

MASTER AGREEMENT OF TRUST

between

PUERTO RICO

AQUEDUCT AND SEWER AUTHORITY

and

BANCO POPULAR DE PUERTO RICO,

as Trustee

Dated as of March 1, 2008

(as supplemented by the First Supplemental Agreement, dated as of March 1, 2008 and the Second Supplemental Agreement, dated as of January 17, 2012)

as Amended and Restated as of February 15, 2012

CONFORMED COPY AS OF NOVEMBER 23, 2020

(as supplemented and amended by (i) the Third Supplemental Agreement of Trust, dated as of February 15, 2012, (ii) the Fourth Supplemental Agreement of Trust, dated as of May 29, 2015, (iii) the Fifth Supplemental Agreement of Trust, dated as of September 15, 2015, (iv) First Amendment to Fifth Supplemental Agreement of Trust, dated as of November 30, 2015, (v) Sixth Supplemental Agreement of Trust, dated as of April 19, 2016, and (vi) Seventh Supplemental Agreement of Trust, dated as of July 26, 2019)



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THIS MASTER AGREEMENT OF TRUST, dated as of the 1st day of March, 2008, as Amended and Restated as of February 15, 2012 by and between Puerto Rico Aqueduct and Sewer Authority (the "Authority") a public corporation and an autonomous governmental instrumentality of the Commonwealth of Puerto Rico, exercising essential governmental functions and created by the Aqueduct and Sewer Act of Puerto Rico hereinafter mentioned, and Banco Popular de Puerto Rico, as trustee (in such capacity, together with any successor in such capacity, herein called the "Trustee"), provides:

WHEREAS, in order to furnish the inhabitants of Puerto Rico an adequate water and sewerage service, the Legislature of Puerto Rico duly adopted Act No. 40, approved May 1, 1945, and by said Act created a governmental instrumentality of the Commonwealth of Puerto Rico by the name of the "Puerto Rico Aqueduct and Sewer Service"; and

WHEREAS, the Legislature of Puerto Rico duly adopted Act No. 163, approved May 3, 1949, known as the "Aqueduct and Sewer Act of Puerto Rico", amending and reenacting said Act No. 40, approved May 1, 1945, and changing the name of the Puerto Rico Aqueduct and Sewer Service to "Puerto Rico Aqueduct and Sewer Authority" (said Act No. 163, as amended, hereinafter called the "Act") and by the Act, the Authority is fully authorized and empowered:

(a) to have complete control and supervision of its properties and activities, including the power to make and enforce rules and regulations for the maintenance and operation thereof;

(b) to improve and extend the water and sewer facilities under its jurisdiction and to provide additional facilities of the same character;

(c) to borrow money and to issue its revenue bonds for any of its corporate purposes, including the following:

(i) to pay all or any part of the cost, as defined in the Act, of improvements to the Commonwealth Water System and to the Commonwealth Sewer System, as said systems are defined in the Act, as separate systems or as a single system for operating and financing purposes;

(ii) to fund, refund, purchase, pay or discharge any outstanding revenue bonds; and

(iii) to pay all proper costs of the Authority in connection with the issuance of the revenue bonds;

(d) to determine, fix, alter, charge or collect rates, fees, rentals, and other charges for the use of the facilities of the Authority, or for the water and sewerage services or other products or services sold, rendered or furnished by it; and

(e) to pledge all or any part of the revenues of the Authority to secure the payment of such revenue bonds; and

WHEREAS, the Authority has heretofore entered into a Trust Agreement, dated as of the first day of October, 1988, as amended, by and between the Authority and The Chase Manhattan Bank (National Association), as trustee (the "1988A Trust Agreement") under which there have heretofore been issued revenue bonds of the Authority in the initial aggregate principal amount of \$400,001,438.40 for the purpose of paying a portion of the cost of the acquisition and construction of the Authority's Systems (as defined in the 1988A Trust Agreement), of which revenue bonds \$365,186,438.40 is currently outstanding (the "1988A Bonds"); and

WHEREAS, the Authority has heretofore entered into a Trust Agreement, dated November 13, 1988, by and between the Authority and Banco Popular de Puerto Rico, as fiscal agent (the "1988AA Trust Agreement") under which there have heretofore been issued revenue refunding bonds of the Authority in the initial aggregate principal amount of \$29,810,800 for the purpose of refinancing certain obligations incurred by the Authority to pay a portion of the cost of the acquisition and construction of the Systems, of which revenue bonds \$14,049,810.00 is currently outstanding (the "1988AA Bonds"); and

