

This document is a proposed draft of the report in support 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.

**COMMONWEALTH OF PUERTO RICO**

**PUERTO RICO AQUEDUCT AND SEWER AUTHORITY REVITALIZATION**

**CORPORATION**

**REPORT IN SUPPORT OF THE PROPOSED FINANCING RESOLUTION**

**ISSUED BY THE BOARD OF DIRECTORS OF THE PUERTO RICO**

**AQUEDUCT AND SEWER AUTHORITY REVITALIZATION CORPORATION**

In compliance with the mandate of Chapter I, Article 7(1) of the “Puerto Rico Aqueduct and Sewer Authority Revitalization Act” (the “Revitalization Act”), as may be amended from time to time, created under Chapter II of Act No. 68 of July 12, 2016 (“Act 68-2016”), the Board of Directors of the Puerto Rico Aqueduct and Sewer Authority Revitalization Corporation (the “Corporation”), hereby renders and presents its detailed explanatory report and corresponding attachments (jointly, the “Report”), stating the grounds and circumstances in support of the proposed Financing Resolution<sup>1</sup> (“Proposed Financing

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<sup>1</sup> “Financing Resolution” (“*Resolución de Financiamiento*”) means “a resolution of the Board of the Corporation adopted pursuant to the Revitalization Act, which creates the Financing Property, approves the imposition and collection of Revitalization Charges and the financing of Approved Financing Costs through the issuance of Bonds

Resolution”), together with all pertinent information, data, reports, analysis and other required documents. This Report<sup>2</sup> is being issued and has been approved by all the current members of the Corporation’s Board of Directors.

The Report is the explanatory document which states the grounds and circumstances that led to the issuance of the Proposed Financing Resolution that is being presented together with this Report, and includes the supporting facts and conclusions, information and data required under the Revitalization Act in support of the determination of the Board of Directors to prepare the Proposed Financing Resolution, and thereupon commence the formal process for the issuance of Bonds for the revitalization of the Puerto Rico Aqueduct and Sewer Authority (the “Authority”).

As stated hereinbelow in more detail, the purpose of this Report and the Proposed Financial Resolution is to authorize and approve, among other things: (a) the issuance of revitalization bonds by the Corporation (the “Bonds”) in an aggregate principal amount not exceeding the principal amounts established in the Proposed Financing Resolution; (b) the Approved Financing Costs and other approved costs proposed to be paid through the issuance of the Bonds and recovered from authorized Revitalization Charges; (c) the creation of the Financing Property described in the Proposed Financing Resolution, including without limitation the right to impose, bill and collect the Revitalization Charges described in the Proposed Financing Resolution, as adjusted from time to time in accordance with the Adjustment Mechanism adopted therein; (d) the imposition, billing and collection of such Revitalization Charges from Customers once the Proposed Financing Resolution is approved

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and which contains the Adjustment Mechanism, as provided for in Article 6 of the Revitalization Act”. Article 3(16) in the English translation of the Revitalization Act, and Article 3(28) of the Revitalization Act, as enacted in Spanish.

<sup>2</sup> For convenience purposes, the Report is being issued in English.

and validated and becomes the final Financing Resolution; (e) the execution and delivery of an initial service agreement by and between the Corporation and the Authority and also of a trust agreement (the “Trust Agreement”), and various Ancillary Agreements related to the Bonds; and (f) other related matters as required in accordance with the Revitalization Act.

As provided in Article 7(b)(1) of the Revitalization Act, the relevant and pertinent information related to the preparation of this Report and the Proposed Financing Resolution have been previously shared and discussed with the Puerto Rico Fiscal Agency and Financing Advisory Authority (“PRFAFAA”). The latter provided advice and recommendations to the Corporation during the drafting process, and assisted the Corporation in carrying out a detailed analysis of the technical and financial aspects pertinent to the preparation of these documents and the criteria related to the establishment of the required financial parameters, the Revitalization Charges, the Adjustment Mechanism and all the related costs and charges. In addition, the Authority, the beneficial recipient of the revitalization Bonds’ proceeds, also assisted the Corporation through the preparatory processes of the Report and Proposed Financing Resolution.

For convenience purposes, all capitalized terms not defined but used herein shall have the meanings given to such terms in Article 3 of the Revitalization Act and in the Proposed Financing Resolution. References to Articles, Sections and Subsections correspond to those included in the Spanish version of the approved Revitalization Act.

This Report is organized as follows:

- **Section I** contains Introductory Remarks, including information related to the Corporation.
- **Section II** describes the relevant background information on the

Authority, and provides the context for the proposed issuance of the Proposed Financing Resolution and the Bonds;

- **Section III** discusses the compliance with all requirements set forth in Article 7(b) of the Revitalization Act in connection with the Report and Proposed Financing Resolution; and
- **Section IV** enumerates the procedural steps required under the Revitalization Act to accomplish the public hearing process, the approval of the proposed Financial Resolution by PRFAFAA and thereupon, the validation of the Revitalization Act and final Financing Resolution and the issuance of Bonds.

## **SECTION I. INTRODUCTORY REMARKS**

### **A. PURPOSE OF THE REVITALIZATION ACT APPROVED UNDER ACT 68-2016**

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

2. Since inception of the initial legislative process, the purpose of the Revitalization Act now known as Act 68-2016, has been to enable the enactment of the Puerto Rico Aqueduct and Sewer Authority Revitalization Act, which among other provisions creates a new public corporation, known as the Puerto Rico Aqueduct and Sewer Authority Revitalization Corporation, as a single purpose, bankruptcy remote entity authorized to issue bonds for the benefit of the Authority by fixing and collecting a new securitization charge, the proceeds of

which may be used by the Authority for its CIP, refinancing bond anticipation notes and for the cancelation, defeasance and refinancing of its existing bonds, among other Approved Financing Costs, within certain parameters and subject to certain conditions, therefore providing for the financing and development of the Authority through its provisions.

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

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

## B. THE CORPORATION

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

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

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

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

5. Article 4 of the Revitalization Act describes the powers of the Board of Directors of the Corporation, and the scope of its responsibilities.

6. Pursuant to the aforementioned provisions, the Corporation is empowered to among others, (i) adopt Financing Resolutions, provide financial assistance to the Authority, and in such regard fix, impose and collect Revitalization Charges in relation to the financing of Approved Financing Costs and other Financing Costs through the issuance of Bonds for the benefit of the Authority, including (A) making such Revitalization Charges Non-bypassable for Customers and (B) approving an Adjustment Mechanism prior to the issuance of the Bonds; to issue Bonds contemplated by a Financing Resolution and pledge the Financing Property for payment thereof; establish and approve the use of the proceeds of the Bonds on behalf of the Authority pursuant to a Financing Resolution and the Trust Agreement executed by the

Corporation in relation to such Bonds; and contract for the management and servicing of the Financing Property and of the Bonds as well as for administrative services, including executing Servicing Agreements, and compensation for these services as provided in the Revitalization Act.

