

DEBT SERVICE

LEGAL BASIS

SECTIONS 2 AND 8 OF ARTICLE VI OF THE CONSTITUTION OF THE COMMONWEALTH OF PUERTO RICO

PUBLIC POLICY

Puerto Rico's government issues debt with the primary purpose of providing resources for the development of permanent public improvements for the general benefit of the community and encourage economic expansion of Puerto Rico. Also, since 2007, the Puerto Rico Sales Tax Financing Corporation ("COFINA") has been used to issue bonds and repay accumulated debt that has no repayment source or legislative appropriations. A portion of this debt had been used to cover budget deficits.

The public policy of this administration to fully comply with the payment of debt service, while maintaining the same at reasonable levels as allowed by the Constitution and to identify opportunities to refinance to get the lowest interest rates on the market.

Among the services that the Government of Puerto Rico provides its citizens and are financed through internal contributions are law enforcement, health, education and collective welfare. Others, like energy production, drinking water, sewers and urban transportation, are provided mainly by charging user fees. These taxes and fees are complemented to some extent, with federal transfers for different purposes and in certain cases, such as urban transportation, with state contributions.

To realize a vision that seeks to provide the services needed by the citizens with a reasonable level of efficiency, it is necessary to continue with the construction of permanent improvements and equipment purchases. This allows you to provide, renew and maintain an infrastructure that promotes the development of our economy and improves the people's quality of life. To meet the structural investment that will benefit current and future generations, we need the additional support of long term loans that are paid from the proceeds of the taxes and fees charged to residents and users. This requires ensuring that credit rating is maintained at the highest level possible.

It is of utmost priority to maintain and strengthen the credit of the Government of Puerto Rico, both of the Central Government and of the major public corporations. The credit rating of the Government of Puerto Rico experienced a continual degradation during the decade of 2000. Given the economic landscape that we inherited and to prevent the degradation of Puerto Rico's credit to "junk" status, the administration took concrete actions to restore fiscal discipline and balance the budget in the most quickly and effective manner as possible. As a result of actions taken by our administration, we have managed to stabilize and improve credit rating.

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On April 19, 2010, “Moody's Investors Service” (Moody's) announced the results of the recalibration of certain issues regarding emissions and municipal bond issuers in the United States.

As a result of this recalibration, the general obligation debt of Puerto Rico was rated "A3" by Moody's, which is an increase of three ranks compared with the previous rating of "Baa3" the level just above "junk." This increase in the credit rating of Puerto Rico was the largest among all jurisdictions in the nation.

On January 19, 2011, “Fitch Ratings” (" Fitch ") assigned a rating of “BBB+” with stable outlook to the general obligation bonds of Puerto Rico. Despite taking into account (i) the historic budget deficit, (ii) the historical overestimation of revenues, (iii) the dependence during the past decade in loans to meet budget gaps, and (iv) the low financial coverage for the Retirement System, said credit rating reflects the successful implementation of reconstruction measures taken by the administration to restore fiscal operations and to stimulate the economy towards a positive growth.

On November 29, 2010 "Standard & Poor's (S & P) upgraded the credit perspective of the general obligations of Puerto Rico from stable to positive and in March 6, 2011, after just three months of the change in perspective, increased the credit classification of the general obligation debt of Puerto Rico from "BBB-" to "BBB" with a stable outlook. This action represented the first increase given by S & P to the general obligation debt of Puerto Rico in 28 years. In taking this action, S & P noted that the improvement is mainly based on the improvement of Puerto Rico in the revenue collections and the continued efforts to achieve fiscal and budget balance.

PUBLIC DEBT MANAGEMENT

In Puerto Rico, the coordination and administration of this responsibility lies with the Government Development Bank (BDG), which serves as Fiscal Agent and Financial Advisor of the Government of Puerto Rico and all its instrumentalities.

As part of its oversight function, GDB takes into account a number of relevant factors to minimize the cost of each debt issue. Having identified the budgeted capital improvement needs for a given year by the agencies and corporations of the Government of Puerto Rico, the GDB carefully evaluates several critical elements, especially, in the case of public corporations their financial situation and ability to finance these capital improvements in capital markets. In general terms the elements or key points of assessment are:

- Detailed analysis of the issuer's financial ability to determine the reasonableness and feasibility of repayment of debt to be incurred.
- Analysis and consideration of recent and projected performance of our economy and its interaction and effect of external financial markets in Puerto Rico, primarily the United States.

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- Analysis of the capital improvement program of the issuer and the reasonableness of the proposed sources of financing to carry out planned improvements.
- Analysis of the existing debt of the issuer to determine the desirability of issuing any refinancing of existing debt that could result in substantial savings in present value.
- Analysis of situations or any other relevant internal or external factors that can impact a bond issue.

STATUS OF PUBLIC DEBT

The public debt is composed of constitutional debt, debt payable from legislative appropriations, debt payable from sales and use tax (IVU), debt of public corporations and municipal debt. The Central Government's constitutional debt is constitutionally limited and includes the general obligations and debt guaranteed by the state. The debt of public corporations is limited by conditions established in each trust contract that is subscribed to the bondholders of those corporations.

Each of these contracts provides, among other things, the income level required to cover the current debt service and to issue new debt. These public corporations have their own Debt not supported by the General Fund. The debt payable from legislative appropriations included in the annual budget of the Office of Management and Budget and is subject to the corresponding legislative appropriation. The IVU payable debt is paid solely from the revenues of the same. The debt of the municipalities is limited by statute. For purposes of this report we considered the total outstanding debt.

PUBLIC DEBT AMOUNT

By June 30, 2009 and 2010, the total debt of the Government of Puerto Rico (Central Government Agencies, Municipalities and Public Corporations) amounted to \$ 58,415.0 million and \$ 62,206.0 million, respectively, reflecting an absolute increase of \$ 3.791 million or 6.5% over previous year.

This growth was due to the issuance of bonds of the following government agencies: COFINA \$ 3.625 million, \$ 2.530 Puerto Rico Electric Power Authority (PREPA) \$ 680 million from the Central Government and \$ 533 million Public Buildings Authority (AEP, for its Spanish acronym). Bond issues of the Central Government and the AEP were issued with the purpose of refinancing existing debt, while the financing program implemented by PREPA during fiscal 2010 helped finance the capital improvement program and provided the necessary operational liquidity. Finally, emissions of COFINA allowed the Government's program of fiscal reform and financial reconstruction to continue.

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The following tables detail the historical trend of public debt.

Governments Public Debt (In Million \$)

Jun-30	Constitutional Debt ¹	Municipal Debt	Public Corporations	Legislative Appropriations ²	IVU ³	Debt not Supported by the General Fund	Total ⁴
2010	9,511.2	3,231.4	27,287.9	2,574.9	14,217.6	5,383.2	62,206.2
2009	9,006.4	2,997.3	26,640.8	2,759.6	11,575.9	5,434.9	58,414.9
2008	8,758.7	2,819.4	26,342.4	2,683.1	6,328.6	6,460.7	53,392.9
2007	8,167.2	2,463.0	24,159.4	5,203.5	2,825.2	3,365.0	46,183.3
2006	7,276.3	2,330.3	20,449.5	9,557.5	0	3,522.7	43,136.3
2005	7,307.1	2,181.3	19,234.1	7,980.5	0	3,565.3	40,268.3
2004	6,878.7	2,046.0	18,040.6	6,977.3	0	3,491.0	37,433.6
2003	6,222.1	1,955.1	15,889.8	5,640.0	0	2,817.5	32,524.5
2002	5,853.8	1,795.8	15,124.1	5,192.7	0	2,046.2	30,012.6
2001	5,573.4	1,632.2	13,699.1	4,310.1	0	1,944.8	27,159.6
2000	5,348.9	1,464.4	13,431.6	3,576.8	0	367.1	24,188.8

Total Public Debt (In Million \$)

Concept	June 04	June 05	June 06	June 07	June 08	June 09	June 10
Constitutional ⁵	\$6,878,692	\$7,307,144	\$7,276,254	\$8,167,160	\$8,758,722	\$9,006,447	\$9,511,167
FIA/IVU	0	0	0	2,825,223	6,328,607	11,575,945	14,217,611
Legislative Appropriations	6,977,280	7,980,299	9,557,497	5,203,494	2,683,125	2,759,563	2,574,930
Total Central Government	13,855,972	15,287,443	16,833,751	16,195,877	17,770,454	23,341,955	26,303,708
Guaranteed	652,490	678,600	716,595	803,547	1,005,053	1,097,640	1,184,744
AEP ⁶	2,898,283	2,932,630	2,990,085	3,031,744	3,098,773	3,153,902	3,246,369
Other Public Corps.	14,489,856	15,622,937	16,742,851	20,324,124	22,238,616	22,389,269	22,856,883
Total Public Corps. ⁷	18,040,629	19,234,167	20,449,531	24,159,415	26,342,442	26,640,811	27,287,996

¹ Debt that compromises the power to impose state taxes.

