financing sources were eliminated.

Under its Master Agreement of Trust, dated as of March 1, 2008, as amended and restated as of February 15, 2012, as further amended and supplemented (the “Master Agreement of Trust”), the Authority is obligated to pay its CIP contractors and suppliers prior to certain subordinated creditors, including federal agencies such as the United States Environmental Protection Agency and the United States Department of Agriculture’s Rural Development Program. As a direct result of the above stated circumstances and the delays in the issuance of new revenue bonds, the Authority has accumulated an outstanding debt in excess of \$150 million owed to its CIP contractors and suppliers. Most of these debts are over 180 days past due and in some cases over a year past due.

In fiscal year 2016, after expending all of its surplus operating income and reserves to cover a portion of its unfunded CIP, the Authority was forced to postpone or terminate virtually all of its active construction projects. The Authority had to stop the execution of \$352 million in fifty-five (55) projects that were under construction, in addition to stopping its CIP process, which was expected to start eighty-six (86) projects with an investment of an additional \$247 million. These postponements and cancellations could eventually result in the Authority’s non-compliance with its obligations under its existing Consent Decree with the United States Environmental Protection Agency and settlement agreement with the Puerto Rico Department of Health, leading to potential civil lawsuits by federal prosecutors against the Authority, its officials and the Commonwealth, as well as a negative impact on the Island's economy.

On July 1, 2016, the Authority entered into Forbearance Agreements related to payments due on such date for (i) certain of its loans granted under the Clean Water State Revolving Fund Program and the Drinking Water State Revolving Fund Program created under the federal Clean Water Act of 1972 and Safe Drinking Water Act of 1974, as amended, and (ii) bonds issued by the Authority as part of the United States Department of Agriculture’s Rural Development Program. Payments on these obligations are subordinate to the payment of the Authority’s operating expenses.

The Authority’s management and Governing Board set out to identify financing alternatives that would allow it to fulfill its obligations with its CIP contractors, as well as continue its CIP. Among those alternatives was the creation of a new bankruptcy remote, special purpose entity and governmental instrumentality that would be authorized to issue bonds payable from special charges imposed on the Authority’s customers by such entity, the proceeds of which would be provided to the Authority to pay for approved expenses, including CIP costs. After an extensive legislative process, on June 30, 2016, the Legislative Assembly agreed on House Bill 2864, and adopted the Act, which was signed into law by the Interim Governor on July 12, 2016.

In passing the Act, the Legislative Assembly allowed for the creation of the Corporation, a bankruptcy remote, single purpose entity with the authorization to issue Bonds, to help the Authority meet its obligations to its CIP contractors, as well as enabling it to resume its CIP. Moreover, the legal protections set forth in the Act are intended to give the Corporation access the capital markets. These legal protections include (a) an Adjustment Mechanism, to be applied by the Corporation (or by a Servicer on behalf of the Corporation) to adjust the Revitalization Charge, at least 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 providing that the Commonwealth shall not limit, alter, reduce, impair, postpone or terminate the rights conferred in the Act, any Financing Resolution and related agreements.

As required by Article 7(c)(1) and (2) of the Act, after the approval of this Financing Resolution but before the issuance of the Bonds, the Corporation or the Puerto Rico Fiscal Agency and Financing Advisory Authority (“PRFAFAA”), once a week for three successive weeks published a notice of passage of the Act, giving Interested Persons the opportunity to challenge its validity. [Pending inclusion of outcome] Also as required by Article 7(c)(2) of the Act, the notice of the passage of the Act was also posted on the websites of the Authority, the Corporation and PRFAFAA and delivered to all Interested Persons and on [], 2016 filed by the Authority in the Electronic Municipal Market Access system maintained by the Securities Rulemaking Board, all in accordance with the time frames established in Article 7(c)(2).

On [-] __, 2016, the Corporation filed this Financing Resolution, along with the detailed explanatory report specified in Article 7(b) of the Act with PRFAFAA for its review and approval. On _____, 2016, PRFAFAA certified that (i) this Financing Resolution complies with the Act, (ii) 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, (iii) all public notices of the enactment of the Act were given, and the public hearings were conducted, in accordance with the Act, (iv) 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 and (v) the issuance of the Bonds may proceed in compliance with all applicable laws. On [-], 2016, the Corporation, the Authority, and PRFAFAA published on their respective websites a summary of this Financing Resolution and the report prepared by the Corporation.

On [-], 2016, [PRFAFAA] issued Certification No.[-], which, among other things, approved the Financing Resolution and certified that the calculation methodology, the determination and the allocation of the Revitalization Charges and the Adjustment Mechanism related thereto comply with the requirements of the Act. As a result, as required by Article 7 of the Act, the Corporation hereby adopts this Financing Resolution on [_____].

If the Bonds authorized by this Financing Resolution are approved and issued by the Corporation, the Authority, as the initial Servicer shall, on behalf of the Corporation, service, bill and collect from Customers the Revitalization Charges, as adjusted from time to time in accordance with the Adjustment Mechanism set forth in this Financing Resolution, until the principal of and interest and premium, if any on the Bonds and the Financing Costs have been paid in full.

FINDINGS OF FACT

The Corporation hereby makes the findings of fact listed below.

Issuance of Bonds by the Corporation:

1. It is in the best interests of the Corporation and the Authority to authorize this issuance of Bonds under the Act, in furtherance of the objectives and goals of the Authority to regain financial stability, make payment of its outstanding debt to contractors and finance its CIP and restructure its debt, at one or more times, in one or more series, for the following authorized purposes under the Act:

(A) New Money Bonds- One or more series of Bonds to be issued on the date of sale and delivery of the Bonds: in an amount not to exceed \$900,000,000 with respect to Bonds the proceeds of which are to be used to finance or pay: (a) the capital costs related to the Authority's Capital Improvement Program for a period of up to three (3) years from the date of issuance, including those projects of the Capital Improvement Program that had been initiated but not finished, or otherwise postponed, before the approval of the Act, detailed in Resolution No. 2984 adopted by the Governing Board of the Authority on June 3, 2016, included in Attachment 1 attached hereto; (b) the applicable costs of the Authority's accumulated debt, as of the time of approval of the Act, relating to the CIP's accounts payable, including reimbursement to the Authority of the advances, if any, made from its operational funds for said CIP, as well as the payment of any amount owed to suppliers of goods or services related to the implementation of the CIP that are outstanding; (c) refinancing credit lines or other instruments of short-term debt, such as notes, bonds, promissory notes or other interim financing issued or incurred by the Authority in anticipation of the issuance of Bonds of the Authority or the Bond Anticipation issued to meet the purposes of the Act; (d) the rebate, yield reduction payments and any other amount payable to the United States of America to preserve or protect the federal tax exempt status of the Authority or Corporation's outstanding debt obligations; (e) the deposits from proceeds of issuance of the Bonds that are paid to a capitalized interest fund or account, a debt service reserve fund or account, or an operating expense reserve fund or account, established in connection with the Bonds; (f) costs related to the negotiation of legitimate labor debts pending payment by the Authority; and (g) subject to the limitations contained in the Act, the Financing Costs; and

(B) Tender/Exchange Offer Bonds- One or more series of Bonds in an aggregate principal amount not to exceed the difference between \$900,000,000 and the maximum amount of Bonds that can be financed with the Revitalization Charge approved under the Act (the "Tender/ Exchange Offer Bonds"), to cover the costs of retiring, defeasing or refinancing a portion of debt obligations. No agreement is currently in place with the Authority's bondholders. The transaction may be pursued as a tender or exchange. A portion of these bonds may be issued to the beneficial holders of the Authority's bonds, in exchange for such Bonds (i) at an exchange ratio (principal to principal) which satisfies the requirements of the Act and (ii) may also be issued in an amount equal to and in satisfaction of any accrued and unpaid interest owing on such Authority bonds at the time of such exchange. The rest of these bonds may be issued to cover the cost of purchasing outstanding Authority bonds at similar terms as the exchange offer. Any tender or exchange offer under this authorization will be pursued on the basis of the savings the transaction offers to the Authority and its customers. The Tender/ Exchange Bonds are to be issued to the beneficial owners of the Authority's Bonds (i) at an exchange ratio (principal to principal) of 85% and (ii) at the interest rates provided for under the Act depending on the credit ratings received on the Bonds, as set forth in the following table:

<i>Interest Rate</i>	<p>For Current Interest Bond Payments:</p> <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: <table style="margin-left: 20px;"> <tr><td>AAA:</td><td>4.00%</td></tr> <tr><td>AA+/AA/AA-:</td><td>4.25%</td></tr> <tr><td>A+/A/A-:</td><td>4.50%</td></tr> <tr><td>BBB+/BBB/BBB- or less:</td><td>4.75%</td></tr> </table>	AAA:	4.00%	AA+/AA/AA-:	4.25%	A+/A/A-:	4.50%	BBB+/BBB/BBB- or less:	4.75%	<p>For Convertible Capital Appreciation Bonds:</p> <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: <table style="margin-left: 20px;"> <tr><td>AAA:</td><td>4.50%</td></tr> <tr><td>AA+/AA/AA-:</td><td>4.75%</td></tr> <tr><td>A+/A/A-:</td><td>5.25%</td></tr> <tr><td>BBB+/BBB/BBB- or less:</td><td>5.50%</td></tr> </table>	AAA:	4.50%	AA+/AA/AA-:	4.75%	A+/A/A-:	5.25%	BBB+/BBB/BBB- or less:	5.50%
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A+/A/A-:	5.25%																	
BBB+/BBB/BBB- or less:	5.50%																	

Additional details and estimated costs of the New Money Bonds and Tender/Exchange Offer Bonds transactions are included in Appendix 1 attached hereto.

2. Nothing in this Financing Resolution shall preclude the Corporation from authorizing additional “Revitalization Bonds” (in addition to the Bonds) secured by “Financing Property” (other than the Financing Property created pursuant to this Financing Resolution) under one or more “Financing Resolutions” (in addition to this Financing Resolution) so long as such issuance is consistent with the terms of the Act and the Trust Agreement securing any outstanding Bonds.

Terms of Bonds:

1. In no event are Bonds to be issued during the pendency of any action brought pursuant to Article 7(c), (d) or (e) of the Act, nor later than five (5) years from the date of adoption of this Financing Resolution.

