This overview provides information about the major municipal borrowers in the Commonwealth of Puerto Rico and their bond programs. The borrowers described in this guide include some of the most established and recognized issuers in the municipal market, as well as issuers of bonds under programs that have been established more recently. They reflect the largest and most active issuers in the Commonwealth, and encompass various types of debt. In some cases, a single borrower may issue debt under multiple programs that are each repaid with a different revenue source; all significant active bond programs are covered for these borrowers. Individual series or maturities within each of the bond programs may be insured.

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Introduction

This introduction is intended to provide an overview of the long-term economic and fiscal developments taking place in the Commonwealth of Puerto Rico. We consider several factors in determining the economic and fiscal situation of the Commonwealth. In terms of the economy, we examine an economic activity index and its components, trends in retail sales and tourism, as well as trends in banking and credit. The Commonwealth’s fiscal condition is assessed by looking at public and consumer debt, including pension liabilities, and changes in revenues and expenditures of the primary government.

The Government Development Bank for Puerto Rico produces an Economic Activity Index (EAI), which summarizes the behavior of four major monthly economic indicators: total payroll employment, cement sales, gasoline consumption, and electric power (consumption prior to March 2012; thereafter electric power generation). The level of the EAI shows a high degree of correlation with Puerto Rico real GNP levels, and thus, is a good coincidental indicator of the health of the Commonwealth’s economy. After a brief period of positive growth at the end of 2012, the EAI commenced a sharp decline again in 2013, which moderated in 2015, but has rolled over again in 2016. The persistently negative year-over-year changes in the EAI reflects the ongoing weakness in the Commonwealth’s economy.

Payroll employment continues to decline at an annual rate of between 1% to 2%, and the decline in the unemployment rate reflects population loss and a declining labor force participation rate.
Introduction

The four largest employment sectors (government, trade, services, and manufacturing) in the Commonwealth make up approximately 89% of total jobs, as officially counted. All four sectors have spent the better part of two years in contraction. Notably, continued contraction in manufacturing sector employment is a major concern because manufacturing is by far the largest segment of Puerto Rico’s GDP at 47%.

While the unemployment rate has been declining since peaking at 17.2% in April 2010, the decline has taken place in the context of weakening demographics. The Commonwealth’s labor force participation rate of 40% has been dropping for the better part of the last decade. The decline in the population has run parallel to this trend, with Puerto Rico’s estimated population decreasing 8.1% since 2006.

Puerto Rico’s unique demographic challenges distinguish it from the states, as its population decline since 2000 is nearly unparalleled among U.S. states. Puerto Rico’s labor force participation rate is also much lower than the U.S. rate of 63%, and its unemployment rate much higher. Additionally, Puerto Rico’s poverty rate of 45% is nearly twice that of the poorest state, according to the U.S. Census Bureau.
Individual indicators of economic activity beyond employment data are mostly confirming what the general trend points toward. For example, electricity consumption by commercial and industrial customers, which comprise 61% of the total, have been very volatile since 2011, with a sustained positive trend remaining illusive.

Tourism, on the other hand, has been a very stable and consistent aspect of the Commonwealth’s economy, based on a steady seasonal hotel occupancy rate. Unfortunately, as a direct contributor to Puerto Rico’s GDP, accommodation and food services provides approximately 2%; thus, even with a multiplier the contribution from tourism is modest.

Commercial banks in the Commonwealth continue to deleverage, with total banking assets on the island falling 4% on a year-over-year basis in the quarter ended March 2016, and by 41% since 2006. The largest segment of commercial bank loans in the Commonwealth is real estate. Real estate loan activity has exhibited negative annual growth almost nonstop since 2009.
Introduction

According to the World Bank, the Commonwealth’s GDP has contracted for ten consecutive years, from 2005 to 2014. This severe recessionary environment has taken a toll on Puerto Rico’s government finances. The primary government of Puerto Rico has run large operating deficits for at least the last twelve fiscal years. The operating deficit in the Commonwealth’s governmental funds was $4.0 billion in fiscal year 2014. As a percentage of revenues the deficit was 23%, and averaged 24% over the prior twelve years.

The Commonwealth has made attempts to increase revenues to the central government over the last several years by introducing new taxes, broadening the tax base, improving collections, and privatizing public assets. Unfortunately, expenditures have remained difficult to control and revenues have often underperformed.

The perpetual operating deficits have led the government to severely limit required annual contributions to its public employee pension system for many years. Additionally, because the statutory contributions are not adequate to fund system benefits, system assets are being rapidly depleted. The system was only 7.4% funded at fiscal year end 2014, and its reported unfunded liabilities totaled more than 200% of the Commonwealth’s revenues – up from 154% in 2007. Although substantial reforms to the system have been enacted by the legislature, the liabilities may limit the government’s budgetary flexibility far into the future.
Deficit financings and debt restructurings have been primary tools that the central government has relied upon to bridge its structural imbalance from one year to the next. The Commonwealth’s gross public debt was $66 billion in 2015. Gross public debt, including the debt of the central government, its public enterprises, and municipalities crossed above 100% of personal income in 2012, up from 77% in 2006. Factoring in consumer debt, the debt to personal income ratio was 138% in 2015. However, the consumer debt load was not excessive at approximately $6,400 per capita. Nevertheless, with an ongoing structural imbalance and a relatively high total debt burden, the Commonwealth’s financial flexibility is expected to remain severely constrained for the foreseeable future.
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Puerto Rico Sales Tax Financing Corporation (COFINA)

Senior Sales Tax Revenue Bonds

Moody’s Caa3  S&P CC  Fitch C

Purpose
- The Puerto Rico Sales Tax Financing Corporation is an independent instrumentality of the Commonwealth of Puerto Rico created for the purpose of financing the payment, retirement or defeasance of certain debt obligations of the Commonwealth.