² Debt that does not compromise the power to impose state taxes.

³ Debt payable from sales and use tax.

⁴ Excludes anticipation notes issued by GDB.

Note: The debt has not been adjusted on account of the balance of reserve accounts to pay the debt service of bonds. Central Government debt excludes guarantees of the Central Government, but includes interim financing granted to the Central Government.

⁵ Excludes Debt Guaranteed by the Central Government issued by Public Corporations.

⁶ AEP adjusted by \$ 70MM found in the debt payable by legislative appropriations.

⁷ Includes AEP and the guaranteed debt.

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Concept	June 04	June 05	June 06	June 07	June 08	June 09	June 10
Municipalities	2,046,043	2,181,354	2,330,318	2,463,008	2,819,415	2,997,333	3,231,378
Total Debt Acc. to TOMIS	33,942,644	36,702,964	39,613,600	42,818,300	46,932,311	52,980,099	56,823,082
Debt not supported by the General Fund	3,491,017	3,565,316	3,522,716	3,364,956	6,460,679	5,434,914	5,383,199
Grand Total Debt	\$37,433,661	\$40,268,280	\$43,136,316	\$46,183,256	\$53,392,990	\$58,415,013	\$62,206,281

The total outstanding debt as to 30-Jun-10

\$62,206.3 million

Increase 30-Jun-09 to 30-Jun-10

\$3,790.4 million or 6.5%

This change is distributed in seven concepts:

Concept	Amount (in millions \$)
Constitutional	\$505
Paid from IVU and legislative appropriations	2,457
Guaranteed	87
AEP	92
Other Public Corporations	467
Municipalities	234
Debt not supported by the General Fund	(52)
Total	\$3,790

CENTRAL GOVERNMENT BORROWING MARGIN

The amount of debt of the Central Government is constitutionally limited. The set limit requires that the debt service not exceed 15% of average domestic revenue for the two fiscal years preceding the debt issued. This margin refers to the debt whose payment involves the taxing power of the Central Government. At June 30, 2010, the maximum constitutional margin for debt service is \$ 1,152,000 million.

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Central Government Borrowing Margin Revenues from State Sources ⁸	June 05	June 06	June 07	June 08	June 09	June 10
Average Fiscal Years 2003 and 2004	\$7,439,000,000					
Average Fiscal Years 2004 and 2005		\$7,779,886,000				
Average Fiscal Years 2005 and 2006			\$8,063,386,000			
Average Fiscal Years 2006 and 2007				\$8,346,104,000		
Average Fiscal Years 2008 and 2009					\$8,233,716,500	
Average Fiscal Years 2009 and 2010						\$7,679,421,000
Maximum Constitutional margin (15%)	1,115,850,000	1,166,982,900	1,209,507,900	1,251,915,600	1,235,057,475	1,151,913,150
Less: Debt Service	630,685,134	638,171,044	680,742,340	767,377,307	785,297,901	826,812,043
Percentage	8.5%	8.2%	8.4%	9.2%	9.5%	10.8%
Equals: Unrestricted Margin (\$)	485,164,866	528,811,856	528,765,560	484,538,293	449,759,574	325,101,107
Available Percentage	6.5%	6.8%	6.6%	5.8%	5.5%	4.2%

As shown in the table above, as of June 30, 2010 the Central Government had a margin for additional constitutional debt service of 4.2%. This margin allows for an additional constitutional debt whose annual debt service amounts to \$ 325 million. If this additional amount is calculated using a maximum interest rate of 12% and a term of 25 years, the Central Government could theoretically give \$ 2.550 million in additional obligations, not to exceed the aforementioned constitutional limit.

⁸ The borrowing margin presented does not include debt extinguished using “Guaranteed Investment Contracts”

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However, having the legal authority to issue debt does not mean that there is financial capacity to issue such debt. The table below details the general obligation bonds as of June 30, 2010.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO PUERTO RICO GOVERNMENT BOND ISSUES By JUNE 30, 2010						
	Date	Description	Pair Value	Interest	Current Principal Balance	Due Date
1	03/28/89	Public Improvement Bonds of 1989, Series A	244,996,625.00	11,293,100.00	2,706,900.00	07/01/11
2	07/15/93	Public Improvement Refunding Bonds, Series 1993	958,240,000.00	0.00 ⁹	48,220,000.00	07/01/10
3	05/04/95	Public Improvement Bonds of 1995	325,000,000.00	11,153,965.00	71,045,000.00	07/01/15
4	02/01/96	Public Improvement Bonds of 1996	350,440,000.00	12,103,625.00	69,900,000.00	07/01/15
5	04/03/97	Public Improvement Bonds of 1997	369,000,000.00	13,657,475.00	78,305,000.00	07/01/15
6	01/29/98	Public Improvement Refunding Bonds, Series 1998A	503,963,264.10	212,653,587.35	366,058,662.65	07/01/26
7	04/14/98	Public Improvement Bonds of 1998	500,000,000.00	21,310,000.00	110,595,000.00	07/01/16
8	12/17/98	Public Improvement Bonds of 1999	475,000,000.00	98,557,737.50	246,310,000.00	07/01/28
9	04/05/00	Public Improvement Bonds of 2000	475,000,000.00	0.00 ⁸	11,295,000.00	07/01/10
10	04/05/00	Public Improvement Refunding Bonds, Series 2000	55,910,993.15	35,853,456.85	55,910,993.15	07/01/20
11	06/07/01	Public Improvement Bonds of 2001	410,970,000.00	133,645,956.25	326,910,000.00	07/01/23
12	06/07/01	Public Improvement Refunding Bonds, Series 2001	337,235,000.00	116,049,781.25	130,015,000.00	07/01/30
13	10/25/01	Public Improvement Bonds of 2002	455,000,000.00	346,781,837.50	335,815,000.00	07/01/31
14	10/25/01	Public Improvement Refunding Bonds, Series 2002A	837,960,000.00	334,194,722.50	832,495,000.00	07/01/21
15	10/25/01	Public Improvement Bonds of 2002 (Taxable)	20,000,000.00	789,275.00	13,920,000.00	07/01/11
16	04/04/02	Public Improvement Refunding Bonds, Series 2002	501,565,000.00	27,952,375.00	269,350,000.00	07/01/14
17	08/08/02	Public Improvement Bonds of 2003	460,000,000.00	62,481,900.00	150,330,000.00	07/01/22
18	08/08/02	Public Improvement Refunding Bonds, Series 2003 A	89,610,000.00	20,515,825.00	89,610,000.00	07/01/17
19	04/02/03	Public Improvement Refunding Bonds, Series 2003	95,295,000.00	9,729,225.00	95,295,000.00	07/01/13
20	05/06/03	Public Improvement Refunding Bonds, Series 2003 B&C	1,018,605,000.00	420,171,483.48	746,995,000.00	07/01/28
21	10/16/03	Public Improvement Bonds of 2004	457,175,000.00	186,691,687.50	298,765,000.00	07/01/30
22	11/25/03	Public Improvement Bonds of 2004 - Local	234,155,000.00	120,599,981.25	197,020,000.00	07/01/33
23	05/18/04	Public Improvement Refunding Bonds, Series 2004 A	279,240,000.00	199,554,093.18	279,240,000.00	07/01/31
24	05/18/04	Public Improvement Refunding Bonds, Series 2004 B	447,875,000.00	101,749,463.02	214,925,000.00	07/01/28
25	10/07/04	Public Improvement Bonds of 2005A	440,460,000.00	238,237,287.50	331,530,000.00	07/01/31
26	10/07/04	Public Improvement Bonds of 2005B - Local	93,790,000.00	4,557,497.50	48,215,000.00	07/01/14
27	06/23/06	Public Improvement Refunding Bonds of 2006 A	101,695,000.00	54,883,750.00	94,250,000.00	07/01/35
28	08/10/06	Public Improvement Bonds of 2006 A	500,000,000.00	270,285,567.00	400,920,000.00	07/01/30

⁹ The interest of these issues was refinanced by the issue of "Public Improvement Refunding Bonds of 2009 C" on December 16, 2009. Only the principal is paid on the bond's due date.