7. The Revitalization Act provides for the issuance of up to \$900 million to fund the development of the Authority’s CIP, bond anticipation notes and other permitted uses. Additionally, under Article 7(a) of the Revitalization Act, the Corporation may also issue one or more series of Bonds to be issued in an aggregate principal amount not to exceed the difference between \$900 million and the maximum amount of Bonds that can be financed with the Revitalization Charge in order to retire, cancel (defease) or refinance all or part of the debt previously issued by the Authority, upon meeting the conditions, if any, established for it in any then existing trust agreement, and additionally subject to compliance with the following conditions:

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

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|----------------------|---|--|
| <i>Interest Rate</i> | For Current Interest Bond Payments:<br><ul style="list-style-type: none"> <li>• the weighted average interest rates across maturities (based on the yield curve) be set at specified rates, subject to the</li> </ul> | For Convertible Capital Appreciation Bonds:<br><ul style="list-style-type: none"> <li>• the weighted average interest rates/ appreciation through the maturities (based on the yield curve) be set at</li> </ul> |
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|  | final classification of investment grade as follows: | specified rates, subject to the final classification of investment grade as follows: |
|  | AAA: 4.00%   | AAA: 4.50%   |
|  | AA+/AA/AA-: 4.25%                                    | AA+/AA/AA-: 4.75%  |
|  | A+/A/A-: 4.50%                                       | A+/A/A-: 5.25%   |
|  | BBB+/BBB/BBB- or less: 4.75%                         | BBB+/BBB/BBB- or less: 5.50%   |

8. The Corporation has determined to initiate the formalities required under the Revitalization Act, and to thereupon issue this Report and adopt the Proposed Financial Resolution to commence the process for the issuance of Bonds for the benefit of the Authority. Having evaluated all the background information relating to the Authority’s financial needs, the Corporation understands that time is of the essence and that it is necessary and convenient for the Corporation to act upon the immediate financing needs of the Authority and to provide assistance in the form of the new revitalization Bonds, in order to provide much needed market access and funds to the Authority to facilitate that it continues to carry out its essential public function of providing safe drinking water and sanitary water disposal services to the citizens of Puerto Rico.

9. Articles 7(a) and 7(b) of the Revitalization Act provide the statutory requirements for this Report, the Proposed Financing Resolution, and the supporting materials, reports and statements required to be discussed in the Report and the Proposed Financing Resolution.

10. The approval by PRFAFAA of the Proposed Financing Resolution will undoubtedly provide significant benefits to the citizens of Puerto Rico, and serve as a successful mechanism to alleviate the current lack of market access and capital shortfalls of the Authority.

11. The benefits to the Authority and for the Commonwealth include:

(i) 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 providing a new source of financing for its CIP;

(ii) Providing the opportunity, subject to compliance with the conditions hereinbefore stated for the Authority to refinance, cancel or defease, whether through an exchange, redemption or purchase of its existing indebtedness, and accrue substantial net debt service savings. Although the total potential net savings to the Authority cannot be precisely determined in advance of an actual transaction, since it is dependent on external factors and uncertainties, the Corporation estimates that compliance with the provisions of the Revitalization Act, including exchange discounts, interest rates and other terms specified therein, will provide sufficient present value savings, for the benefit of the Authority, the Commonwealth and its residents.

(iii) 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 Department of Health (“PRDOH”) of the Commonwealth

(iv) 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.

(v) 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 thereby substantially increasing Customers charges.

(vi) 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 this Report, the Authority is currently unable to access capital markets in the absence of the Revitalization Act. It is expected that by providing the funds for its CIP and potentially reducing its debt burden, the issuance of the Revitalization Bonds will reestablish the Authority's financial health and place it in a position to make or attract new infrastructure investments and to meet the future needs of its Customers at a reasonable cost.

(vii) In turn, the Authority's revitalization is expected to promote capital investment and stimulate economic activity in the Commonwealth and its economic growth, giving gainful employment to thousands of Puerto Ricans and their families, providing also for the continued operation of local businesses, allowing them to continue or regain financial stability.

(vii) Even if the Corporation were unable to carry out the simultaneous defeasance, cancellation, purchase or exchange of the Authority's bonds, it is still convenient to seek the approval of the Financing Resolution since it is of the outmost 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.

## **SECTION II.**

### **A. BACKGROUND ON THE AUTHORITY**

1. The Authority is a public corporation and governmental instrumentality of the Commonwealth created by Act No. 40 of May 1, 1945, as amended and reenacted ("Act 40"), for the purpose of owning and operating the only public water supply and sewer systems in the Commonwealth. The Authority is currently the sole provider of water and sewer services in Puerto Rico and is subject to federal and local regulatory requirements to ensure that it provides a quality, safe, reliable, and environmentally friendly service at reasonable rates, as required under Act No. 21 of May 31, 1985, as amended.

2. 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. The Authority serves private and public customers, and provides invaluable services for the wellbeing of the Puerto Rican residents and the operation of public and private entities.

3. The Authority is governed by a board comprised of nine directors, including private sector, public sector and consumer representative members (the "Governing Board").

4. The Authority has been facing unprecedented financial pressures since 2014, primarily as a result of the Commonwealth's financial condition. As an immediate response to the critical situation, the Authority and its Governing Board have diligently taken affirmative action to ameliorate the stress on the Authority's finances, and have sought alternatives to obtain funding for its CIP, including reducing operating costs; entering into amendments to collective bargaining agreements to reduce labor costs; obtaining a statutory preferential reduced electricity rate (which was terminated by the Puerto Rico Electric Power Authority ("PREPA") as of June 30, 2016); restructuring lines of credit and commercial loans; implementing efficiencies and cost reduction initiatives to maintain the Systems and guarantee reliable and safe services; as well as unsuccessfully attempting to issue additional revenue bonds in 2015. These efforts notwithstanding, for reasons outside of its control and despite its best efforts, the Authority has been unable to gain market access, it has been increasingly difficult for it to deal with its accumulated CIP costs, which at present are upwards of \$150 million and for which the Authority has no source of payment. Additionally, as a direct result of the Authority not being able to access the bond market, the Authority was forced to use surplus operational funds and amounts on deposit in the Rate Stabilization Account of the Surplus Fund created by the Master Agreement of Trust, dated as of March 1, 2008, as amended and restated as of February 15, 2012, as further amended and supplemented to date, executed by the Authority and Banco Popular de Puerto Rico, as Trustee (the "Master Agreement of Trust") to cover CIP related costs during the last months of 2013, 2014 and 2015 and to secure the payment of interim financing facilities. Under the Authority's revised rate structure implemented in July 2013, such surplus funds were necessary to cover projected budgetary deficiencies through fiscal year 2018 without the need for the Authority to revise its rates. The loss of such funds put a significant strain on the

Authority's liquidity.

5. 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 the Authority's financial situation include (i) the negative outlook of the Commonwealth's finances and that of its agencies and instrumentalities; (ii) the downgrade of the Commonwealth's general bond obligations, which contributed to the downgrades to the Authority's bonds (both currently non-investment grade); (iii) 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; (iv) the impact of the Government of the Commonwealth's public statements concerning its ability and that of other public corporations to timely pay their debts; and (v) the severe drought conditions experienced in Puerto Rico during 2015, which not only required implementing rationing plans throughout the Island for several months, but also resulted in significant loss revenues and the incurrence of additional operating costs by the Authority, for an aggregate negative impact of approximately \$70 million.

6. As a direct result of the above stated circumstances and the delays in the issuance of new revenue bonds, the Authority had to utilize operating funds to cover its CIP projects, given the lack of external financing to cover immediate CIP related expenses. Although the Authority was not among the Commonwealth's instrumentalities in jeopardy of becoming insolvent, it nonetheless received a negative backlash from the investment community, which regarded the Authority as part of the Commonwealth and expected it to be negatively affected by

its fiscal woes. In turn, this raised financing costs for the Authority and eliminated the prospects for obtaining long-term financing from traditional financing sources and ultimately even from other non-traditional sources.