Debt Service Reserve Fund
- None

Additional Bonds Test
- For additional senior Bonds to be sold, debt service in any year is capped at the level of the original guaranteed base amount ($185MM in 2008, growing at 4%/year). In addition, the Corporation must show that the total amount of Commonwealth sales tax assumed to be received in each fiscal year, inflated by 4% growth, provides at least 3.0x debt service in that year to issue additional senior lien Bonds.

Security
- The Senior Bonds are special obligations of the Authority, secured by a portion of the Commonwealth’s sales and use tax.
- The sales and use tax is 7% and 1.5% goes to municipalities. Of the remaining 5.5%, 3.5% is pledged to the Bonds. The pledged revenues are the larger of 3.5% or the Base Amount. The Base Amount is defined in the authorizing legislation and increases 4% each year until a cap of $1.85 billion is reached in 2041. The law requires that all of the 5.5% be applied to satisfy and fund the Base Amount before any money can be transferred to the general fund.
- The sales tax base is broad, covering tangible personal property, taxable services, admission fees, and bundled transactions. Business to business services, phone service, cable television, internet access, alcoholic beverages and tobacco are all subject to the tax; non-prepared food, oil, and motor vehicles, among others, are not.

Bonds Outstanding
- $6.2 billion as of June 30, 2014
Puerto Rico Sales Tax Financing Corporation (COFINA)

First Subordinate Sales Tax Revenue Bonds

Moody’s Ca  S&P CC  Fitch C

Purpose
- The Puerto Rico Sales Tax Financing Corporation is an independent instrumentality of the Commonwealth of Puerto Rico created for the purpose of financing the payment, retirement or defeasance of certain debt obligations of the Commonwealth.
- Whereas COFINA was originally created with the purpose of issuing bonds (the Senior Bonds) to refinance debt, an amendment to law expanded COFINA’s corporate purpose to include funding the Commonwealth’s budget deficit, paying accrued obligations to suppliers, establishing a local stimulus plan, and creating an emergency fund to cover expenses related to catastrophic events such as hurricanes and floods. Thus, bonds issued for these other purposes are issued as subordinate lien bonds.

Security
- The First Subordinate Bonds are special obligations of the Authority, secured by a portion of the Commonwealth’s sales and use tax.
- The claim of the First Subordinate Bonds on the Pledged Revenues is junior to the claim of the Senior Bonds.

Debt Service Reserve Fund
- None

Additional Bonds Test
- Subordinate-lien bonds have a two-pronged additional bonds test that requires 1) 102% of the annual combined senior and subordinate bond principal and interest payments due in each year to be less than the amended base amount for the corresponding year. The base amount equals $550MM for fiscal 2010, escalated by 4% thereafter and is capped at $1.85B; and 2) total sales taxes collected in the year prior to the issuance of additional bonds (increased by an annual factor of 4%) provide at least 2.0x coverage of combined annual senior and subordinate lien bonds in every year bonds are outstanding.

Bonds Outstanding
- $9.0 billion as of June 30, 2014
Puerto Rico Sales Tax Financing Corporation (COFINA)

Flow of Funds
Sales Tax Revenue Bonds (cont.)

Point of Sale
- First Data, Banco Popular or Authorized Collector
- Sales Tax Account at Banco Popular\(^{(1)}\)
- Dedicated Sales Tax Fund at Banco Popular\(^{(2)}\)

Trustee-Held Revenue Account
- First, revenues collected in fiscal year, up to the Pledged Sales Tax Base Amount
- COFINA Operating Expenses
- Senior Bonds and Parity Obligations
- Senior Bonds Debt Service Reserve\(^{*}\)
- First Subordinate Bonds and Obligations
- First Subordinated Debt Service Reserve\(^{*}\)
- Until Accrued 12/15- Month Obligation is Funded
- Other Payments for Credit and Liquidity Facilities and Qualified Hedges
- As Directed by the Corporation, including Release from Resolution Lien

General Fund
- Second, revenues collected in fiscal year, up to the Pledged Sales Tax Base Amount
- Third, remaining revenues, if any, split 50%/50% between Trustee and General Fund

\(^{(1)}\) Includes 1.5% municipal sales tax.
\(^{(2)}\) Excludes 1.5% municipal sales tax.
\(^{*}\) No Debt Service Reserve deposit requirement currently exists.

Source: Official Statement
Puerto Rico Municipal Finance Agency (MFA)

General Obligation Bonds

Moody’s Ca  S&P CC  Fitch NR

**Purpose**

- The Agency is a public corporation and governmental instrumentality of the Commonwealth created to allow the municipalities of Puerto Rico to access the capital markets with the intention that such municipalities might finance more effectively their public improvement programs.

**Bonds Outstanding**

- $818 million as of June 30, 2014

**Security**

- The Bonds are secured by payments of principal of and interest on a portfolio of municipal bonds held by the Trustee under the Indenture. The municipal bonds are general obligation of a municipal issuer, secured by ad valorem taxation, without limitation as to rate or amount, on all taxable property within the respective municipal issuer.