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GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO PUERTO RICO GOVERNMENT BOND ISSUES By JUNE 30, 2010						
29	08/10/06	Public Improvement Refunding Bonds of 2006 B	335,650,000.00	149,522,750.00	128,235,000.00	07/01/35
30	08/30/06	Public Improvement Bonds of 2006 B	39,380,000.00	13,913,550.00	39,380,000.00	07/01/17
31	08/30/06	Public Improvement Bonds of 2006 - Local	190,360,000.00	32,219,559.96	162,370,000.00	07/01/16
32	10/04/07	Public Improvement Bonds of 2007 A	408,800,000.00	407,251,000.00	408,800,000.00	07/01/37
33	10/04/07	Public Improvement Bonds of 2007 B - Local	91,200,000.00	21,121,537.50	83,450,000.00	07/01/18
34	10/16/07	Public Improvement Refunding Bonds of 2007 A	926,570,000.00	523,067,180.35	823,580,000.00	07/01/34
35	10/16/07	Public Improvement Refunding Bonds of 2007 B	60,545,000.00	365,400.00	13,920,000.00	07/01/18
36	05/07/08	Public Improvement Refunding Bonds of 2008 A	735,015,000.00	396,298,887.50	735,015,000.00	07/01/32
37	05/07/08	Public Improvement Refunding Bonds of 2008 B	173,975,000.00	124,691,520.00	173,975,000.00	07/01/32
38	05/07/08	Public Improvement Refunding Bonds of 2008 C - Local	190,135,000.00	128,270,705.00	190,135,000.00	07/01/28
39	09/18/08	Public Improvement Bonds of 2008 A	250,000,000.00	243,979,300.00	250,000,000.00	07/01/38
40	09/17/09	Public Improvement Refunding Bonds of 2009 A	3,425,000.00	3,968,156.25	3,425,000.00	07/01/31
41	11/17/09	Public Improvement Refunding Bonds of 2009 B	372,685,000.00	631,656,665.14	372,685,000.00	07/01/39
42	12/16/09	Public Improvement Refunding Bonds of 2009 C	210,250,000.00	348,905,425.00	210,250,000.00	07/01/39
			<u>\$15,026,170,882.25</u>	<u>\$6,090,686,291.33</u>	<u>\$9,511,166,555.80</u>	

The debt incurred by the government, whose payment does not involve the taxing power of the state, is what is known as a debt payable from legislative appropriations and debt payable from the IVU. This debt consists of GDB and third party financing, such as the issuance of bonds from the Public Finance Corporation (CFP, for its Spanish acronym) and COFINA that are payable from the General Fund, IVU or the Public Improvement Fund.

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The total amount of this debt as of June 30, 2010 amounted to \$ 2.574 million payable from the General Fund through legislative appropriations and \$ 14,218,000 payable from Dedicated Sales Tax Fund (FIA):

(Millions of Dollars)	<u>Balance June 2008</u>	<u>Balance June 2009</u>	<u>Balance June 2010</u>
Legislative Appropriations	2,683	2,759	2,574
FIA	6,329	11,576	14,218
Total Debt Payable IVU and Legislative Appropriations	9,012	14,335	16,792

(Millions of Dollars)	<u>Balance June 2008</u>	<u>Balance June 2009</u>	<u>Balance June 2010</u>
Bonds/Notes with Third Parties	6,600	11,815	14,736
Debt to GDB	1,465	1,593	1,367
Treasury Debt to GDB	947	927	689
Total Debt Payable to IVU and Legislative Appropriations	9,012	14,335	16,792

PAYABLE DEBT FOR LEGISLATIVE APPROPRIATIONS AND SALES & USE TAX				
June 30, 2010				
Balance of Bond Issues and Notes of the Public Finance Corporation (PFC) and the Puerto Rico Sales Tax Financing Corporation (COFINA, for its Spanish acronym)				
Agency		Description	Amount	
PFC – AFASS		PFC Bonds	\$39,004,084	
PFC – PR Aqueduct and Sewer Authority		Super aqueduct-Series A 2001 y 2004	344,385,000	
PFC - Maritime Transportation Authority		PFC Bonds	114,270,000	
PFC – OMEP		PF Bonds	88,625,000	
PFC - Bill 164		PFC Bonds -C,D,E 2001, A,B 2002, A 2003, A,B 2004	1,018,367,751	
PFC – Treasury Department		PFC Bonds - Series E-F 1996 Serie C 2003	22,247,058	
PFC- QZAB'S		PFC Bonds - Serie A 2001	-	
PFC- QZAB'S		PFC Bonds - Serie A 2004		
PFC- QZAB'S		PFC Bonds - Serie A 2005	-	
			\$1,626,898,893	
COFINA		COFINA Bonds	\$13,437,045,340¹⁰	
				\$15,063,944,233
Notes Payable-Power Authority-BPPR		Sale of Accounts Receivable - Government of PR	\$16,363,000	

¹⁰ Does not include interest credited to the Capital Appreciation Bonds (CAB's) from \$ 399,789,751 at June 30, 2010

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PAYABLE DEBT FOR LEGISLATIVE APPROPRIATIONS AND SALES & USE TAX				
June 30, 2010				
Balance of Bond Issues and Notes of the Public Finance Corporation (PFC) and the Puerto Rico Sales Tax Financing Corporation (COFINA, for its Spanish acronym)				
Total Outstanding Bonds and Notes Payable FIA Fund				\$15,080,307,233
Balance of GDB loans granted to Agencies and Public Corporations				
Fund	Due Date	Description		
Administration for the Care and Development of Childhood	09-30-09	(2-122-01)	-	
Agricultural & Livestock Development Administration	06-30-20	Debt Restructuring (2-270-01)	49,163,000	
Department of Education - Federal Funds	06-30-18	Reimbursement to the Treasury Department(2-15-02)	110,000,000	
Health Department	06-30-18	Payment of Debt (2-65-01)	23,000,000	
Catastrophic Illness Fund	06-30-18	Comply with medical procedures (2-401-01)	-	
Industrial Development Company	09-30-04	Incentive Program (2-108-01)	10,880,000	
	09-30-05	Incentive Program (2-108-02)	12,523,000	
	06-30-08	Incentive Program(2-108-03)	20,000,000	
Veterans Advocated Office	06-30-18	Grant Act 313 and Act 59 (2-53-01)	-	
Public Buildings Authority	06-30-10	To cover cash deficits (2-82-02)	70,000,000	
Total FIA Fund				\$295,566,000
General Fund				
Emergency Fund OMB	09-30-11	Response to Emergencies and disasters (2-83-01)	129,263,000	
Comprehensive Cancer Center	10-31-21	Construction (2-543-01)	15,609,000	
Catastrophic Illnesses	06-30-09	Comply with medical procedures (2-401-02)	5,719,000	\$150,591,000
Public Improvements Fund				
Due Date		Description		
District Authority Convention Center - Coliseum	06-30-27	PR Coliseum (2-57-01)	90,115,000	
	06-30-27	PR Coliseum (2-57-02)	60,961,000	
Department of Agriculture	06-30-18	Department of Agriculture (2-41-01)	65,338,000	
Capitol Bulding	06-30-18	Construction (2-250-01)	16,727,000	
National Parks Company	06-30-18	Improvements to parks (2-20-01)	1,165,000	
	09-30-06	Capuchino Park (2-20-02)	4,942,000	
Department of Corrections and Rehabilitation	06-30-18	Capital Improvements (2-541-03)	837,000	
Health Department	10-31-14	Financing Projects (2-65-02)	15,427,000	
Department of Transportation and Public Works	06-30-18	Financing Projects (2-66-01)	5,971,000	
	06-30-18	Financing Projects (2-66-5)	-	
	06-30-18	Financing Projects (2-66-02)	22,952,000	
	06-30-18	Financing Projects (2-66-06)	3,870,000	
	06-30-18	Financing Projects (2-66-03)	14,382,000	
	06-30-18	Financing Projects (2-66-07)	-	
	06-30-18	Financing Projects (2-66-04)	33,006,000	
Department of Education	06-30-18	Improvement to Schools (2-15-01)	5,010,000	
Trust Fund for Special Communities	06-30-13	Construction (2-277-01)	376,095,000	