2. The Bonds of any issue (i) may be issued in one or more tranches or series, at one or more times, (ii) may be issued as any combination of serial and term Bonds and as Bonds paying current interest (“Current Interest Bonds”) and Bonds accreting interest for a period of no more than 4 ½ years to 5 ½ years after their issue date and paying cash interest thereafter (“Convertible Capital Appreciation Bonds” or “Convertible CABs”) (iii) may have (A) a scheduled maturity date or dates (including scheduled mandatory sinking fund redemption dates), which will be a date or dates by which such series or tranche is to be amortized in principal amounts set forth therein for such date or dates and with Revitalization Charges set at sufficient levels to generate receipts to enable such amortization on such date or dates, and (B) a legal maturity date or dates (including legal mandatory sinking fund redemption dates), which will be a date or dates by which such series or tranche must be amortized in principal amounts set forth therein in order to avoid a default under the transaction documents and which is expected to be two years after the related scheduled maturity date, provided that the legal maturity date for any series or tranche of the Bonds shall be no less than one year and no more

than thirty five years after the issuance of the Bonds, and (iv) shall have such other terms and details, consistent with this Financing Resolution and the Act and as contained in the applicable Trust Agreement as executed and delivered.

3. The final term of the Bonds, consistent with the terms of this Financing Resolution, shall be approved by the Corporation either solely by act of the Corporation Designee, as evidenced by the execution of the Designee Certificate, or in the discretion of the Board, through an award resolution (an “Award Resolution”) which the Board may adopt to approve the final pricing and terms of the Bonds. In either such case, the approval of the final terms of the Bonds shall be conclusively evidenced by the execution and delivery by the Corporation Designee of the Designee Certificate and the applicable Trust Agreement.

Approved Financing Costs:

4. 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 a 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 provisions 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.

5. The Tender/Exchange Offer Bonds, etc. which may be issued on the Closing Date, the any other Bonds, are contemplated in the Act, and accordingly, the costs of legally or economically defeasing, exchanging for, refunding, redeeming, purchasing, funding, retiring or

extinguishing, as applicable, Authority Bonds, a deposit to the [-] and [-] may be included as Approved Financing Costs.

6. The Authority Bonds do not exceed an aggregate principal amount of \$[] and accordingly the costs of legally or economically defeasing, exchanging for, refunding, redeeming or purchasing Authority Bonds may be included as Approved Financing Costs.

Upfront Financing Costs:

7. The issuance of any series of Bonds will require the payment of the Upfront Financing Costs described as follows (the “Upfront Financing Costs”), which costs are recoverable from the Bond proceeds or Revitalization Charges, as applicable:

(i) expenses of the Corporation associated with the request for approval of this Financing Resolution and the issuance of the Bonds with PRFAFAA;

(ii) the funding of any debt service reserve fund or account or any other restricted accounts or subaccounts required to be established by the Trust Agreement, and to the extent permitted in the Trust Agreement, any Ancillary Agreement, including an additional reserve fund, to its required level, as provided in the Trust Agreement and, to the extent permitted in the Trust Agreement, any Ancillary Agreement (as the case may be), to be held under the Trust Agreement securing the Bonds;

(iii) fees and expenses associated with the costs of design, marketing and issuance of the Bonds, structuring, marketing, and issuance of the Bonds, including, without limitation, (a) legal costs and expenses, (b) accounting costs and expenses; (c) initial (or set-up) costs or rates of the Servicer; (d) costs and expenses of the calculation agent of the Revitalization Charges and the Adjustment Mechanism; (e) costs and expenses of the depository or other administrator or trustee; (f) underwriting costs and expenses; (g) printing and marketing costs; (h) filing or listing and compliance cost; (i) costs and expenses of the Corporation’s other consultants, if any; (j) rating agency costs; (k) costs and expenses of the guaranty provider; and (l) any other costs approved by the Board of the Corporation as necessary or desirable for the accomplishment of the objectives of the Act including the reimbursement to any Person of amounts advanced for the payment of such costs.

Upfront Financing Costs include the reimbursement of the Authority or any other Person of amounts advanced for the payment of Upfront Financing Costs.

8. The Corporation has included in Appendix 1 to this Financing Resolution an estimate of the Upfront Financing Costs that are expected to be incurred in connection with the approval, issuance, marketing, and] delivery of the Bonds based upon, in part, estimates from counsel, advisors, underwriters, rating agencies, the Trustee, accountants, printers, and other professionals and agents, and other factors in light of then-current information at the time of the submission of this Financing Resolution to PRFAFAA.

9. In Certification No. [] PRFAFAA determined and certified that the Upfront Financing Costs proposed to be recovered by the Corporation are consistent with Article 7 of the Act.

10. The precise amount of Upfront Financing Costs for the Bonds cannot be ascertained with certainty until the respective Bonds have been priced and issued, and the final Upfront Financing Costs for the Bonds is subject to approval by the Corporation Designee, in either case as conclusively evidenced in the Designee Certificate. If the total amount of Upfront Financing Costs exceeding the estimate of total Upfront Financing Costs presented to this Board, such excess shall be subject to approval by this Board.

11. Upfront Financing Costs shall be paid from the proceeds of the Bonds (as the case may be), provided that any Upfront Financing Costs approved for recovery (as described in Finding of Fact 7) that cannot be paid from the proceeds of the sale of the Bonds shall be recoverable as an Ongoing Financing Cost, as provided in the Designee Certificate of this Board (as applicable).

12. References in this Financing Resolution to the payment, funding or recovery of Upfront Financing Costs through the Closing Date, whether from Bond proceeds or otherwise, shall be deemed to include, without limitation, the payment of such Upfront Financing Costs from the proceeds of New Money Bonds as well as funding of such Upfront Financing Costs through any contributions or advances received from the Authority. Nothing in this Financing Resolution shall prevent the payment or funding of Upfront Financing Costs with a contribution or advance from the Authority.

Ongoing Financing Costs:

13. The terms of each issuance of Bonds shall require the payment of the following Ongoing Financing Costs from the proceeds of the Revitalization Charges and any other moneys available under the Trust Agreement securing the Bond issuance (the “Ongoing Financing Costs”) which costs are recoverable from the Revitalization Charges:

- (i) principal, interest and redemption premium, if any, payable on the Bonds;
- (ii) any payment required under any bond insurance policy, surety bond, reimbursement agreement or any agreement entered into in connection therewith or other Ancillary Agreement, or any amount required to fund or replenish (or to reimburse a third party for replenishing) any debt service reserve fund or account or any other fund or account established under the Trust Agreement and, to the extent permitted by the Trust Agreement, any Basic Document (as defined in Finding of Fact 48 below) or under any other financing document related to the Bonds, including an additional reserve fund;
- (iii) any taxes and charges, including payments or contributions in lieu of taxes, franchise fees or license fees imposed on Revitalization Charge Revenues;
- (iv) any cost related to administering the Corporation, the Bonds or the Financing Property, including the costs of calculating adjustments of Revitalization Charges and implementing the Adjustment Mechanism, all Servicing Fees and expenses, the fees and expenses of the Calculation Agent (hereafter defined) employed to verify the calculation of any

adjustment to the Revitalization Charges, the costs of all Depositories (hereinafter defined) or other collection agents employed to assure the collection, segregation and remittance of Revitalization Charge Revenues to the Trustee, the costs of the Trustee and any other fiduciaries appointed to secure or facilitate payment of the Bonds, and all legal, accounting and other advisors' or consultants' fees and expenses incurred in connection with the foregoing;

(v) all rating agency fees and expenses incurred to obtain and/or maintain ratings on the Bonds;

(vi) any cost related to protecting the status of Financing Property and collecting Revitalization Charges, including any cost related to any judicial or similar proceedings that the Corporation or the Trustee or any owner of all or a portion of Financing Property deems necessary to enforce or collect Revitalization Charge Revenues or protect the Financing Property or any other costs referred to in Article 8 of the Act, in each case subject to the provisions of the Act;

(vii) any ongoing filing or listing fees for the Bonds;

(viii) the fees and expenses of any auditor;

(ix) without duplication, any indemnity payments required to be paid by the Corporation to the Trustee, any Servicer, Calculation Agent, or Depository, the underwriters, the broker-dealers, the parties to any Ancillary Agreements (including any Surety Bond or Surety Bond reimbursement agreement) or other persons pursuant to agreements entered into in connection with the Bonds;

(x) any indemnity or other payments or costs required to be paid to the Board or its individual directors, or officials, agents and employees of the Corporation; and

(xi) any other cost related to issuing Bonds (including all costs associated with complying with the laws applicable to the issuance of the Bonds by the Corporation), administering and servicing Financing Property and Bonds payable under the Basic Documents (as described in Finding of Fact), including the payment of any Upfront Financing Costs not paid from the proceeds of the Bonds and any other cost approved in a Designee Certificate or approved by the Board as necessary or desirable for the accomplishment of the purposes of the Act.

14. Expenses corresponding to most categories of Ongoing Financing Costs will continue to be incurred while Bonds remain outstanding, and the total amount of most Ongoing Financing Costs will not be known until after this Financing Resolution is adopted, e.g., the expected principal and interest payable on the Bonds will not be known until the Bonds are priced, certain Ongoing Financing Costs consisting of fees may be estimated at the time the Bonds are issued but will likely change over the life of the Bonds, the expenses will vary from year to year depending upon what services or activities are required to be performed in each year, and some possible Ongoing Financing Costs may not be known at the time of issuance of the Bonds, including the costs of funding or replenishing any debt service reserve fund or account or any other restricted accounts or subaccounts required to be established by the Trust Agreement and, to the extent permitted in the Trust Agreement, any Ancillary Agreement, including an additional reserve fund, to its required level, as provided in the Trust Agreement and, to the extent

permitted in the Trust Agreement, any Ancillary Agreement (as the case may be). Additionally, certain possible Ongoing Financing Costs depend upon contingencies that may never happen.

15. An estimate of the annual Ongoing Financing Costs to be incurred for the first annual period following the delivery of the Bonds and during the life of such Bonds is included in Appendix 1 to this Financing Resolution and was included in the Corporation's report to PRFAFAA.

16. In Certification No. [], PRFAFAA found and determined that the Ongoing Financing Costs proposed to be recovered by the Corporation are consistent with Article 7 of the Act.