- The principal source of payment for the municipal bonds is a special additional property tax. Under Act 64, each municipality is required to levy a special additional property tax in such amounts to pay debt service on the municipal bond. The tax will be collected by the Municipal Revenues Collection Center and deposited in the Redemption Fund with the GDB.

- In the event these moneys are insufficient, other revenues of the municipality are available to bondholders. In addition, property taxes and Commonwealth aid payments are deposited in a Matching Fund that can be used to make up deficiencies of a municipal issuer, if necessary.
General Obligation Bonds (cont.)

Security (cont.)
- The MFA’s Enabling Act provides that the Commonwealth shall annually pay to the MFA an amount necessary to maintain the Reserve Account in the required amount. The payment by the Commonwealth is subject to appropriation by the Legislature of Puerto Rico.

Debt Service Reserve Fund
- The Reserve Account requirement is an amount equal to the sum of 50% of the maximum principal and interest payments requirement for any fiscal year and 50% of the maximum aggregate annual earnings.

Additional Bonds Test
- Additional Bonds will be approved only if: (i) for each fiscal year that the current outstanding debt of said municipality and the Proposed Issue will be outstanding, the balance of the moneys in the municipality’s Redemption Fund plus the estimated Special Additional Tax collections is not less than the sum of the principal and interest due on the current outstanding debt; and (ii) as of June 30 of the fiscal year preceding the fiscal year in which the Proposed Issue will be issued, the ratio of the sum of the beginning balance of the Redemption Fund for such preceding fiscal year and the actual Special Additional Tax collections, actual Basic Tax collections, and Commonwealth Contributions for such preceding fiscal year to maximum annual debt service on all outstanding general obligation debt of the municipality is not less than 2x.
Special Tax Revenue Bonds

**Purpose**
- The Puerto Rico Infrastructure Financing Authority was created to provide financial, administrative and other types of assistance to political subdivisions, public corporations, instrumentalities and municipalities of the Commonwealth that develop and operate infrastructure facilities.

**Security**
- The Bonds are payable solely from and secured by a pledge of Federal Excise Taxes. The Enabling Act mandates that each year, the first $117 million (beginning FY10) received from the rum excise tax by the Commonwealth of Puerto Rico will be deposited into the Authority’s Infrastructure Fund.
- If the Federal Excise Taxes received in any year are insufficient to make the required deposit to the Infrastructure Fund, the Secretary of Treasury is authorized to advance any available funds to cover this insufficiency.
- The Constitution of Puerto Rico provides that GO debt of the Commonwealth constitutes a first lien on available Commonwealth taxes. The Special Tax Revenues are available revenues under the Constitution. Therefore, these revenues could be used, if necessary, to pay GO debt of the Commonwealth before debt service of these Bonds.

**Additional Bonds Test**
- Additional Bonds may be issued by the Authority, provided that, among other things, the following coverage tests are met: (i) the amount of the average annual Federal Excise Taxes for the two full fiscal years preceding the date of issuance of such additional Bonds shall not be less than 200% of the MADS Requirements for any Fiscal Year after the issuance of such addition Bonds; and (ii) the amount of the average annual Special Tax Revenues and other moneys deposited to the credit of the Infrastructure Fund for the two full Fiscal Years preceding the date of issuance of such additional Bonds shall not be less than 100% if the MADS Requirements for any Fiscal Year after the issuance of such additional Bonds.

**Bonds Outstanding**
- $2.6 billion as of June 30, 2015

**Debt Service Reserve Fund**
- None
Puerto Rico Electric Power Authority

Power Revenue Bonds

Moody’s Caa3  S&P D  Fitch C

Purpose

- Puerto Rico Electric Power Authority owns and operates electric generating and distribution facilities serving all of Puerto Rico, supplying 99 percent of the power consumed on the island.
- Bonds were issued to finance a portion of the cost of various projects under the Authority’s capital improvement program having to do with the production plant, transmission facilities, distribution facilities, and other miscellaneous projects.

Security

- The Bonds are payable solely from Net Revenues of the Electric Power System.
- The Bonds shall not be deemed to constitute a debt or obligation of the Commonwealth or any of its municipalities or other political subdivisions.

Rate Covenant

- The Authority has covenanted to set rates and charges such that Net Revenues of the System will be sufficient to provide an amount at least equal to 120% of the aggregate Principal and Interest Requirements for the next fiscal year.

Bonds Outstanding

- $8.2 billion as of June 30, 2016
**Debt Service Reserve Account**

- The Reserve Account requirement is an amount equal to the interest payable on all outstanding Power Revenue Bonds within the next 12 months.

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**Additional Bonds Test**

- Additional Bonds may be issued in order to pay all or any part of the cost of any improvements to the System or for any other proper corporate purpose of the Authority; provided that (i) Net Revenue for 12 consecutive months out of the preceding 18 months shall not be less than 120% of maximum aggregate annual Principal and Interest Requirements for all Power Revenue Bonds then outstanding and (ii) the average annual Net Revenues for the five fiscal years succeeding the issuance of such Bonds shall not be less than 120% of the MADS for all Power Revenue Bonds then outstanding and the Bonds to be issued.

