

\$353,860,000

Puerto Rico Public Buildings Authority
\$347,065,000 Government Facilities Revenue Refunding Bonds, Series K
\$6,795,000 Government Facilities Revenue Bonds, Series L⁽¹⁾
Guaranteed by the Commonwealth of Puerto Rico

The Puerto Rico Public Buildings Authority Government Facilities Revenue Refunding Bonds, Series K (the "Series K Bonds"), and the Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds, Series L (the "Series L Bonds" and, together with the Series K Bonds, the "Bonds") are being issued by Puerto Rico Public Buildings Authority (the "Authority") pursuant to Act No. 56 of the Legislature of Puerto Rico, approved June 19, 1958, as amended ("Act No. 56"), and under the provisions of Resolution No. 468, adopted by the Authority on June 22, 1995, as amended (the "1995 Bond Resolution").

Concurrently with the issuance of the Bonds, the Authority is issuing its \$832,385,000 Government Facilities Revenue Bonds, Series I (the "Series I Bonds") and \$335,580,000 Government Facilities Revenue Refunding Bonds, Series J (the "Series J Bonds"). The Series I Bonds and Series J Bonds are being offered pursuant to a separate Official Statement.

The Bonds, the Series I Bonds, the Series J Bonds, the outstanding bonds of the Authority previously issued under the 1995 Bond Resolution, and any additional bonds that the Authority may from time to time issue under the 1995 Bond Resolution are payable from, and are secured by a pledge of, the rentals of government facilities financed or refinanced by such bonds and leased by the Authority to departments, agencies, instrumentalities and municipalities of the Commonwealth of Puerto Rico.

The Bonds are further secured by the guaranty of the Commonwealth under which the Commonwealth pledges to draw from any funds available in the Treasury of Puerto Rico 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, as in the case of the Commonwealth's general obligation bonds, are pledged for such payments.

The Bonds will have the following characteristics:

- The Bonds will be dated their date of delivery.
- The Bonds will be registered under The Depository Trust Company's book-entry only system. Purchasers of the Bonds will not receive definitive Bonds.
- Interest on the Bonds will be payable on January 1, 2005 and on each January 1 and July 1 thereafter.
- The Series K Bonds are subject to mandatory tender, payable as to the principal portion solely from remarketing of the Series K Bonds, on July 1, 2007 (the "Mandatory Tender Date"), at a price equal to the principal amount thereof plus accrued interest, if any, to such date. Holders of the Series K Bonds will have no right to retain the Series K Bonds after the Mandatory Tender Date.
- The Series K Bonds are subject to redemption as described herein. The Series L Bonds are not subject to redemption.
- The inside cover page contains information concerning the maturity schedule, interest rates, and yields of the Bonds.
- The scheduled payment of principal and interest on some of the Series K Bonds will be insured by Financial Security Assurance Inc. and MBIA Insurance Corporation, as indicated on the inside cover page of this Official Statement.
- The issuance of the Bonds and the purchase of the Bonds by the Underwriters are subject to the approval of legality by Sidley Austin Brown & Wood LLP, New York, New York, Bond Counsel, and certain other conditions.
- In the opinion of Bond Counsel, under existing federal laws and regulations, interest on the Series K Bonds will be exempt from federal income taxation and the Series K Bonds and interest thereon will be exempt from state, Commonwealth and local income taxation. However, see *Tax Matters*, beginning on page 14 of this Official Statement, for alternative minimum tax consequences with respect to interest on the Series K Bonds, a description of certain rules that must be complied with to preserve the federal tax exemption of interest, and other tax considerations.
- In the opinion of Fiddler González & Rodríguez, PSC, Special Tax Counsel, under existing statutes, interest on the Series L Bonds is not excludable from gross income for federal income tax purposes under Section 103(a) of the United States Revenue Code. The Series L Bonds, and the interest thereon, will be exempt from Commonwealth taxation. Under certain circumstances, interest on the Series L Bonds will be exempt from United States taxation to residents of the Commonwealth. See *Tax Matters*.
- Fiddler González & Rodríguez, PSC, San Juan, Puerto Rico will pass upon certain legal matters for the Underwriters.
- It is expected that settlement for the Bonds will occur on or about June 10, 2004.

UBS Financial Services Inc.

Banc of America Securities LLC
JP Morgan
Samuel A. Ramírez & Co., Inc.

Lehman Brothers

Citigroup
Morgan Stanley

Merrill Lynch & Co.

Goldman, Sachs & Co.
Raymond James & Associates, Inc.
Wachovia Bank, National Association

May 27, 2004

⁽¹⁾ UBS Financial Services Incorporated of Puerto Rico will be the sole underwriter for the Series L Bonds.

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Puerto Rico Public Buildings Authority

\$347,065,000 Government Facilities Revenue Refunding Bonds, Series K

\$6,795,000 Government Facilities Revenue Bonds, Series L

Guaranteed by the Commonwealth of Puerto Rico

\$347,065,000 Government Facilities Revenue Refunding Bonds, Series K

\$147,065,000 4½% Term Bonds due July 1, 2022; Yield 3.23%*

\$150,000,000 4% Term Bonds due July 1, 2026; Yield 2.85%**

\$50,000,000 3% Term Bonds due July 1, 2027; Yield 2.85%**

\$6,795,000 Government Facilities Revenue Bonds, Series L

Maturity July 1,	Principal Amount	Interest Rate	Price
2008	\$ 3,335,000	3.60%	100%
2009	3,460,000	4.05	100

* Yield to July 1, 2007, the Mandatory Tender Date.

+ Insured by MBIA Insurance Corporation.

‡ Insured by Financial Security Assurance Inc.

The information set forth or incorporated herein by reference has been obtained from the Authority, the Commonwealth, and other official sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by any Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Commonwealth since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. The Underwriters have provided the following sentence and paragraph for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS OFFERED HEREBY AND OF OUTSTANDING BONDS OF PUERTO RICO PUBLIC BUILDINGS AUTHORITY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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\$353,860,000
Puerto Rico Public Buildings Authority
\$347,065,000 Government Facilities Revenue Refunding Bonds, Series K
\$6,795,000 Government Facilities Revenue Bonds, Series L
Guaranteed by the Commonwealth of Puerto Rico

INTRODUCTION

This Official Statement sets forth information in connection with the sale by Puerto Rico Public Buildings Authority (the "Authority") of \$347,065,000 aggregate principal amount of its Puerto Rico Public Buildings Authority Government Facilities Revenue Refunding Bonds, Series K (the "Series K Bonds"), and \$6,795,000 aggregate principal amount of its Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds, Series L (the "Series L Bonds" and, together with the Series K Bonds, the "Bonds"). Concurrently with the issuance of the Bonds, the Authority is issuing its \$832,385,000 Government Facilities Revenue Bonds, Series I (the "Series I Bonds") and \$335,580,000 Government Facilities Revenue Refunding Bonds, Series J (the "Series J Bonds"). The Series I Bonds and Series J Bonds are being offered pursuant to a separate Official Statement, dated May 12, 2004.

The Bonds will be issued pursuant to Act No. 56 of the Legislature of Puerto Rico, approved June 19, 1958, as amended (the "Enabling Act"), and under the provisions of Resolution No. 468, adopted by the Authority on June 22, 1995 (the "1995 Bond Resolution"), as supplemented by a resolution adopted by the Authority on May 27, 2004 (the "Bond Resolution"). Immediately prior to the issuance of the Bonds, the Authority will have outstanding \$1,778,697,297 of its Government Facilities Bonds (calculated by excluding all accretion on any existing capital appreciation bonds and convertible capital appreciation bonds) issued under the 1995 Bond Resolution. The fiscal agent under the 1995 Bond Resolution is U.S. Bank Trust National Association (the "1995 Fiscal Agent").

The scheduled payment of principal of and interest on the Series J Bonds maturing on July 1, 2026 (the "MBIA Insured Bonds") will be insured by a municipal bond insurance policy (the "MBIA Insurance Policy") issued by MBIA Insurance Corporation ("MBIA"). The scheduled payment of principal of and interest on the Series J Bonds maturing on July 1, 2027 (the "FSA Insured Bonds" and, together with the MBIA Insured Bonds, the "Insured Bonds") will be insured by a municipal bond insurance policy (the "FSA Insurance Policy" and, together with the MBIA Insurance Policy, the "Bond Insurance Policies") issued by Financial Security Assurance Inc. ("FSA" and, together with MBIA, the "Bond Insurers").

The Authority is issuing the Series K Bonds and Series J Bonds to refund certain of its outstanding bonds to achieve debt service savings. The Authority is issuing the Series L Bonds to pay the interest that has accrued under a line of credit with Government Development Bank for Puerto Rico ("Government Development Bank") used by the Authority to defray a portion of the costs of construction of certain government facilities leased by the Authority to departments, agencies, instrumentalities and municipalities of the Commonwealth of Puerto Rico (the "Commonwealth"). The Authority is issuing the Series I Bonds to pay a portion of the costs of construction of the abovementioned buildings and facilities to be leased by the Authority. See *Plan of Financing*.

The Bonds, the Series I Bonds, the Series J Bonds, the outstanding bonds of the Authority previously issued under the 1995 Bond Resolution, and any additional bonds that the Authority may from time to time issue under the 1995 Bond Resolution (collectively, the "Government Facilities Bonds") are payable from and are secured by a pledge of the rentals of government facilities financed or refinanced by such bonds and leased by the Authority to departments, agencies, instrumentalities and municipalities of the Commonwealth. The Bonds are further guaranteed by the Commonwealth.

This Official Statement includes the cover page, the inside cover page, the appendices hereto and the following documents, which have been filed by the Commonwealth with each nationally recognized municipal securities information repository ("NRMSIR") and the Municipal Securities Rulemaking Board (the "MSRB") and are incorporated herein by reference:

- (1) the Comprehensive Annual Financial Report of the Commonwealth for the fiscal year ended June 30, 2002, prepared by the Department of the Treasury of the Commonwealth (the "Commonwealth's Annual Financial Report"), which includes the basic financial statements of the Commonwealth for the fiscal year ended June 30, 2002, together with the independent auditor's report thereon, dated April 30, 2003, of KPMG LLP, certified public accountants. KPMG LLP did not audit the financial statements of the Authority, and certain activities, funds and component units separately identified in their report. Those financial statements were audited by other auditors whose reports have been furnished to KPMG LLP, and their opinion as to the basic financial statements, insofar as it relates to the amounts included in the basic financial statements pertaining to such activities, funds and component units, is based solely on the reports of the other auditors. It is expected that the financial statements of the Commonwealth for fiscal year 2003 will be available during the second calendar quarter of 2004;
- (2) the Commonwealth of Puerto Rico Financial Information and Operating Data Report, dated April 1, 2004 (the "Commonwealth Report"), included as Appendix I to the Official Statement, dated April 30, 2004, of the Commonwealth's General Obligation Bonds, \$279,240,000 Public Improvement Refunding Bonds, Series 2004 A, and \$447,875,000 Public Improvement Refunding Bonds, Series 2004 B (collectively, the "2004 Commonwealth General Obligation Refunding Bonds"), which report includes important information about the Commonwealth, including information about the economy, historical revenues and expenditures of the Commonwealth's General Fund, the year-end results of the fiscal 2003 budget, the approved budget for fiscal year 2004, the proposed budget for fiscal year 2005, and the debt of the Commonwealth's public sector; and
- (3) the Official Statement, dated May 12, 2004, relating to the Authority's \$832,385,000 Government Facilities Revenue Bonds, Series I, and \$335,580,000 Government Facilities Revenue Refunding Bonds, Series J (the "Series I and J OS").