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PAYABLE DEBT FOR LEGISLATIVE APPROPRIATIONS AND SALES & USE TAX				
June 30, 2010				
Balance of Bond Issues and Notes of the Public Finance Corporation (PFC) and the Puerto Rico Sales Tax Financing Corporation (COFINA, for its Spanish acronym)				
Housing Finance Authority	06-30-10	Housing Development Program (2-100-01)	13,921,000	
Infrastructure Financing Authority	06-30-11	Capital Improvements (2-59-17)	3,119,000	
Puerto Rican Cultural Institute	06-30-18	Capital Improvements (2-72-01)	142,000	
	06-30-18	Capital Improvements (2-72-02)	-	
Public Improvement Fund	Due Date		Cantidad	
Puerto Rican Cultural Institute	6-30-18	Capital Improvements (2-72-03)	2,000	
Department of Justice	06-30-18	Financing Program (2-18-01)	19,244,000	
	06-30-18	Financing Program (2-18-02)	15,335,000	
	06-30-18	Financing Program (2-18-03)	16,805,000	
Department of Natural Resources	06-30-07	Channeling of Río Guayanilla (2-64-02)	-	
	06-30-18	Channeling of Río Fajardo (2-64-03)	-	
Cantera Peninsula	07-31-12	Financing Projects (2-22-01)	7,238,000	
	12-31-11	Financing Projects (2-22-02)	3,541,000	
Puerto Rico Police Dpmt.	09-30-14	Cars & Equipment (2-101-01)	8,302,000	
	09-30-14	Cars & Equipment (2-101-02)	26,148,000	
Sports and Recreation Department	06-30-18	Recreation Complex (2-63-01)	-	
	06-30-18	Recreation Complex (2-63-03)	8,936,000	
	06-30-18	Financing Projects (2-63-02)	-	
	06-30-18	Financing Projects (2-63-04)	379,000	
Rural Development	06-30-18	Capital Improvements (2-120-01)	20,000	
	06-30-18	Capital Improvements (2-120-02)	13,301,000	
Solid Waste Authority	06-30-06	Financing Program (2-80-02)	12,733,000	
	06-30-06	Financing Program (2-80-03)	8,093,000	
	06-30-08	Financing Program (2-80-04)	39,559,000	
	06-30-08	Financing Program (2-80-01)	7,700,000	
University of Puerto Rico	06-30-08	Capital Improvements (2-113-02)	-	
	03-31-10	Operational (2-113-04)	-	
Total Public Improvements Fund				\$ 921,316,000
Total BGF Loan Balance				\$ 1,367,473,000
Central Government Balance				
FIA Fund	Due Date	Agencies		
NOTES	09-31-12	Treasury (2/17/04) Payment Overdue Debt	75,000,000	
	06-30-18	Treasury (2-17-07) EAP Rent Payment	-	
	09-30-11	Treasury (2-17-12) Family Department	-	
	09-30-13	Treasury (2-17-14) HIPAA law- Health	30,000,000	
NOTES	06-30-18	Treasury (2-17-15) Compensate Acct. Secretary of the Treasury	150,000,000	
	06-30-18	Treasury (2-17-18) PRTC (Debt)	-	
	09-30-12	Treasury (2-17-19) Roosevelt Roads	-	
	06-30-11	Treasury (2-17-21) Pyment CRIM Debt	-	
	06-30-36	Treasury (2-17-21) Law 98 and Law 90	230,000,000	
		Treasury Accounts Receivable	-	

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PAYABLE DEBT FOR LEGISLATIVE APPROPRIATIONS AND SALES & USE TAX				
June 30, 2010				
Balance of Bond Issues and Notes of the Public Finance Corporation (PFC) and the Puerto Rico Sales Tax Financing Corporation (COFINA, for its Spanish acronym)				
Public Financing Corporation	03-31-36	For payment of debt service (2-264-01)	-	
Total Fund				\$ 485,000,000
Public Improvements Fund	Due Date	Agencies		
NOTES	06-30-18	Treasury (2-17-03) Department of Corrections	7,766,000	
	06-30-08	Treasury (2-17-05) Information Technology	-	
	06-30-08	Treasury (2-17-02) Information Technology MTN	14,783,000	
	06-30-08	Treasury (2-17-06) X Rays For Shipping Containers	2,669,000	
	06-30-19	Treasury (2-17-08) Several Agencies PIP	5,545,000	
	06-30-19	Treasury (2-17-10) Several Agencies PIP MTN	85,333,000	
	09-30-07	Treasury (2-17-11) Several Agencies PIP	1,764,000	
	09-30-07	Treasury (2-17-01) Several Agencies PIP MTN	72,989,000	
	09-30-15	Treasury (2-17-13) Law HIPAA – Health	13,297,000	
Public Improvements Total Fund				\$ 204,146,000
Central Government Total Balance				\$ 689,146,000
TOTAL PAYABLE DEBT FOR LEGISLATIVE ALLOCATIONS AND SALES & USE TAX				
Sub - Total FIA Fund	(Excludes PFC Super aqueduct - Series A & B payable from the PRASA income)			\$15,516,488,233
Sub - Total General Fund				150,591,000
Sub-Total Public Improvement Fund				1,125,462,000
Total Payable Debt for Legislative Allocations and Sales & Use Tax				\$16,792,541,233
Excludes outstanding bonds and notes PRHA, PRIFA, and PRASA				

MUNICIPAL DEBT

On June 30, 2010, total municipal debt amounted to \$ 3.231 billion, an increase of 7.8% over June 2009.

Debts incurred by municipalities with GDB and other banks to finance their work, equipment acquisition and operational costs must meet the following borrowing margins, repayment capacity and controls, as presented below:

- The legal margin based on the value of all property - up to 10% of the appraised value of taxable property;

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- Each municipality approves, by ordinance, the Special Additional Tax ("CAE") necessary or sufficient to cover debt service.
- Operational legal margin - up to 10% of the average of recurrent revenue of the last two years; and
- Lease bonds –are issued to finance self-sufficient projects with the revenue flow that they generate.

GDB, before approving municipal financing, analyzes the loan margin and the repayment capacity of each municipality. In analyzing the financial condition of many municipalities the largest fiscal problem that has been identified is that the expenditures exceed projected revenues. The use of long-term financing for the financing of deficit, increased economic pressure on the municipalities, since they reduce the funds available for operation. Some municipalities also postpone payment of certain statutory obligations.

DEBT OF PUBLIC CORPORATIONS

The debt of public corporations paid with their own income is circumscribed by trust agreements that each of the public corporations subscribes with investors through one or more trustees.

Each of these contracts provides, among other things, the income level required for their current debt service and that which is necessary to issue new debt.

The lending margin to issue bonds of public corporations is calculated according to the income level required to service their outstanding obligations, as stated in the trust agreement signed.

At the end of fiscal 2010, the seven largest and most active corporations in the bonds market carried a bond debt of \$ 19,607.8 million and the minimum income needed for their service, according to the contracts, was \$ 1,743.9 million. The disposable income (preliminary) was \$ 1,931.5 million at the end of that fiscal year. The table below shows these data.