7. The Authority's current rate structure, revised in July 2013 with an increase of Customer rates 65% on average, was designed to provide sufficient funds to cover all its operating expenses and debt service through fiscal year 2018. However, this rate structure was implemented following the Authority's historical rate setting model which assumed that CIP would be financed and accordingly provided funds for debt service on projected bond issuances the proceeds of which would be used to finance the CIP and did not include sufficient funds to actually pay for the CIP on a cash basis. Historically, the Authority, as most public utilities in the United States of America, has relied on external financing for the implementation of its CIP, both through traditional municipal bond market debt issuance, as well as through federal assistance in the form of low interest State Revolving Funds for Drinking Water and Clean Water loans ("SRF Loans") and bonds ("RD Bonds") issued by the United States Department of Agriculture's the Rural Development Program ("USDA Rural").

8. Pursuant to the MAT, all of the Authority's revenues are subject to a gross pledge for the benefit of the Senior Bonds, Senior Subordinate Bonds and Subordinate Bonds.

9. As of the date hereof, in addition to its obligations to various senior creditors which pursuant to its Master Agreement of Trust, dated as of March 1, 2008, as amended and restated on February 15, 2012, as further amended and restated (the "Master Agreement of Trust"), are to be paid with preference over subordinated creditors, including federal agencies such as the Environmental Protection Agency ("EPA") and USDA Rural, and as a direct result of the above stated circumstances and the delays in the issuance of new revenue bonds has an

outstanding debt in excess of \$150 million with its CIP contractors and suppliers. Most of these debts are over 180 days past due and in some cases over a year past due.

10. 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. As stated before, to date the Authority owes its suppliers and contractors over \$150 million. These postponements and cancellations could eventually result in the Authority's non-compliance with its obligations under its existing Consent Decree with the EPA<sup>3</sup> and the amended settlement agreement with PRDOH (collectively, the "Existing Consent Decrees") leading to potential civil lawsuits by federal prosecutors against Authority officials and the Commonwealth, as well as a negative impact on the Island's economy.

11. The cessation of CIP projects due to lack of funding reduced the Authority's continued investment in infrastructure, which in turn supports over 5,000 construction jobs and is expected to lead to bankruptcies and lawsuits of the contractors and suppliers, most of which are small and medium sized local companies. Furthermore, CIP funds not only cover major infrastructure projects, but also renewal and replacement, emergency repairs and major maintenance works. At this point, these portions of the CIP have also been mostly discontinued and are being addressed on a "critical for service" priority basis through operating funds

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<sup>3</sup> On May 23, 2016 the United States District Court for the District of Puerto Rico entered judgement approving the 2015 EPA Consent Decree, as presented on May 10, 2016, dismissing with prejudice and closing civil case number 15-2283. The 2015 EPA Consent Decree is the result of an arduous negotiation process undertaken by the Authority, EPA and the United State Department of Justice aimed, among other things, at resolving the claims addressed in the civil case number 15-2283 and the requirements of previous consent decrees, specifically with the goal of implementing system-wide National Pollutant Discharge Elimination System permits compliance plan, continue the implementation of operational and maintenance plans in all of the Authority's facilities, implementing remedial measures to address discharges and the alleged violations to the Clean Water Act occurring within the Puerto Nuevo Sewer System in the municipality of San Juan. The Authority expects that with the final approval of the 2015 EPA Consent Decree, it will be able to finalize the proposed amendment to the 2006 Drinking Water Settlement Agreement between the Authority and PRDOH under terms substantially similar to those currently being negotiated.

reprogramming. At some point, this will become unsustainable and if the required funding to comply with its Existing Consent Decrees and maintain the system is not available, the Authority's infrastructure is at risk of deteriorating and even failing. The lack of maintenance and compliance with the Existing Consent Decrees, in turn, would potentially jeopardize the health of the Puerto Rican people.

12. The Authority's situation is challenging, and the facts are extraordinary. Until now, the Authority had never had to face the extreme hardship it is experiencing now. The livelihood of thousands of families depends on the ability of the Authority to pay the millions of dollars owed in connection with its CIP projects. The decision to halt all ongoing CIP projects and postpone all future infrastructure work has had a significant impact on the already depressed construction sector of the Commonwealth, accelerating the downfall of the local economy, withholding money from contractors and suppliers, and in turn Puerto Rican workers. Furthermore, to the extent the Authority is required to allocate funding to repay senior creditors before subordinated creditors, there is a possibility that the economic pressure and the impact of disbursing all its available funds to pay the senior creditors, would deplete the funding that would otherwise be available to repay subordinated creditors. The provisions of Act 68-2016, benefit the Authority by allowing it to continue to carry out its essential public function of providing safe drinking water and sewer in the Commonwealth in compliance with its existing regulatory obligations and give some relief to the Authority to then pay outstanding debts with its CIP's contractors and suppliers. The Authority is in dire need of an immediate influx of funds to be able to continue its operations and repay its current obligations.

13. In this context, in an effort to prevent a default of its financial obligations with its subordinated creditors, and the enforcement of the Commonwealth's guarantee on these

obligations, the Authority entered into temporary short term forbearance agreements with two of its subordinated creditors, providing a limited negotiation period for the renegotiation of its existing debt and guarantee the continued availability of State Revolving Fund loans and USDA Rural Bonds funding in the future. The aforementioned forbearance agreements were entered into with the Puerto Rico Infrastructure Financing Authority, PRDOH, the Puerto Rico Environmental Quality Board, and the USDA Rural with respect to the SRF Loans and RD Bonds, respectively. The Authority needs time to carry out its current financing plan and to comply with its obligations to suppliers of goods and services for its CIP in order to prevent actions against the Authority which may significantly and negatively impact it, and to be able to restart the construction of infrastructure projects required under its Consent Decrees. If the Authority were unable to stabilize its situation in this manner, the potential degradation of the Authority's financial condition could lead to more adverse consequences which would impact all of its creditors, but more particularly it would jeopardize the health of the population of the Commonwealth.

## B. THE AUTHORITY'S SECURITIZATION STATUTE LEGISLATIVE PROCESS

1. The Authority has been actively looking into potential viable options and legal scenarios which would permit some short term relief to it. As a result, following an extensive legislative process, in which the Authority actively participated, the initially proposed enrolled bill to enable the authorization of the Puerto Rico Aqueduct and Sewer Authority Revitalization Act, HB 2786, was withdrawn by the Senate after it had been approved by the two duly constituted Legislative Conference Committees, but before it was remitted to the Governor of the Commonwealth. In its stead, the House of Representatives of Puerto Rico presented a new bill,

HB 2864, which was later approved by both the Senate and the House of Representatives on June 30, 2016 and enacted into law as Act 68-2016.

2. The Authority endorsed HB 2786 and later its substitute bill HB 2864, now Act 68-2016, because the Revitalization Act that is now included as part of Act 68-2016 permits the creation and securitization of a Revitalization Charge that would be separate and apart from the Authority's revenues to secure a new bond issue by the new bankruptcy remote governmental entity, the Corporation, which proceeds would be used for the benefit of the Authority in connection with its execution of the CIP.

3. This Report and the Proposed Financing Resolution, as per Articles 7(a) and 7(b) of the Revitalization Act, describe the Corporation's proposed issuance of one or more series of Bonds and present the documents required to initiate the public hearing process prior to the approval by the Corporation of the Proposed Financing Resolution and later the approval by PRFAFAA of the final Financing Resolution. Once the latter becomes final, the Revitalization Act provides a sixty (60) day term for the validation process of the Revitalization Act itself, as well as the Financing Resolution and related claims. Thereafter, upon a ten (10) day prior notice to PRFAFAA, the Corporation may issue and sell the Bonds.