Terms used in this Official Statement and not defined shall have the meanings given to them in the Series I and J OS.

Any official statement of the Commonwealth or of any instrumentality of the Commonwealth, or any appendix thereto, containing any revision to the Commonwealth's Annual Financial Report or to the Commonwealth Report that is filed with each NRMSIR and with the MSRB, or any other document containing information that modifies or supersedes the information contained in the Commonwealth's Annual Financial Report or in the Commonwealth Report, that is filed with each NRMSIR, in each case after the date hereof and prior to the termination of the offering of the Bonds, shall be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document. Any statement contained herein or in any of the above described documents incorporated herein by reference shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Commonwealth will provide without charge to any person to whom this Official Statement is delivered, on the written or oral request of such person, a copy of any or all of the foregoing documents incorporated herein by reference. Requests for such documents should be directed to Director-New York Office, Government Development Bank, 140 Broadway, 38th Floor, New York, NY 10005, telephone number (212) 422-6420, or to Director-General Obligations Division, Government Development Bank, PO Box 42001, San Juan, Puerto Rico 00940, telephone number (787) 722-7060.

A copy of the Commonwealth Report and the Commonwealth's Annual Financial Report may be obtained by contacting a NRMSIR. The address of each NRMSIR is set forth in *Continuing Disclosure* below.

This Official Statement, including information incorporated in this Official Statement by reference, contains certain "forward-looking statements" concerning the operations, financial condition, plans and objectives of the Authority and the Commonwealth. These statements are based upon a number of assumptions and estimates which are subject to significant uncertainties, including general economic conditions, many of which are beyond the control of the Authority and the Commonwealth. The words "may," "would," "could," "will," "expect,"

“anticipate,” “believe,” “intend,” “plan,” “estimate” and similar expressions are meant to identify these forward-looking statements. Actual results may differ materially from those expressed or implied by these forward-looking statements.

PLAN OF FINANCING

Series K Bonds

The Authority is issuing the Series K Bonds to (i) refund certain bonds issued under the 1995 Bond Resolution in the amounts and maturities identified in the table below (the “Refunded Bonds”), (ii) refund interest (but not principal) on certain bonds issued under the 1995 Bond Resolution (the “Refunded Interest”), and (iii) pay costs of issuance of the Series K Bonds.

<u>Refunded Bonds</u>	<u>Principal Amount to be Refunded</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
Government Facilities Revenue Bonds, Series B	\$ 12,225,000	4.55%	07/01/2005	—	—
	98,655,000	5¼	07/01/2021	07/01/2007	101.5%
	188,745,000	5	07/01/2027	07/01/2007	101.5
Government Facilities Revenue Refunding Bonds, Series C	5,915,000	5	07/01/2005	—	—

<u>Bonds with Refunded Interest</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Interest Refunded*</u>
Government Facilities Revenue Refunding Bonds, Series B	\$12,780,000	4.65%	07/01/2006	\$ 891,405.00
	13,375,000	4.65	07/01/2007	932,906.25
	13,995,000	4.80	07/01/2008	1,007,640.00
	14,670,000	5	07/01/2009	1,100,250.00
	15,405,000	5.10	07/01/2010	1,178,482.50
	16,190,000	5	07/01/2011	1,214,250.00
	16,995,000	5	07/01/2012	1,274,625.00
	17,845,000	5	07/01/2013	1,338,375.00
	18,740,000	5	07/01/2014	1,405,500.00
	19,675,000	5	07/01/2015	1,475,625.00
	20,660,000	5	07/01/2016	1,549,500.00
	21,695,000	5½	07/01/2017	1,667,803.13

* Reflects total amount of interest refunded for July 1, 2004; January 1, 2005, and July 1, 2005 interest payment dates.

The Authority will deposit the net proceeds of the Series K Bonds, together with other available moneys, into an escrow fund with the 1995 Fiscal Agent, under the terms of an escrow deposit agreement. The net proceeds, together with such other available moneys, will be invested in certain Government Obligations (as defined in the 1995 Bond Resolution), the principal of and interest on which, will be sufficient to pay the principal of and premium, if any, on the Refunded Bonds and the Refunded Interest on the respective redemption and other dates mentioned above, which redemption and other dates will be irrevocably designated by the Authority, and to pay the interest thereon to such redemption dates.

Upon the deposit with the 1995 Fiscal Agent referred to above, the Refunded Bonds will, in the opinion of Bond Counsel, cease to be outstanding under the 1995 Bond Resolution.

The sufficiency of the amount deposited, with investment earnings thereon, to accomplish the refunding of the Refunded Bonds and Refunded Interest will be verified by Precision Analytics Inc. (the “Verification Agent”).

Series L Bonds

The Authority is issuing the Series L Bonds to (i) pay the interest that has accrued under a line of credit with Government Development Bank used by the Authority to defray a portion of the costs of construction of certain government facilities leased by the Authority to departments, agencies, instrumentalities and municipalities of the Commonwealth, and (ii) pay costs of issuance of the Series L Bonds. For a more detailed description of the Authority's construction program, see *The Authority*.

Use of Proceeds

The proceeds of the Bonds (including any premium and net of original issue discount) are expected to be used as follows:

Sources

Par Amount of Series K Bonds.....	\$ 347,065,000.00
Par Amount of Series L Bonds.....	6,795,000.00
Net Original Issue Premium.....	10,626,344.20
Total.....	<u>\$ 364,486,344.20</u>

Uses

Escrow Account for Refunded Bonds.....	\$ 347,322,454.76
Interest on Government Development Bank's Line of Credit.....	6,741,018.64
Underwriters' discount, municipal bond insurance premium, and estimated legal, printing and financing expenses.....	10,422,870.80
Total.....	<u>\$ 364,486,344.20</u>

THE BONDS

Description of the Series K Bonds

This description of the Series K Bonds relates only to the terms and provisions which are applicable during the period from their date of delivery through July 1, 2007 (the "Mandatory Tender Date").

The Series K Bonds will be dated the date of their delivery and will bear interest from that date. The Series K Bonds will be initially issued in book-entry only form and will mature, subject to prior redemption, on the dates set forth on the inside cover page of this Official Statement. The Series K Bonds will be issuable as fully registered bonds without coupons in denominations of \$5,000 or any multiple thereof, and when issued, will initially be registered only in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC") New York, New York, which will act as securities depository for the Series K Bonds.

The Series K Bonds initially will bear interest at the rates set forth on the inside cover page hereof during the period ending on the Mandatory Tender Date. During that period, interest will be payable semiannually on each January 1 and July 1, commencing on January 1, 2005, and will be computed on the basis of a 360-day year of twelve 30-day months.

The Series K Bonds are subject to mandatory tender, payable solely from the remarketing of the Series K Bonds, on the Mandatory Tender Date at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to such date. Holders of the Series K Bonds will have no right to retain the Series K Bonds after such Mandatory Tender Date. Prior to the Mandatory Tender Date, the Series K Bonds may not be tendered and may not be converted to bear interest at any rate other than the rate set forth on the inside cover page hereof, as provided in the Bond Resolution. See "Mandatory Tender for Purchase of the Series K Bonds," below.

Description of the Series L Bonds

The Series L Bonds will be issued as registered bonds without coupons, will be dated the date of their delivery and will bear interest at the rates, and will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Principal of and interest on the Series L Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Series L Bonds will be payable semiannually on each January 1 and July 1, commencing on January 1, 2005. The Series L Bonds will be issued in fully registered form, will be in denominations of \$5,000 and any multiple thereof, and when issued, will initially be registered only in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Series L Bonds.

Redemption Provisions

Optional Redemption of the Series K Bonds. At the option of the Authority and upon at least 30 days' notice, the Series K Bonds are subject to redemption, from any moneys that may be available for that purpose, either in whole or in part (and if in part, in such order of maturity as the Authority shall direct), on the Mandatory Tender Date, at the principal amount of the Series K Bonds to be redeemed, together with the interest accrued thereon to the Mandatory Tender Date, and without premium.

The Series L Bonds are not subject to redemption.

Notice of Redemption. At least 30 days prior to any redemption, notice thereof will be sent by certified mail or other agreed method to DTC or if the book-entry only system is discontinued as described under the caption "Book-Entry Only System," under *The Bonds*, by first-class mail, postage prepaid, to the registered owners of the Bonds to be redeemed. Each notice of redemption shall contain, among other things, the CUSIP identification number of the Bonds (or portions thereof) being called for redemption, the redemption date and price and the address at which such Bonds are to be surrendered for payment of the redemption price. Any defect in such notice or the failure to mail any such notice to DTC in respect of, or the registered owner of, any Bond will not affect the validity of the proceedings for the redemption of any other Bond.

Effect of Redemption. On the date designated for redemption, notice having been given as described above and moneys for payment of the principal of and accrued interest on the Bonds or portions thereof so called for redemption being held by the 1995 Fiscal Agent, interest on the Bonds or portions thereof so called for redemption shall cease to accrue. Subject to certain provisions of the 1995 Bond Resolution, Bonds or portions of Bonds which have been duly called for redemption, or with respect to which irrevocable instructions to call for redemption have been given, and for the payment of the principal of and the accrued interest on which sufficient moneys or Government Obligations (as hereinafter defined) shall be held in separate trust for the owners of such Bonds or portions thereof to be redeemed, shall not be deemed to be outstanding under the 1995 Bond Resolution, and the registered owners thereof shall have no rights in respect thereof except to receive payment of the principal thereof and the accrued interest thereon from said separate trust and to receive Bonds (of the same series and maturity) for any unredeemed portion of such Bonds.

Selection of Bonds to be Redeemed. If less than all of the Bonds of any one maturity and series shall be called for redemption, the particular Bonds or portions thereof to be redeemed shall be selected by the 1995 Fiscal Agent in such manner as it in its discretion may determine to be appropriate and fair; except that so long as the book-entry only system shall remain in effect, the selection of the Bonds to be redeemed shall be determined as provided under the caption "Book-Entry Only System," under *The Bonds*. If during any fiscal year the total principal amount of term Bonds retired by purchase or redemption exceeds the amortization requirement for such term Bonds for such year, the amortization requirements for such term Bonds shall be reduced for subsequent fiscal years in amounts aggregating such excess as shall be determined by the Authority.