17. The Corporation Designee will include in the Designee Certificate a final estimate of the Ongoing Financing Costs for the first annual period following issuance of the Bonds, as well as an estimate of the Ongoing Financing Costs for the term of such Bonds.

18. The Corporation will recover, from Revitalization Charge Revenues, all Ongoing Financing Costs as incurred by the Corporation, without limitation as to amount, and the Revitalization Charges shall be imposed, billed and collected from all Customers until all such Ongoing Financing Costs are paid in full.

Qualitative and Quantitative Limitations on the Financing Costs

19. Uses of Funds - The financing costs anticipated by the Legislature include four (4) major categories of costs, reimbursement of incurred costs, repayment on interim financing (if any), Upfront Financing Costs and Ongoing Financing Costs. Each of these categories of costs are subject to much variation depending on the size, timing, function and ultimately market conditions of the proposed financing.

a. Reimbursement of Costs – The Authority has incurred approximately \$140 million in capital costs which as of the date hereof remain unpaid. These obligations for work which have been outstanding for approximately one (1) year are one of the financing costs to be reimbursed. The total Quantitative limit on these costs is the amount of capital investment work incurred and unpaid at the time of the financing. The Authority has halted its CIP until permanent financing is obtained. Additional vital improvements may be necessary and therefore, said costs could increase. All costs will be reviewed by the Authority in the normal course of its CIP review. Qualitatively these costs are limited by diligent CIP review by the Authority, and careful administration of stringent procurement and oversight procedures.

b. Interim Financing Costs – Given the Authority's large deferred capital needs Authority and the unpaid capital investment invoices mentioned above, The Authority may pursue interim financing prior to the issuance of the Revitalization Bonds. Such interim financing would be limited to the funding of CIP costs. The market demand for such obligations, which would be secured by the Authority, not the Corporation, would also qualify as financing costs. While interim financing may be considered, currently there no structure has been contemplated by the Authority. The size and costs of such financing would be driven by several factors, the size of the capital necessary, the market demand for such an offering, market

conditions generally and the timing of such a potential transaction. Said costs cannot be determined at this time but would be limited by, the legislative restriction on total issuance for new money and repayment of financing costs (\$900 million) as well as the review and acceptance of the plan of finance and terms of the transaction by the Authority's Governing Board after consideration of all of these factors.

c. Upfront Financing Costs - The Corporation and its advisors have exercised due diligence to estimate as accurately as presently practical the Upfront Financing Costs included in Appendix 1 hereto. It is important to note that there are significant portions of these costs that relate directly to the size, structure and rating of the individual components of the Bonds. For example, if Tender and Exchange Offer Bonds are required to be sold to new investors in order to fund the purchase of the Authority Bonds from current investors via an exchange offer, these transactions will require payment of underwriting fees and tender/exchange solicitation fees to the securities professionals that market these transactions to investors. The Corporation will also update the costs with the actual costs when known.

d. Legal Fees - Legal fees correspond to the cost of the considerable legal work necessary to issue the Bonds, much of which is specialized. These fees are based upon the hours individual firms must devote to the bond issuance. This category includes the fees and expenses of counsel to the Corporation and those of counsel to the Trustee, the underwriters, and any other party to the transaction, if paid for by the Corporation. The exact amount of the legal fees will, of course, be affected by events between now and the date of issuance, including the extent to which this proceeding is contested by the parties and the scope of additional work required during the proceeding, the scope of any appeals, the requirements of underwriters, trustees, rating agencies, regulators or financial advisors for any requested revisions to documents, potential changes in federal securities laws and interpretations thereof, use of additional credit enhancements, and other unforeseeable occurrences. The final aggregate amount of legal fees and expenses will not be known until after the Closing Date. The amount of legal fees that are estimated or known at the time the Bonds are issued may be included in, and funded by, a portion of the proceeds of the Bonds. Any legal fees that arise after the issuance of the Bonds that are above the Corporation's estimate and not included in the amount of Upfront Financing Costs financed with a portion of the Bonds would be recoverable by the Corporation through future adjustments to the Revitalization Charge as mentioned above. Estimates of the upfront legal costs and ongoing charges are estimated in Appendix 1.

e. Advisor fees are the cost of the financial advisory services provided to the Corporation and the Authority in connection with the preliminary structuring and sale of the Bonds. The financial advisors' services include: reviewing the Corporation's and the Authority's financing objectives; reviewing rating agency criteria with the Corporation and the Authority; developing preliminary financing structures; developing the mechanics of properly effecting the securitization; reviewing the proposed Petition of the Corporation; including exhibits and testimony of Corporation witnesses on these issues; reviewing orders and filings in the

proceeding; and providing expert direct testimony and rebuttal testimony (if any). Those costs are estimated in Attachment Appendix 1.

f. The fees may include, without limitation, underwriting fees associated with the issuance of any Bonds, broker-dealer fees associated with the Tender and Exchange Offer Bonds, solicitation fees to the broker-dealers that will approach their clients who may sell their existing Authority bonds, and such other fees associated with the tender for the Authority Bonds, fees of the investment banks and financial advisors to the Corporation and the Authority associated with the structuring of the new securitization credit, fees of counsel to the Corporation and the Authority, printing fees, and fees relating to the preparation and distribution of the offering and legal documents pursuant to which the Bonds are exchanged and/or sold. Estimates of these fees are included in Appendix 1 attached hereto. The actual fees will depend on the final structure, ratings, and size of the various financing components.

As is the case for the fees for debt exchanges and tender offers, underwriter compensation is typically based on the par amount of bonds sold, and can vary according to the type and maturity of bonds. The exact amount, structure, and maturity of the Bonds that may be underwritten will not be known with certainty until the Bonds are about to be priced. To the extent the actual principal amount of each of the tranches is different from the estimated principal amounts, underwriters' fees may vary. In addition to the purchase or placement of the Bonds, underwriters typically assist with the preparation of the rating agency presentations and investor presentations and the structuring and marketing of the Bonds. Appendix 1 attached hereto includes estimated amounts for underwriter compensation.

f. Ongoing Financing Costs. It is difficult to predict the extent to which certain Ongoing Financing Costs may increase over time. Principal and interest payments on the New Money Bonds will depend on such bonds' terms and market conditions at the time of pricing and marketing of the proposed transaction. Principal and interest payments on the Tender and Exchange Offer bonds will depend on the terms of the tender and exchange agreed upon with the Authority's bondholders and subject to the limitations of the Act. Certain of these costs will be a function of the amount and type of Bonds that will remain outstanding over time. For example, rating agency surveillance fees payable by the Corporation may increase over time. The same is true for other external costs, such as legal and accountant's fees. Therefore, other than the servicing and administration fees (assuming that the Authority continues as Servicer, and a third-party servicer is not required), no one can predict precisely the level of the other Ongoing Financing Costs (including reimbursable out-of-pocket expenses of the Servicer) to be incurred over the time period for which the Bonds will be outstanding. However, these costs will likely increase over that time simply due to inflation as service providers periodically increase their fees.

Revitalization Charge Allocation Methodology and Adjustment Mechanism:

20. In the explanatory report filed with PRFAFAA, the Corporation submitted a formulaic methodology for the determination and distribution of the Revitalization Charge among Customer categories, and for calculating and adjusting the Revitalization Charge from time to time (collectively, the “Adjustment Mechanism”), which are appended to this Financing Resolution as Appendix 2 hereto, together with supporting evidence which:

(i) determines the portion of the Financing Costs to be recovered from each category of Customers;

(ii) distributes the responsibility for the Financing Costs among Customers, and distributes such costs among such Customer categories based upon historical data of the consumption and use of water and/or sewer services certified by the Authority for such categories of Customers;

(iii) calculates the Revitalization Charge for non-residential Customers based upon historical consumption data of water and/or sewer services and calculates the Revitalization Charge for residential Customers on an equal per-Customer (*per capita*) basis;

(iv) provides that payment delinquencies of any Customer category will be distributed among all Customer categories as provided in Article 7(b)(1)(C) of the Act and will be included in the Adjustment Mechanism; and

(v) provides that any excess 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.

21. The Corporation has determined that the distribution and calculation methodologies described in clauses (i) through (v) of Finding of Fact 20 are practicable to administer, and ensure 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.

22. The distribution and calculation methodologies for the Revitalization Charges and the Adjustment Mechanism (a) has been approved by PRFAFAA in Certification No. [-], (b) is practical to administer and ensures the full and timely payment of (i) the Bonds in accordance with their terms and (ii) all other Ongoing Financing Costs, and (c) is approved by the Corporation.

Adjustment Mechanism:

23. The Corporation will apply, or cause the Servicer to apply, the Adjustment Mechanism to adjust the Revitalization Charge, periodically, and at least semi-annually, to ensure the full and timely payment of the Bonds in accordance with their terms and to cover all Ongoing Financing Costs during the term of the Bonds.

24. The review by the Corporation of the periodic adjustment of Revitalization Charges pursuant to the Adjustment Mechanism shall be limited solely to the mathematical accuracy of the calculations of the amount of such adjustments, and in connection with each such review by

the Corporation, it shall retain the services of one or more Persons with the necessary experience to review the mathematical accuracy of such periodic adjustments. If the Corporation determines that the calculation of any adjustments to the Revitalization Charges was mathematically inaccurate, such adjustment shall be modified on or before the next implementation of the Adjustment Mechanism, and the collections above or below the appropriate amount resulting from such mathematical inaccuracy shall be credited or added in the next implementation of the Adjustment Mechanism, as the case may be; but no Customer shall be entitled to a refund of Revitalization Charges or the retroactive application thereof by reason of mathematical inaccuracies in such periodic adjustments. No adjustment of Revitalization Charges pursuant to the Adjustment Mechanism may in any way affect the irrevocable and non-bypassable nature of the Financing Resolution related thereto. The Corporation is authorized to engage the services of one or more persons to review the calculation of the Revitalization Charges prepared by the Servicer. The Authority is authorized and ordered to provide to the Corporation and its agents the information required by the Corporation, and by any calculation agent to verify the calculations of such periodic adjustments. The Government Development Bank for Puerto Rico, or its successor, as fiscal agent for the Commonwealth, is authorized and ordered to assist, support and provide financial advice to the Corporation, in order to permit for the compliance with the purposes of the Act in a diligent and effective manner within the parameters of the Act.