Corporation	Payable Bonds Balance (6/30/10) ^(a)	Maximum service in any year and other requirements	Required Income	Available Income
PREPA	\$7,422.9	\$549.3	\$659.2	\$745.9
ACT ^(b)	6,240.0	279.6	419.4	548.4
AEP	3,154.4	258.8	258.8	258.8

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Corporation	Payable Bonds Balance (6/30/10) ^(a)	Maximum service in any year and other requirements	Required Income	Available Income
AAA ^(c)	1,942.9	90.6	108.7	195.8
CFI	247.0	25.7	32.1	37.6
UPR	554.3	55.2	82.8	132.0
AP ^(d)	46.3	49.3	61.6	13.0
Total	\$19,607.8	\$1,308.5	\$1,622.6	\$1,931.5

- a) Do not include the estimated value of "Capital Appreciation Bonds".
- b) Income required was calculated for the "Senior" bonds only under Resolution 1998. No bonds will be issued under Resolution 1968 (excluding refinancing), and subordinated bonds have other coverage requirements.
- c) Income required bonds were calculated for "Senior" bonds only. The rest of the debt has other coverage requirements.
- d) Debt service until the year 2027 is \$ 3.0MM (interest only). In the year 2028 it has a "balloon payment" of \$ 49.9MM. These bonds were redeemed in full by the GDB and could be renegotiated (sold) in the future under other terms.

The GDB carefully monitors each bond issue of public corporations, regardless of the free margin of the issuer, in order to anticipate situations that might affect their ability to meet its bond payment.

The bond debts of these seven major public corporations show a significant increasing trend. In FY 2000, the aggregate debt of public corporations for such bonds amounted to \$ 10,531.4 million and the aggregate available income totaled \$ 1,396.5 million. At the end of fiscal year 2010 the aggregate debt of public corporations for such bonds amounted to \$ 19,607.8 million and the aggregate income available totaled \$ 1,931.5 million. This represents a 86.2% increase in the debt balance for this concept but an increase of only 38.3% in the aggregate level of disposable income during the same period for the payment of debt (as defined in the respective trust contracts.)

To prevent this trend to continue with regards to the debt, it is necessary to establish public policy to allow for the financing of a portion of the plan of improvements of public corporations from the internal resources that public corporations generate. That's one way to eventually take the debt in this sector to reasonable levels. Likewise, it is necessary to establish mechanisms to use the available margin on projects that promote productive activities that benefit the organization, the economy and public finances, either by increasing government revenue or reducing expenses.

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DEBT OF MAJOR PUBLIC CORPORATIONS

The function of the GDB as fiscal agent and financial advisor goes beyond the structuring of bond issues which complement the financing of the capital improvement program of a public instrumentality. This responsibility includes the anticipation of potentially difficult situations that need correction. As part of the process of strengthening the role of fiscal agent GDB, auditing agreements with the AAA, PREPA, ACT, AP and AEP have been signed.

A brief summary of the debt and other information from various public corporations follows:

Puerto Rico Aqueduct and Sewer Authority (PRASA) - AAA owns and operates the public water and sewage that serves a total of approximately 1.3 million customers. At the end of fiscal 2010, AAA completed its operations with an operating loss of \$ 58.3 million and an increase in net assets of \$ 830.8 million. The total public debt from AAA to June 30, 2010 (excluding debt refinancing under Law 164 of December 17, 2001) amounted to \$ 3,316 million which represented \$ 1,942.9 million in bond debt and \$ 1,373.4 million in other obligations.

The five year capital improvement program for this corporation, ending in June 30, 2015 totals \$ 1,584.9 million. During the past two decades, its capital improvement program has been funded primarily by financing funded by legislative appropriations, federal government appropriations and to a lesser extent, internally generated revenue.

Ports Authority (AP) – The preliminary financial statements of the AP at the end of fiscal 2010 reflected an operating loss of \$ 38.7 million and a reduction in net assets of \$ 38.5 million. The total public debt of the AP, June 30, 2010, amounted to \$ 737.1 million of which \$ 46.3 million represented bond debt and \$ 690.8 million represented other obligations.

The five year capital improvement program of this corporation ending June 30, 2015 is estimated at \$ 361.3 million. During the past two decades and up to today, this program has been funded mainly through external funding, allocations from the federal government, private funds and to a lesser extent, internally generated revenue. Since the last decade, AP has been unable to have access the bond markets because of its delicate situation.

In June 2010, the AP issued \$ 46.3 million in bonds denominated "Ports Authority Revenue Refunding Bonds Series E" for the refinancing of the Series D Bonds issued in 1991. The withdrawal of the balance of the Series D bonds for \$ 55.6 million was achieved with the proceeds from the issuance of refinance bonds series E and additional funds available to the trustee of the bonds of the AP.

The Series E issue was wholly acquired by GDB. This transaction was made to protect the credit rating of the PA and to provide relief in the annual payment of debt service on bonds, which fell from \$ 6.7 million to \$ 3.0 billion through 2027, with a balloon payment in 2028.

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Puerto Rico Electric Power Authority (PREPA) - PREPA owns and operates the country's electrical system. Currently, the PREPA serves a total of approximately 1.4 million customers. PREPA closed fiscal 2010 with a reduction in net assets of \$ 142.8 million. In line with the trust agreement, PREPA closed the fiscal year with a net income of \$ 745.9 million.

The total public debt of the PREPA to June 30, 2010, amounted to \$ 7,478.3 million, which represented \$ 7,422.9 million in bond debt and \$ 55.4 million represented other obligations.

The capital improvement program of the PREPA amounts to \$ 1,750.00 million for the five-year period ending June 30, 2015. This program is funded primarily by issuing bonds and other financing paid from the Authority's income stream.

PREPA went to capital markets by the end of fiscal 2010 and early 2011 with a financing and aggregate refinancing program of \$ 3,104,295,000 under the provisions of its trust agreement dated January 1, 1974, as amended. The GDB assisted PREPA in the design of this program, which was carried out through seven separate series of bonds. In addition to providing additional financing for its capital improvement program, this program helped to substantially reduce the rollover risk involved with the interim credit facility that the PREPA had, and thus provide fiscal and financial solvency.

Transportation and Highway Authority (ACT) - ACT owns and operates the highway and main road system. The ACT closed fiscal 2010 with a preliminary operating loss, subject to change, of \$ 445.3 million and a preliminary reduction in net assets, subject to change, of \$ 263.4 million. In accordance with the two bond resolutions, the ACT closed fiscal 2010 with an aggregate income of \$ 548.4 million. The total public debt of the ACT at June 30, 2010 amounted to \$ 7,169.4 million which represented \$ 6,240.0 million of bond debt and \$ 929.4 million in other obligations.

The ACT maintains a capital improvement program of \$ 1,515.8 million for the next five years (2011-2015). This program is funded primarily through third party financing, transfers from federal programs and internally generated revenue. As of June 30, 2010 the ACT had a limited borrowing capacity to fund its capital improvements program.

On July 1, 2010, the ACT completed the compulsory re-marketing of its refinancing bonds Series AA for \$ 253.7 million and Series H for \$ 44.3 million. This transaction converted the bonds to a fixed rate with a "standard call" of 10 years and an "extraordinary call" of 2 years. With this transaction the automatic conversion of these bonds to 8% was prevented.

Infrastructure Financing Authority (AFI) – AFI's financial resources are principally derived from the first collections of the excise taxes on rum produced in Puerto Rico and sold in the United States, which are collected by the Federal Government and returned to Government of Puerto Rico. As provided by Law No. 44, as amended, until 2009 AFI received \$ 90 million from this concept and from

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fiscal 2010 through fiscal year 2052 it shall receive the amount of \$ 117 million annually. Currently, these financial resources are committed primarily to the payment of debt service of a portion of its bonds, which have been issued to financially assist the AAA.

By June 30, 2010 AFI's public debt amounted to \$ 1,831.4 million, of which \$ 1,828.3 million represented the balance of bonds and \$ 3.1 million related to other obligations.

As part of its responsibilities, AFI serves as the financial administrator of the Revolving Funds: Clean Water and Drinking Water programs with a loan portfolio with a maximum authorized combined amount of \$ 679.9 million and an aggregate balance amounting to \$ 322.8 million as of June 30, 2010.