Mandatory Tender for Purchase of Series K Bonds

The Series K Bonds are subject to mandatory tender for purchase, payable as to their principal portion solely from the remarketing thereof, at a purchase price equal to the principal amount of such bonds (the "Tender Purchase Price") on the Mandatory Tender Date, with no right of the owners of such bonds to retain them. On the

Mandatory Tender Date, the Series K Bonds must be tendered for purchase by the holders thereof to the 1995 Fiscal Agent. UBS Financial Services Inc. (the "Remarketing Agent") will act as remarketing agent of the Series K Bonds pursuant to a remarketing agreement with the Authority.

Prior to the Mandatory Tender Date, the Authority will determine the initial interest rate mode or modes that will be applicable to such bonds from and after the Mandatory Tender Date. The interest rate or rates to be borne by such bonds immediately after the Mandatory Tender Date will be determined by the Remarketing Agent and will be equal to the lowest rate or rates that, in the opinion of the Remarketing Agent, will permit the remarketing of such bonds. The interest rate or rates to be determined by the Remarketing Agent may be a fixed or variable rate, and the Series K Bonds may be subject to subsequent remarketings. If the Authority determines that the interest rate mode applicable immediately after the Mandatory Tender Date will be a Fixed Rate Mode (as defined in the Bond Resolution) (in which the interest rate of the Series K Bonds will be fixed to their maturity) or a Term Rate Mode (as defined in the Bond Resolution) (in which the interest rate of the Series K Bonds will be fixed for one year or longer), the Series K Bonds may be remarketed at an aggregate price exceeding par, but the tendering holders will only receive the Tender Purchase Price. The Authority in conjunction with any such remarketing may establish amortization requirements for such bonds that will result in the mandatory redemption of such bonds prior to maturity.

As of the date of this Official Statement, the Authority has not provided and does not intend to provide any liquidity facility for the payment of the purchase price payable upon the mandatory tender of the Series K Bonds on the Mandatory Tender Date, nor is there any requirement that such liquidity facility be obtained. The Tender Purchase Price for such bonds is expected to be obtained from the remarketing thereof.

The Remarketing Agent will use its best efforts to remarket the Series K Bonds on the Mandatory Tender Date. On the Mandatory Tender Date (or such later date to which such tender has been postponed as described below), the Series K Bonds shall be deemed to have been tendered on such date for purchase and, if on such date moneys sufficient to pay the Tender Purchase Price thereof shall be on deposit with the 1995 Fiscal Agent, interest on such bonds shall cease to accrue. The remarketing of the Series K Bonds on the Mandatory Tender Date is subject, in all of the cases described above, to the condition that the Authority receives on the Mandatory Tender Date an opinion of Bond Counsel to the effect that the action proposed to be taken will not have an adverse effect on the tax exemption of the Bonds. Any Series K Bonds not purchased on the Mandatory Tender Date, including on account of a failure of the Authority to receive the aforementioned opinion of Bond Counsel, (i) will be returned to their holders, remain outstanding and bear interest at the rate of 8% per annum (or such higher rate as the Authority, upon receipt of a similar opinion of Bond Counsel, may determine) and (ii) will be purchased upon the availability of funds to purchase such Bonds and the receipt of such Bond Counsel opinion. The Authority has agreed that it will cause the Series K Bonds to be remarketed (in such rate mode or modes) on the Mandatory Tender Date or on the first date thereafter at which such opinion is delivered and they can be sold at par (or above par in the two exceptions described above) at a rate not exceeding the maximum legal rate (currently 12% per annum).

Notice of the mandatory tender for purchase of the Series K Bonds will be given not less than 30 days prior to the Mandatory Tender Date by first-class mail, postage prepaid, to DTC (or if the book-entry only system has been discontinued as described above, to the registered owners of the Series K Bonds, at their addresses appearing upon the registration books maintained by the 1995 Fiscal Agent). Failure to mail such notice to the registered owner of any Series K Bond will not affect the tender, purchase or remarketing of such bond.

SECURITY

All Government Facilities Bonds will be secured equally and ratably by a pledge of rentals of the facilities leased by the Authority (the "Leased Facilities"). The Leased Facilities will not be mortgaged or otherwise encumbered to secure any Government Facilities Bonds. 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 departments of the Commonwealth and to the making of advances by the Secretary of the Treasury of the Commonwealth to the Authority of any unpaid portion of rentals payable to the Authority by any agency or instrumentality of the Commonwealth. The Enabling Act also provides that the good faith and credit of any municipality entering into a lease agreement with the Authority are pledged for the payment of any rentals thereunder.

The Bonds are further secured by the guaranty of the Commonwealth under which the Commonwealth pledges to draw from any funds available in the Department of Treasury of the Commonwealth (“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, as in the case of the Commonwealth’s general obligation bonds, are pledged for such payments.

The rentals received in respect of the leased facilities financed by any Government Facilities Bonds and leased by the Authority to various departments, agencies, instrumentalities and municipalities of the Commonwealth are not available to be applied to the payment of any of the Public Buildings Authority Public Education and Health Facilities Bonds or Public Buildings Authority Revenue Bonds issued under the 1978 Bond Resolution (as hereinafter defined) and the 1970 Bond Resolution (as hereinafter defined).

Commonwealth Guaranty

As provided in Act No. 17 of the Legislature of Puerto Rico, approved on April 11, 1968, as amended (the “Guaranty Act”), the Commonwealth guarantees, among other things, the payment of the principal of and interest on the Government Facilities Bonds. The Guaranty Act, which was amended by Act No. 321 of December 28, 2003 to increase the amount of the guaranty from \$2,500,000,000 to \$3,325,000,000, reads as follows:

The Commonwealth of Puerto Rico hereby guarantees payment of the principal and the interest on bonds outstanding at any given time, in an aggregate principal amount not exceeding \$3,325,000,000 issued from time to time by the Public Buildings Authority for the development of its capital improvements, according to any of its purposes authorized by Act No. 56 (the “Enabling Act”). The bonds covered by this guaranty shall be those specified by the Authority, and a statement of such guaranty shall be set forth on the face of such bonds. If at any time the revenues or income, and any other moneys of the Authority, pledged for the payment of the principal and interest on such bonds, are not sufficient to pay such principal and interest as the same fall due, or to maintain the reserve fund that the Authority has pledged itself to maintain for such bonds, the Secretary of Treasury shall draw from any funds available in the Treasury of Puerto Rico, such sums as may be necessary to cover the deficiency in the amount required for the payment of such principal and interest and to restore said reserve fund to the maximum requirement agreed to by the Authority, and shall direct that the sums so drawn be applied to such payment and purpose. For the purposes of this Section, bonds issued by the Authority, which have been refinanced and for which a special reserve, guaranteed investment contract or other acceptable collateral has been pledged to secure their payment when due, shall not be deemed to be outstanding. The good faith and credit of the Commonwealth of Puerto Rico are hereby pledged for such payments (translation provided by the Authority).

The Bonds have been specified by the Authority to be guaranteed by the Commonwealth under the Guaranty Act. Following the issuance of the Bonds, the Series I Bonds and the Series J Bonds, the Authority will have \$2,946,603,259 aggregate principal amount of bonds outstanding which are covered by the Guaranty Act, consisting of: \$70,408,955 of bonds issued under Resolution No. 77, adopted by the Authority on November 16, 1970, as amended (the “1970 Bond Resolution”), \$204,347,006 of bonds issued under Resolution No. 158, adopted by the Authority on February 14, 1978, as amended (the “1978 Bond Resolution”), and \$2,671,847,297 of bonds issued under the 1995 Bond Resolution, calculated in each case by excluding the accretion on capital appreciation bonds and convertible capital appreciation bonds. See *Debt of the Authority and Debt Service Requirements*.

To date, no payments have ever been required under the Guaranty Act.

Opinion of the Secretary of Justice of the Commonwealth

Prior to the delivery of the Bonds, the Secretary of Justice of the Commonwealth will have rendered her opinion to the Authority stating:

“I have examined Act No. 56 of the Legislature of Puerto Rico, approved June 19, 1958, as amended, creating Public Buildings Authority (the “Authority”) as a body corporate and politic

constituting an instrumentality of the Commonwealth of Puerto Rico exercising public and essential governmental functions. I have also examined Act No. 17 of the Legislature of Puerto Rico, approved April 11, 1968, as amended (the "Guaranty Act"), providing for the guaranty of the Commonwealth of Puerto Rico of the payment of the principal of and interest on a principal amount of bonds of the Authority outstanding at any one time, not exceeding \$3,325,000,000 specified by the Authority to be covered by such guaranty, to the extent that the revenues and other moneys of the Authority pledged to the payment of such principal and interest are not sufficient for that purpose. I have also examined the Puerto Rico Constitution and such other laws of the Commonwealth of Puerto Rico as I consider necessary for the purpose of the following opinion.

From such examination, I am of the opinion that:

1. The Authority is lawfully authorized to specify up to \$3,325,000,000 aggregate principal amount of bonds of the Authority outstanding at any one time, issued for any of its authorized purposes, to be covered by the guaranty of the Commonwealth of Puerto Rico under the Guaranty Act, and the Commonwealth of Puerto Rico will be obligated to pay the principal of and the interest on the bonds so specified to be covered by said guaranty, if and to the extent that the revenues and other moneys of the Authority pledged to the payment of such principal and interest are not sufficient to make such payments as the same become due.

2. Any amounts required to be paid by the Commonwealth of Puerto Rico under said guaranty will constitute "public debt" within the meaning of Section 8 of Article VI of the Puerto Rico Constitution which provides:

'In case the available revenues including surplus for any fiscal year are insufficient to meet the appropriations made for that year, interest on the public debt and amortization thereof shall first be paid, and other disbursements shall thereafter be made in accordance with the order of priorities established by law.'

and will accordingly be entitled to the same priority of payment under such Section as the direct bonded indebtedness of the Commonwealth.

3. Because of its sovereign immunity, the Commonwealth cannot be sued without the consent of the Legislature of Puerto Rico. However, the Secretary of the Treasury can be required in a court of justice under the provisions of Section 2 of Article VI of the Puerto Rico Constitution to apply the available revenues including surplus to the payment of interest on the public debt and the amortization thereof in any case provided for by Section 8 of Article VI, including any payments required to be made under said guaranty, at the suit of any holder of bonds issued by the Authority and guaranteed pursuant to the Guaranty Act.

4. The Commonwealth guaranty of the \$347,065,000 Puerto Rico Public Buildings Authority Government Facilities Revenue Refunding Bonds, Series K, and the \$6,795,000 Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds, Series L, constitutes a general obligation of the Commonwealth to which its good faith, credit and taxing power are pledged.

5. Although without specific judicial decision on point, I firmly understand and am of the opinion that, for purposes of the principal amount limitation expressed in the Guaranty Act, the initial principal amount of any capital appreciation bonds constitutes the principal amount of such bonds until such bonds are retired and any accreted value above said initial principal amount constitutes interest on such bonds."

BOND INSURANCE

The MBIA Bond Insurance Policy

The following information has been furnished by MBIA for use in this Official Statement. Reference is made to *Appendix III* for a specimen of MBIA's policy. The MBIA Insurance Policy does not guarantee the payment of the purchase price of the MBIA Insured Bonds upon tender or mandatory tender thereof, including, without limitation, the mandatory tender on the Mandatory Tender Date.