- Additional Bonds maybe also be issued for the purpose of refunding all or any part of the outstanding Power Revenue Bonds of any series provided that (i) the earnings tests for the issuance of additional Power Revenue Bonds are satisfied or (ii) the maximum aggregate Principal and Interest Requirements for any fiscal year thereafter on account of all outstanding Power Revenue Bonds and the Bonds then to be issued shall be less than the MADS on account of all outstanding Power Revenue Bonds.
Puerto Rico Employees Retirement System (ERS)

Senior Pension Funding Bonds

Moody’s Ca  S&P CC  Fitch C

**Purpose**

- The Employees Retirement System of the Government of the Commonwealth of Puerto Rico is a trust created by law to provide pensions and other benefits to retired employees of the government of the Commonwealth and its instrumentalities.

- Bond proceeds were issued for the purpose of increasing the funds currently available to pay pension benefits to certain of its beneficiaries and reduce its unfunded accrued actuarial pension liability.

**Security**

- The Bonds are limited, non-recourse obligations of the System payable solely from and secured solely by Employer Contributions, which currently are paid at a rate of 9.275% of payroll. This rate has not changed since 1960. The Bonds are not payable from or secured by any other assets of the System.

- The Bonds are not an obligation of the Commonwealth.

- The Legislature can lower the amount of the Employer Contribution but ERS must attempt to prevent such efforts.

- Public debt of the Commonwealth must be paid before employer contributions of Central Government Agencies and Departments. The Constitution of Puerto Rico provides that in the event the Commonwealth has insufficient funds to pay all approved appropriations, the available resources of the Commonwealth shall be used to pay public debt before being used for other purposes. In essence, the pledged revenues are subject to the Commonwealth clawback provision.

**Bonds Outstanding**

- $3.1 billion as of June 30, 2014
Additional Bonds Test

- The System may issue additional Senior Bonds payable from Employer Contributions, provided that the projected debt service coverage ratio for all Senior Bonds payable from Employer Contributions (including the Bonds proposed to be issued) is equal to or greater than 140% in each Bond Year.

- The System may also issue additional Subordinated Bonds payable from Employer Contributions, provided that the projected debt service coverage ratio for all Bonds payable from Employer Contributions (including the Bonds proposed to be issued) is equal to or greater than 125% in each Bond Year.

Security (cont.)

- There are remedies under law in the case of employer nonpayment of appropriated payments, including criminal penalties; and, if payments are 3 months past due, that employer’s enrollees have a limited ability to get loans from the ERS.

- Moreover, the memorandum of understanding executed between the System and GDB as part of this transaction provides that if System payments are not made, the delinquent public corporation or municipality will have no access to funding sources, and the GDB will intercept, from the proceeds of any loan, moneys owed to the System.

Debt Service Reserve Fund

- The Debt Service Reserve Account will be funded based on a rolling calculation of 50% of average ADS for the following five years. Initial funding will be from bond proceeds.

- In addition, a general reserve account, which is designed to protect against timing mismatches, will be funded from excess contributions at 10% of the next bond year’s debt service. If contributions are insufficient to fund debt service, the general reserve account is tapped automatically before the debt service reserve fund.
Puerto Rico Employees Retirement System (ERS)

Flow of Funds
Senior Pension Funding Bonds (cont.)

Revenue Account

- Senior Bonds Debt Service Account
- Senior Bonds Debt Service Reserve Account
- Subordinated Bonds Debt Service Account
- Subordinated Bonds Debt Service Reserve Account
- Operating Expenses
- General Reserve Account
- Operating Reserve Fund
- Capital Improvement Fund
- Commonwealth Payments Fund
- Rate Stabilization Account of the Surplus Fund

Source: Official Statement
Puerto Rico Aqueduct and Sewer Authority (PRASA)

Senior Revenue Bonds

Moody’s Caa3  S&P CC  Fitch CC

Purpose

- The Authority was established for the purpose of owning and operating the public water supply and wastewater systems and is the sole provider of public water and wastewater services in Puerto Rico.
- Bonds were issued to provide funds for a portion of the Authority’s Capital Improvement Program (CIP) and a deposit into the Senior Debt Service Reserve Account.

Bonds Outstanding

- $3.4 billion as of June 30, 2015

Debt Service Reserve Fund

- The Debt Service Reserve Fund requirement shall be the lesser of: (i) MADS (ii) 10% of bond proceeds, and (iii) 125% of average Annual Debt Service on the Outstanding Bonds

Security

- The Bonds are payable solely from and secured by the Operating Revenues of the System.
- Operating Revenues shall mean, for any particular period, all moneys derived by or on the behalf of the Authority from the operation of the System, including, but not limited to, insurance proceeds, investment income other than amounts credited to the Capital Improvement Fund, and any special assessments including impact fees.
- The Authority may incur debt to finance its capital expenditures, which debt may be secured with different liens on the Authority’s Operating Revenues.
- The Authority is able to incur Commonwealth Guaranteed Indebtedness and Commonwealth Supported Indebtedness, which in each case has a lien on Net Revenues, which is subordinate to the claim of Senior Indebtedness and to Senior Subordinate Indebtedness on Operating Revenues.
## Rate Covenant

- The Authority has covenanted to set rates such that in each Fiscal Year (1) Operating Revenues will be at least equal to 250% of Annual Debt Service with respect to Senior Indebtedness; (2) Operating Revenues will be at least equal to 200% of Annual Debt Service with respect to Senior and Senior Subordinate Indebtedness; (3) Operating Revenues will be at least equal to 150% of Annual Debt Service with respect to all indebtedness of the System; and (4) all revenues in general will be at least equal to 100% of (A) Current Expenses, (B) the amounts necessary to be deposited in any Debt Service Reserve Fund, (C) the amount necessary to be deposited in the Operating Reserve Fund, and (D) the amount necessary to be deposited in the Capital Improvement Fund and Rate Stabilization Account.