4. As stated in the Proposed Financing Resolution, the Revitalization Act creates the Financing Property<sup>4</sup>, provides for financing of Approved Financing Costs<sup>5</sup> and other approved

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<sup>4</sup> Article 3(27) "Financing Property" - means a Financing Resolution and the property rights and interests created thereby, including the right, title, and interest in: (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 Contract 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 the Financing Resolution related thereto; and (e) all reserves established in relation to the Bonds or the Financing Property. 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,

costs through the issuance of Bonds, imposes and provides for the collection of Revitalization Charges to fund Upfront Financing Costs and the Ongoing Financing Costs.<sup>67</sup>, and describes

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subject to Article 8 and any pledge of Financing Property pursuant to this 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.

<sup>5</sup> Article 3(15) "Approved Financing Costs" - means any or all of the following costs approved by a 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 before the approval of this 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; including all projects that were postponed, halted or stopped because of lack of funds of the Authority; (b) the applicable costs of the Authority's accumulated debt, as of the time of approval of this 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 this 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 this 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 this Act.

<sup>6</sup> Article 3(14) “Upfront Financing Costs” - means the Financing Costs related to the costs of design, marketing and issuance of the Bonds, except to the extent that the Corporation determines to pay such costs as Ongoing Financing Costs payable from the Revitalization Charge Revenues. The Upfront Financing Costs include, without limitation, costs and expenses of the Trustee (or similar trustee), legal costs and expenses, accounting costs and expenses, initial (or set-up) costs or rates of the servicer, calculation agent, depository or other administrator or trustee, placement costs and expenses, underwriting costs and expenses, printing and marketing costs, filing or listing and compliance costs, costs and expenses of the Corporation's other consultants, if any, rating agency costs, costs and expenses of the guaranty provider and any other costs approved by the Board of the Corporation as necessary or desirable for the accomplishment of the objectives of the Revitalization Act and shall include reimbursement to any Person of amounts advanced for the payment of such costs. Within the costs related to the Capital Improvement Program only those Approved Financing Costs related to the works and improvements of services of water and/or sanitary sewer and installations providing direct service to Customers shall be included; no type of construction or improvements to the Authority's management offices or headquarters shall be included, except those constructions, investments or improvements that are strictly necessary to comply with a requirement of a health, safety or compliance organization and/or those that result in efficiencies or savings that are product of technological improvements or information systems.

<sup>7</sup> Article 3(13) "Financing Costs" - means the costs of issuing, meeting with, repaying or refinancing the Bonds, whether incurred at the time of the issuance of such Bonds or during the life of the Bonds, the recovery of which is authorized in a Financing Resolution. Without necessarily being limited to, "Financing Costs" may include, as applicable, any of the following: a. principal, interest and redemption premiums of the Bonds; b. any payment required under the terms of an 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 expenses

how the Revitalization Charges will be calculated and distributed among Customer categories and then adjusted through the Adjustment Mechanism.

5. The Corporation respectfully submits, as provided in Article 7(b) of the Revitalization Act, this Report and written statement in support of the Proposed Financing Resolution, including related findings and determinations requested therein. These include among others: explanatory remarks meeting the criteria and principles for the determination and distribution of Revitalization Charges among the Customer categories and for fixing and adjusting the Revitalization Charges, which Report and Proposed Financing Resolution are required to be submitted to the process of public hearings and initial approval detailed in Article 7(b)(4) of the Revitalization Act.

### **SECTION III - Compliance with all requirements set forth in Article 7(b) of the Revitalization Act in connection with the Report and Proposed Financing Resolution**

A. As required, the Report and Proposed Financing Resolution also include

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reserve fund or account, or any other account or fund established pursuant to a Trust Agreement, any 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 of Puerto Rico); d. any cost related to the administration of the Corporation, Bonds or the Financing Property, including costs for implementing the Adjustment Mechanisms, 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 this 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 this Act, in each case subject to the provisions of this Act; and f. any other costs related to issuing Bonds, or the administration and servicing of the Financing Property and 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 this Act.

supporting information, data and financial documents, and in compliance with Article 7(b), the Corporation submits the Report, the Proposed Financing Resolutions, the attachments hereto and other documents in support thereof and states that the Report includes the following:

1. A description of the Ongoing Financing Costs<sup>8</sup>;
2. The determination of the Customer<sup>9</sup> categories among which the Ongoing Financing Costs shall be distributed and the distribution of the Ongoing Financing Costs among such Customer categories;
3. The calculation of the Revitalization Charges<sup>10</sup> for Customers, by category;
4. A provision that any delinquency in the payments of any category of Customers shall be distributed among all categories of Customers, as provided in Articles 7(b)(1) and 7(b)(2) and are to be included in the Adjustment Mechanism<sup>11</sup>. As well, the allocation of distribution of any excess or surplus of the estimated revenues for the prompt payment of any category of Customers among all categories of Customers for the next period or cycle of the Revitalization Charge;
5. A determination by the Corporation of the following:

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<sup>8</sup> Article 3(19) "Ongoing Financing Costs" - means Financing Costs other than Upfront Financing Costs and any excess of Upfront Financing Costs incurred over the Corporation's estimate of Upfront Financing Costs that are payable from the proceeds of the issuance of Bonds.

<sup>9</sup> Article 3(18) "Customer" - means any Person who is connected to or takes or receives water and/or sewer services within the Commonwealth of Puerto Rico by means of the facilities that constitute part of System Assets. The Authority shall not be considered a Customer.

<sup>10</sup> Article 3(7) "Revitalization Charges" - means those charges and rates that are independent of the Authority's charges and rates and that are imposed on Customers by the Corporation pursuant to a Financing Resolution to recover Ongoing Financing Costs, and shall include a pro rata share of any late payment fee imposed with respect to any past-due bill for water and/or sewer service and that includes in said bill an amount for Revitalization Charges.

<sup>11</sup> Article 3(23) "Adjustment Mechanism" - means the formulaic adjustment mechanism contained and approved in a Financing Resolution that is to be applied by the Corporation periodically, and at least semi-annually, to adjust the Revitalization Charges to ensure the collection of Revitalization Charge Revenues sufficient to meet the timely payment of Ongoing Financing Costs. The establishment and adjustment of the Revitalization Charges carried out by the Corporation in relation to the Adjustment Mechanism shall not be subject to legislative review or any other government review or approval, except as provided in Article 6 of the Revitalization Act regarding the correction of mathematical errors and Article 7 of the Revitalization Act with respect to the approval of the Adjustment Mechanism.

- (i) That the distributions of established in Article 7(b)(2), subsections (B), (C) and (D) are practical to manage and that they ensure the full and timely payment of Ongoing Financing Costs during the term of the Bonds;
- (ii) The historical consumption data of each Customer category that serves as the basis of the distributions established in Article 7(b)(2), subsections (B), (C) and (D), and are certified by an officer of the Authority;
- (iii) That the Proposed Financing Resolution meets the requirements established in Article (7)(b)(1) and (b)(2) and other applicable requirements established in the Revitalization Act.

6. The Proposed Financing Resolution as per Article 6, in addition to other matters required to be included in accordance with the Revitalization Act:

- (i) specifies the maximum amount of Bonds<sup>12</sup> authorized to be issued, including parameters or limitations for their maturities, scheduled maturities, interest rates and interest rates determination methods and other Bond details as the Board deems appropriate;
- (ii) describes the Approved Financing Costs to be paid through the issuance of Bonds and to be recovered through the Revitalization Charges;
- (iii) specifies the qualitative or quantitative limitations of the Financing Costs to be recovered (which shall not adversely affect the ability to pay and to service the Bonds in accordance with their terms);
- (iv) specifies the methodology to determine the amount of Revitalization

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<sup>12</sup> Article 7(4) "Bonds" - means the Bonds or other evidences of long-term indebtedness issued by the Corporation pursuant to the Revitalization Act, any Financing Resolution and Trust Agreement related thereto: (a) the proceeds of which are used, directly or indirectly, to finance or refinance Approved Financing Costs; (b) which are directly or indirectly guaranteed by, or payable from, the Financing Property; and (c) which duration does not exceed thirty-five (35) years.