25. PRFAFAA's review of the initial Revitalization Charges was limited to verifying that (i) the determination and distribution criteria for the Revitalization Charge among the Customer categories and the establishment and adjustment of the Revitalization Charges was made in compliance with the Act, (ii) the determination of the Revitalization Charges and the Adjustment Mechanism were not adopted in an arbitrary or capricious manner and that the same are just and reasonable in comparison to the parameters used by other public services entities in other jurisdictions of the United States of America that have used similar financing mechanisms, (iii) the disclosure and public hearing process undertaken fully complied with the Act, and that the objections, proposals, opinions and recommendations presented were duly taken into consideration.

26. No adjustment of Revitalization Charges pursuant to the Adjustment Mechanism shall in any way affect the irrevocability of this Financing Resolution.

27. There shall be no cap on the Revitalization Charge calculated pursuant to the Adjustment Mechanism.

Calculation Agent:

28. The Corporation or the Trustee, in each case as and to the extent provided in the Trust Agreement, is authorized, pursuant to Article 7(h) of the Act, to retain the services of a third party calculation agent unrelated to the Commonwealth or the Authority, to confirm the calculation of the Revitalization Charges prepared by the Servicer. The Corporation has concluded that the use of a Calculation Agent will enhance the marketability of the Bonds and the Corporation Designee should be authorized to execute and deliver a calculation agent agreement (a "Calculation Agent Agreement"), substantially in form of Appendix 3 hereto, with the initial Calculation Agent, with such changes, omissions or alterations as the Corporate

Designee shall approve with the advice of financing counsel to the Corporation, his or her execution of the same being conclusive proof of the approval of such changes, omissions or alterations. In the event that the Calculation Agent should resign or be discharged, the Corporation or the Trustee, in each case as and to the extent provided in the Trust Agreement, shall be authorized to take all necessary action to cause a new Calculation Agent to be appointed.

Benefits to Customers and the Authority

29. If successfully implemented the expected benefits to the Authority and for the Commonwealth from the issuance of the Bonds would include:

- a. Providing a new vehicle to access the capital markets with the purpose of giving the Authority access to the necessary funds to pay the approximately \$150 million dollars due to its contractors, as well as a new source of financing for its CIP;
- b. Providing the opportunity, subject to compliance with the conditions hereinbefore stated for the Authority to refinance, cancel or defease, whether through an exchange of bonds or otherwise, its existing indebtedness, and accrue substantial net debt service savings. Although the total potential net savings to the Authority cannot be precisely anticipated in advance of an actual transaction, since it is dependent on external factors and uncertainties, the Corporation estimates that compliance with the provisions of the Act, including haircut, interest rates and other terms specified therein, will provide sufficient present value savings, for the benefit of the Authority, the Commonwealth and its residents.
- c. Promoting the financial recovery of the Authority and the continuation of its regulatory capital investment 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 Puerto Rico Department of Health (“PRDOH”) of the Commonwealth
- d. Permitting the restoration of the Authority’s prior fiscal self-sufficiency, end the financial burden of past due accounts and 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, as well as potentially reduce its current debt burden. These actions would benefit not only the Authority, but also the Commonwealth and all its citizens.
- e. If the Authority were unable to receive the benefits availed to it under the Revitalization Act it would be impossible for the Authority to continue operating without having to modify its current rate structure and substantially increasing Customer charges. Customer Charges without the Act would have to be substantially higher than the sum of current Authority charges and the

Revitalization Charges.

- f. The implementation of the CIP is among the highest priorities for the Authority and its Governing Board, and without access to the proceeds of the Bonds, it would not be able to continue its projects and plan for future CIP projects. As stated in the Report submitted with this Financing Resolution, the Authority is currently unable to access capital markets independently from the Act. It is expected that by providing the funds for its CIP and potentially reducing its debt burden, the issuance of the Bonds will reestablish the Authority's financial health and place it in a position to make or attract new investments in infrastructure and to meet the future needs of its Customers at a reasonable cost.
 - g. Even if the Corporation were unable to carry out the simultaneous defeasance, cancellation or exchange of the Authority's bonds, it is still necessary to seek the approval of the Financing Resolution since it is of the utmost importance for the Authority to raise new money in the maximum amount authorized under the Revitalization Act, \$900,000,000 to be able to continue its CIP projects.
30. Additional Benefits:

Reduced Costs to the Authority, Translating into Savings to Customers. The Bonds and related actions authorized by this Financing Resolution will, in total and on balance, reduce the Authority's debt costs and allow the Authority to eliminate sudden rate increases that would be mandatory if the Authority is not able to receive funds from the Corporation to cover Mandatory and Required CIP. Based on the Authority's CIP requirements, the New Money Bonds will reduce costs by \$328 million in Fiscal Year 17, \$195 million in Fiscal Year 18 and \$184 million in Fiscal Year 19. Without these reductions, the Authority would have needed to increase its rates in a sufficient amount to cover these costs in order to comply with its Master Agreement of Trust rate covenants. In addition to eliminating this sizeable short-term pressure on the Authority's rate, the proposed tender/exchange also allows the Authority to sculpt debt obligations and provide net savings to customers from the reduction in debt. While the net total savings to Customers cannot be precisely quantified in advance because its exact value depends on factors that are not known at this time, the Corporation does estimate that the statutorily identified transactions described in this Financing Resolution will result in approximately \$400 million of present value savings, which will benefit Puerto Rico and its citizens.

Promote Growth and Investment in Puerto Rico. The New Money Bonds will provide the Authority the capacity to repay local vendors for services they have provided for the CIP and provide them with an opportunity to create jobs and additional economic activity and investment once the Authority is able to reactivate its CIP. The restructuring of a portion of the Authority's debt will enable the Authority to become a utility that can provide efficient, safe, reliable and environmentally friendly service at just and reasonable rates.

Financing Property:

31. The Financing Property, described in detail in Appendix 4, created by this Financing Resolution shall include this Financing Resolution and the property rights and interests created hereby, including the right, title, and interest in and to: (a) the right to create and receive Revitalization Charges; (b) the Revitalization Charges, as adjusted from time to time in accordance with the Adjustment Mechanism, including any rights under a Servicing Agreement assigned pursuant to the related Trust Agreement or other security interest agreement; (c) all revenues, collections, claims, payments, money or profits arising from the Revitalization Charges or that constitute Revitalization Charges, regardless that such revenues, collections, claims, payments, money or profits are billed, received, collected, or maintained by the Authority or the Corporation together with or commingled with other revenues, collections, claims, payments, money or profits; (d) all rights to receive Revitalization Charge adjustments in accordance with the terms of this Financing Resolution related thereto; and (e) all reserves established in relation to the Bonds or the Financing Property.

32. Once the Bonds are issued, the Financing Property shall constitute a property right acquired and existing in the estate of the Corporation, as the initial owner, subject to Article 8 and any pledge of Financing Property pursuant to the Act, notwithstanding that the value of the property right shall depend on future actions that have not yet occurred, including that Customers remain connected or be connected to the System Assets and that they take or receive water and sewer service, the imposition and billing of the Revitalization Charges, or the providing of services by the Authority. The term “Financing Property” shall not include real estate property of the Authority nor real property rights created on such real estate. “System Assets” shall mean 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. In no event shall “Financing Property” include “System Assets”.

Servicing.

33. The Corporation is authorized pursuant to Article 7(h) of the Act to enter into a servicing agreement with the Authority, as the initial Servicer (the “Initial Servicer”) to perform such duties of the Servicer as may be required or permitted by the Act, including to provide for the servicing, billing and collection of the Revitalization Charges.

34. The terms of the initial servicing agreement between the Authority and the Corporation, substantially in the form of Appendix 5 hereto (the “Initial Servicing Agreement”), are consistent with the Act and will enhance the marketability of the Bonds. Accordingly, the Corporation Designee should be authorized to execute and deliver the Initial Servicing Agreement, with such changes, omissions or alterations as the Corporate Designee shall approve upon the advice of financing counsel to the Corporation, other than changes to the Initial Servicing Agreement which alter the fees payable to the Servicer, his or her execution of the same being conclusive proof of the approval of such changes, omissions or alterations.

35. The Servicing Agreement shall provide that the Corporation or the Trustee will have the ability to replace the Servicer after an event of default under the Servicing Agreement. In the event that the Authority shall default in its obligation under the Initial Servicing Agreement, the Corporation or the Trustee to the extent provided in the Trust Agreement, shall be authorized to replace the Authority as Servicer, and enter into such other servicing, billing and collection agreements as the Corporation or the Trustee, as the case may be, deems appropriate to ensure the timely and full payment of the Bonds and all Ongoing Financing Costs.

36. The Corporation has submitted to PRFAFAA an estimate, together with supporting documentation prepared by the Authority, of the Authority's costs to serve as Initial Servicer under the Initial Servicing Agreement.

37. In Certification No.[-], PRFAFAA determined that the proposed initial annual servicing fee to be paid to the Authority, in the amount of [-], is necessary, reasonable and sufficient to compensate the Authority for the incremental cost of performing such servicing functions. Accordingly, the Corporation will approve the initial annual servicing fee.

38. The fees and expenses of any Servicer (including any successor Servicer) shall be Ongoing Financing Costs (except for any set-up costs paid as Upfront Financing Costs) and shall be recovered from Revitalization Charge Revenues.

39. The Authority, as Initial Servicer, or at the request of the Servicer, shall cancel or suspend the service to each Customer that is delinquent in the payment of its Revitalization Charge on the same basis as the Authority is permitted to cancel or suspend the service for a failure to pay water and/or sewer service rates or other rates. Neither the Corporation nor another holder of the Financing Property, nor the Trustee may directly suspend or cancel water and/or sewer service to any Customer.

Depositories.

40. The Corporation is authorized pursuant to Article 6 of the Act to enter into one or more depository, trust or escrow agreements with financial institutions or other Persons (each a "Depository") providing for the deposit (escrowing) and remitting of the collections of the Revitalization Charges to the Corporation and the Authority's Charges to the Authority..

41. Any Depository shall be a bank organized under and subject to the laws of the United States of America or any state of the United States of America (licensed to operate in the Commonwealth), selected by the Corporation (except as provided in Finding of Fact 40) which shall not be related to the Authority or to the Commonwealth or under the control of the Authority or the Commonwealth.