Industrial Development Company (CFI) - CFI was created primarily to stimulate the economy of Puerto Rico through the formation of new local businesses in Puerto Rico and to promote local investment of foreign capital. To fulfill its mission, the CFI has many programs and provides industrial facilities through the rent or sale of them to qualified companies, and also provides assistance to companies through special incentives. As of June 30, 2010, CFI had a total debt of \$ 336.0 million, of which \$ 247.0 million represented bond debt and \$ 89.0 million other liabilities.

Public Buildings Authority (AEP) - The AEP oversees the design and construction of facilities that are leased to agencies, departments and instrumentalities of the Government of Puerto Rico.

The AEP maintains a Permanent Improvement Program of \$ 435.6 million comprising five fiscal years (2009-2013). This program is funded primarily through interim credit lines provided by GDB who later become permanent financing through bond issues that are sold in the Exempt Municipal Bond Market in the United States.

The AEP bond emissions are payable from the income received from various governmental agencies who lease them. Most of this rental income is paid from the General Fund.

The bonded debt of the AEP as of June 30, 2010 amounted to \$ 3,154.4 million. It also maintains five lines of credit with GDB with a balance due of \$ 162 million. Two of these credit lines finance part of its ongoing Permanent Improvement Program.

Public Finance Corporation - The Corporation for Public Financing (CFP) was created as a subsidiary of the GDB, by means of Resolution 5044 of December 12, 1984, as an alternative mechanism to finance the needs of certain government instrumentalities.

It was created with the power to borrow money and issue bonds and other obligations to provide funds to acquire or purchase obligations that have been issued to GDB by government instrumentalities that do not have the legal ability to access the bond or banking market. This allows

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them to obtain interest rates at a reasonable level that benefit the General Fund who has been the main source of payment for this financing.

Since its inception, CFP has been used as a mechanism to place debt in the bond market. The first funding for which it was used was the refinancing of the debt of the Sugar Corporation for the year 1985.

Then in 1995, when the state sold the Shipping Authority, the debt assumed by the Central Government was placed in the bond market through the use of the Corporation.

The total debt stock of the Corporation at June 30, 2010 totals \$ 1,626.9 million and is part of the debt to be paid from legislative appropriations. Currently the debt is payable from the Dedicated Sales Tax Fund (FIA). A distribution of the debt of the CFP follows:

<u>Year</u>	<u>Purpose</u>	<u>Balance</u>
1995	Shipping Authority	\$114,270,000
1997	Treasury Department	22,247,058
1998	OMEP	88,625,000
1999	AFASS	39,004,084
2001	AAA Super aqueduct	344,385,000
2001	Law No. 164	1,018,367,751
Total		\$1,626,898,893

MOST RELEVANT FINANCING AND REFINANCING

Below is a brief description of the public sector major financing and refinancing approved by GDB:

Puerto Rico Electric Power Authority (PREPA)

At the end of fiscal 2010 and early fiscal 2011, PREPA accessed the bond market with a program of financing and refinancing for an aggregate total of \$ 3,104,295,000 through the issuance of seven separate series of bonds. They are broken down as follows: Series XX \$ 822,210,000, Series YY \$320,175,000, ZZ Series for \$ 631,160,000, Series AAA \$ 363,075,000, Series BBB \$ 76,800,000, CCC Series \$ 316,920,000, Series DDD \$ 218,225,000 and Series EEE \$ 355,730,000.

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Transportation and Highway Authority (ACT)

During fiscal year 2010, GDB approved new funding for ACT totaling \$ 234.9 million for the partial financing of its capital improvement program and for other purposes.

In July 1, 2010 ACT completed the re-marketing transaction of its Series AA refinance bonds for \$ 253.7 million and Series H for \$ 44.3 million.

During fiscal year 2010 ACT refinanced its debt of \$400 million through GDB for capital improvements that it had in a syndicate of banks led by Citigroup Global Markets, Inc.

Puerto Rico Aqueduct and Sewer Authority (PRASA)

In September 2009, the GDB approved financing to the PRASA for \$ 150 million to cancel the balances on its credit line (operational reserve) for the same amount.

In October 2009 a credit line was approved in favor of the PRASA for \$ 125 million to partially finance its capital improvement program and another line of credit for up to a maximum of \$ 70 million for projects eligible under the federal ARRA program. In March 2010 a credit line of \$ 200 million for the PRASA was approved to partially finance its capital improvement program.

During fiscal year 2010 GDB authorized several financings for PRASA with AFI through State Revolving Funds for \$ 100.2 million for the infrastructure development of drinking water and wastewater.

Municipal Revenues Collection Center (CRIM)

In July 2010 the GDB approved a revolving financing line to CRIM for \$ 250 million with commercial banks in order to balance the cyclical patterns of collections and expenditures in cash flow.

Ports Authority (AP)

In June 2010 GDB authorized the refinancing of the Series D bonds of the AP through the purchase of the issue of refinancing bonds Series E for \$ 46.3 million. The withdrawal of the balance of the Series D bonds for \$ 55.6 million was achieved with the proceeds from the issuance of refinancing bonds series E and additional funds available to the trustee of the bonds of the AP. Series E was wholly acquired by GDB. This transaction was made to protect the credit rating of the AP and to provide relief in the annual payment of debt service on bonds, which fell from \$ 6.7 million to \$ 3.0 million (until 2027).

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Central Government – Treasury Department (Hacienda)

During FY 2009-2010 there were several issues of bonds of the Central Government and the following credit lines were approved as mentioned below:

- *Commonwealth of Puerto Rico-Treasury Department Credit Facility* \$600,000,000 to finance current obligations and budgeted disbursements in anticipation of the TRANS 2010.
- *Commonwealth of Puerto Rico-Treasury Department-Revolving Credit Agreement and Direct Pay Letter of Credit* for \$900,000,000 with Scotia Bank and a consortium of banks for interim financing of current obligations and budgeted disbursements in anticipation of the TRANS 2011.
- *Commonwealth of Puerto Rico-Treasury Department-Credit Facility* \$121,985,000 to fund monthly interest payments of debt service for GO's for the months of February, March, April, May and June 2009. This credit line was increased to \$ 189,657,010 to cover the interest payments of debt service for the months of July and August 2009. Finally, on October 29, 2009 the credit line is amended for the third time to increase it to \$ 223,625,092 to cover the months of September and October 2009.
- *Public Improvement Refunding Bonds, Series 2009 A* for \$3,425,000
- *Public Improvement Refunding Bonds (Conversion) Series 2007 A-4* for \$93,835,000
- *Public Improvement Refunding Bonds Series 2009 B* for \$372,685,000
- *Public Improvement Refunding Bonds Series 2009 C* for \$210,250,000
- *Term Loan Tax Revenue Anticipation Notes* for \$500,000,000 (Scotia Bank)
 - Series B1-B-4
 - Series C1-C4
 - Series D1-D4
- *Tax Revenue Anticipation Note TRANS-2010 Series A1-A2* (Wachovia) for \$400,000,000
- *Commonwealth of Puerto Rico -Treasury Department-Credit Facility* for \$115,000,000 for the payment of the guarantee of the variable bonds which expired on May 7, 2010 (Series 2007 A6-A7)

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Transactions subsequent to fiscal year 2009-2010

- *Commonwealth of Puerto Rico-Treasury Department-Credit Facility* for \$300,000,000 for interim financing of current obligations and budgeted disbursements in anticipation to the TRANS 2011. This facility was subsequently increased to \$ 600,000,000.
- *Commonwealth of Puerto Rico-Treasury Department-Credit Facility* for \$300,000,000 with First Bank for interim financing of current obligations and budgeted disbursements in anticipation to the TRANS 2011.
- The credit facility of \$600,000,000 of the Central Government issued by the GDB and the \$300,000,000 awarded through First Bank, were refinanced through a Term Loan TRANS Note Series 2011 for \$ 900,000,000 by a consortium of five banks led by Scotia Bank. The participating banks were Banco Popular, BBVA, First Bank and Banco Santander de PR.
- *Commonwealth of Puerto Rico Treasury Department-Credit Facility* for \$101,580,000 to finance monthly interest payments for the GO's Debt Service, for the months of July, August and September 2010. This credit line had four amendments to cover the monthly interest payment:
 - First amendment up to \$ 135,439,904 to cover payments in October 2010
 - Second amendment up to \$ 237,019,832 to cover the payments in November, December 2010 and January 2011
 - Third Amendment up to \$ 304,739,784 to cover the payments in February and March 2011
 - Fourth Amendment up to \$ 411,227,534 to cover the payments for April, May and June 2011
- *Commonwealth of Puerto Rico Treasury Department-Credit Facility* for \$29,841,667 to refinance the Government of Puerto Rico's payment of the bond's principal identified as Advanced Refundable for the months August to November 2010 and to cover the principal and the accretion corresponding to the four months of CAB's Series 1989 bonds, which expire on July 1, 2011. This line had the following two increments:
 - First Amendment increased to \$ 44,762,501 to cover the payment of principal in December 2010 and January 2011.