Charges;

(v) describes the Adjustment Mechanism<sup>13</sup> that shall apply, based on the methodology for the allocation of Revitalization Charges, to reconcile the actual collections with projected collections at least semi-annually, to ensure that the collection of the Revitalization Charges are adequate to pay on their due date the principal and interest of the associated Bonds, pursuant to the expected amortization schedule, to finance at the required levels all debt service reserve funds or accounts, and to pay, when appropriate, all Ongoing Financing Costs;

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

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

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

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

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<sup>13</sup> Article 3(23) "Adjustment Mechanism" - means the formulaic adjustment mechanism contained and approved in a Financing Resolution that is to be applied by the Corporation periodically, and at least semi-annually, to adjust the Revitalization Charges to ensure the collection of Revitalization Charge Revenues sufficient to meet the timely payment of Ongoing Financing Costs. The establishment and adjustment of the Revitalization Charges carried out by the Corporation in relation to the Adjustment Mechanism shall not be subject to legislative review or any other government review or approval, except as provided in Article 6 of the Revitalization Act regarding the correction of mathematical errors and Article 7 of the Revitalization Act with respect to the approval of the Adjustment Mechanism.

- (x) describes the Financing Property that shall be created pursuant to the Financing Resolution and vested upon the issuance of the Bonds to the Corporation and that may be used to pay and secure the payment of the Bonds;
- (xi) authorizes the execution and delivery by the Corporation of one or more servicing, billing or collection contracts with one or more Servicers and other agents and permit the designation of co-Servicers or sub-Servicers upon the occurrence of the events that the Corporation, being advised by its consultants, determines enhances the marketability of the Bonds;
- (xii) authorizes the execution and delivery by the Corporation of one or more depository, trust or escrow agreements with financial institutions or other Persons providing for the deposit (escrowing) and allocation of the collections of Customer bills between the Authority and the Corporation, as the Corporation, in consultation with its advisers deems appropriate, and determines that enhances the probability of sale of the Bonds;
- (xiii) requires the filing of billing and collection reports relating to the Revitalization Charges as the Corporation may require of a Servicer<sup>14</sup> (at least on a monthly basis);
- (xiv) approves and authorizes the form, execution and delivery of a Trust Agreement;

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<sup>14</sup> Article 3(22) "Servicer" - means the Authority, to the extent permitted by this Act and, if the Authority is replaced as Servicer under a Servicing Contract, means a Person or Persons authorized and required, by contract or otherwise, to impose, bill, or collect Revitalization Charges, to prepare periodic reports in relation to the billing and collection of Revitalization Charges, to remit collections by or on account of the Corporation or its assignees or creditors, including a Financing Entity, and to provide other related services, which may include the calculation of periodic adjustments to the Revitalization Charges or provide other services to the Corporation relating to the Financing Property; and it shall be understood to include any sub-Servicer, alternate Servicer (backup) (including if it becomes a Servicer under the Servicing Contract), substitute Servicer or the successors of any of the foregoing, authorized to act as such by a Financing Resolution.

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

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

(xvii) itemizes which projects within the Authority's CIP shall be financed with such issuance, which as of the date of the approval of the Revitalization Act, must include all infrastructure projects that were postponed, halted or stopped because of the Authority's lack of funds, as itemized in Resolution No. 2984 approved by the Authority's Governing Board on June 3, 2016<sup>15</sup>:

7. WRITTEN STATEMENTS IN SUPPORT OF THE FINDINGS AND CONCLUSIONS OF THE CORPORATION PERTINENT TO THE PREPARATION OF THE REPORT AND THE PROPOSED FINANCING RESOLUTION

The following written statements provide supporting information for this Report, and were examined and considered by the Corporation in the preparation of the Report and the Proposed Financing Resolution:

(i) Written Statement from Alberto Lázaro Castro, Executive President of the Authority, attached hereto as Attachment 1, describes the Authority's financial condition and how it affects the Authority's operations. He explains how the cost savings made possible by the issuance of the Bonds are expected to enable the Authority to better serve the Commonwealth. He also confirms that the Authority has made determinations required by the Revitalization Act and

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<sup>15</sup> Listed in Attachment 5 hereto.

certifies that the historic consumption data of each class of Customers.

(ii) Written Statement from Ricardo Fishman Kauffman, of PRFAFAA and the Corporation, attached hereto as Attachment 2, describes the Corporation and its formation and attests to the actions and determinations of the Corporation taken in compliance with the Revitalization Act and in furtherance of the proposed issuance of the Bonds.

(iii) Supporting Memorandum from Public Financing Management, Inc.'s Managing Director, Michael Mace, attached hereto as Attachment 3, a financial advisor to PRFAFAA and the Corporation testifies concerning the process of issuing the Bonds, how they are expected to be rated and priced, and how the securitization debt is expected to provide an influx of cash for the Authority's Approved Financing Costs, specially new money to cover for its CIP, and how it may restructure or otherwise economically defease a portion of the outstanding the Authority's debt. He identifies, describes, and estimates the Upfront and Ongoing Financing Costs and explains their relationship to the transaction and the Bonds. He also testifies concerning the Servicing Agreement, the role and functions of the Servicer and, in particular, of the Authority as the initial Servicer, and terms of the Servicing Agreement. Finally, he addresses the projections and stress tests provided to rating agencies.

(iv) Supporting Memorandum from Arcadis US, Inc.'s President, Melissa L. Pomales, attached hereto as Attachment 4, explains and supports the Corporation's determination that the overall distribution and/or calculation of Financing Costs and Revitalization Charges and the Adjustment Mechanism is

expected to ensure the full and timely payment of the Bonds in accordance with their terms and all other Financing Costs during the term of the Bonds. She describes the Adjustment Mechanism and the manner of its calculation, explains how the Revitalization Charge is expected to change over time pursuant to the Adjustment Mechanism, and describes the estimated ratio of total Revitalization Charges to total charges to Customers. She also: (1) describes the Customer classes among which Ongoing Financing Costs are distributed and the mechanics of how those allocations are made; (2) confirms that Revitalization Charges for Non-Residential Customers are calculated based upon historic consumption usage data; (3) confirms the calculation of Revitalization Charges for Residential Customers on a per capita historic consumption basis; (4) explains the calculation of Revitalization Charges; and (5) verifies that the Calculation Methodology is practicable to administer and would ensure the full and timely payment of the Bonds.

## B. 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 Revitalization Act, in furtherance of the objectives and goals of the Authority to obtain efficient market access, 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 Revitalization Act:
  2. One or more series of Bonds to be issued on the date of sale and delivery of the

Bonds (the “New Money Bonds”): (i) 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 before the approval of the Revitalization Act, detailed in Resolution No. 2984 adopted by the Governing Board of the Authority on June 3, 2016, listed in Attachment 5 hereto; including all projects that were postponed, halted or stopped because of lack of funds of the Authority; (b) the applicable costs of the Authority’s accumulated debt, as of the time of approval of the Revitalization 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 Revitalization Act; (d) the arbitrage 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 Revitalization Act, and the Financing Costs. Additional details on the New Money Bonds is included in Appendix 1 to the Proposed Financing Resolution.