42. The terms of the depository agreement with [-], substantially in the form of Appendix 6 hereto (the "Depository Agreement"), by and among the Authority, the Authority Bond trustee, the Corporation and the Trustee, are consistent with the Act and are designed to enhance the marketability of the Bonds. Accordingly, the Corporation Designee is authorized to execute and deliver the Depository Agreement, with such changes, omissions or alterations as the Corporation Designee shall approve upon the advice of financing counsel to the Corporation, his

or her execution of the same being conclusive proof of the approval of such changes, omissions or alterations.

43. In the event that the Depository should resign or be discharged, the Corporation and the Trustee, each as and to the extent provided in the Trust Agreement, shall be authorized to take all necessary action to cause a new Depository to be appointed.

44. The costs of the Depository shall be Ongoing Financing Costs and shall be recovered from Revitalization Charge Revenues.

Trust Agreement:

45. The Corporation will enter into a Trust Agreement (the “Trust Agreement”), substantially in the form of Appendix 7 attached hereto, with a bank or trust company acceptable to the Corporation Designee (the “Trustee”) pursuant to which the Bonds may be issued and secured.

46. As provided in Article 7(1) of the Act, the Corporation, by its execution and delivery of a Trust Agreement, will pledge the Financing Property to secure the payment of Bonds, amounts payable to Financing Entities, and other Ongoing Financing Costs. While the Financing Property remains pledged to secure such payments, revenues from the collection of Revitalization Charges shall be applied solely to pay Ongoing Financing Costs.

47. Following the award or pricing of any issuance of Bonds, consistent with Finding of Fact 1 of this Financing Resolution, the Corporation Designee is authorized to execute and deliver the Trust Agreement, together with any supplements thereto consistent with the terms of the Trust Agreement, with such changes, omissions or alterations, consistent with terms of this Financing Resolution and the Act, as the Corporation Designee shall approve upon the advice of financing counsel to the Corporation, his or her execution of the same being conclusive proof of the approval of such changes, omissions or alterations.

Basic Documents:

48. In addition to the Trust Agreement, the Initial Servicing Agreement, the Depository Agreement(s), the Calculation Agent Agreement, and agreements with any Surety Bond provider, the Corporation will be required, in connection with the issuance of any issue of Bonds, to execute one or more of the following additional financing agreements (collectively with the foregoing, the “Basic Documents”):

- Supplemental Trust Agreement
- Bond Purchase Agreement
- Tender Agent Agreement
- Dealer/Manager Agreement
- Continuing Disclosure Agreement

- Remarketing Agreement Preliminary and final offering documents
- Escrow agreements
- Agreements related to credit enhancement or investment agreements, surety bonds
- Any other financing document related to the Bonds.

Compliance of Revitalization Charges

49. The Revitalization Charges, appended hereto with all supporting evidence as Appendix 2, related to the Bonds issued and to be issued under the Act and this Financing Resolution, shall not exceed, in the aggregate, twenty percent (20%) of the charges billed by the Authority.

Governing Law; Jurisdiction:

50. The Corporation deems it necessary for the issuance of the Bonds to include in this Financing Resolution an authorization to the irrevocable submission and waiver of any objection by the Corporation to the nonexclusive, *in personam* jurisdiction and venue of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City and to the application of the laws of the State of New York, with respect to any claim related to the Bonds (including, without limitation, any claims arising under this Financing Resolution and the Basic Documents, including, to the extent permitted by law, the Initial Servicing Agreement).

51. The Corporation deems it necessary for the issuance of the Bonds to include in this Financing Resolution an authorization for the Corporation to include in the Trust Agreement, any Servicing Agreement, any Ancillary Agreement and any other Basic Documents a provision to the effect that such agreement will be governed by New York law as if each such agreement were executed in and to be performed entirely within the State of New York. Notwithstanding the foregoing, all matters of the constitutional and statutory law of the Commonwealth (including the Act) and this Financing Resolution, all rights of the Corporation and the Servicer against any Customer by virtue of the Act, and the effect of the judgments and decrees of the Commonwealth courts, shall in all events be governed by the law of the Commonwealth.

Revitalization Charges Non-bypassable:

52. According to Article 7(g) of the Act the Revitalization Charges approved in this Financing Authority are Non-bypassable to Customers.

Corporation Designee

53. As the final terms of the Bonds include certain details ancillary thereto and certain actions after the date of adoption of this Financing Resolution may require expedited approval or other action by the Corporation in order to accomplish the purposes of this Financing Resolution, the Corporation deems it reasonable to appoint the Chairperson and the Vice Chairperson of the

Corporation, either of whom may act (each a “Corporation Designee”) on behalf of the Corporation, to approve the final terms of each issuance of Bonds, to execute and deliver the Designee Certificate related to such Bonds, to file with PRFAFAA the report relating to this Financing Resolution, to execute and deliver the Basic Documents and such other documents, certificates or agreements as are required under any of the Basic Documents or otherwise, and take such other actions as are necessary and appropriate to cause the issuance of the Bonds in a manner consistent with this Financing Resolution.

CONCLUSIONS OF LAW

The Corporation hereby makes the conclusions of law listed below.

Compliance with the Securitization Chapter:

1. The structure of the Bonds is consistent with the Securitization Chapter, and the Bonds are “Bonds” under the Securitization Chapter.
2. The Approved Financing Costs are “Approved Financing Costs” under the Securitization Chapter. Without limiting the generality of the foregoing, the Upfront Financing Costs and Ongoing Financing Costs to be recovered from the proceeds of the Bonds or the Revitalization Charge Revenues are consistent with the Securitization Chapter.
3. The Financing Property is “Financing Property” under the Securitization Chapter.
4. The Revitalization Charges are “Revitalization Charges” under the Securitization Chapter.
5. This Financing Resolution meets the requirements of a “Financing Resolution” under the Securitization Chapter. Without limiting the generality of the foregoing, the provisions of this Financing Resolution, including the calculation methodologies for the Revitalization Charges and the Adjustment Mechanism related to the Bonds as described herein are sufficient for and provide for adequate protection of the full and timely payment of the Bonds in accordance with their terms and other Ongoing Financing Costs.

Financing Resolution:

6. As provided in Article 6 of the Act, this Financing Resolution, the Financing Property, the Adjustment Mechanism and all other obligations of the Corporation set forth in this Financing Resolution will be direct, explicit, irrevocable and unconditional upon issuance of the first series of Bonds, legally enforceable against the Authority and the Corporation.

No Cap on Revitalization Charges:

7. Neither the Act nor this Financing Resolution imposes a cap on the Revitalization Charge calculated pursuant to the Adjustment Mechanism.

Compliance with 20% of the Authority’s billed charges:

8. As required by Article 7(g) of the Act, 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.

Irrevocability of Financing Resolution:

9. As provided in Article 7(g) of the Act, upon the issuance of the first series of Bonds, this Financing Resolution, the related Revitalization Charges, including their Non-bypassability and the procedures for the Adjustment Mechanism shall be irrevocable, final, non-discretionary and effective without further action by the Corporation or any other Person. No adjustment of the Revitalization Charges pursuant to the Adjustment Mechanism or any other action or inaction whatsoever by the Corporation, Servicer or any other Person shall in any way affect the irrevocability of this Financing Resolution.

Non-bypassability:

10. As provided in Article 7(h) of the Act, for so long as the Bonds are outstanding, and the Financing Costs (including any payments that have or are to become due under Ancillary Agreements) have not been paid in full, the Revitalization Charges authorized and imposed by the Act shall be obligatory, Non-bypassable and shall apply to all Customers.

11. As provided in Article 7 (g) of the Act and Conclusion of Law 9, the Non-bypassability of the Revitalization Charges is irrevocable, final, non-discretionary and effective without further action by the Corporation or any other Person.

12. As provided in Article 3 of the Act, Non-bypassable means that the Revitalization Charges shall be paid by all Customers, even if the Customer elects to purchase water and sewer services, in whole or in part, from an alternative supplier.

Customers:

13. Customer means any Person who is connected to or takes or receives water and/or sewer services within the Commonwealth by means of the facilities that constitute part of System Assets (as such term is defined in Finding of Fact 32). The Authority shall not be considered a Customer.

Adjustment Mechanism:

14. The Adjustment Mechanism is consistent with the requirements of the Securitization Chapter.

15. Pursuant to Article 6 of the Act, except for the requirements in the Securitization Chapter, the Revitalization Charges and the Adjustment Mechanism will not be subject to any other provision of law, including the provisions of Act No. 21, approved May 31, 1985, the Act or any other provision of law requiring or providing for the review (except by the Corporation as in Article 6 of the Act) or approval of rates of any governmental entity, or the holding of public hearings (except for the public hearings held by PRFAFAA as provided in subsection (b) of Article 7 of the Act, which hearings have taken place) or notification of rate changes of any governmental entity, including the Legislative Assembly or PRFAFAA. No governmental entity

shall adopt any regulations, rules or procedures or take any other action that would delay or adversely affect the implementation of the Adjustment Mechanism or collection of Revitalization Charge Revenues.

Taxation of Financing Property and Bonds:

18. As provided in Article 7(n)(1) of the Act, neither the Financing Property, the Revitalization Charge, nor the Revitalization Charge Revenues, regardless of whether the Corporation is the owner of the Financing Property, shall be subject to any fees, taxes, special ad valorem levies or assessments of any kind, including income taxes, franchise taxes, sales taxes or other taxes or payments or contributions in lieu of taxes.

19. As provided in Article 7(n)(2) of the Act, the Bonds and the income therefrom and all revenues, money, and other property pledged to pay or to secure the payment of such Bonds shall at all times be free from taxation; and this covenant may be included in the Bonds.

Indemnities:

20. Any indemnity payments required to be paid by the Corporation to the Authority, the Trustee, the underwriters or other persons pursuant to the Securitization Chapter or agreements entered into in connection with the sale of the Bonds will be Ongoing Financing Costs recoverable pursuant to this Financing Resolution and the Securitization Chapter.

Partial Payments:

21. As provided in Article 7(j)(1) of the Act, to the extent that any Customer makes a partial payment of a bill containing both the Revitalization Charge and any other the Authority charges, such payment shall be allocated pro rata between the Revitalization Charges and the Authority charges.