The MBIA Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the 1995 Fiscal Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the MBIA Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the MBIA Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The MBIA Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any MBIA Insured Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of MBIA Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The MBIA Insurance Policy also does not insure against nonpayment of principal of or interest on the MBIA Insured Bonds resulting from the insolvency, negligence or any other act or omission of the 1995 Fiscal Agent or any other registrar for the MBIA Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the 1995 Fiscal Agent or any owner of a MBIA Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such MBIA Insured Bonds or presentment of such other proof of ownership of the MBIA Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the MBIA Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the MBIA Insured Bonds in any legal proceeding related to payment of insured amounts on the MBIA Insured Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the 1995 Fiscal Agent payment of the insured amounts due on such MBIA Insured Bonds, less any amount held by the 1995 Fiscal Agent for the payment of such insured amounts and legally available therefor.

MBIA. MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates.

Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "The MBIA Bond Insurance Policy" under *Bond Insurance*. Additionally, MBIA makes no representation regarding the MBIA Insured Bonds or the advisability of investing in the MBIA Insured Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information. The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2003; and
- (2) the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the MBIA Insured Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004) are available (i) over the Internet at the SEC's web site at www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2004, MBIA had admitted assets of \$10.3 billion (unaudited), total liabilities of \$6.5 billion (unaudited), and total capital and surplus of \$3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA. Moody's Investors Service, Inc. ("Moody's") rates the financial strength of MBIA "Aaa."

Standard & Poor's Ratings Services ("Standard & Poor's") rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the MBIA Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the MBIA Insured Bonds. MBIA does not guaranty the market price of the MBIA Insured Bonds nor does it guaranty that the ratings on the MBIA Insured Bonds will not be revised or withdrawn.

The FSA Bond Insurance Policy

The following information has been furnished by FSA for use in this Official Statement. Reference is made to *Appendix IV* for a specimen of FSA's policy. Concurrently with the issuance of the Bonds, FSA will issue the FSA Insurance Policy for the FSA Insured Bonds. The FSA Insurance Policy guarantees the scheduled payment of principal of and interest on the FSA Insured Bonds when due as set forth in the form of the FSA Insurance Policy included as an exhibit to this Official Statement. The FSA Insurance Policy does not guarantee the payment of the purchase price of the FSA Insured Bonds upon tender or mandatory tender thereof, including, without limitation, the mandatory tender on the Mandatory Tender Date.

The FSA Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

FSA. FSA is a New York domiciled financial guaranty insurance company and a wholly-owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct, wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or FSA is liable for the obligations of FSA.

At December 31, 2003, FSA's total policyholders' surplus and contingency reserves were approximately \$2,104,257,000 and its total unearned premium reserve was approximately \$1,356,385,000 in accordance with statutory accounting practices. At December 31, 2003, FSA's total shareholders' equity was approximately \$2,307,646,000 and its total net unearned premium reserve was approximately \$1,166,562,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the SEC are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the FSA Insured Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The FSA Insurance Policy does not protect investors against changes in market value of the FSA Insured Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. FSA makes no representation regarding the FSA Insured Bonds or the advisability of investing in the FSA Insured Bonds. FSA makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that FSA has provided to the Commonwealth the information presented under this caption for inclusion in the Official Statement.

Concerning the Insurance Policies of the Bond Insurers

As provided in each of the insurance agreements between the Authority and the 1995 Fiscal Agent relating to the Bond Insurance Policies, the consent of the Bond Insurers shall be required instead of the consent of the owners of the Insured Bonds, when required, to the adoption of any resolution supplemental to the 1995 Bond Resolution, for the removal of the 1995 Fiscal Agent and the appointment of a successor or for approving any other action which requires such consent of the owners of the Insured Bonds.

DEBT OF THE AUTHORITY AND DEBT SERVICE REQUIREMENTS

Debt

The following table sets forth the outstanding debt of the Authority:

	<u>As of December 31, 2003⁽¹⁾</u>	<u>As Adjusted⁽²⁾</u>
Bonds outstanding under the 1970 Bond Resolution	\$ 70,408,955	\$ 70,408,955
Bonds outstanding under the 1978 Bond Resolution	204,347,006	204,347,006
Bonds outstanding under the 1995 Bond Resolution	<u>1,778,697,297</u>	<u>2,671,847,297</u>
Total bonded debt ⁽³⁾	<u>\$ 2,053,453,259</u>	<u>\$ 2,946,603,259</u>

- (1) Calculated by excluding all interest accretion on outstanding capital appreciation bonds and convertible capital appreciation bonds from their respective dates of issuance. These amounts do not reflect Government Development Bank's interim financing of the Authority's CIP.
- (2) Reflects the outstanding debt of the Authority after giving effect to the issuance of the Bonds, the Series I Bonds and the Series J Bonds (calculated by excluding all interest accretion on outstanding capital appreciation bonds and convertible capital appreciation bonds from their respective dates of issuance) and the refunding of the Refunded Bonds.
- (3) Totals may not add due to rounding.

The Authority has caused to be deposited to the credit of the respective reserve accounts under the 1970 Bond Resolution and the 1978 Bond Resolution reserve account letters of credit issued by The Bank of Nova Scotia acting through its San Juan Branch ("BNS") (each, a "BNS Reserve Account Letter of Credit" and, collectively, the "BNS Reserve Account Letters of Credit") in the respective amounts required by said resolutions. The scheduled expiration date of the BNS Reserve Account Letters of Credit is July 15, 2005. Among other things, each BNS Reserve Account Letter of Credit authorizes drawings thereunder for the payment of any amount required to be paid out of moneys in the reserve account to which such BNS Reserve Account Letter of Credit relates after the withdrawal from the applicable reserve account of all cash and securities therein.

The obligations of the Authority under the reimbursement agreements between BNS and the Authority are not payable from the portion of the rentals received by the Authority in respect of the government facilities financed or refinanced with the proceeds of any Government Facilities Bonds and allocable to such Government Facilities Bonds.

No reserve account is established under the 1995 Bond Resolution.

Debt Service Requirements

Debt service requirements of the Authority for the outstanding Bonds (after the refunding of the Refunded Bonds) and the Bonds (including the Series I Bonds and the Series J Bonds) as shown in the following table, consist in any fiscal year of the sum of the amounts required to pay (i) the interest that is payable on January 1 in such fiscal year and July 1 in the following fiscal year, (ii) the principal of serial bonds that is payable on July 1 in the following fiscal year, and (iii) the amortization requirements for term bonds that are payable on July 1 in the following fiscal year.

**Puerto Rico Public Buildings Authority
Debt Service Requirements**

Fiscal Year Ending June 30	Total Debt Service on Bonds Outstanding under 1970, 1978 and 1995 Bond Resolutions ⁽¹⁾	Debt Service Series I Bonds and Series J Bonds ⁽²⁾	The Bonds			Total Debt Service
			Principal	Interest ⁽²⁾	Total	
2004	\$ 114,868,016	\$ 3,525,313	\$	\$	\$	\$ 118,393,329
2005	102,667,321	60,433,944		15,216,838	15,216,838	178,318,103
2006	135,746,476	60,433,944		14,378,115	14,378,115	210,558,535
2007	139,032,806	60,433,944		14,378,115	14,378,115	213,844,865
2008	139,577,749	60,433,944	3,335,000	14,314,572	17,649,572	217,661,265
2009	139,127,599	60,433,944	3,460,000	14,194,512	17,654,512	217,216,055
2010	140,729,349	60,433,944		14,054,382	14,054,382	215,217,675
2011	144,975,894	60,433,944		14,054,382	14,054,382	219,464,220
2012	137,397,931	60,433,944		14,054,382	14,054,382	211,886,257
2013	114,190,974	57,017,768	3,575,000	14,054,382	17,629,382	188,838,124
2014	114,029,424	57,017,768	3,730,000	13,901,372	17,631,372	188,678,564
2015	113,872,711	57,017,768	3,890,000	13,741,728	17,631,728	188,522,207
2016	113,626,136	57,017,768	4,055,000	13,575,236	17,630,236	188,274,140
2017	113,565,574	57,017,768	4,230,000	13,401,682	17,631,682	188,215,024
2018	73,931,118	57,017,768	27,215,000	13,220,638	40,435,638	171,384,523
2019	60,325,480	59,092,768	28,375,000	12,055,836	40,430,836	159,849,084
2020	51,007,855	68,408,643	29,590,000	10,841,386	40,431,386	159,847,884
2021	45,070,905	74,340,868	30,860,000	9,574,934	40,434,934	159,846,707
2022	46,640,624	74,377,018	30,575,000	8,254,126	38,289,126	159,846,768
2023	39,468,218	79,866,518	33,495,000	7,021,636	40,516,636	159,851,371
2024	39,476,205	79,856,318	34,795,000	5,722,030	40,517,030	159,849,553
2025	33,154,399	84,744,118	36,140,000	4,371,984	40,511,984	158,410,501
2026	21,545,961	96,350,829	37,540,000	2,969,752	40,509,752	158,406,542
2027	21,552,011	96,351,546	39,000,000	1,513,200	40,513,200	158,416,758
2028	30,594,711	128,758,712				159,353,423
2029	28,670,674	130,679,955				159,350,629
2030	59,800,174	99,560,630				159,360,804
2031	54,971,424	104,388,361				159,359,785
2032	18,552,700	140,806,607				159,359,307
2033	14,441,681	144,917,344				159,359,025
2034	14,439,850	145,733,305				160,173,155
2035	14,439,638	144,913,706				159,353,344
2036	14,440,300	144,918,970				159,359,270
Total⁽³⁾	\$2,445,931,885	\$2,727,169,683	\$353,860,000	\$258,865,220	\$612,725,220	\$5,785,826,788

(1) Does not include debt service on the Refunded Bonds or the Refunded Interest.

(2) Interest on the Series J Bonds is calculated using their actual rate per annum through the Mandatory Tender Date and thereafter at 4.28% per annum for the Series J Bonds due on July 1, 2028, and 3.88% per annum for the Series J Bonds due on July 1, 2036. Interest on the Series K Bonds is calculated using their actual rate per annum through the Mandatory Tender Date and thereafter at 4.28% per annum for the Series K Bonds due on July 1, 2022, and 3.88% per annum for the Series K Bonds due on July 1, 2026 and July 1, 2027. If the maximum rate permitted by Puerto Rico law of 12% were used instead, maximum annual principal and interest requirements on the Bonds of \$66,525,200 would occur in the fiscal year ending June 30, 2018 and on all of the Outstanding Bonds of the Authority of \$247,057,637.51 would occur in the fiscal year ending June 30, 2011. Does not take into account capitalized interest.

(3) Totals may not add due to rounding.

RECENT DEVELOPMENTS INVOLVING THE COMMONWEALTH

The following table supersedes the table (and related footnotes) with the same title that appears in the Commonwealth Report under the caption “Public Sector Debt” in *Debt* but not any of the discussion under said heading that precedes or follows said table. The table below takes into account under the “As Adjusted” column the issuance of the 2004 Commonwealth General Obligation Refunding Bonds on May 18, 2004 and the issuance of the Series I Bonds, the Series J Bonds and the Bonds on June 10, 2004 and reflects the refunding of the Refunded Bonds and the revised principal amount of general obligation bonds being refunded by the issuance of the 2004 Commonwealth General Obligation Refunding Bonds (as alluded to in footnote 3 to the table).