## Additional Bonds Test

- Additional Senior Bonds may be issued provided that the amount of Operating Revenues for any 12 consecutive months out of the 18 months immediately preceding the date of issuance of such Bonds shall not be less than (A) 250% of MADS for any Fiscal Year thereafter on the Outstanding Senior Indebtedness and the Bonds then to be issued and (B) 150% of MADS for any Fiscal Year thereafter on all indebtedness of the System, plus the amounts required to be deposited in the Reserve Funds. Additional Senior Subordinate Bonds may be issued provided that the amount of Operating Revenues for any 12 consecutive months out of the 18 months immediately preceding the date of issuance of such Bonds shall not be less than (A) 200% of MADS for any Fiscal Year thereafter on the Outstanding Senior and Senior Subordinated Indebtedness and the Bonds then to be issued and (B) 150% of MADS for any Fiscal Year thereafter on all indebtedness of the System, plus the amounts required to be deposited in the Reserve Funds.
Puerto Rico Aqueduct and Sewer Authority (PRASA)

Guaranteed Obligation Bonds

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ The Authority was established for the purpose of owning and operating the public water supply and wastewater systems and is the sole provider of public water and wastewater services in Puerto Rico.</td>
<td>▪ The 2008 Guaranteed Bonds are secured by a pledge of the Net Revenues of the System remaining after the payment of current expenses, debt service on the Authority’s outstanding indebtedness senior to the Guaranteed Bonds and amounts required to maintain the Authority’s operating and capital improvement reserves.</td>
</tr>
<tr>
<td>▪ The Capital Improvement Program was designed to modernize the Systems, protect public health, safeguard environmental quality, and permit continued economic development.</td>
<td>▪ The Bonds are further secured by the guaranty of the Commonwealth, under which the Commonwealth pledges to deposit or advance available funds from the Treasury of the Commonwealth in the sums needed for the payment of principal of and interest on the Bonds to the extent Revenues are insufficient.</td>
</tr>
</tbody>
</table>

Bonds Outstanding

▪ $285 million as of June 30, 2015

Debt Service Reserve Fund

▪ None
The Authority has covenanted to establish and collect rates, fees and charges so that in each Fiscal Year, Net Revenues shall be sufficient to: (i) pay Annual Debt Service on outstanding Senior Obligations in such year, (ii) restore each deficiency in any Debt Service Reserve Account corresponding to such Senior Obligations, (iii) deposit the respective required amount in the Operating Reserve and Capital Improvements Funds, (iv) pay Annual Debt Service on Commonwealth Guaranteed Indebtedness and (v) deposit required amounts in the Rate Stabilization Account.

In addition, the Puerto Rico Aqueduct and Sewer Authority Senior Revenue Bonds have certain financial tests that must be met.

Additional Bonds may be issued for any lawful purpose of the Authority, subject to their being guaranteed by the Commonwealth on the same terms as its guaranty of the 2008 Guaranteed Bonds.
Hotel Occupancy Tax Revenue Bonds

### Purpose
- The Puerto Rico Convention Center District Authority is a public corporation created to develop, manage and oversee the Puerto Rico Convention Center.
- Bond proceeds were used to refinance a construction loan related to a new 580,000 square-foot convention center in San Juan and finance related infrastructure improvements in the convention center district.

### Bonds Outstanding
- $408 million as of June 30, 2015

### Debt Service Reserve Fund
- The Debt Service Reserve Fund requirement is an amount equal to MADS on the Bonds in any calendar year and will be funded from bond proceeds.

### Security
- The Bonds are payable primarily from certain revenues pledged therefore and derived from a hotel occupancy tax imposed by the Commonwealth of Puerto Rico and collected by the Puerto Rico Tourism Company on substantially all hotel room rentals in the Commonwealth.
- The Occupancy Tax Act provides that as long as the Bonds are outstanding, the Commonwealth covenants that it will: (i) not reduce the Hotel Occupancy Tax and the applicable tax rate currently in effect and (ii) ensure that each month, to the extent Hotel Occupancy Taxes are available in a fiscal year, 1/10th of the amount necessary to pay the principal and interest on the Bonds is deposited with the Trustee as provided in the Trust Agreement until the yearly required payments are satisfied. The Pledged Revenues do not include any revenues derived by the Authority including the operation of the Convention Center.
Additional Bonds Test

- Additional Bonds may be issued, if as of the date of their issuance: (i) there is no event of default under the trust agreement, (ii) all accumulations and deposits required to be made under the Trust Agreement are current, (iii) all assignment or deposits required to be made in accordance with the terms of the Occupancy Tax Act and the provisions of the Assignment Agreement and the Pledge Agreement are current, (iv) a certificate has been delivered to the Trustee showing compliance with all applicable provisions of the Occupancy Tax Act, and (v) Bond Counsel has delivered a written opinion in the form and substance satisfactory to the Trustee with respect to the issuance of the Additional Bonds.