Pledge of Financing Property:

22. As provided in Article 7(l) of the Act, the Corporation, by its execution and delivery of the Trust Agreement, pledges the Financing Property to secure the payment of the Bonds issued pursuant to the Trust Agreement, amounts payable to Financing Entities, and other Ongoing Financing Costs. While the Financing Property remains pledged to secure such payments, revenues from the collection of Revitalization Charges shall be applied solely to pay Ongoing Financing Costs.

Existence of Financing Property:

23. As provided in Article 3 of the Act (definition of “Financing Property” [*“Propiedad de Financiamiento”*]), upon the issuance of the Bonds, the Financing Property created pursuant to this Financing Resolution shall constitute a vested, presently existing property right in the Corporation, as initial owner, subject to any pledge of Financing Property pursuant to the Act, notwithstanding the fact that the value of the property right will depend on further acts that have not yet occurred, including Customers remaining or becoming connected to the System Assets and taking or receiving water or sewer services, the imposition and billing of Revitalization Charges, or the Servicer performing services.

24. As provided in Article 7(i)(1) of the Act, the Financing Property shall constitute an existing, present and continuing property right for all purposes whether or not the revenues and proceeds arising with respect thereto have accrued and notwithstanding the fact that the imposition and collection of Revitalization Charges will depend on further future acts, including: (a) the Authority delivering services, (b) the Servicer performing billing and collection functions of Revitalization Charges, and (c) the level of future consumption of such service. The Financing Property shall exist whether or not Revitalization Charges have been imposed, billed, accrued or collected and notwithstanding the fact that the value or amount of the Financing Property is dependent on the future provision of service to Customers. Subject to applicable law and regulations, the timely payment in full of all Revitalization Charges shall be a condition of receiving service from the Authority.

25. As provided in Article 7(i)(2) of the Act, all Financing Property shall continue to exist until the Bonds and all Ongoing Financing Costs relating to the Bonds have been paid in full.

Statutory Lien:

26. As provided in Article 7(j)(2) of the Act, the Bonds and obligations of the Corporation under Ancillary Agreements, including any Surety Bond reimbursement agreement, shall be secured by a statutory lien on the Financing Property in favor of the Bondholders and the parties to such Ancillary Agreements. The lien shall automatically arise upon issuance of the applicable Bonds without the need for any action or authorization by the Corporation or the Board. The lien shall be valid and binding once the Bonds or Ancillary Agreements, as applicable, are executed. The Financing Property shall be immediately subject to the lien, and the lien shall immediately attach to the Financing Property being effective, binding and enforceable against the Corporation, its creditors and its successors, assignees and creditors and all additional rights thereto, regardless of whether such Persons were aware of the lien and without requiring any physical delivery, recording, filing or subsequent action. The lien, although created by the Act and not by any security contract or issuance, may be enforceable by a Trustee or other fiduciary for the Bond beneficiaries or holders.

27. As provided in Article 7(j)(2) of the Act, the statutory lien is a security interest that shall be understood to be continuously perfected and has priority over any other lien, created by operation of law or otherwise, that may subsequently attach to the Financing Property or any income thereof, unless the holders or beneficial owners of the Bonds have otherwise agreed in writing as specified in the applicable Trust Agreement. The statutory lien encumbers the Revitalization Charges and the entirety of the Revitalization Charge Revenues that are deposited in any deposit account or other type of account of the Servicer or other Person in which Revitalization Charge Revenues or other revenues have been commingled with other funds. Without limiting the effectiveness of the statutory lien created by this Act, any other lien to which the Revitalization Charge Revenues or other proceeds may be subject shall be cancelled when such funds or proceeds are transferred to a separate account to the benefit of an assignee or Financing Entity. The application of the Adjustment Mechanism shall not affect the validity, perfection or priority of the statutory lien created by this Act. All Revitalization Charge Revenues commingled with other funds subject to a lien shall be administered in a manner that allows for the identification of the Revitalization Charge Revenues and such other funds.

28. As provided in Article 7(j)(3) of the Act, the statutory lien shall not be adversely affected or suffer any impairment by, among other things, the commingling of the Revitalization Charge Revenues or proceeds of Revitalization Charges with other amounts regardless of the Person holding such amounts. All Revitalization Charge Revenue commingled with other funds subject to a lien shall be administered in a manner that allows for the identification of the Revitalization Charge Revenues and such other funds.

No Conflicting Liens:

29. The Revitalization Charge and Revitalization Charge Revenues are not subject to any lien or charge of Bondholders or other creditors of the Authority or of any other Person other than the lien or charge imposed by the Trust Agreement in favor of the Bondholders or under any Ancillary Agreement as and to extent provided therein.

30. The Corporation may issue one or more series of “Revitalization Bonds” in addition to the Bonds that are secured by “Financing Property” other than the Financing Property created pursuant to this Financing Resolution. Such additional series of “Revitalization Bonds” shall be issued pursuant to one or more “Financing Resolutions” in addition to this Financing Resolution so long as such issuance is consistent with the terms of the Act and the Trust Agreement securing any outstanding Bonds.

Revenues Solely of the Corporation:

31. The Revitalization Charge Revenues are revenue and income of the Corporation and not of the Authority or any other Person and are not available resources of the Commonwealth nor do the Revitalization Charges constitute a tax and the right of the Corporation to impose and collect Revitalization Charges may not be revoked or rescinded.

32. As more fully provided in Article 7(h) of the Act, (i) as soon as possible after receipt, all Revitalization Charge Revenues and the Authority charges shall be paid or deposited to a special collection account at the Depository, and (ii) such revenues shall be distributed among, and remitted to, the Corporation or its assigns or pledgees and to the Authority or its assigns or pledgees on a daily basis in accordance with their respective interests.

33. As provided in Article 7(h) of the Act, under no circumstances shall the Revitalization Charges imposed or Financing Property created by the Corporation to secure the Bonds be deemed as raised by taxation, nor shall the Revitalization Charge Revenues be deemed to be the Authority or Commonwealth revenue nor shall they be deemed received as a result of the Authority’s ownership or operation of the System Assets.

34. As provided in Article 7(h) of the Act, the Authority, in servicing and collecting any Revitalization Charges, shall be deemed to be acting solely as an agent of the Corporation and not as principal, any such Revitalization Charges to be received in trust for the exclusive benefit of the Corporation, the Bondholders and Persons entitled to receive payment therefrom for any Financing Costs. Revitalization Charges shall not lose their character as Revitalization Charges by virtue of their possession by the Authority.

Servicing:

35. As provided in Article 7(h) of the Act, the Corporation, the Authority and the Servicer (in case the latter is different from the Authority) shall have the following duties: (i) impose, adjust, bill and collect to all the Customers any applicable Revitalization Charges, including in each bill the applicable Revitalization Charge as a separate line item; (ii) distribute pro rata between the Corporation and the Authority the partial payments made by the customers as provided in subsection (j)(1) of Article 7 of the Act; (iii) take any actions permitted by the law to collect unpaid bills; (iv) exercise all the collection rights of the holders or pledgees of the Financing Property in benefit of such holders or pledgees; and (v) shall transfer any Revitalization Charge Revenues to the holders or pledgees of Financing Property.

36. As provided in Article 7(h) of the Act, the Authority, upon the Servicer's request, shall terminate or suspend service to non-paying Customers on the same basis as termination or suspension of service is permitted for nonpayment of water and sewer services or other rates by the Authority. Neither the Corporation, nor other holder of the Financing Property or the Trustee may directly suspend or terminate the water and sewer service to any Customer.

37. As provided in Article 3 of the Act (definition of "Servicer" [*Manejador*]), the term Servicer shall mean the Authority, to the extent permitted by the Act and, if the Authority is replaced as Servicer under a Servicing Agreement, 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. The "Servicer" shall be understood to include any sub-Servicer, alternate Servicer (backup) (including if it becomes a Servicer under the Servicing Agreement), substitute Servicer or the successors of any of the foregoing, authorized to act as such by this Financing Resolution.

Successor Owners:

38. As provided in Article 7(k) of the Act, the Authority, any successor or assign of the Authority or the System Assets or any other Person with any operational control of any portion of the System Assets, whether as owner, lessee, licensee or otherwise and any successor Servicer, shall be bound by the requirements of the Act and shall perform and satisfy all obligations imposed pursuant thereto in the same manner and to the same extent as did its predecessor, including the obligation to bill, adjust and enforce the payment of Revitalization Charges.

Commonwealth No Bankruptcy Covenant:

39. The Commonwealth has covenanted with the Bondholders and parties to any Ancillary Agreements in Article 13 of the Act that (a) the Commonwealth will not limit or alter the provision of Article 13 of the Act that provides that prior to the date that is one year and one day after the Corporation no longer has any "Revitalization Bonds" (including the Bonds) outstanding or any Ancillary Agreement, including any Surety Bond reimbursement agreement, with payment obligations that have or may become due thereunder, the Corporation shall have no authority to file a petition for relief as a debtor under any chapter of the federal bankruptcy

code or any other bankruptcy, insolvency, debt composition, moratorium, receiver or similar federal laws or any other bankruptcy, insolvency, debt composition, moratorium, receiver or similar federal laws or any Commonwealth bankruptcy, moratorium, debt adjustment, composition or similar laws permitting stay or delay of payment or discharge or reduction in amount owed on any “Revitalization Bonds”, including the Bonds, as may, from time to time, be in effect, and no public officer, organization, entity or other Person shall authorize the Corporation to be or become a debtor under chapter 9 of the Federal Bankruptcy Act or similar federal law or any such Commonwealth law during such period. As provided in Article 13 of the Act, the Corporation is authorized and directed as agent of the Commonwealth to include this covenant as an agreement of the Commonwealth in the Bonds and in any contract with the Bondholders or such Ancillary Agreement parties.