Commonwealth of Puerto Rico Public Sector Debt (in thousands)*

	December 31, 2003	As Adjusted ⁽¹⁾
Puerto Rico direct debt ⁽²⁾	\$ 8,515,633	\$ 8,551,708 ⁽³⁾
Municipal debt.....	1,935,028	1,935,028
Public corporation debt		
Puerto Rico guaranteed debt.....	643,295	643,295
Debt supported by Puerto Rico		
appropriations or taxes.....	13,527,718	14,420,868
Other non-guaranteed debt	<u>7,694,201</u>	<u>7,694,201</u>
Total public corporations debt.....	<u>\$21,865,214</u>	<u>\$22,758,364</u>
Total public sector debt	<u>\$32,315,875</u>	<u>\$33,245,100</u>

* For a complete recital of all notes to this table, see “Public Sector Debt” under *Debt* in the Commonwealth Report.

- (1) Adjusted to include the issuance of the Series I Bonds, the Series J Bonds, the Bonds and the 2004 Commonwealth General Obligation Refunding Bonds and to exclude the Refunded Bonds and the Commonwealth general obligation bonds refunded by the 2004 Commonwealth General Obligation Refunding Bonds.
- (2) This amount excludes any Commonwealth general obligation bonds that have been refunded with proceeds that were invested in non-eligible investments, even though such bonds will be considered outstanding under their respective authorizing resolutions and for purposes of calculating the Commonwealth’s constitutional debt limitation.
- (3) The determination of the principal amount of certain Commonwealth general obligation bonds being refunded by the 2004 Commonwealth General Obligation Refunding Bonds was dependent on the issuance of the Series I Bonds and the Series J Bonds because the Series I Bonds and the Series J Bonds and the 2004 Commonwealth General Obligation Refunding Bonds are considered a single issue for federal income tax purposes relating, among other things, to the amount of income that the securities in the respective escrow funds for the bonds refunded by each such bond issue may earn. The amount shown takes into account the final principal amount of the Commonwealth general obligation bonds refunded by the 2004 Commonwealth General Obligation Refunding Bonds.

Source: Government Development Bank

TAX MATTERS

Tax Matters Relating to the Series K Bonds

The Internal Revenue Code of 1986, as amended (the “Code”), includes requirements regarding the use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States, if required, which requirements the Authority must continue to meet after the issuance of the Series K Bonds in order that interest on the Series K Bonds is not included in gross income for federal income tax purposes. The Authority’s failure to meet these requirements may cause interest on the Series K Bonds to be included in gross income for federal income tax purposes, retroactive to their date of issuance. The Authority has covenanted to comply, to the extent permitted by the Constitution of the Commonwealth and the laws of the Commonwealth, with the requirements of the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Series K Bonds. Bond Counsel is not aware of any provision of the

Constitution or laws of the Commonwealth, which would prevent the Authority from complying with the requirements of the Code.

In the opinion of Sidley Austin Brown & Wood LLP, Bond Counsel, subject to continuing compliance by the Authority with the tax covenant referred to above, under the provisions of the Acts of Congress now in force and under existing regulations, rulings and court decisions, interest on the Series K Bonds will not be includable in gross income for federal income tax purposes. Interest on the Series K Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series K Bonds, however, will be includable in the computation of the alternative minimum tax on corporations imposed by the Code. No opinion is rendered by Sidley Austin Brown & Wood LLP, Bond Counsel, on the effect of any action taken or not taken after the date of its opinion without its approval (except for such action or omission to act as is otherwise provided for in the documents pertaining to the Series K Bonds) or in reliance upon the advice of counsel other than such firm on the exclusion from gross income of the interest on the Series K Bonds for federal income tax purposes. Bond Counsel is further of the opinion that, under the provisions of the Acts of Congress now in force, the Series K Bonds and the interest thereon are exempt from state, Commonwealth and local income taxation.

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations, certain S Corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit.

Ownership of tax-exempt obligations may also result in collateral income tax consequences under Puerto Rico law to financial institutions doing business in the Commonwealth.

Prospective purchasers of the Series K Bonds should consult their tax advisors as to applicability and impact of any collateral consequences.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Series K Bonds will not have an adverse effect on the tax-exempt status of the Series K Bonds. Legislative or regulatory actions and proposals may also affect the economic value of tax exemption or the market prices of the Series K Bonds.

Premium Bonds

The excess, if any, of the tax basis of a Series K Bond to a purchaser (other than a purchaser who holds such Series K Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) who purchases such Series K Bond as part of the initial offering and at its initial offering price as set forth or derived from information set forth on the inside cover page of this Official Statement over the amount payable at maturity of that Series K Bond is "Bond Premium." Bond Premium is amortized over the term of such Series K Bond for federal income tax purposes (or in the case of a Series K Bond with Bond Premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on a basis of a call date that results in the lowest yield on such Series K Bond). No deduction is allowed for such amortization of Bond Premium. United States Treasury regulations provide, however, that Bond Premium is treated as an offset to qualified stated interest received on such Series K Bond. An owner of such Series K Bond is required to decrease his adjusted basis in such Bond by the amount of amortizable Bond Premium attributable to each taxable year such Bond is held. An owner of such Series K Bond should consult his tax advisor with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon sale, redemption or other disposition of such Bond and with respect to the state, Commonwealth and local tax consequences of owning and disposing of such Bond.

Tax Matters Relating to the Series L Bonds

In the opinion of Fiddler González & Rodríguez, P.S.C., Special Tax Counsel, the following discussion summarizes the material Puerto Rico and United States tax considerations relating to the purchase, ownership and disposition of the Series L Bonds.

The discussion is based on the tax laws of Puerto Rico and the United States as in effect on the date of this Official Statement, as well as regulations, administrative pronouncements and judicial decisions available on or

before such date and now in effect. All of the foregoing are subject to different interpretations and are also subject to change, which change could apply retroactively and could affect the continued validity of this summary. An opinion of counsel represents only such counsel's best legal judgment and is not binding on the Puerto Rico Treasury Department, any municipality or agency of Puerto Rico, the United States Internal Revenue Service or the courts. Accordingly, there can be no assurance that the opinions set forth herein, if challenged, will be sustained.

This discussion deals only with the Series L Bonds, held by a holder who purchases the Series L Bonds upon initial issuance and holds them as capital assets within the meaning of section 1121 of the Puerto Rico Internal Revenue Code of 1994, as amended (the "PR Code"), and Section 1221 of the Code (i.e., generally property held for investment).

This discussion does not intend to describe all of the tax considerations that may be relevant to a particular investor in light of that person's particular circumstances and does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than Puerto Rico and the United States.

Prospective purchasers of the Series L Bonds should consult their tax advisors as to the application to their particular situation of tax considerations discussed below, as well as the application of any state, local, foreign or other tax.

Puerto Rico Taxation for the Series L Bonds

The following discussion does not intend to cover all aspects of Puerto Rico taxation that may be relevant to a purchaser of the Series L Bonds in light of the purchaser's particular circumstances, or to purchasers subject to special rules of taxation, such as life insurance companies, "Special Partnerships", "Subchapter N Corporations", registered investment companies, and certain pension trusts.

For purposes of the discussion below, "a Puerto Rico corporation" is a corporation organized under the laws of Puerto Rico and "foreign corporation" is a corporation organized under the laws of a jurisdiction other than Puerto Rico.

Tax Treatment of Interest on the Series L Bonds

Interest on the Series L Bonds is exempt from Puerto Rico income and withholding taxes, including the alternative minimum tax imposed by the PR Code, pursuant to the Enabling Act, and Sections 1022 (b)(4)(A) and 1018(b)(2) of the PR Code.

The PR Code does not provide rules with respect to the treatment of the excess of the amount due at maturity of a bond with an initial offering price to the public lower than the amount due at maturity over such initial offering price (the "Discount Amount"). Under the current administrative practice followed by the Puerto Rico Department of the Treasury, the Discount Amount is treated as interest.

Prospective owners of the Series L Bonds, including but not limited to financial institutions, should be aware that ownership of the Series L Bonds may result in having a portion of their interest expenses and other expenses allocable to interest or original issue discount and any gain on the sale or exchange of the Series L Bonds disallowed as deductions for purposes of computing the regular tax and the alternative minimum tax for Puerto Rico income tax purposes.

Taxation of Gain Upon Sales or Exchanges of the Series L Bonds Other Than Redemptions

General. Any gain on the sale or exchange of the Series L Bonds, other than a redemption, prior to maturity may give rise to gain or loss equal to the difference between the selling price of the Series L Bonds and the adjusted tax basis of such Series L Bonds in the hands of the holder. Any gain or loss that is required to be recognized will be a capital gain or loss if such Series L Bonds are held as a capital asset by the holder and will be a long-term capital gain or loss if the holder's holding period of such Series L Bonds exceeds six months.

Individual Residents of Puerto Rico and Puerto Rico Corporations. Any gain on the sale or exchange of the Series L Bonds, other than a redemption, by an individual resident of Puerto Rico or a Puerto Rico corporation will generally be required to be recognized as gross income and will be subject to income tax. The capital gain realized will be considered a gain on the sale or exchange of property located in Puerto Rico, eligible to be taxed in Puerto Rico at the 10% tax rate in the case of Puerto Rico resident individuals or the 12.5% tax rate in the case of Puerto Rico corporations, if the holder's holding period of such Series L Bonds exceeds six months.

United States Citizens not Residents of Puerto Rico. A United States citizen who is not a resident of Puerto Rico will not be subject to Puerto Rico income tax on the sale or exchange of the Series L Bonds if the gain resulting therefrom constitutes income from sources outside Puerto Rico. Generally, gain on the sale or exchange of such Series L Bonds will be considered to be income from sources outside Puerto Rico if all rights, title and interest in or to the Series L Bonds are transferred outside Puerto Rico, and if the delivery or surrender of such Series L Bonds is made to an office of a paying or exchange agent located outside Puerto Rico. If the gain resulting from the sale or exchange constitutes income from sources within Puerto Rico, it will be subject to tax at a maximum rate of 10% if the gain constitutes a long-term capital gain.

Individuals not Citizens of the United States and not Residents of Puerto Rico. An individual who is not a citizen of the United States and who is not a resident of Puerto Rico will be subject to the rules described above under "United States Citizens not Residents of Puerto Rico." However, if the capital gain resulting from the sale or exchange of its Series L Bonds constitutes income from sources within Puerto Rico, the individual will generally be subject to tax on this gain at a rate of 29%.

Foreign Corporations. A foreign corporation that is engaged in a trade or business in Puerto Rico will generally be subject to Puerto Rico corporate income tax on any gain realized on the sale or exchange of its Series L Bonds if the gain is (1) from sources within Puerto Rico, or (2) from sources outside Puerto Rico and effectively connected with a trade or business in Puerto Rico. Any such capital gain will qualify for an alternative tax of 12.5% if it qualifies as a long-term capital gain.