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- Second Amendment increased to \$ 59,683,334 to meet monthly deposits of the principal portion of the debt service and for two additional months, February and March 2011.

During fiscal year 2010-2011 several transactions have been carried out to refinance and restructure part of the Central Government's debt. Until March 9, 2011, these transactions totaled \$ 631.07 million. Before the end of the fiscal year other transactions shall be carried out to restructure the debt.

PUBLIC BUILDING AUTHORITY (AEP)

On July 1, 2009 the resale of Series K bonds for \$ 50,000,000 and the refinancing of Series P bonds for \$ 330.935 million was closed. The purpose of the resale of the Series K was to convert \$ 50,000,000 which was due on July 1, 2027 from a variable rate to a fixed rate, in order to eliminate the volatility in the interests of these bonds and to fix costs until their maturity in 2027.

The purpose of the P-series was to refinance the remaining portion of the Series K, thus restructuring this debt until 2036. Both transactions involved the termination of an agreement of interest with the Bank of New York and Royal Bank of Canada. On October 28, 2009 Series Q bonds were issued which were used to refinance much of the interests for fiscal year 2010.

PUERTO RICO SALES TAX FINANCING CORPORATION (COFINA)

Relevant Aspects of the laws adopted:

Sales and Use Tax (IVU) - Act No. 117 passed by the Legislature on July 4, 2006 imposed a tax on sales and use (IVU) of 5.5% to all goods and services. Likewise, a 1.5% sales tax was approved and imposed by the municipalities. The IVU came into effect on November 15, 2006.

Dedicated Sales Tax Fund (FIA) - Act No. 91 of May 13, 2006, as amended (Act 91) created the Puerto Rico Sales Tax Financing Corporation (COFINA) and Dedicated Sales Tax Fund (FIA) with the purpose of depositing in it a portion of the revenues generated by the IVU and use these revenues to cover the payable debt from the Government of Puerto Rico legislative appropriations outstanding as of June 30, 2006. The FIA had been allocated one percent (1%) of the sales and use tax (IVU) and a minimum amount to be received by COFINA from the IVU was established. COFINA was authorized to issue bonds backed by the IVU and to use the proceeds of such issuance to repay only the government of Puerto Rico extra-constitutional debt as mentioned before.

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Act No. 1 of 2009 (Act 1), which amends Act 91, assigned COFINA an additional one percent (1%) and establishes an additional minimum amount to be received by COFINA from the IVU to support future bond issues. The amendment also provides that COFINA may use the proceeds of the issue to:

(i) pay or refinance, directly or indirectly, all or part of the existing debt incurred from legislative appropriations or without a source of repayment by June 30, 2008, (ii) pay all or part of the debt of the Secretary of the Treasury with GDB in the amount of \$ 1,000 million that was used to finance the budget deficit for the fiscal year 2008-2009, (iii) pay all or part of the financing granted to the Secretary of the Treasury until December 31, 2008 payable to GDB, to pay Government future general obligation bond emissions and any debt without repayment source or to be paid by the current Government budgeted legislative appropriations until December 31, 2008, (iv) pay all or part of the accounts payable to Government suppliers, (v) to finance government operating expenses, (vi) to provide funds for the Economic Stimulus Plan and (vii) if necessary, to replenish the Emergency Fund .

Act No. 7 of 2009 ("Act 7"), which also amends Act 91, assigned COFINA an additional point seventy-five percent (0.75%) out of the IVU portion that is deposited in the FIA and increases the additional minimum amount to be received from the IVU by COFINA to support bonds to be issued in the future. Like the increase of one percent (1%) authorized by the Act 1, this will give greater borrowing margin to COFINA and allow COFINA to issue more bonds backed by the increased revenue allocated to COFINA to finance purposes above mentioned. The percentage increase authorized by Act 7 is effective for fiscal year 2009-2010.

Under Act 91, as amended, the FIA will be managed by the GDB and the Secretary of the Treasury. The FIA and all funds deposited therein to the date this Act is effective, and all future funds under the provisions of this Act must be deposited in the FIA, and hereby transferred to, and shall be owned by COFINA.

The FIA is funded each fiscal year from the sources mentioned below, whose product will enter directly into the FIA at the time of receipt and will not enter into the Treasury of Puerto Rico, constitute available resources of the Government of Puerto Rico, nor will be available for the use of the Secretary.

The *Pledged Sales Tax* is the portion of the IVU, originally described as Fixed Income, which is separated under the resolution as security for payment of outstanding bonds. The Pledged Sales Tax Base Amount for Fiscal Year 2009-2010 was \$ 550,264,000 and will increase each fiscal year at a rate of 4% (Statutory Rate) to a maximum of \$ 1,850,000,000. Act No. 91 defines the Pledged Sales Tax Base Amount as the sum of the Original Base Amount and the Additional Base Amount.

- The *Original Base Amount* for FY 2009-2010 is \$200,096,000 and increases thereafter at a rate of 4%.

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- The *Additional Base Amount* for FY 2009-2010 is \$350,168,000 and it will increase each fiscal year at a rate of 4% through FY 2041 where the sum of the Original and Additional Base Amount equals \$ 1,850,000,000.

After FY 2041, the Pledged Sales Tax Base Amount shall remain fixed at \$ 1,850,000,000.

FINANCING AND BONDS - COFINA - FISCAL YEAR 2009-2010

- Series 2010 A* for \$1,823,757,271.30– *First Subordinated Series 2010 A, Sales Tax Revenue Bonds*. Closed on February 9, 2010.
- Series 2010 B* for \$172,100,000-*Bond Anticipation Loan Facility First Subordinated Series 2010 B, Sales Tax Revenue Bonds*. Closed on February 9, 2010.
- Series 2010 C* for \$1,619,404,597-*First Subordinated Series 2010 C, Sales Tax Revenue Bonds*. Closed on June 30, 2010.
- Series 2010 D* for \$89,435,000-*First Subordinated Series 2010 D, Sales Tax Revenue Bonds, Build American Bonds (BAB's)*. Closed on June 30, 2010.
- Series 2010 E* for \$92,755,000 *First Subordinated Series 2010 C, Sales Tax Revenue Bonds. "Issuer Subsidy Recovery Zone". Closed on June 30, 2010.***

Authorized Public Debt of the Government of Puerto Rico FISCAL YEARS 2002 TO 2010 (\$ millions)