WHEREAS, the Authority on December 7, 1995 adopted Resolution No. 1583 (the "Original Guaranteed Resolution") under which there have heretofore been issued revenue bonds of the Authority in the initial aggregate principal amount of \$400,340,000 (the "1995 Bonds") for the purpose of refunding the 1988A Bonds and the 1988AA Bonds;

WHEREAS, on March 7, 2008, the Authority amended and restated the Original Guaranteed Resolution (the "Amended and Restated Guaranteed Resolution"), under which the Authority expects to issue two additional series of revenue refunding bonds (the "2008 Guaranteed Bonds") for the purpose of refunding the 1995 Bonds;

WHEREAS, by virtue of Act No. 45 of the Legislature of Puerto Rico, approved July 28, 1994, the Legislature of Puerto Rico provided for the guaranty by the Commonwealth of Puerto Rico for the payment of the principal of and premium, if any, and interest on the 1988A Bonds and the 1988AA Bonds and any bonds or other obligations that may be issued by the Authority to refinance such bonds (collectively, the "guaranteed bonds") to the extent the revenues, income or any other available funds of the Authority pledged for the payment of the principal of and premium, if any, and interest on the guaranteed bonds are insufficient to pay such principal, premium, if any, and interest when due or to maintain a reserve for such purpose, the bonds covered by such guaranty to be those specified by the Authority and containing a statement of such guaranty; and

WHEREAS, the Authority has determined to provide for the issuance of bonds of the Authority to refund the 1995 Bonds and for other lawful purposes of the Authority, said bonds to be payable from the Authority Revenues (as hereinafter defined) of the Authority, subject and subordinate to the prior payment of the Bonds and Other System Indebtedness (each as hereinafter defined), and from moneys paid or advanced by the Secretary of the Treasury pursuant to said Act No. 45; now, therefore, and

WHEREAS, the Authority has determined to enter into this Agreement of trust to enable the Authority to issue revenue bonds and incur other indebtedness to finance or refinance its capital



improvement requirements over time and to this end has determined to enter into this Agreement; and

WHEREAS, the Authority has determined that the revenue bonds to be issued under this Agreement and the certificate of authentication by the Trustee shall be, respectively, in substantially the forms attached as Exhibit A hereto, with such variations, omissions and insertions as are required or permitted by this Agreement; and

WHEREAS, by virtue of the Act, the Authority is authorized to issue its revenue bonds and incur other indebtedness as hereinafter provided, to enter into this Agreement and to do or cause to be done all of the acts and things herein provided or required to be done as hereinafter covenanted; and

WHEREAS, the execution and delivery of this Agreement have been duly authorized by a resolution of the governing board of the Authority; and

WHEREAS, all acts, conditions and things required by the Puerto Rican Federal Relations Act and the Constitution and laws of Puerto Rico, including the Act, and the rules and regulations of the Authority to happen, exist and be performed precedent to and in the execution and delivery of this Agreement, have happened, exist and have been performed as so required, in order to make this Agreement a valid, binding and legal trust agreement for the security of the bonds in accordance with its terms; and

WHEREAS, the Trustee has accepted the trusts created by this Agreement and in evidence thereof has joined in the execution hereof;

NOW, THEREFORE, THIS AGREEMENT WITNESSETH, that in consideration of the premises, of the acceptance by the Trustee of the trusts hereby created, and of the purchase and acceptance of each Series of Bonds issued hereunder, by the holders thereof, and for the purpose of fixing and declaring the general terms and conditions upon which the Bonds issued hereunder, are to be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become holders thereof, and to secure the payment of each Series of Bonds issued hereunder, at any time issued and Outstanding hereunder and the interest and premium, if any, thereon according to their tenor, purport and effect, and to grant certain rights to the applicable holders of Indebtedness and Enhancement Facility Providers, if any, and to secure the performance and observance of all of the covenants, agreements and conditions contained in such Indebtedness or Enhancement Facilities, the Authority has executed this Agreement and does hereby grant a security interest in, assign, transfer, pledge and grant and convey unto the Trustee and its successors and assigns forever, on the terms set forth herein, for the benefit of the holders of said Indebtedness and Enhancement Facility Providers, if any, until said Indebtedness and applicable Enhancement Facilities are no longer outstanding and no amounts are due under the related documents, the following property:

(a) Amounts on deposit from time to time, and any investment earnings thereon, in the Operating Revenue Fund, the Senior Bond Fund, the Senior Debt Service Reserve Fund, the Senior Subordinate Bond Fund, the Senior Subordinate Debt Service Reserve Fund, the Subordinate Bond Fund, the Subordinate Debt Service Reserve Fund, the Current Expense Fund, the Commonwealth Payments Fund, the Operating Reserve Fund, the Capital Improvement Fund, the Surplus Fund and in any other funds and accounts created pursuant hereto (other than any fund established for the purpose of setting aside moneys to be paid to the United States Treasury in satisfaction of any rebate obligations imposed by federal law), including the earnings thereon, subject to the provisions of this Agreement permitting the application thereof for the purposes and on the terms and conditions set forth herein;

(b) Amounts constituting Authority Revenues pledged pursuant to Sections 2.11, 2.12, 2.13 and 2.14; provided, however, that any Authority Revenues received from the Commonwealth of Puerto Rico on account of Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations are not subject to the lien hereof and shall only be used for the purposes set forth in Section 5.12 hereof;

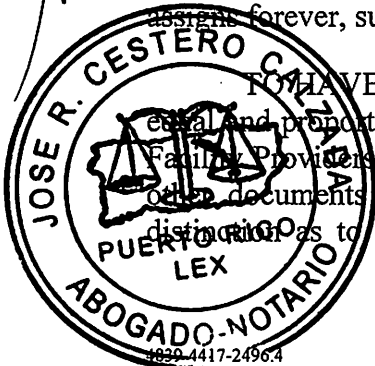
(c) Any and all other property of any kind from time to time hereafter by delivery or by writing of any kind specifically conveyed, pledged, assigned or transferred, as and for additional security hereunder for the Indebtedness, by the Authority or by anyone on its behalf or with its written consent in favor of the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof; and

(d) All right, title and interest of the Authority owned or hereafter acquired in and to proceeds from the sale of Bonds issued hereunder required to be deposited in the Construction Fund pursuant to the provisions of this Agreement (except as limited by the following provisos) and all right, title, and interest in and to the investments held in the Construction Fund (except as limited by the following provisos) pursuant to the provisions of this Agreement; provided, however, that the Authority may establish one or more separate accounts in the Construction Fund to be funded with proceeds of any particular Series of Bonds, which accounts and the proceeds of the particular Series of Bonds deposited therein (together with all investments thereof and investment income earned thereon) may be pledged solely to the payment of one or more designated Series of Bonds for any designated periods, or otherwise, all as permitted in Section 4.02 hereof and as shall be more fully provided in any Supplemental Agreement with respect to the proceeds of the Series of Bonds issued thereunder;

TO HAVE AND TO HOLD all said properties pledged, assigned and conveyed by the Authority hereunder, including all additional property which by the terms hereof has or may become subject to the encumbrance hereof, unto the Trustee and its successors in trust and its ^{assignees} forever, subject, however, to the rights reserved hereunder;

TO HAVE AND TO HOLD IN TRUST upon the terms and trusts herein set forth for the ^{equal and proportionate} benefit, security and protection of all Holders and related Enhancement Facility Providers from time to time of all Senior Indebtedness issued hereunder or issued under ^{other documents} and secured by the lien of this Agreement, without privilege, priority or ^{distinction} as to lien or otherwise of any of the Senior Indebtedness over any other Senior

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Indebtedness, except as otherwise provided herein, and on a basis subordinate and junior thereto, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all Holders and related Enhancement Facility Providers, from time to time of all Senior Subordinate Indebtedness and Subordinate Indebtedness, issued hereunder or issued under other documents and secured by the lien of this Agreement, without privilege, priority or distinction as to lien or otherwise of any of the Senior Subordinate Indebtedness and Subordinate Indebtedness over any of the others except as otherwise provided herein;

TO HAVE AND TO HOLD IN TRUST upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all Holders and related Enhancement Facility Providers from time to time of all Senior Subordinate Indebtedness issued hereunder or issued under other documents and secured by the lien of this Agreement, without privilege, priority or distinction as to lien or otherwise of any of the Senior Subordinate Indebtedness over any other Senior Subordinate Indebtedness, except as otherwise provided herein;