3. One or more series of Bonds that may be issued on the Closing Date 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 Revitalization Act (the “Tender/Exchange Offer Bonds”), to cover the costs of retiring, defeasing or refinancing a portion of the Authority’s 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 bonds, in exchange for such the Authority bonds (i) at an exchange ratio (principal to principal) which satisfies the requirements of the Securitization Law and (ii) may also be issued in an amount equal to and in satisfaction of any accrued and unpaid interest owing on such the Authority bonds at the time of such exchange. The rest of these bonds may be issued to cover the cost of purchasing outstanding the 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 clients. The Tender/ Exchange Bonds to be issued to the beneficial owners of the Authority Bonds (the “Authority Bonds”), in exchange for such Authority Bonds (i) at an exchange ratio (principal to principal) of 85% or (ii) used to fund a tender, refinancing or cancellation of debt where the tender price, call price or execution price for cancellation does not exceed 85% (principal to principal) and (iii) at the interest rates provided for under the Revitalization Act depending on the ratings received on the Bonds. Additional details of the Tender/Exchange Offer Bonds is included in Appendix 1 to the Proposed Financing Resolution.

4. Interest Rate - that the interest rate of the Tender/Exchange Offer Bonds to be issued fluctuates according to the credit rating conferred to the Bonds, consistent with the

following table:

| <i>Interest Rate</i> | For Current Interest Bond Payments:   | For Convertible Capital Appreciation Bonds:  |
|----------------------|---|--|
|                      | <ul style="list-style-type: none"> <li>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:</li> </ul> | <ul style="list-style-type: none"> <li>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:</li> </ul> |
|                      | AAA: 4.00%  | AAA: 4.50%   |
|                      | AA+/AA/AA-: 4.25%   | AA+/AA/AA-: 4.75%  |
|                      | A+/A/A-: 4.50%  | A+/A/A-: 5.25%   |
|                      | BBB+/BBB/BBB- or less: 4.75%  | BBB+/BBB/BBB- or less: 5.50%   |

That the interest rate(s), prices and yields of the New Money Bonds shall be as determined at the time of marketing of such New Money Bonds as sufficient to complete the transaction, but in no case in excess of the interest rate limits established by law.

5. Nothing in the 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 the Financing Resolution) under one or more “Financing Resolutions” (in addition to the Financing Resolution) so long as such issuance is consistent with the terms of the Revitalization Act and the Trust Agreement securing any outstanding Bonds.

Terms of Bonds:

6. 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 the Proposed Financing Resolution.

7. 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 the Proposed Financing Resolution and the Revitalization Act and as contained in the applicable Trust Agreement as executed and delivered.

8. The final term of the Bonds, consistent with the terms of the 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<sup>16</sup>:

9. The Approved Financing Costs to be paid through the issuance of the Bonds and recovered through Revitalization Charges shall include the costs of (a) principal, interest and redemption premiums of the Bonds; (b) any payment required under the terms of any Ancillary Agreement and any amount required to fund or replenish funds (or to reimburse third parties for replenishing said funds) of debt service reserve fund or account, an operating reserve fund or account, or any other account or fund established pursuant to a Trust Agreement, Ancillary Agreement, resolution or other financing document relating to the Bonds; (c) any federal or state tax or charge, including federal or state payments or contributions made in lieu of taxes, franchise fees or license fees applied to the Revitalization Charge Revenues (but excluding any tax, fee or contribution, or payment in lieu of taxes that are local or that originate in the Commonwealth); (d) any cost related to the administration of the Corporation, Bonds, the Financing Property, including costs for implementing the Adjustment Mechanism, of the Trustee (and other similar trustee), legal, accounting and other consultants, depository, calculation agent, administrator, rating agencies fees and expenses, and Servicing Fees and servicing expenses, in each case subject to the provisions of the Revitalization 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

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<sup>16</sup> Estimated costs included in Appendix 1 to the Proposed Financing Resolution.

Revitalization Act, in each case subject to the provisions of the Revitalization 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 Revitalization Act.

10. The Tender/Exchange Offer Bonds, etc. which may be issued on the Closing Date, and the any other Bonds, are contemplated in the Revitalization Act, and accordingly, the costs of legally or economically defeasing, exchanging for, refunding, redeeming, purchasing, funding, retiring or extinguishing, as applicable, the Authority bonds, including making a deposit to the [-] and [-] may be included as Approved Financing Costs.

11. The Tender/ Exchange Offer -Bonds do not exceed an aggregate principal amount of \$[\_] and accordingly the costs of legally or economically defeasing, exchanging for, refunding, redeeming, tendering for or purchasing [-----] the Authority's Bonds may be included as Approved Financing Costs.

Upfront Financing Costs:

12. 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

the Financing Resolution and the issuance of the Bonds by PRFAFAA;

(ii) the funding of any debt service reserve fund or account or any other restricted accounts or subaccounts required to be established pursuant to 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 Revitalization 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.

13. The Corporation has included in Appendix 1 to the Proposed 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 the Financing Resolution to PRFAFAA.

14. In Certification No. [ ] PRFAFAA shall find and determine that the Upfront Financing Costs proposed to be recovered by the Corporation are consistent with Article 7(b) of the Revitalization Act.

15. The precise amount of Upfront Financing Costs associated with 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 should be subject to approval by the Corporation Designee, in any case as conclusively evidenced in the Designee Certificate. If the total amount of Upfront Financing Costs exceeds the estimate of total Upfront Financing Costs presented to this Board, such excess shall be subject to approval by this Board.

16. Upfront Financing Costs shall be paid from the proceeds of the Bonds, provided that any Upfront Financing Costs approved for recovery (as described in Finding of Fact 12) 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).

17. References in the 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 the Financing Resolution shall prevent the payment or funding of Upfront Financing Costs with a contribution or advance from PRASA.

Ongoing Financing Costs:

18. The terms of each issuance of Bonds requires 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”):

- (i) principal, interest and redemption premiums, 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 53) 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 Revitalization Act, in each case subject to the provisions of the Revitalization 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 as provided in Article 7(-) of the Revitalization Act; and

(xi) any other cost related to issuing Bonds (including all costs associated with the applicable laws related 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 53), 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 Revitalization Act.

19. 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 the 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.

20. 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 the Proposed Financing Resolution and was included in the Corporation's report to PRFAFAA .

21. 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 Revitalization Act.

22. 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.

23. 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 and collected from all Customers until all such Ongoing Financing Costs are paid in full.

#### Qualitative or Quantitative limitations of the Financing Costs

24. 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.

(i) 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.

(ii) 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.

(iii) 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 to the Proposed Financing Resolution. 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.

(iv) 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 are in Appendix 2 to the Proposed financing Resolution; ongoing charges are estimated in Appendix 2 to the Proposed Financing Resolution.

(v) Advisor fees are the cost of the financial advisory services provided to the Corporation and PRASA 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 Appendix 1 to the Proposed Financing Resolution.

(vi) 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 PRASA 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 to the Proposed Financing Resolution. 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 to the Proposed Financing Resolution contains estimated amounts for underwriter compensation.

(vii) 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:

25. 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 the Proposed Financing Resolution as Appendix 2 thereto, together with supporting evidence which:

- (i) determines the portion of the Financing Costs to be recovered from each category 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 categories will be distributed among all Customer categories as provided in Article 7(b)(1)(C) of the Revitalization Act and will be included in the Adjustment Mechanism; and
- (v) provides that any excess of the estimate 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.

26. The Corporation has determined that the distribution and calculation methodologies described in clauses (i) through (v) of Finding of Fact 24 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.

27. 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) has been approved by the Corporation.

Calculation and Adjustment of Revitalization Charges:

28. The Corporation will apply, or cause the Servicer to apply, the Adjustment Mechanism to adjust the Revitalization Charge periodically, and at least once semi-annually, to 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.