In general, a holder of the Series L Bonds which is a foreign corporation that is engaged in a trade or business in Puerto Rico will also be subject to a 10% branch profits tax. In the computation of this tax, any gain realized by the corporation on the sale or exchange of its Series L Bonds that is subject to Puerto Rico income tax will be taken into account.

A foreign corporation that is not engaged in a trade or business in Puerto Rico will generally be subject to a corporate income tax rate of 29% on any capital gain realized on the sale or exchange of its Series L Bonds if the gain is from sources within Puerto Rico. In the case of such foreign corporation, no income tax will be imposed if the gain constitutes income from sources outside Puerto Rico. Gain on the sale or exchange of its Series L Bonds will generally not be considered to be from sources within Puerto Rico if all rights, title and interest in or to such Series L Bonds are transferred outside Puerto Rico, and if the delivery or surrender of such Series L Bonds is made to an office of a paying or exchange agent located outside Puerto Rico.

Partnerships. Partnerships are generally taxed as corporations. Accordingly, the discussion with respect to Puerto Rico and foreign corporations is equally applicable to most Puerto Rico and foreign partnerships.

Other Tax Considerations of Ownership of the Series L Bonds. The Series L Bonds will be considered an obligation qualifying for the non-recognition of gain rules of Section 1112(f)(2)(A) of the PR Code applicable to certain involuntary conversions.

Interest on the Series L Bonds constitutes "industrial development income" under Section 2(j) of the Puerto Rico Industrial Incentives Act of 1963, the Puerto Rico Industrial Incentives Act of 1978, the Puerto Rico Industrial Incentives Act of 1987, and the Puerto Rico Industrial Incentives Act of 1998, each as amended (collectively, the "Acts"), when received by a holder of a grant of tax exemption issued under any of the Acts that acquired the Series L Bonds with "eligible funds", as such term is defined in the Acts.

The Series L Bonds are exempt from property taxes imposed by the Municipal Property Tax Act of 1991, as amended, and interest thereon is exempt from the municipal license tax imposed by the Municipal License Tax Act of 1974, as amended.

United States Taxation for the Series L Bonds

The following discussion is limited to the United States federal tax consequences of the ownership and disposition of the Series L Bonds by Puerto Rico U.S. Holders, as defined below, and corporations organized under the laws of Puerto Rico (Puerto Rico corporations) who purchase the Series L Bonds upon initial issuance.

As used herein, the term “U.S. Holder” means a beneficial owner of the Series L Bonds that is, for United States federal income tax purposes:

- a citizen or resident of the United States;
- a corporation organized under the laws of a state of the United States;
- a corporation organized under the laws of the United States or of any political subdivision thereof;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over its administration and one or more United States citizens or residents, or a corporation or partnership organized under the laws of the United States, or any of its states has the authority to control all substantial decisions of the trust, or a trust that was in existence on August 20, 1996 and validly elected to be treated as a domestic trust.

The discussion does not address all tax consequences that may be applicable to a U.S. Holder (including alternative minimum tax consequences, if any) that is a beneficial owner of the Series L Bonds, nor does it address the tax consequences to:

- persons that are not Puerto Rico U.S. Holders;
- persons to whom special treatment may be applied under United States federal income tax law, such as banks, insurance companies, thrift institutions, regulated investment companies, real estate investment trust, tax-exempt organizations, traders in securities that elect to mark to market and dealers in securities or currencies;
- persons that will hold the Series L Bonds as part of a position in a “straddle” or as part of a “hedging,” “conversion” or other integrated investment transaction for United States federal income tax purposes;
- persons whose functional currency is not the United States dollar; or
- persons that do not hold the Series L Bonds as capital assets.

As used herein, the term “Puerto Rico U.S. Holder” means an individual U.S. Holder who is a bona fide resident of Puerto Rico during the entire taxable year (or, in certain cases, a portion thereof). The term “Puerto Rico U.S. Holder” does not include individuals, residents of Puerto Rico, who are not citizens or residents of the United States nor does it include Puerto Rico corporations.

Taxation of Interest Paid or Accrued on the Series L Bonds and of Gain Upon Sales or Exchanges of the Series L Bonds

Under the current source of income rules of the Code, the interest payments or accruals on the Series L Bonds will be considered Puerto Rico source income. Interest on the Series L Bonds is not excludable from gross income of the recipient thereof for federal income tax purposes under Section 103(a) of the Code.

Puerto Rico U.S. Holders. Interest paid or accrued on the Series L Bonds to a Puerto Rico U.S. Holder that constitutes gross income from sources within Puerto Rico, subject to the rules described above under “Taxation of Interest Paid or Accrued on the Series L Bonds — General” above, will not be includable in the Puerto Rico U.S. Holder’s gross income for income tax purposes, and no deduction or credit will be allowed that is allocable to or chargeable against amounts so excluded from the Puerto Rico U.S. Holder’s gross income.

A person that is subject to income tax under the Code on its worldwide income will generally be subject to federal income tax on any gain realized upon the sale or exchange of the Series L Bonds. However, pursuant to Notice 89-40 issued by the United States Internal Revenue Service on March 27, 1989, gain on the sale or exchange of the Series L Bonds by an individual who is a *bona fide* resident of Puerto Rico during the entire taxable year will constitute Puerto Rico source income and, therefore, qualify for the exclusion provided in Section 933(1) of the Code, provided such Series L Bonds do not constitute inventory in the hands of such individual

Puerto Rico Corporations. In general and subject to the rules described above under "Taxation of Interest Paid or Accrued on the Series L Bonds — General," interest paid or accrued on the Series L Bonds to a Puerto Rico corporation will not be subject to United States income tax if the interest is not effectively connected with a United States trade or business of the Puerto Rico corporation. The Code provides special rules for Puerto Rico corporations that are "Controlled Foreign Corporations," "Personal Holding Companies," "Foreign Personal Holding Companies," or "Passive Foreign Investment Companies."

Estate and Gift Taxation. The transfer of the Series L Bonds by inheritance or gift by an individual who was domiciled in Puerto Rico at the time of his or her death or at the time of the gift will not be subject to U.S. federal estate and gift tax if the individual was a citizen of the United States who acquired his or her citizenship solely by reason of his or her Puerto Rico citizenship, birth or residence in Puerto Rico. Other individuals should consult their tax advisors in order to determine the appropriate treatment for U.S. federal estate and gift tax purposes of the transfer of the Series L Bonds by death or gift.

The opinion of Special Tax Counsel regarding the tax consequences under Puerto Rico law and the Code arising from ownership of, receipt or accrual of interest on, or disposition of the Series L Bonds is limited to the above.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Verification Agent will verify, from the information provided to it, the mathematical accuracy as of the date of the closing of the Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the securities listed in such schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements of the Refunded Bonds and Refunded Interest, and (ii) the computations of yield on both the securities and the Bonds contained in such schedules used by Bond Counsel in its determination that interest on the Series K Bonds is excluded from gross income for federal income tax purposes. See *Plan of Financing*. The Verification Agent will express no opinion on the assumptions provided to it, nor as to the exclusion from gross income for Federal or Puerto Rico income tax purposes of the interest on the Bonds.

UNDERWRITING

The Underwriters, represented by UBS Financial Services Inc., have jointly and severally agreed, subject to certain conditions, to purchase the Series K Bonds from the Authority at an aggregate discount of \$1,510,454.42 from the initial offering prices of such bonds set forth or derived from information set forth on the inside cover page hereof. UBS Financial Services Incorporated of Puerto Rico has agreed, subject to certain conditions, to purchase the Series L Bonds from the Authority at an aggregate discount of \$51,145.15 from the initial offering price of such bonds set forth or derived from information set forth on the inside cover page hereof. The obligations of the Underwriters are subject to certain conditions precedent, and they will be obligated to purchase all the Bonds which they have contracted to purchase if any such Bonds are so purchased. The Bonds may be offered and sold to certain dealers (including dealers depositing Bonds into investment trusts) and institutional purchasers at prices lower than such public offering prices, and such offering prices may be changed, from time to time, by the Underwriters.

Lehman Brothers, Inc. ("Lehman"), a managing underwriter, has entered into a written agreement with Santander Securities Corporation ("Santander") pursuant to which Santander has agreed to act as consultant to Lehman in connection with the provisions of underwriting and investment banking services to the Authority with respect to the Bonds. Pursuant to this agreement, the existence of which has been disclosed to the Authority and Government Development Bank, Santander will be entitled to receive a portion of Lehman's actual net profits, if

any, in connection with the underwriting of the Bonds. Other similar agreements with respect to the sharing of underwriting net profits have been entered into and disclosed to the Authority and Government Development Bank by the following Underwriters: Merrill Lynch, Pierce, Fenner & Smith Incorporated and BBVA Capital Markets of Puerto Rico, Inc.; Banc of America Securities LLC and Oriental Financial Services Corporation; Goldman, Sachs & Co. and FirstBank Puerto Rico; J.P. Morgan Securities Inc. and R-G Investments Corporation; Morgan Stanley & Co. Incorporated and Popular Securities, Inc.; and Wachovia Bank, National Association and Doral Securities, Inc.

LEGAL INVESTMENT

The Bonds will be eligible for deposit by banks in the Commonwealth to secure public funds and will be approved investments for insurance companies to qualify them to do business in the Commonwealth, as required by law.

LEGAL MATTERS

The proposed form of opinions of Sidley Austin Brown & Wood LLP, New York, New York, Bond Counsel, is set forth in *Appendix I* to this Official Statement. The proposed form of opinion of Fiddler González & Rodríguez, P.S.C., San Juan, Puerto Rico, Special Tax Counsel for the Series L Bonds, is set forth in *Appendix II* to this Official Statement. Certain legal matters will be passed upon for the Underwriters and UBS Financial Services Incorporated of Puerto Rico by their counsel, Fiddler González & Rodríguez, PSC, San Juan, Puerto Rico.

INDEPENDENT ACCOUNTANTS

The financial statements as of June 30, 2003 of the Authority are incorporated by reference to this Official Statement. Said financial statements were audited by RSM ROC & Company, certified independent accountants, as set forth in its report therein.

RATINGS

The Bonds have been assigned ratings of “Baa1” by Moody’s and of “A-” by Standard & Poor’s. These ratings do not reflect the Bond Insurance Policies. Moody’s and Standard & Poor’s are expected to give the Insured Bonds ratings of “Aaa” and “AAA,” respectively, based on the expected issuance by the Bond Insurers of their Bond Insurance Policies. The ratings reflect only the respective opinions of such rating agencies and an explanation of the significance of such ratings may be obtained only from the respective rating agency.

Such rating agencies were provided with materials relating to the Authority, the Commonwealth, the 1995 Bond Resolution, the Bonds and other relevant information. No application has been made to any other rating agency for the purpose of obtaining a rating on the Bonds.

There is no assurance that any ratings obtained will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market prices of the Bonds.