Commonwealth Non-Dilution Covenant:

40. Article 13 of the Act contains the covenant of the Commonwealth, made to the holders of any “Revitalization Bonds”, including the Bonds, and with those Persons that enter into contracts with the Corporation, including parties to any Ancillary Agreement, pursuant to the provisions of the Act, that after the issuance of the Bonds the Commonwealth shall not authorize the issuance of any debt by any public corporation and governmental instrumentality of the Commonwealth or any other Person whose debt is secured by the Financing Property, or any other right or interest in the rates, charges, taxes or assessments that are independent of the rates and charges of the Authority and that are imposed upon Customers to recover the Ongoing Financing Costs of such debt, if upon the issuance of such debt the security for any Bond or any Ancillary Agreement were to be materially impaired. It shall be presumed that such security shall not be materially impaired if, upon the issuance of such debt, the credit rating of the Bonds outstanding at that time (without regard to any third-party credit enhancement) were not reduced or withdrawn. The Corporation is authorized and directed as an agent of the Commonwealth to include this covenant as an agreement of the Commonwealth in any contract with the holders of Bonds or such Persons. The Corporation is authorized to issue additional bonds secured by a separate Financing Resolution.

Setoff, Counterclaim or Defense:

41. As provided Article 7(j)(1) of the Act, the Financing Property, Revitalization Charges, Revitalization Charge Revenues, and the interests of a holder of Bonds, Financing Entity or any other Person in the Financing Property or in the Revitalization Charge Revenues shall not be subject to set-off, counterclaim, surcharge or defense by a Servicer, Customer, the Corporation, the Authority, the holders of any other debt issued by the Authority (or any other creditor of the Authority) or any other Person or with respect to any default, bankruptcy, reorganization or other insolvency proceedings of any such persons. To the extent that a Customer makes a partial payment of a bill containing Revitalization Charges and other charges, for the purposes of allocation, such payment shall be allocated on a pro rata basis between the Revitalization Charges and the other charges.

Corporation:

42. The Corporation has been duly created by Article 4(a) of the Act.**Exercise of Remedies:**

43. As provided in Article 7(i)(3) of the Act, if the Servicer defaults with the obligations established in the Act or through a contract related to the required remittances of Revitalization Charge Revenues, the Corporation, the Trustee or the holders or secured creditors of the Financing Property may resort to any court to request an order of garnishment and payment of the Revitalization Charge Revenues, or any other applicable remedy. If the court determines that such a default existed, it shall issue the requested garnishment and payment order. The order shall remain valid notwithstanding any bankruptcy, reorganization or other insolvency proceedings with respect to the Servicer, the Corporation, the Authority or any other Person.

44. As provided in Article 10(a) of the Act, subject to the limitations, established in this Financing Resolution or related Trust Agreement, the Corporation or any holder of the Financing Property, or the applicable Trustee, (1) shall be authorized to hire consultants, attorneys and any other Person and to enter into such contracts as the Corporation, other holder or Trustee deems necessary to require payment and collect the Revitalization Charge Revenues or protect the Financing Property, and to include the cost thereof as a Financing Cost, and notwithstanding any other legal provisions, and (2) shall be expressly authorized to (i) bring legal actions against any owner of the System Assets, any Servicer, or any other Person authorized to bill or collect Revitalization Charges, any Customer or any other Person for failure to bill, pay or collect any Revitalization Charges constituting part of the Financing Property then pledged to secure such Bonds; (ii) demand compliance with any other provision of the Act or action taken by the Corporation in respect thereof; (iii) take any other action that the Corporation, other holder of the Financing Property or the Trustee may deem necessary to demand payment and to collect the Revitalization Charge Revenues; or (iv) to protect the Financing Property in accordance with the terms of this Financing Resolution and the applicable Bonds, regardless of whether an event of default has occurred. 45. As provided in Article 10(a) of the Act, no action may be brought by the Corporation, the Trustee or the parties to any Ancillary Agreement or on their behalf (other than through the Authority or any successor Servicer) against a Customer for its failure to pay any Revitalization Charges as long as the Authority or any Servicer is complying with its obligations under the Servicing Agreement of collecting charges (including Revitalization Charges) due from such Customer.

46. As provided in Article 3 of the Act any or all of the following costs approved as “Financing Costs” [*Costos de Financiamiento*], by this Financing Resolution: (a) exclusively the capital costs related to the Authority's Capital Improvement Program for a period of up to three (3) years from the date of issuance, including those projects of the Capital Improvement Program that have been initiated but not finished, or otherwise postponed, before the approval of the Act, even though the Corporation has borrowing capacity to issue a larger amount of debt, as detailed in Resolution No. 2984 adopted by the Governing Board of the Authority on June 3, 2016; the Authority; (b) the applicable costs of the Authority's accumulated debt, as of the time of approval of the Act, relating to the Capital Improvement Program's accounts payable, including reimbursement to the Authority of the advances, if any, made from its operational funds for said Capital Improvement Program, as well as the payment of any amount owed to suppliers of goods or services related to the implementation of the Capital Improvement Program that are outstanding; (c) refinancing credit lines or other instruments of short-term debt, such as notes, bonds, promissory notes or other interim financing issued or incurred by the Authority in anticipation of the issuance of Bonds of the Authority or the Bond Anticipation (“Bond Anticipation Notes” or BAN) issued to meet the purposes of the Act; (d) the costs to retire,

cancel (defease) or refinance all or part of the debt obligations of the Authority or the Bonds; (e) the rebate (rebate), yield reduction payments and any other amount payable to the United States of America to preserve or protect the federal tax exempt status of the Authority or Corporation's outstanding debt obligations; (f) the deposits from proceeds of issuance of the Bonds that are paid to a capitalized interest fund or account, a debt service reserve fund or account, or an operating expense reserve fund or account, established in connection to such Bonds; (g) costs related to the negotiation of legitimate labor debts pending payment by the Authority; and (h) subject to the limitations contained in the Act, the Financing Costs. The operational expenses of the Authority or the costs, if any, of financing said operational costs shall not be considered Approved Financing Costs under the Act.

47. As provided in Article 10(b) of the Act, any court shall have jurisdiction over any proceedings for a failure to impose, bill, pay or collect Financing Charges or to require compliance with any provision of this Act.

48. As provided in Article 10(c) of the Act, the Financing Property may be transferred, sold, conveyed or assigned (including by means of an enforcement action against the Financing Property) to any Person, even after the occurrence of an event of default, subject to the terms of the Trust Agreement, as long as any contract relating to the Bonds remains in effect with respect to the Bonds.

49. Pursuant to Article 7(h) of the Act, neither the Corporation nor another holder of the Financing Property, nor the Trustee may directly suspend or cancel water and/or sewer service to any Customer.

Additional Commonwealth Covenants:

50. As provided in Article 13 of the Act, the Commonwealth has covenanted, pledged and agreed with the holders of any "Revitalization Bonds", including the Bonds, issued under the Act and with those Persons that enter into other contracts with the Corporation, including parties to any Ancillary Agreement, pursuant to the provisions of the Act, that it shall not limit, alter, impair, postpone or terminate the rights conferred in this Act, any Financing Resolution and related contracts, including the requirements in Articles 4(b)(3) and 7(h) of the Act, until such Bonds and their interest and premium, if any, have been paid or legally defeased in accordance with their terms and until the Corporation has fully complied with any of such contracts. The Corporation shall, acting as agent of the Commonwealth, include this covenant as an obligation accepted by the Commonwealth in all contract with the holders of Bonds and in the marketing, offering, and ratings materials.

51. As provided in Article 13 of the Act, the Commonwealth has covenanted, pledged and agreed with the holders of any "Revitalization Bonds", including the Bonds, issued under the Act and with those Persons that enter into other contracts with the Corporation, pursuant to the provisions of the Act, that after the issuance of Bonds, neither the Commonwealth nor any agency, public corporation, municipality or instrumentality thereof can take any action or permit any action to be taken to limit, alter, reduce, impair, postpone or terminate the rights conferred in any Financing Resolution, including those relating to Revitalization Charges and the related Adjustment Mechanism, as they may be adjusted from time to time as provided in this Financing Resolution, in a manner that impairs the rights or remedies of the Corporation or the holders of

the Bonds, contracting parties to Ancillary Agreements or any Financing Entity or the security for the Bonds or Ancillary Agreements, or that impairs the Financing Property or the billing or collection of Revitalization Charge Revenues. The income arising with respect to the Financing Property also cannot be subject in any way to limitation, alteration, reduction, impairment, postponement or termination by the Commonwealth or any agency, public corporation, municipality or other instrumentality of the Commonwealth (except as contemplated by the Adjustment Mechanism). The Corporation shall, acting as agent of the Commonwealth, include this covenant as an obligation accepted by the Commonwealth in any contract with the holders of Bonds or such contracting parties to Ancillary Agreements.

Not Debt of the Commonwealth or the Authority:

52. As provided in the Act, the Bonds shall not be a debt of the Commonwealth or the Authority, nor shall they be payable from funds other than those of the Corporation; and such Bonds shall contain on the face thereof a statement to that effect.

Legal Investments:

53. As provided in Article 7(m) of the Act, the Bonds are securities in which all public officers and entities of the Commonwealth and all public corporations, municipalities and municipal subdivisions, all insurance companies and associations and other Persons carrying on an insurance business, all banks, bankers, third party asset managers, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other Persons carrying on a banking business, all administrators, conservators, guardians, executors, trustees and other fiduciaries, and any other Person who is now or in the future authorized to invest in Bonds or in other obligations of the Commonwealth, may properly and legally invest funds, including capital, which is under their control or belonging to them, and the Bonds may be deposited with and may be received by any public official and entities of the Commonwealth and all municipalities and public corporations for any purpose for which the deposit of Bonds or other obligations of the Commonwealth is now or may hereafter be authorized.

Governing Law:

54. The Corporation is permitted to include in the Financing Resolution any terms or conditions that it deems necessary for the issuance of the Bonds authorized by the Act, including consenting to the application of the laws of the State of New York and the jurisdiction of any state or federal court located in the County of Manhattan, New York City, New York State, in the case of any claim related to said Bonds, and may also include in the Trust Agreement, the Service Agreement and the Ancillary Agreements that such agreements shall be governed by the laws of the State of New York. Notwithstanding the foregoing, all the matters of constitutional and statutory law of the Commonwealth (including the Act and this Financing Resolution), all rights of the Corporation or the Servicer against any Customer by virtue of the Act and the

effects and rulings and decrees of the courts of the Commonwealth shall in all events be governed by the laws of the Commonwealth. Notwithstanding any provisions in the Act to the contrary, any proceeding commenced and undertaken pursuant to the provisions of Articles 7(b) or 7(c) of the Act must be filed in the Court and according to the proceedings described in those Articles.