AGENCY	2002	2003	2004	2005	2006	2007	2008	2009	2010
Grand Total (1)	<u>30,032.6</u>	<u>32,524.5</u>	<u>37,433.6</u>	<u>40,268.3</u>	<u>43,136.3</u>	<u>46,183.3</u>	<u>53,393</u>	<u>58,415.0</u>	<u>62,206.2</u>
I. Central Government (2)									
Total	<u>6,115.3</u>	<u>6,886.2</u>	<u>8,519</u>	<u>9,017</u>	<u>10,073.5</u>	<u>10,558.8</u>	<u>9,792.2</u>	<u>9,938.7</u>	<u>10,303.3</u>
Bonds	5,853.7	6,222.0	6,879	7,307	7,276.3	8,167.2	8,758.7	9,006.4	9,511.2
Notes	261.6	664.2	1,640	1,710	2,797.2	2,391.7	1,033.5	932.3	792.1
II. MUNICIPALITIES	<u>1,795.8</u>	<u>1,955.1</u>	<u>2,046.1</u>	<u>2,181.3</u>	<u>2,330.3</u>	<u>2,463.0</u>	<u>2,819.4</u>	<u>2,997.3</u>	<u>3,231.4</u>
III. DEBT NOT SUPPORTED BY GENERAL FUND	<u>2,045.7</u>	<u>2,817.5</u>	<u>3,491.0</u>	<u>3,565.3</u>	<u>3,425.9</u>	<u>3,365.0</u>	<u>6,460.7</u>	<u>5,434.9</u>	<u>5,383.2</u>
IV. PUBLIC CORPORATIONS									
Total	<u>20,075.8</u>	<u>20,865.7</u>	<u>23,377.3</u>	<u>25,504</u>	<u>27,209.7</u>	<u>29,796.4</u>	<u>34,320.6</u>	<u>40,043.9</u>	<u>43,288.3</u>
PR Aqueduct and Sewer Authority									
Total	<u>646.2</u>	<u>652.3</u>	<u>717</u>	<u>982</u>	<u>1,417.9</u>	<u>1,955.7</u>	<u>2,590.7</u>	<u>2,960.3</u>	<u>3,316.3</u>
Bonds	491.0	473.7	500	523	504.7	487.0	1,937.9	1,933.2	1,942.9
Notes	155.2	178.6	217	459	913.2	1,468.7	652.8	1,027.0	1,373.4
Transportation and Highway Authority									
Total	<u>4,812.4</u>	<u>5,273.4</u>	<u>5,799</u>	<u>6,045</u>	<u>6,492.4</u>	<u>6,687.7</u>	<u>6,911.6</u>	<u>7,095.4</u>	<u>7,169.3</u>
Bonds	4,512.4	5,273.4	5,799	5,770	6,462.4	6,494.1	6,428.0	6,344.1	6,240.0

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AGENCY	2002	2003	2004	2005	2006	2007	2008	2009	2010
Notes	300.0	--	--	275	30	193.6	483.5	751.3	929.3
Public Building Authority									
Total	<u>2,099.0</u>	<u>2,171.7</u>	<u>2,898</u>	<u>2,932</u>	<u>2,990.1</u>	<u>3,031.7</u>	<u>3,173.7</u>	<u>3,228.9</u>	<u>3,316.4</u>
Bonds	2,099.0	2,086.5	2,898	2,920	2,884.5	2,827.6	3,098.7	3,047.4	3,154.4
Notes	--	85.2	--	12	105.6	204.1	75.0	181.5	162.0
PR Electric and Power Authority									
Total	<u>4,836.3</u>	<u>4,815.2</u>	<u>5,219</u>	<u>5,644</u>	<u>5,630.9</u>	<u>6,600.0</u>	<u>7,317.0</u>	<u>7,248.1</u>	<u>7,478.3</u>
Bonds	4,711.3	4,630.2	5,032	5,364	5,246.4	5,695.4	6,195.2	6,030.7	7,422.9
Notes	125.0	185.0	187	280	384.5	904.6	1,121.8	1,217.4	55.4
Ports Authority									
Total	<u>360.7</u>	<u>379.7</u>	<u>393</u>	<u>493</u>	<u>494.4</u>	<u>610.6</u>	<u>685.5</u>	<u>724.7</u>	737.1
Bonds	95.2	87.3	79	75	70.7	66.2	61.3	58.5	46.3
Notes	265.5	292.4	314	418	423.7	544.4	624.2	666.2	690.8
Industrial Development Company									
Total	<u>232.3</u>	<u>265.5</u>	<u>338</u>	<u>331</u>	<u>351.0</u>	<u>351.8</u>	<u>352.8</u>	<u>347.1</u>	<u>336.1</u>
Bonds	167.7	161.2	301	292	281.4	270.7	263.7	258.0	247.0
Notes	64.6	104.3	37	39	69.6	81.1	89.0	89.1	89.1
Sugar Corporation									
Total	--	--	--	<u>0</u>	<u>0</u>	<u>0</u>			<u>0</u>
Notes	--	--	--	0	0	0			0
University of Puerto Rico									
Bonds	<u>450.9</u>	<u>430.7</u>	<u>425</u>	<u>440</u>	<u>453.3</u>	<u>625.0</u>	<u>619.1</u>	<u>620.4</u>	<u>554.3</u>
Notes	450.4	430.2	409	392	373.7	604.7	584.9	569.2	554.3
Notes	0.5	0.5	16	48	79.6	20.3	34.1	51.2	0
Other Public Corporations									
Total	<u>6,638.0</u>	<u>6,877.2</u>	<u>7,588</u>	<u>8,637</u>	<u>9,476.5</u>	<u>9,933.8</u>	<u>12,670.2</u>	<u>17,819.0</u>	<u>20,380.5</u>
Bonds	5,760.5	5,845.7	5,945	6,407			9,872.2	15,174.1	17,872.8
Notes	877.5	1,031.5	1,643	2,230			2,798.	2,644.9	2,507.7

(1) Excludes Central Government guarantees, and includes interim financing granted to the Central Government.

Total Debt Issued

Fiscal Year 2008-2009

Date	Issuer	Total
Aug-2008	Puerto Rico Housing Finance Authority - Subordinated Bonds	\$384,475,000
Aug-2008	Puerto Rico Housing Finance Authority – Revenue Bonds	100,000,000
Sep-2008	Commonwealth of Puerto Rico – Series 2008 A	250,000,000
Sep-2008	PBA Gov. Facilities Revenue Series M -3 Remarketing	150,000,000
Nov-2008	TRANS 2009	887,675,000
Dec-2008	GDB Notes Series 2008 A	944,533,000
Jan-2009	GDB Notes Series 2008 B	285,467,000
Jan-2009	GDB Notes Series 2009 A	250,000,000
Jun-2009	Puerto Rico Sales Tax Financing Corp. Series 2009 A	4,118,153,700
Jun-2009	Puerto Rico Sales Tax Financing Corp. Series 2009 B	1,217,915,799
Jun-2009	Puerto Rico Sales Tax Financing Corp. Ref. Series 2009 C	237,875,000
Total		<u>\$8,826,094,499</u>

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Total Debt Issued		
Fiscal Year 2009-2010		
Date	Issuer	Total
Jul-2009	PBA Gov. Facilities Revenue Series K Remarketing	\$50,000,000
Jul-2009	PBA Gov. Facilities Revenue Refunding Series P	330,935,000
Sep-2009	Commonwealth of Puerto Rico - Refunding Series 2009 A	3,425,000
Sep-2009	Commonwealth of Puerto Rico -Series 2007 A-Remarketing	93,835,000
Oct-2009	PBA Gov. Facilities Revenue Refunding Series Q	152,540,000
Nov-2009	Commonwealth of Puerto Rico - Refunding Series 2009 B	372,685,000
Dic-2009	Commonwealth of Puerto Rico - Refunding Series 2009 C	210,250,000
Dic-2009	GDB Notes Series 2009 C	1,013,200,000
Dic-2009	GDB Notes Series 2009 D	342,876,000
Feb-2010	Puerto Rico Sales Tax Financing Corp. Series 2010 A	1,823,757,271
Abr-2010	Puerto Rico Electric Power Authority Series XX	822,210,000
Abr-2010	Puerto Rico Electric Power Authority Series YY	320,175,000
May-2010	Puerto Rico Electric Power Authority Series ZZ	631,160,000
May-2010	Puerto Rico Electric Power Authority Series AAA	363,075,000
May-2010	Puerto Rico Electric Power Authority Series BBB	76,800,000
May-2010	Puerto Rico Electric Power Authority Series CCC	316,920,000
Jun-2010	Puerto Rico Sales Tax Financing Corp. Series 2010 C	1,619,404,597
Jun-2010	Puerto Rico Sales Tax Financing Corp. Series 2010 D	89,435,000
Jun-2010	Puerto Rico Sales Tax Financing Corp. Series 2010 E	92,755,000
Total		\$8,725,437,868