CONTINUING DISCLOSURE

In accordance with the requirements of Rule 15c2-12, as amended (the “Rule”), promulgated by the SEC, the Commonwealth and the Authority have covenanted to the following for the benefit of the Beneficial Owners (as defined in the 1995 Bond Resolution and generally the tax owners of the Bonds):

1. The Commonwealth has agreed to file within 305 days after the end of each fiscal year commencing with the fiscal year ending June 30, 2004, with each NRMSIR and with any Commonwealth state information depository (“SID”), core financial information and operating data for the prior fiscal year, including (i) the Commonwealth’s audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data (including financial information and operating data) on the Commonwealth and its revenues, expenditures, financial operations and indebtedness, in each case incorporated by reference in this Official Statement;

2. The Authority has agreed to file within 305 days after the end of each fiscal year beginning after its fiscal year ending June 30, 2004, with each NRMSIR and with any Commonwealth SID, the Authority's audited financial statements for the prior fiscal year prepared in accordance with generally accepted accounting principles in effect from time to time; and

3. The Authority will agree to file in a timely manner, with each NRMSIR or with the MSRB, and with any Commonwealth SID, notice of failure of the Commonwealth to comply with clause 1 above and of the Authority to comply with clause 2 above and notice of any of the following events with respect to the Bonds, if material:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse opinions or events affecting the exclusion from gross income for Federal income tax purposes of interest on the Bonds;
- (g) modifications to rights of security holders;
- (h) bond calls;
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds; and
- (k) rating changes.

Event (c) and (e) are included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers, dated September 19, 1995. However, events (c) and (e) may not be applicable, since the terms of the Bonds do not provide for "debt service reserves" or "liquidity providers." In addition, with respect to the following events:

Events (d) and (e). The Authority does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Bonds, unless the Authority applies for or participates in obtaining the enhancement.

Event (f). For information on the tax status of the Bonds, see *Tax Matters*.

Event (h). The Authority does not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms, dates and amounts of redemption are set forth in detail in this Official Statement in "Redemption Provisions" under *Description of the Bonds*, the only other issue is which Bonds will be redeemed in the case of a partial redemption, notice of redemption is given to the Bondholders as required under the terms of the Bonds, and public notice of the redemption is given pursuant to Exchange Act Release No. 34-23856 of the SEC, even if the originally scheduled amounts are reduced by prior optional redemptions or Bond purchases.

The Commonwealth expects to provide the information described in clause 1(ii) above by delivering its first bond official statement that includes its financial statements for the preceding fiscal year or, if no such official statement is issued by the 305-day deadline, by delivering its Comprehensive Annual Financial Report by such deadline.

The Commonwealth has made similar continuing disclosure covenants in connection with prior bond issuances, and has complied with all such covenants, except hereinafter noted. The Commonwealth's audited financial statements for the fiscal year ended June 30, 2002 were filed after the Commonwealth's filing deadline of May 1, 2003, because of delays in finalizing such financial statements resulting from the implementation of Government Accounting Standards Board Statement No. 34 ("GASB 34"). The Commonwealth's audited financial statements for the fiscal year ended June 30, 2003 were not filed on or prior to the Commonwealth's filing deadline of April 30, 2004, because of delays in finalizing the financial statements of certain of the Commonwealth's

reporting units due to the implementation of GASB 34. The Commonwealth expects such financial statements will be available and filed during the second calendar quarter of 2004.

As of the date of this Official Statement, there is no Commonwealth SID, and the NRMSIRs are: Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; Standard & Poor's Securities Evaluations, Inc., 55 Water Street, 45th Floor, New York, New York 10041; FT Interactive Data, Attn: NRMSIR, 100 William Street, New York, New York 10038; and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024.

The Authority may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of the Authority, such other events are material with respect to the Bonds, but the Authority does not undertake to provide any such notice of the occurrence of any material event except those events listed above.

The Commonwealth and the Authority acknowledge that their respective undertakings pursuant to the Rule described above are intended to be for the benefit of the Beneficial Owners of the Bonds, and shall be enforceable by any such Beneficial Owners; provided that the right to enforce the provisions of its undertaking shall be limited to a right to obtain specific performance of the Authority's or the Commonwealth's obligations hereunder.

No Beneficial Owner may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the foregoing covenants (the "Covenants") or for any remedy for breach thereof, unless such Beneficial Owner shall have filed with the Authority and the Commonwealth written notice of any request to cure such breach, and the Authority or the Commonwealth, as applicable, shall have refused to comply within a reasonable time. All Proceedings shall be instituted only in a Commonwealth court located in the Municipality of San Juan, for the equal benefit of all Beneficial Owners of the outstanding Bonds benefited by the Covenants, and no remedy shall be sought or granted other than specific performance of the Covenant at issue. Moreover, Proceedings filed by Beneficial Owners against the Commonwealth may be subject to the sovereign immunity provisions of Section 2 of Act No. 104, approved June 29, 1955, as amended (32 L.P.R.A. §3077 and §3077a), which governs the scope of legal actions against the Commonwealth, substantially limits the amount of monetary damages that may be awarded against the Commonwealth and provides certain notice provisions, the failure to comply with which may further limit any recovery.

The Covenants may only be amended if:

(1) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority or the Commonwealth, or type of business conducted; the Covenants, as amended, would have complied with the requirements of the Rule at the time of award of the Bonds, after taking into account any amendments or change in circumstances; and the amendment does not materially impair the interest of Beneficial Owners, as determined by parties unaffiliated with the Authority or the Commonwealth; or

(2) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the adoption of such Rule, ceases to be in effect for any reason, and the Authority or the Commonwealth, as applicable, elects that the Covenants shall be deemed amended accordingly.

The Authority and the Commonwealth have further agreed that the annual financial information containing any amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

Any assertion of beneficial ownership must be filed, with full documentary support, as part of the written request described above.

These Covenants have been made in order to assist the Underwriters in complying with the Rule.

MISCELLANEOUS

The foregoing references to and summaries of certain provisions of the 1995 Bond Resolution, the Lease Agreements with respect to the facilities that are to be financed or refinanced in whole or in part by the Bonds, the various Acts and the Bonds are made subject to all the detailed provisions thereof, to which reference is hereby made for further information, and do not purport to be complete statements of any or all of such provisions. Appended to, and constituting a part of, this Official Statement are the proposed form of opinions of Sidley Austin Brown & Wood, LLP, Bond Counsel (*Appendix I*), the proposed form of opinion of Fiddler González & Rodríguez, P.S.C., Special Tax Counsel (*Appendix II*), a specimen of the MBIA Insurance Policy (*Appendix III*), and a specimen of FSA Insurance Policy (*Appendix IV*).

The information set forth in *Provisions Relating to Public Debt of the Commonwealth* and in the Commonwealth Report was supplied by certain officials of the Commonwealth or certain of its agencies or instrumentalities, in their respective official capacities, or was obtained from publications of the Commonwealth or certain of its agencies or instrumentalities, and is included or incorporated by reference in this Official Statement on the authority of such officials or the authority of such publications as public official documents, respectively. The information set forth in this Official Statement, except the information appearing in *Provisions Relating to Public Debt of the Commonwealth*, *Underwriting* and "Book Entry Only System" under *Description of the Bonds*, was supplied by the Executive Director of the Authority in her official capacity as such Executive Director and is included in this Official Statement on her authority. The information pertaining to DTC was supplied by DTC.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

This Official Statement will be filed with each NRMSIR and with the MSRB.

PUERTO RICO PUBLIC BUILDINGS AUTHORITY

By: /s/ Lillian Rivera Correa
Executive Director

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June __, 2004

PUERTO RICO PUBLIC BUILDINGS AUTHORITY
San Juan, Puerto Rico

Gentlemen:

We have examined Act No. 56 of the Legislature of Puerto Rico, approved June 19, 1958, as amended (hereinafter called the "Enabling Act"), creating Public Buildings Authority (the "Authority") as a body corporate and politic constituting an instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth") exercising public and essential governmental functions. We have also examined Act No. 17 of the Legislature of Puerto Rico, approved April 11, 1968, as amended (hereinafter called the "Guaranty Act"), providing for the guaranty by the Commonwealth of the payment of the principal of and interest on a principal amount of bonds outstanding at any one time of the Authority, not exceeding \$3,325,000,000, specified by the Authority to be covered by such guaranty, to the extent that the revenues and other moneys of the Authority pledged to the payment of such principal and interest are not sufficient for that purpose.

We have also examined certified copies of the proceedings of the Authority, including Resolution No. 468, adopted on June 22, 1995, as supplemented (said Resolution No. 468, as supplemented, being hereinafter called the "Bond Resolution"), and other proofs submitted relative to the authorization, sale and issuance of the following described bonds (the "Bonds"):

\$347,065,000

**PUBLIC BUILDINGS AUTHORITY
GOVERNMENT FACILITIES REVENUE REFUNDING BONDS, SERIES K
GUARANTEED BY THE COMMONWEALTH OF PUERTO RICO**

Dated: Date of Delivery.

Issued in such denominations, transferable and exchangeable, dated, bearing interest at such rates and payable on such dates, maturing on July 1 of the years and in such principal amounts, and subject to redemption and tender for purchase, all as set forth in the resolution of the Authority authorizing the issuance of the Bonds.

We have also examined one of the Bonds as executed and authenticated.

From such examination we are of the opinion that:

1. The Enabling Act is valid.
2. The Guaranty Act is valid.
3. Said proceedings have been validly and legally taken.

4. The Bonds have been duly authorized and issued to provide funds to refund certain of the Authority's outstanding Puerto Rico Public Buildings Authority Government Facilities Revenue and Revenue Refunding Bonds set forth in said resolution authorizing the issuance of the Bonds. The Bonds are valid and binding obligations of the Authority payable solely from the special fund created by the Bond Resolution and designated "Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds Sinking Fund" (the "Sinking Fund") or from moneys provided by the Commonwealth under its guaranty of payment of the principal of and interest on the Bonds. The Authority has covenanted to deposit to the credit of the Sinking Fund a sufficient amount of the rentals received by the Authority from the leasing of government facilities financed or refinanced by the Authority under the provisions of the Bond Resolution to pay the principal of and the redemption premium, if any, and the interest on all bonds issued under the provisions of the Bond Resolution (including the Bonds) as the same shall become due, which Fund is pledged to and charged with the payment of such principal, premium, if any, and interest.

5. The Authority has properly specified the Bonds to be covered by the guaranty of the Commonwealth under the Guaranty Act.

6. The good faith and credit of the Commonwealth are pledged for the payment of any amounts required to be paid by the Commonwealth pursuant to said guaranty.

7. The Bond Resolution provides for the issuance, from time to time, under the conditions, limitations and restrictions therein set forth, of additional bonds for the purpose of paying all or a part of the cost of government facilities and improvements of such facilities and refunding any bonds issued by the Authority under the provisions of the Bond Resolution, under the provisions of Resolution No. 77, adopted by the Authority on November 16, 1970, as amended, or under the provisions of Resolution No. 158, adopted by the Authority on February 14, 1978, as amended.