29. 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 to 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 revise 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 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 Revitalization Act in a diligent and effective manner within the parameters of the Revitalization Act.

30. 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 Revitalization 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 Revitalization Act, and that the objections, proposals, opinions and recommendations presented were duly taken into consideration the Revitalization Act

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

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

Calculation Agent:

33. 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 Revitalization Act, 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 to the Proposed Financing Resolution, with [-], as initial Calculation Agent, with such changes, omissions or alterations as the Corporation 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.

Customer and the Authority’s benefits.

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

- (i) 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;
- (ii) 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 exchange offer discount, interest rates and other terms specified therein, will provide sufficient present value savings, for the benefit of the Authority, the Commonwealth and its residents.

(iii) 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 PRDOH of the Commonwealth

(iv) 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.

(v) 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 Customers charges. Customer Charges without the Revitalization Act would have

to be substantially higher than the sum of current charges and the Revitalization Charges.

(vi) 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 this Report, the Authority is currently unable to access capital markets independently from the Revitalization Act. It is expected that by providing the funds for its CIP and potentially reducing its debt burden, the issuance of the Revitalization Bonds will reestablish the Authority's financial viability 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.

(vii) 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 outmost 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.

35. Additional Benefits.

(i) Reduced Costs to the Authority. Translating into Savings to Customers. The Bonds and related actions authorized by the 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 fund the Authority's 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 in the Authority's rate, the proposed tender/exchange also allows the Authority to schedule debt service payments 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 the Financing Resolution could result in approximately \$400 million of present value savings, which will benefit Puerto Rico and its citizens.

(ii) 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:

36. The Financing Property, described in detail in Appendix [4] to the Proposed Financing Resolution, created by the Financing Resolution shall include the 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 the Financing Resolution related thereto; and (e) all reserves established in relation to the Bonds or the Financing Property.

37. 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 this 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 Wastewater 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 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.

38. The Corporation is authorized pursuant to Article 7(h) of the Revitalization 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 Revitalization Act, including to provide for the servicing, billing and collection of the Revitalization Charges.

39. The terms of the initial servicing agreement between the Authority, and the Corporation, substantially in the form of Appendix 5 to the Proposed Financing Resolution (the “Initial Servicing Agreement”), are consistent with the Revitalization Act and will enhance the marketability of the Bonds, and should be approved. Accordingly, the Corporation Designee should be authorized to execute and deliver the Initial Servicing Agreement, with such changes, omissions or alterations as the Corporation 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.

40. 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.

41. 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.

42. In the Certification No., PRFAFAA shall determine 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 should approve the initial annual servicing fee.

43. 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.

44. 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.

45. The Corporation is authorized pursuant to Article 6 of the Revitalization 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 Charges to the Authority.

46. 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 45) which shall not be related to the Authority or to the Commonwealth or under the control of the Authority or the Commonwealth.

47. The terms of the depository agreement with [ ], substantially in the form of Appendix 6 to the Proposed Financing Resolution (the “Depository Agreement”), by and among the Authority, the Authority Bond trustee, the Corporation and the Trustee, are consistent with the Revitalization Act and are designed to enhance the marketability of the Bonds, and should be approved. Accordingly, the Corporation Designee should be 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.

48. 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.

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

Trust Agreement:

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

51. As provided in Article 7(l) of the Revitalization 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.

52. Following the award or pricing of any issuance of Bonds, consistent with Finding of Fact 1 of this Financing Resolution, the Corporation Designee should be 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 the Financing Resolution, 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

53. 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
- [Others]
- 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

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

Governing Law; Jurisdiction:

55. The Corporation deems it necessary for the issuance of the Bonds to include in the 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 the Financing Resolution and the Basic Documents, including, to the extent permitted by

law, the Initial Servicing Agreement).

56. The Corporation deems it necessary for the issuance of the Bonds to include in the 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 Revitalization Act) and the Financing Resolution, all rights of the Corporation and the Servicer against any Customer by virtue of the Revitalization 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:

57. According to Article 7(g) of the Revitalization Act the Revitalization Charges are Non-bypassable to Customers.

Corporation Designee

58. As the final terms of the Bonds include certain details ancillary thereto and certain actions after the date of adoption of the Financing Resolution may require expedited approval or other action by the Corporation in order to accomplish the purposes of the 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 the 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 the Financing Resolution.

### **C. 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. The Financing Resolution meets the requirements of a “Financing Resolution” under the Securitization Chapter. Without limiting the generality of the foregoing, the provisions of the Financing Resolution, including the calculation methodology 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 Revitalization Act, the Financing Resolution, the

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

**No Cap on Revitalization Charges.**

7. Neither the Revitalization Act nor the 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 Revitalization 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 Revitalization Act, upon the issuance of the first series of the Bonds, the 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 the Financing Resolution.

**Non-bypassability.**

10. As provided in Article 7(h) of the Revitalization 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 Revitalization Act shall be obligatory, Non-bypassable and shall apply to all Customers.

11. As provided in Article 7 (g) of the Revitalization 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 Revitalization Act, Non-bypassable means that the Revitalization Charges shall be paid by all Customers, even if the Customer elects to purchase water and/or 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 39). 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 Revitalization 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 Revitalization Act or any other provision of law requiring or providing for the review (except by the Corporation as in Article 6 of the Revitalization Act) or approval of rates of any governmental entity, or the holding of public hearings (except for the public hearings to be held by PRFAFAA as provided in subsection (b) of Article 7 of the Revitalization Act) 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.**

16. As provided in Article 7(n)(1) of the Revitalization Act, neither the Financing Property, nor the Revitalization Charge and 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.

17. As provided in Article 7(n)(2) of the Revitalization 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.**

18. 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 the Financing Resolution and the Securitization Chapter.

**Partial Payments.**

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

the Authority charges.

**Pledge of Financing Property.**

20. As provided in Article 7(l) of the Revitalization 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.**

21. As provided in Article 3 of the Revitalization Act (definition of “Financing Property” [“Propiedad de Financiamiento”]), upon the issuance of the Bonds, the Financing Property created pursuant to the 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 Revitalization 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.

22. As provided in Article 7(i)(1) of the Revitalization 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 (or non-

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.

23. As provided in Article 7(i)(2) of the Revitalization 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.**

24. As provided in Article 7(j)(2) of the Revitalization 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 Revitalization Act and not by any security contract or issuance, but may be enforceable by a Trustee or other fiduciary for the Bond beneficiaries or holders.

25. As provided in Article 7(j)(2) of the Revitalization 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.

26. As provided in Article 7(j)(3) of the Revitalization 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.**

27. The 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.

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

**Revenues Solely of the Corporation.**

29. The Revitalization Charge and 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.

30. As more fully provided in Article 7(h) of the Revitalization Act, (i) as soon as possible after receipt, all Revitalization Charge Revenues and the Authority’s 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.

31. As provided in Article 7(h) of the Revitalization 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 Authority or Commonwealth revenue nor shall they be deemed received as a

result of the Authority's ownership or operation of the System Assets.

32. As provided in Article 7(h) of the Revitalization 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.**

33. As provided in Article 7(h) of the Revitalization 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 Revitalization 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.

34. As provided in Article 7(h) of the Revitalization 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 collection 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.

35. As provided in Article 3 of the Revitalization Act (definition of “Servicer” [“Manejador”]), the term Servicer shall mean the Authority, to the extent permitted by this 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 the Financing Resolution.