In addition, before Additional Bonds are issued, it shall be determined that Hotel Occupancy Tax Revenues for any 12 consecutive months of the 24 months immediately preceding the issuance of the Additional Bonds, were not less than 140% of the MADS Requirement for all outstanding Bonds and additional Bonds proposed to be issued.

Security (cont.)

- The Constitution of the Commonwealth provides public debt of the Commonwealth a first lien on available Commonwealth taxes and revenues. Hotel Occupancy Tax revenue are available revenues under the Constitution. Accordingly, if needed, these revenues may be applied first to the payment of debt service on the public debt of the Commonwealth. Investment earnings and moneys in the Debt Service Reserve Fund are not considered available Commonwealth resources.
Puerto Rico Housing Finance Authority (PRHFA)

Capital Fund Modernization Program Bonds

Moody’s A2  S&P AA-  Fitch NR

<table>
<thead>
<tr>
<th>Purpose</th>
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<tbody>
<tr>
<td>Puerto Rico Housing Finance Authority provides mortgage loans to housing developers for the construction, improvement, and maintenance of rental housing for low income families. PRHFA offers mortgage loans to citizens of low and moderate income.</td>
</tr>
<tr>
<td>The Bonds were issued as part of a financing plan to assist the Puerto Rico Public Housing Administration in fulfilling one of their principal missions of assisting in the rehabilitation and modernization of public housing in the Commonwealth.</td>
</tr>
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<table>
<thead>
<tr>
<th>Security</th>
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<tbody>
<tr>
<td>The Bonds are limited obligations of the Authority, payable solely from: (i) the Capital Fund Allocations, and (ii) other funds available for that purpose under the Indenture.</td>
</tr>
<tr>
<td>The Authority may legally request the U.S. Department of Housing and Urban Development (HUD) to pay Capital Fund Allocations to the Trustee in the current fiscal year an amount equal to debt service for the next succeeding calendar year. HUD has agreed that such moneys will be used for debt service payments. The payment by HUD is subject to annual appropriation. In addition, the Trustee will have a first priority claim on all Capital Fund Allocations to be made available to the Authority in any fiscal year and no expenditures for other projects can be made by the Authority that would reduce the amount paid to the Trustee. The HUD can make changes to the Capital Funds Formula to determine the funds allocated to the Authority.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bonds Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>$436 million as of June 30, 2015</td>
</tr>
</tbody>
</table>

Ratings shown are for the Series 2003 Bonds.
Series 2008: Moody’s NR  S&P A+  Fitch A
### Additional Bonds
- The Authority may issue Additional Bonds under the terms and conditions of the Trust Indenture.
- Under the Indenture, the Authority is required to file with the Trustee: (i) the written approval by Housing and Urban Development of the issuance of such Additional Bonds; (ii) a certificate demonstrating that the lesser of (a) the Capital Fund Program (CFP) moneys received by Public Housing Authority (PHA) in the immediately preceding Federal fiscal year and (b) the average annual amount of the CFP moneys received by PHA equals or exceeds an amount equal to 3x the aggregate annual Transaction Debt Service on all Bonds including the Additional Bonds proposed to be issued; and (iii) the written consent of the issuer of any financial guaranty insurance policy insuring some or all of the outstanding Bonds.

### Debt Service Reserve Fund
- The Series 2003 Bonds Debt Service Reserve Fund requirement is an amount equal to the maximum annual debt service requirements on outstanding Bonds payable in any one fiscal year.
- The Series 2008 Bonds Debt Service Reserve Fund requirement is an amount equal to one-half of the maximum Debt Service in any one year on the Bonds through 2024.
The Authority was created to assume responsibility for the construction of roads and highways and related transportation facilities in Puerto Rico.

Bond proceeds were used to fund various capital improvement projects of the Authority’s Construction Improvement Program.

Bonds Outstanding

- $3.6 billion as of June 30, 2014

The Bonds are payable from, and are secured by a pledge of, certain revenues of the Authority, which include: (i) the total amount of excise taxes, up to $120 million per fiscal year, imposed by the Commonwealth of Puerto Rico (the “Commonwealth”) on certain petroleum products; (ii) toll revenues of the Authority’s traffic facilities that were not financed with Highway Revenue Bonds; (iii) certain investment earnings; and (iv) the 1968 Resolution Revenues available after payment of debt service on the Authority’s outstanding Highway Revenue Bonds.

The tax revenues are subject to a constitutional clawback provision. The tax revenues are first available to the Commonwealth to pay debt service on its General Obligation Bonds, if needed. The toll revenues are not subject to the clawback provision.

The Commonwealth covenants not to reduce tolls, taxes, licenses, or fees while the Highway Revenue and Transportation Revenue Bonds are outstanding.
Transportation Revenue Bonds (cont.)

Moody’s Ca  S&P CC  Fitch NR

### Additional Bonds Test

- The Authority may issue additional Bonds provided that the 1998 Resolution Revenues for any 12 consecutive months of the 15 months immediately preceding the issuance of such Senior Transportation Revenue Bonds are not less than 150% of the MADS for any fiscal year thereafter on account of all outstanding Bonds and additional Bonds then to be issued and not less than 100% of the MADS for any fiscal year thereafter on account of all outstanding Bonds and the additional Bonds then to be issued.

- There is an additional Bonds test of 1.25 times on the Subordinated Transportation Revenue Bonds of the 1998 Resolution.