8. Under the provisions of the Acts of Congress now in force and under existing regulations, rulings and judicial decisions, (i) subject to compliance with the covenant referred to below and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States, if required, interest on the Bonds is not includable in gross income for federal income tax purposes and (ii) the Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. No opinion is rendered on the effect of any action taken or not taken after the date of

this opinion without our approval (except for such action or omission to act as is otherwise provided for in the documents pertaining to the Bonds) or in reliance upon advice of counsel other than ourselves on the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

Interest on the Bonds is not an item of tax preference for the purpose of the federal alternative minimum tax on individuals and corporations. Interest on the Bonds, however, will be includable in the computation of the alternative minimum tax on corporations imposed by the Code. The Code contains other provisions that could result in tax consequences, upon which we express no opinion, as a result of (a) ownership of the Bonds or (b) the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of interest that is excluded from gross income.

The Authority has covenanted to comply, to the extent permitted by the Constitution and laws of the Commonwealth, with the requirements of the Code so that interest on the Bonds will remain exempt from federal income taxes to which it is not subject on the date of issuance of the Bonds. We are not aware of any provisions of the Constitution or laws of the Commonwealth of Puerto Rico which would prevent the Authority from complying with the requirements of the Code.

Respectfully submitted,

[To be signed, "Sidley Austin Brown & Wood LLP"]

SIDLEY AUSTIN BROWN & WOOD LLP

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June __, 2004

PUERTO RICO PUBLIC BUILDINGS AUTHORITY
San Juan, Puerto Rico

Gentlemen:

We have examined Act No. 56 of the Legislature of Puerto Rico, approved June 19, 1958, as amended (hereinafter called the "Enabling Act"), creating Public Buildings Authority (the "Authority") as a body corporate and politic constituting an instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth") exercising public and essential governmental functions. We have also examined Act No. 17 of the Legislature of Puerto Rico, approved April 11, 1968, as amended (hereinafter called the "Guaranty Act"), providing for the guaranty by the Commonwealth of the payment of the principal of and interest on a principal amount of bonds outstanding at any one time of the Authority, not exceeding \$3,325,000,000, specified by the Authority to be covered by such guaranty, to the extent that the revenues and other moneys of the Authority pledged to the payment of such principal and interest are not sufficient for that purpose.

We have also examined certified copies of the proceedings of the Authority, including Resolution No. 468, adopted on June 22, 1995, as supplemented (said Resolution No. 468, as supplemented, being hereinafter called the "Bond Resolution"), and other proofs submitted relative to the authorization, sale and issuance of the following described bonds (the "Bonds"):

\$6,795,000

**PUBLIC BUILDINGS AUTHORITY
GOVERNMENT FACILITIES REVENUE BONDS, SERIES L
GUARANTEED BY THE COMMONWEALTH OF PUERTO RICO**

Dated: Date of Delivery.

Issued in such denominations, transferable and exchangeable, dated, bearing interest at such rates and payable on such dates and maturing on July 1 of the years and in such principal amounts, all as set forth in the resolution of the Authority authorizing the issuance of the Bonds.

We have also examined one of the Bonds as executed and authenticated.

From such examination we are of the opinion that:

1. The Enabling Act is valid.
2. The Guaranty Act is valid.
3. Said proceedings have been validly and legally taken.
4. The Bonds have been duly authorized and issued to pay certain interest that has accrued under a line of credit with Government Development Bank for Puerto Rico used by the Authority to defray a portion of the cost of constructing certain buildings and other facilities to be leased to various departments, agencies, instrumentalities and municipalities of the Commonwealth. The Bonds are valid and binding obligations of the Authority payable solely from the special fund created by the Bond Resolution and designated "Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds Sinking Fund" (the "Sinking Fund") or from moneys provided by the Commonwealth under its guaranty of payment of the principal of and interest on the Bonds. The Authority has covenanted to deposit to the credit of the Sinking Fund a sufficient amount of the rentals received by the Authority from the leasing of government facilities financed or refinanced by the Authority under the provisions of the Bond Resolution to pay the principal of and the redemption premium, if any, and the interest on all bonds issued under the provisions of the Bond Resolution (including the Bonds) as the same shall become due, which Sinking Fund is pledged to and charged with the payment of such principal, premium, if any, and interest.
5. The Authority has properly specified the Bonds to be covered by the guaranty of the Commonwealth under the Guaranty Act.
6. The good faith and credit of the Commonwealth are pledged for the payment of any amounts required to be paid by the Commonwealth pursuant to said guaranty.
7. The Bond Resolution provides for the issuance, from time to time, under the conditions, limitations and restrictions therein set forth, of additional bonds for the purpose of paying all or a part of the cost of government facilities and improvements of such facilities and refunding any bonds issued by the Authority under the provisions of the Bond Resolution, under the provisions of Resolution No. 77, adopted by the Authority on November 16, 1970, as amended, or under the provisions of Resolution No. 158, adopted by the Authority on February 14, 1978, as amended.
8. Under the provisions of the Acts of Congress now in force, the Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation.

Respectfully submitted,

[To be signed, "Sidley Austin Brown & Wood LLP"]

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[Proposed form of opinion of Special Tax Counsel]

FIDDLER GONZALEZ & RODRIGUEZ, PSC

ATTORNEYS AND COUNSELORS AT LAW

P.O. BOX 363507

SAN JUAN, PR 00936-3507

June __, 2004

Puerto Rico Public Buildings Authority
San Juan, Puerto Rico

Gentlemen:

In connection with the issuance on the date hereof by the Puerto Rico Buildings Authority of its Government Facilities Revenue Bonds, Series L (the "Series L Bonds"), you have requested our opinion with respect to the treatment for Puerto Rico tax purposes and United States federal income tax of the ownership and disposition of the Series L Bonds.

We have examined Act No. 59 of the Legislature of Puerto Rico, approved on June 19, 1958, as amended (the "Act"), creating the Puerto Rico Public Buildings Authority (the "Authority"), and under Resolution No. 468, adopted by the Authority on June 22, 1995, as amended. The Authority is a body corporate and politic constituting a public corporation and governmental instrumentality of Commonwealth of Puerto Rico exercising public and essential governmental functions.

From such an examination, we are of the opinion that:

1. Interest on the Series L Bonds is (i) excluded from the gross income of the recipient thereof for Puerto Rico income tax purposes pursuant to Section 1022(b)(4)(B) of the Puerto Rico Internal Revenue Code of 1994, as amended (the "PR Code"); (ii) exempt from Puerto Rico income tax and alternative minimum tax pursuant to Section 1022(b)(4)(B) of the PR Code, Article 8 of the Act, and Section 3 of the Puerto Rican Federal Relations Act (the "PRFRA"); and (iii) exempt from Puerto Rico municipal license tax pursuant to Section 9(25) of the Puerto Rico Municipal License Tax Act of 1974, as amended, and Section 3 of the PRFRA.

2. The Series L Bonds are exempt from Puerto Rico personal property tax pursuant to Article 3.11 of the Puerto Rico Municipal Property Tax Act of 1991, as amended, and Section 3 of the PRFRA.
3. The Series L Bonds are exempt from Puerto Rico (i) gift tax with respect to donors who are residents of Puerto Rico at the time the gift is made and (ii) estate tax with respect to estates of decedents who are residents of Puerto Rico at the time of death, excluding in each case United States citizens who acquired their United States citizenship other than by reason of birth or residence in Puerto Rico.
4. The Series L Bonds will be considered an obligation of an instrumentality of Puerto Rico for purposes of the non-recognition of gain rules of Section 1112(f)(2)(A) of the PR Code applicable to certain involuntary conversions.
5. Interest on the Series L Bonds constitutes “industrial development income” under Section 2(j) of the Puerto Rico Industrial Incentives Act of 1963, the Puerto Rico Industrial Incentives Act of 1978, the Puerto Rico Tax Incentives Act of 1987, and the Puerto Rico Tax Incentives Act of 1998, as each amended (collectively, the “Acts”), when received by a holder of a grant of tax exemption issued under any of the Acts that acquired the Series L Bonds with “eligible funds,” as such term is defined in the Acts.
6. The PR Code does not provide rules with respect to the treatment of the excess of the amount due at maturity of a bond over its initial offering price (“original issue discount” and, in the case of the capital appreciation bonds, the “Accretion Amount”). Under current administrative practice followed by the Puerto Rico Treasury Department, original issue discount and the Accretion Amount are treated as interest.
7. Ownership of the Series L Bonds may result in having a portion of the interest expense and other expenses allocable to interest or original issue discount on the Series L Bonds disallowed for purposes of computing the regular tax and the alternative minimum tax for Puerto Rico income tax purposes.
8. Interest received or accrued, or “original issue discount” (within the meaning of the United States Internal Revenue Code of 1986, as amended (the “Code”) “OID”), on the Series L Bonds is excludable from gross income pursuant to Section 933(1) of the Code if the holder of the Series L Bonds is an individual who is a bona fide resident of Puerto Rico during the entire taxable year in which the interest is received or accrued.
9. Interest received or accrued, or OID, on the Series L Bonds is not subject to United States federal income tax if the holder of the Series L Bonds is a corporation organized under the laws of Puerto Rico or any foreign country and such interest is not effectively connected with the conduct of a trade or business in the United States by such corporation, such corporation is not a foreign personal holding company, a controlled foreign corporation or a passive foreign investment company under the Code, and such corporation is not treated as a domestic corporation for the purposes of the Code.

10. Interest on the Series L Bonds is not excluded from the gross income of the recipient thereof for United States federal income tax purposes under Section 103(a) of the Code.

11. United States taxpayers, other than individuals who are bona fide residents of Puerto Rico during the entire taxable year, will be subject to United States federal income tax on gain realized upon the sale or exchange of the Series L Bonds. Pursuant to Notice 89-40, 1989-1 CB 681, gain on the sale of the Series L Bonds (not including original issue discount accruing under the Code as of the date of such sale or exchange) by an individual who is a bona fide resident of Puerto Rico for purposes of Section 865(g)(1) of the Code will constitute income from sources within Puerto Rico and will qualify for the exclusion provided in Section 933(1) of the Code, provided that the Series L Bonds do not constitute inventory property in such individual's hands.

This opinion is limited to the above, and we express no other opinion regarding Puerto Rico or United States tax consequences arising from ownership or disposition of the Bonds.

This letter is furnished by us solely for the benefit of the Authority and the holders from time to time of the Series L Bonds and may not be relied upon by any other person.

We hereby consent to the inclusion of this opinion as *Appendix II* to the official statement. We further consent to the reference made to us under the captions "Summary-Tax Consequences," "Taxation" and "Legal Matters" in the official statement.

Respectfully submitted,

[To be signed, "Fiddler González & Rodríguez, PSC"]

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

COUNTERSIGNED:

MBIA Insurance Corporation

Resident Liquidating Agent

Resident

City, State

Attest:

Assistant Secretary

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the decision of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 pm (New York time) on such Business Day; otherwise it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any applicable coupon to the Bond or right to receipt of payment of principal or of interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security) to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Counter signature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)