**Successor Owners.**

36. As provided in Article 7(k) of the Revitalization Act, the Authority or the System Assets, any successor or assign of the Authority 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 Revitalization 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.**

37. The Commonwealth has covenanted with the Bondholders and parties to any

Ancillary Agreements in Article 13 of the Revitalization Act that the Commonwealth will not limit or alter the provision of Article 41 of the Revitalization 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 Revitalization 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.**

38. Article 13 of the Revitalization 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 Revitalization 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.**

39. As provided Article 7(j)(1) of the Revitalization 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.**

40. The Corporation has been duly created by Article 4(a) of the Revitalization Act.

**Exercise of Remedies.**

41. As provided in Article 7(i)(3) of the Revitalization Act, if the Servicer defaults with the obligations established in this 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.

42. As provided in Article 10(a) of the Revitalization Act, subject to the limitations, established in the 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 this Chapter 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 the Financing Resolution and the applicable Bonds, regardless of whether an event of default has occurred. 43. As provided in Article 10(a) of the Revitalization 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..

44. As provided in Article 3 of the Revitalization Act any or all of the following costs approved as “Financing Costs” [“Costos de Financiamiento”] by the 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 Revitalization 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; including all projects that were postponed, halted or stopped because of lack of funds of the Authority; (b) the applicable costs of the Authority's accumulated debt, as of the time of approval of the Revitalization 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 Revitalization 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 arbitrage 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 Revitalization 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 this Act.

45. As provided in Article 10(b) of the Revitalization 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.

46. As provided in Article 10(c) of the Revitalization 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.

47. Pursuant to Article 7(h) of the Revitalization 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.**

48. As provided in Article 13 of the Revitalization Act, the Commonwealth has covenanted, pledged and agreed with the holders of any “Revitalization Bonds”, including the Bonds, issued under the Revitalization Act and with those Persons that enter into other contracts with the Corporation, including parties to any Ancillary Agreement, pursuant to the provisions of this 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 Revitalization 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.

49. As provided in Article 13 of the Revitalization Act, the Commonwealth has covenanted, pledged and agreed with the holders of any “Revitalization Bonds”, including the Bonds, issued under the Revitalization Act and with those Persons that enter into other contracts with the Corporation, pursuant to the provisions of the Revitalization 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 the 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.

50. Even if the Corporation were to be unable to carry out the defeasance, cancellation or exchange of PRASA's bonds, it would still seek the approval of the Financing Resolution since it is of the utmost importance for PRASA to raise new money in the maximum amount authorized under the Revitalization Act, \$900,000,000 to be able to continue its CIP projects.

**Not Debt of the Commonwealth or the Authority.**

51. As provided in the Revitalization 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.**

52. As provided in Article 7(m) of the Revitalization 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.**

53. 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 this 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 Servicing 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 this Act and any Financing Resolution), all rights of the Corporation or the Servicer against any Customer by virtue of this 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 this Act to the contrary, any proceeding commenced and undertaken pursuant to the provisions of Articles

7(b) or 7(c) of the Revitalization Act must be filed in the Court and according to the proceedings described in those Articles.

**General.**

54. Neither the Servicing Agreement, nor any obligation or duty of PRASA hereunder, 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**

55. Notwithstanding anything herein to the contrary, any issuance of Bonds by the Corporation under the authority contained in the 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.

D. AS PER THE PROPOSED FINANCING RESOLUTION, THE CORPORATION RESOLVES 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 the Financing Resolution. The final terms of the Bonds, consistent with the terms of the Financing Resolution, shall be approved by the Corporation Designee pursuant to Finding of Fact 58 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 Revitalization Act.

2. RESOLVED, the Corporation authorizes and approves the recovery of the Approved Financing Costs described in the 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 36 and 37 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 36 and 37, 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 the 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 the Financing Resolution.

8. RESOLVED, the Corporation approves the calculation methodology for the Revitalization Charges and the Adjustment Mechanism described in Finding of Fact 25 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 25 through 32.

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 Bonds, the 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 the 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 the Financing Resolution.

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

14. RESOLVED, the Corporation is hereby authorized to contract with PRASA 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 the Financing Resolution.

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 45 and 33, 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, as and 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 the 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 nor 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.

21. 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.

22. RESOLVED, the Revitalization Charge shall not exceed, in the aggregate, twenty percent (20%) of the charges billed by the Authority.

23. RESOLVED, the 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's revenues imposed under the Trust Agreement or other documents securing the Authority's Bonds and other obligations.

24. RESOLVED, with respect to any claim related to the Bonds (including claims arising under the 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 Revitalization Act must be filed in the Superior Court, San Juan Part, and follow the procedures

established therein.

25. 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 Revitalization Act) and the Financing Resolution, all rights of the Corporation or the Servicer against any Customer by virtue of the Revitalization 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.

26. 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.

27. RESOLVED, the Financing Resolution may be amended prior to the issuance of any Bonds without the approval of PRFAFAA or any other Person;

28. RESOLVED, the Financing Resolution shall be effective upon its approval, and, on and after the date of the first series of the Bonds are issued, shall not be subject to amendment and shall be irrevocable.

**SECTION IV - PROCEDURAL STEPS REQUIRED UNDER THE REVITALIZATION ACT TO ACCOMPLISH THE PUBLIC HEARING PROCESS, THE APPROVAL OF THE INITIAL FINANCIAL RESOLUTION BY PRFAFAA AND THEREUPON, THE VALIDATION OF THE REVITALIZATION ACT AND FINAL FINANCING RESOLUTION AND THE ISSUANCE OF BONDS**

A. On this date, the Corporation issued the Proposed Financing Resolution, along with the Report specified in Article 7(b) of the certifying that (i) the Financing Resolution complies with the Revitalization 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 Revitalization Act and the celebration of public hearings will be made in accordance with the Revitalization Act, and (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.

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

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

D. In addition, the Revitalization Act requires that notice be given to the general public informing the dates in which the five public hearings will be held by the Hearing Officer, identifying the matters to be discussed, as well as the places, dates and times in which such

hearings will be held, this in accordance with Article 7(b)(4) of the Revitalization Act. The same section states that the referenced notice is also to be posted in certain places and published in newspapers of general circulation.

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

**[INTENTIONALLY LEFT IN BLANK]**

**RESPECTFULLY SUBMITTED,**

IN SAN JUAN, PUERTO RICO, THIS \_\_\_ DAY OF JULY, 2016

**PUERTO RICO AQUEDUCT AND SEWER AUTHORITY REVITALIZATION  
CORPORATION**

**BOARD OF DIRECTORS**

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PRESIDENT OF THE PUERTO RICO  
GOVERNMENT DEVELOPMENT BANK

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SECRETARY OF STATE OF PUERTO RICO

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SECRETARY OF THE TREASURY OF PUERTO RICO

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**CERTIFICATION**

The undersigned, \_\_\_\_\_, of legal age, \_\_\_\_\_, a \_\_\_\_\_ an executive, and resident of \_\_\_\_\_, Puerto Rico, in his/her capacity as Chairperson of the Board of Directors of the Puerto Rico Aqueduct and Sewer Authority Revitalization Corporation, states that the facts stated in the foregoing Report are true and correct to the best of his/her knowledge and belief.

**IN WITNESS WHEREOF**, I have hereunto signed my name this \_\_\_\_ day of \_\_\_\_\_ 2016.

\_\_\_\_\_  
Chairperson of the Board of Directors  
Puerto Rico Aqueduct and Sewer Authority  
Revitalization Corporation

Affidavit No. \_\_\_\_\_

Acknowledged and subscribed before me by \_\_\_\_\_ of the personal circumstances above mentioned, in his/her capacity as Chairperson of the Board of Directors of the Puerto Rico Aqueduct and Sewer Authority Revitalization Corporation, who is personally known to me, in San Juan, Puerto Rico, this \_\_\_\_ day of July 2016.

\_\_\_\_\_  
Notary Public