### Debt Service Reserve Fund

- The Reserve Account requirement is an amount equal to the lesser of MADS for any fiscal year on all outstanding Senior Transportation Revenue Bonds and 10% of the original principal amount of Senior Transportation Revenue Bonds outstanding.
Puerto Rico Highways and Transportation Authority (PRHTA)

Highway Revenue Bonds

**Purpose**
- The Authority was created to assume responsibility for the construction of roads and highways and related transportation facilities in Puerto Rico.
- Bond proceeds were used for various capital improvement projects.

**Bonds Outstanding**
- $894 million as of June 30, 2014

**Additional Bond Test**
- The Authority may not issue additional Highway Revenue Bonds under the 1968 Resolution except Bonds maturing no later than July 1, 2036, which are issued to refund outstanding Highway Revenue Bonds in order to achieve debt service savings.

**Debt Service Reserve Fund**
- The Reserve Account requirement is an amount equal to the lesser of the MADS for any fiscal year on all outstanding Highway Revenue Bonds and 10% of the original principal amount of each Series of Bonds outstanding.

**Security**
- The Bonds are secured by the 1968 Resolution revenues which include: (i) gasoline taxes ($0.16 per gallon), $0.04 of the current $0.08 per gallon of gas oil and diesel oil taxes, and the current motor vehicle license fees allocated to the Authority by the Commonwealth (first $15 per vehicle goes to the Authority); (ii) all toll revenues of the Authority’s traffic facilities financed with Highway Revenue Bonds; and (iii) investment income.
- The Authority has the ability to raise tolls when necessary.
- Excess 1968 Resolution revenues will be transferred to the 1998 Resolution Revenue Fund after debt service has been paid on the Highway Revenue Bonds.
- The tax revenues are subject to a constitutional clawback provision. The tax revenues are first available to the Commonwealth to pay debt service on its General Obligation Bonds, if needed. The toll revenues are not subject to the clawback provision.

Moody’s Ca  S&P CC  Fitch NR
Puerto Rico Highways and Transportation Authority (PRHTA)

Flow of Funds
Highway Revenue Bonds (cont.)

1968 Resolution Revenues

1968 Sinking Fund

1968 Bond Service Account

1968 Redemption Account

1968 Reserve Account

1998 Revenue Fund

1998 Senior Bond Sinking Fund

1998 Senior Bond Service Account

1998 Senior Redemption Account

1998 Senior Reserve Account

1998 Subordinated Bond Sinking Fund

1998 Subordinated Bond Service Account

1998 Subordinated Bond Redemption Account

1998 Subordinated Bond Reserve Fund

1998 Construction Fund

Source: Official Statement
University of Puerto Rico

University System Revenue Bonds

Moody’s Ca  S&P CC  Fitch NR

Purpose
- The University includes three principal campuses and eight additional colleges located throughout the Island.
- Bond proceeds were used to finance a portion of the costs of various projects included in the University’s capital improvements program and to refinance aggregate principal amount of notes held by Government Development Bank issued to finance such costs initially.

Bonds Outstanding
- $471 million as of June 30, 2014

Debt Service Reserve Fund
- The Reserve Account requirement is an amount equal to MADS of all outstanding Bonds.

Security
- The Trust Agreement provides that the Bonds are general obligations of the University and are equally and ratably secured by the Pledged Revenues, which include: (i) tuition fees, (ii) student fees, (iii) rental and other charges for the right of use or occupancy of the University’s facilities, (iv) net bookstore receipts and other certain revenue sources. However, appropriations from the Commonwealth and grants from the U.S. Government are excluded.
- In the event that the Pledged Revenues are insufficient to pay the principal of and the interest on the Bonds, the University has covenanted to provide any required monies from other funds available including funds appropriated by the Legislature of Puerto Rico.
University System Revenue Bonds (cont.)

Moody’s Ca  S&P CC  Fitch NR

**Rate Covenant**

- The University covenants to set tuition fees, student fees and rentals and other charges for the right of use or occupancy of the facilities in the University System, so that the Pledged Revenues, together with any other funds, will be sufficient to pay principal of and interest on the Bonds.

**Additional Bonds Test**

- Additional Bonds may be issued under the Trust Agreement to finance the acquisition and construction of facilities for the University.
- Such additional Bonds may be issued upon a showing that the lesser of (i) the Pledged Revenues and Reserve Account earnings for 12 consecutive months out of the 18 months preceding the issuance of such additional Bonds and (ii) the estimated Pledge Revenues and Reserve Account earnings for the 12 months following the issuance of such additional Bonds are not less than 150% of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of the Bonds outstanding and the additional Bonds.
The Authority was created by the Enabling Act to design and construct office buildings, quarters, courts, warehouses, shops, schools, health facilities, social welfare facilities and related facilities for lease to the Commonwealth.

Bonds were issued to provide funds to pay a portion of costs of construction of certain buildings and facilities to be leased by the Authority to various departments and instrumentalities of the Commonwealth.

The Bonds are secured equally by a pledge of rentals of the facilities leased by the Authority (the “Leased Facilities”). The Enabling Act provides that the good faith and credit of the Commonwealth are pledged for the payment of rentals under any lease agreement with any department of the Commonwealth and to the making of advances by the Secretary of Treasury of the Commonwealth to the Authority of any unpaid portion of rentals payable to the Authority by any department of the Commonwealth.