General.

55. Neither the Servicing Agreement, nor any obligation or duty of the Authority thereunder, is, nor may it be classified as, an enumerated obligation as defined in Act No. 21-2016 of the Legislature of Puerto Rico, enacted April 6, 2016.

Compliance with Applicable Law

56. Notwithstanding anything herein to the contrary, any issuance of Bonds by the Corporation under the authority contained in this Financing Resolution shall be completed in compliance with all laws applicable to the issuance of bonds by a public authority or instrumentality of the Commonwealth.

BE IT RESOLVED BY THE CORPORATION AS FOLLOWS:

1. **RESOLVED**, The Corporation authorizes and approves the issuance and sale of Bonds in the maximum principal amounts set forth in Finding of Fact 1, for the purposes described in this Financing Resolution. The final terms of the Bonds, consistent with the terms of this Financing Resolution, shall be approved by the Corporation Designee pursuant to Finding of Fact 53 and Ordering Paragraph 12 below, or in the case of the Bonds, by the Board pursuant to any Designee Certificate. In no event are Bonds to be issued during the pendency of any action brought pursuant to Article 7(c) or (e)(2) of the Act.
2. **RESOLVED**, The Corporation authorizes and approves the recovery of the Approved Financing Costs described in this Financing Resolution through the issuance of the Bonds.
3. **RESOLVED**, The Corporation authorizes the creation of the Financing Property, as described in Findings of Fact 31] and 32 and hereby specifies that it will be created and vest in the Corporation upon the issuance of any Bonds.
4. **RESOLVED**, The Financing Property, as described in Findings of Fact 31 and 32, shall be pledged to the Trustee for the benefit of the Bondholders, and shall be used solely for the purpose of, paying and securing the payment of the Bonds and other Ongoing Financing Costs.
5. **RESOLVED**, Regardless of whether the Corporation is the owner of the Financing Property, neither the Financing Property, the Revitalization Charges, nor the Revitalization Charge Revenues shall be subject to any fees, taxes, special ad valorem levies or assessments of any kind, including income taxes, franchise taxes, sales taxes or other taxes or payments or contributions in lieu of taxes. The Bonds, other Ongoing Financing Costs and the income therefrom and all revenues, money, and other property pledged to pay or to secure the payment

of such Bonds and other Ongoing Financing Costs shall at all times be free from taxation; and this covenant shall be included in the Bonds.

6. **RESOLVED**, The Corporation authorizes and approves the recovery and payment of all Upfront Financing Costs described in this Financing Resolution from the proceeds of the Bonds as payment or from an advance or contribution from the Authority, provided that, to the extent provided in the Designee Certificate), any Upfront Financing Costs in excess of available Bond proceeds not otherwise paid for, shall be paid as Ongoing Financing Costs from Revitalization Charges.

7. **RESOLVED**, The Corporation approves the recovery and payment of all Ongoing Financing Costs, regardless of the amount, from the collections of the Revitalization Charges as described in this Financing Resolution.

8. **RESOLVED**, The Corporation approves the calculation methodology for the Revitalization Charges and the Adjustment Mechanism described in Finding of Fact 20 and authorizes its use for the calculation and adjustment of the Revitalization Charges.

9. **RESOLVED**, The Corporation shall adjust, or shall cause the Servicer to adjust, the Revitalization Charges, at least once semi-annually, as described in Findings of Fact 23 through 27.

10. **RESOLVED**, The Corporation authorizes the imposition, adjustment in accordance with the calculation methodology for the Revitalization Charges and the Adjustment Mechanism and the billing and collection of the Revitalization Charges to recover from Customers the principal and interest and premium, if any, payable on the Bonds and the other Ongoing Financing Costs. The Revitalization Charges shall be in an amount sufficient at all times to provide for the full payment of principal of the Bonds at their scheduled maturity dates, the timely payment of interest on the Bonds and the timely payment and recovery of other Ongoing Financing Costs as they become due and payable. The Revitalization Charges shall be separate from rates and charges of the Authority appearing as a separate line item on each Customer bill.

11. **RESOLVED**, Upon the issuance of the first series of Bonds, this Financing Resolution and the Revitalization Charges, including their Non-bypassability and the Adjustment Mechanism described herein, shall be irrevocable, final, non-discretionary and effective without further action by the Corporation or any other Person.

12. **RESOLVED**, The Corporation approves the forms of the Basic Documents and authorizes the Corporation Designee to execute and deliver the Basic Documents, with such changes, consistent with this Financing Resolution, as the Corporation Designee, upon the advice of its financing counsel, may approve, such approval to be conclusively evidenced by the execution of such Basic Documents by the Corporation Designee, as described in Finding of Fact 53. The execution of the Basic Documents by the Corporation Designee shall constitute the final and irrevocable approval of this Board of the terms of such Basic Documents and the Bonds, which approval shall not be subject to any further review or approval of the Corporation except as provided by the terms of such Basic Documents. Nothing herein shall prevent the Corporation from approving any amendments to the Basic Documents, or the execution of any other security or financing document not inconsistent with the terms of this Financing Resolution.

13. **RESOLVED**, The Corporation authorizes and approves the appointment of a Trustee, a Servicer, a Depository and a Calculation Agent.

14. **RESOLVED**, The Corporation is hereby authorized to contract with the Authority as Initial Servicer, for an initial annual servicing fee of [0.05]% of the initial principal amount of the Bonds, to be increased on each anniversary date by the year-over-year percentage increase in the Consumer Price Index for all Urban Consumers (CPI-U) (not seasonally adjusted) for the most recently completed twelve-month period for which such data is available. The Corporation or the Trustee is hereby authorized to contract with a successor Servicer for a servicing fee not exceeding 1.0% of the initial principal amount of all series of Bonds. Any fees of a Servicer shall be recovered from Revitalization Charge Revenues. Any subservicer, backup servicer (including if it becomes a Servicer under a Servicing Agreement), replacement servicer or the successors of any of the foregoing, appointed by the Corporation under a Servicing Agreement shall be authorized to act as Servicer under this Financing Resolution. Such fees are reasonable, necessary and sufficient.

15. **RESOLVED**, The Corporation shall cause the Servicer to file monthly with the Corporation, a report showing the billing and collection of Revitalization Charges, and remittances to the Trustee.

16. **RESOLVED**, In the event that the Depository or the Calculation Agent should resign or be discharged, the Corporation or the Trustee may, in accordance with the provisions of the Trust Agreement, take all necessary action to cause a new Depository or Calculation Agent to be appointed, as described in Findings of Fact 37 and 27, respectively. Any costs of the Depository or Calculation Agent shall be recovered from Revitalization Charge Revenues as an Ongoing Financing Cost.

17. **RESOLVED**, The Corporation and the Trustee, to the extent provided in the Trust Agreement, shall be entitled to enforce the obligations of the Depository under the Depository Agreement, the obligations of the Calculation Agent under the Calculation Agent Agreement, and the obligations of the Servicer under any Servicing Agreement, in each case, in accordance with the Trust Agreement.

18. **RESOLVED**, The Corporation authorizes the Corporation Designee and the other directors and officers of the Corporation to take such further actions, including without limitation the execution of such agreements, certificates and documents, as they deem necessary or appropriate and to cause the issuance of the Bonds consistent with the terms of this Financing Resolution, as further described in Finding of Fact 53. All such prior actions of the Corporation Designee or any other trustee or officer of the Corporation are hereby ratified and approved.

19. **RESOLVED**, Neither the directors or officers of the Corporation nor any Person executing Bonds shall be liable personally thereon or be subject to any personal or corporate liability or accountability solely by reason of the issuance thereof. The Bonds shall not be a debt of the Commonwealth, nor shall they be payable out of any funds other than those of the Corporation; and the Bonds shall contain on the face thereof a statement to that effect.

20. **RESOLVED**, The Bonds shall be without recourse to the credit or any assets of the Corporation other than the Financing Property and any other collateral for the Bonds described in the Trust Agreement.
21. **RESOLVED**, Revitalization Charges shall not exceed, in the aggregate, twenty percent (20%) of the charges billed by the Authority.
22. **RESOLVED**, This Financing Resolution shall not be interpreted to alter or limit the rights vested in the Authority to establish sufficient rates to pay and perform all of its obligations and contracts with its Bondholders and other creditors in accordance with their respective terms, nor to interfere with or diminish the lien upon the Authority revenues imposed under the Trust Agreement or other documents securing the Authority Bonds and other obligations.
23. **RESOLVED**, With respect to any claim related to the Bonds (including claims arising under this Financing Resolution or under the Basic Documents and, to the extent permitted by law, the Initial Servicing Agreement), the Corporation hereby irrevocably submits and waives any objection to the non-exclusive, *in personam* jurisdiction and venue of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City and to the application of the laws of the State of New York, and agrees to maintain contacts with the State of New York sufficient to give the courts located therein personal jurisdiction over the Corporation. Notwithstanding the foregoing, any proceeding commenced and undertaken pursuant to the provisions of Articles 7(c) or 7(d) of the Act must be filed in the Superior Court, San Juan Part, and follow the procedures established therein.
24. **RESOLVED**, The Corporation shall include in the Trust Agreement, any Servicing Agreement, any Ancillary Agreement and any other Basic Document, a provision to the effect that such agreement will be governed by New York law as if such agreement were executed in and to be performed entirely within the state of New York. Notwithstanding the foregoing, all matters of the constitutional and statutory law of the Commonwealth (including the Act) and this Financing Resolution, all rights of the Corporation or the Servicer against any Customer by virtue of the Act and of the effect of the judgments and decrees of the Commonwealth courts, shall in all events be governed by the law of the Commonwealth.
25. **RESOLVED**, If an event of default with respect to the Bonds has occurred and is continuing, the transfer of the Financing Property to a third party as and to the extent provided in the Trust Agreement is hereby approved.
26. **RESOLVED**, This Financing Resolution may be amended prior to the issuance of any Bonds without the approval of PRFAFAA or any other Person;
27. **RESOLVED**, This Financing Resolution shall be effective upon its approval, and, on and after the date the first series of Bonds are issued, shall not be subject to amendment and shall be irrevocable.