The Bonds are additionally secured by the guaranty of the Commonwealth under which the Commonwealth pledges to draw from any funds available in the Department of Treasury such sums as may be necessary to cover any deficiency in the amount required for the payment of principal of and interest on the Bonds. The good faith and credit of the Commonwealth are pledged for such payments.

$4.1 billion as of June 30, 2015

None

None. Additional bonds may be issued to finance additional government facilities or complete the construction of existing government facilities or to refund any Government Facilities Bonds.
Puerto Rico Public Finance Corporation

Commonwealth Appropriation Bonds

Moody’s C  S&P D  Fitch NR

### Purpose
- The Corporation was created in 1984 to provide agencies and instrumentalities of Puerto Rico with alternate means of meeting their financing requirements. The Corporation is a subsidiary corporation of the GDB.
- Bonds issued after 2004 were for refunding purposes. Bonds issued before 2004 refinanced GDB notes (the “Notes”) issued to make loans to certain departments, agencies, instrumentalities, and public corporations of the Commonwealth (the “Authorized Debtors”) pursuant to the Appropriation Acts.

### Security
- The Bonds are secured by Pledged Revenues consisting of principal and interest on the Notes and other amounts deposited in the Sinking Fund established under the Trust Agreement. Principal and interest on the Notes are paid from budgetary appropriations made by the Legislature of Puerto Rico pursuant to the Appropriation Acts.
- The Appropriation Acts require the Office of Management and Budget to include in the Commonwealth’s operating budget the principal and interest amounts of the Notes.
- As provided by the Constitution, if a budget for a given fiscal year is not adopted by July 1, the budget for the preceding fiscal year is automatically renewed until a new budget is approved. In the event that a timely budget is not adopted, the GDB has provided an irrevocable letter of credit for the benefit of bondholders to cover the maximum debt service increase between any two consecutive fiscal years.

### Debt Service Reserve Fund
- None.

### Additional Bonds Test
- No additional Bonds may be issued except to (i) refund Bonds under the Trust Agreement or any other bonds payable from budgetary appropriations made under the Appropriation Acts, (ii) fund a reserve account, if applicable, (iii) pay capitalized interest on any such additional Bonds, and (iv) pay the cost of issuance of such additional Bonds.

### Bonds Outstanding
- $1.1 billion as of June 30, 2015
Commonwealth of Puerto Rico

General Obligation Bonds

Moody’s Caa3  S&P D  Fitch D

Purpose

- The net proceeds of the Bonds will be used to carry out capital improvement programs.
- The Commonwealth’s economic development program is focused on initiatives aimed at producing more diversified and sustainable economic development.

Bonds Outstanding

- $13.3 billion as of June 30, 2014

Security

- The bonds are secured by the good faith, credit and taxing power of the Commonwealth which are irrevocably pledged for the prompt payment of the principal of and interest on the bonds issued.
- The Secretary of the Treasury is authorized and directed under the Act to pay the principal of and interest on the Bonds as the same become due and payable from any funds available for such purpose at the Department of Treasury in the fiscal year in which such payment is due.
- The Constitution of Puerto Rico provides that public debt of the Commonwealth will constitute a first claim on the Commonwealth resources.
- Act No. 83 of the Legislature of Puerto Rico provides for the levy of an annual special tax of 1.03% of the assessed value of all real and person property not exempt from taxation. The proceeds of are credited to the Commonwealth Debt Redemption Fund, for application to the payment of general obligation bonds and notes of the Commonwealth.
The Commonwealth may not issue additional GO debt in the event debt service on the GO bonds and debt service on guaranteed debt by the Commonwealth exceeds 15% of the average annual revenues raised under provisions of Commonwealth legislation and collected by the Treasury of Puerto Rico in the two fiscal years preceding the current fiscal year.
Senior Notes

Moody’s Ca  S&P D  Fitch NR

Purpose

- The Government Development Bank for Puerto Rico (GDB) is a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico. GDB serves as bank fiscal agent and financial advisor to the Commonwealth and government agencies.
- Proceeds were used to fund its lending activities with certain governmental agencies and public corporations.

Security

- The Notes are general, unsecured, senior obligations of GDB.

Additional Bonds Test

- Government Development Bank may issue additional debt securities under the Indenture or otherwise incur additional indebtedness without restrictions. Such additional debt securities or other indebtedness may rank equally with the Notes outstanding.

Bonds Outstanding

- $5.0 billion as of June 30, 2015

Debt Service Reserve Fund

- None
Important information about this report:

This guide is for informational purposes only and should not be construed as a solicitation or an offer to buy or sell any security. The information presented in this guide has been obtained from sources believed to be reliable, but FCM does not make any representation about the accuracy, completeness, or timeliness of this information. This guide is current only as of the date that it was published, and opinions, estimates, and other information may change without notice or publication. Past performance is no guarantee of future results. Prior to making an investment or other financial decision, please consult the financial, legal, and/or tax advisor of your choice. FCM shall not be liable for any person’s use of this guide. FCM does not give tax or legal advice.

In general, the bond market is volatile, and bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities.

Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Diversification does not ensure a profit or guarantee against a loss. The municipal market is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a debt security to decrease. A portion of the dividends you receive may be subject to federal, state, or local income tax or may be subject to the federal alternative minimum tax.

Investing in municipal bonds for the purpose of generating tax-exempt income is generally more beneficial the higher an investor’s tax bracket. Tax-advantaged accounts such as IRAs and 401(k)s are generally not appropriate for holding tax-exempt municipal securities.

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