TO HAVE AND TO HOLD IN TRUST, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all Holders and related Enhancement Facility Providers from time to time of all Subordinated Indebtedness issued hereunder or issued under other documents and secured by the lien of this Agreement without privilege, priority or distinction as to lien or otherwise of any of the Subordinate Indebtedness over any other Subordinate Indebtedness;

PROVIDED, HOWEVER, that if the Authority shall pay fully and promptly when due all liabilities, obligations and sums at any time secured hereby or provide for the payment thereof in accordance with the provisions hereof, and shall promptly, faithfully and strictly keep, perform and observe, or cause to be kept, performed and observed, all of its covenants, warranties and agreements contained herein and in the related documents, then and in such event, this Agreement shall be and become void and of no further force and effect; otherwise, the same shall remain in full force and effect, and upon the trusts and subject to the covenants and conditions hereafter set forth.

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.02 Definitions.

The following words as used in this Agreement shall have the following meanings unless a different meaning clearly appears from the context:

“**Accreted Value**” shall mean, as of any date of computation with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Bond plus the interest accrued on such Bond from the date of original issuance of such Bond to the periodic date specified in the Supplemental Agreement authorizing such Capital Appreciation Bond on which interest on such Bond is to be compounded (hereinafter, a “Periodic Compounding Date”) next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Capital Appreciation Bonds set forth

in the Supplemental Agreement authorizing such Bonds, compounded periodically on each Periodic Compounding Date. Plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Accreted Value as of the immediately preceding Periodic Compounding Date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Accreted Value as of the immediately succeeding Periodic Compounding Date, calculated based upon an assumption that, unless otherwise provided in the Supplemental Agreement authorizing such Capital Appreciation Bonds, Accreted Value accrues in equal daily amounts on the basis of a year consisting of twelve 30-day months.

“**Account**” shall mean any of the Accounts established under this Agreement.

“**Agreement**” shall mean this Master Agreement of Trust, as supplemented or amended by one or more Supplemental Agreements.

“**Annual Budget**” shall mean the budget by that name referred to in Section 7.02.

“**Annual Debt Service**” shall mean for any Indebtedness (without duplication) the total payments required to be made for principal of and interest on such Indebtedness, including mandatory sinking fund redemptions, and payments to reimburse Enhancement Facility Providers with respect to such Indebtedness scheduled to come or coming due within a specified Fiscal Year, but excluding any capitalized interest funded from proceeds of Indebtedness. For purposes of calculating such principal and interest, the following assumptions are to be used:

(a) In determining the principal due in a Fiscal Year, payment shall be assumed to be made in accordance with the amortization schedule then in effect for such Indebtedness (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization), including any scheduled redemption of such specified Indebtedness at its then Accreted Value and, for such purpose, the redemption payment shall be deemed a principal payment;

(b) For Tender Indebtedness, the options or obligations of the holders of such Indebtedness to tender the same for purchase or payment prior to their stated maturity or maturities shall be treated as principal on the first date on which such holders may or are required to tender such Indebtedness, except that any such option or obligation shall not be treated as principal if such Indebtedness is rated in at least one of the three highest long-term rating categories or in the two highest short-term rating categories (without regard to any gradations in such categories) by a Rating Agency;

(c) For purposes of computing the Rate Covenant only, if Variable Rate Indebtedness has been outstanding for any period prior to the date of calculation, interest on such Indebtedness shall be calculated using the higher of (i) the average rate or rates which were assumed by the Authority in its Annual Budget corresponding to the period for which such Rate Covenant computation is being made, and (ii) the actual weighted average rate or rates borne by such Indebtedness during such period; provided, however, that if a Hedge Agreement is in effect which provides that the Authority is to pay to the Qualified Counterparty an amount determined with reference to a fixed rate of interest on a notional amount equal to the principal of such



Indebtedness, for purposes of determining the Annual Debt Service on such Variable Rate Indebtedness, it will be deemed to bear interest at such fixed rate of interest or such stated rate in accordance with such Hedge Agreement;

(d) For purposes of determining whether Bonds may be issued in compliance with the respective tests set forth in Sections 2.16, 2.17 or 2.18, the rate of interest to be borne by Variable Rate Indebtedness will be deemed to be 120% of the rate quoted in an index generally accepted in the securities industry for securities having ratings and maturity or tender dates comparable to that of the applicable Variable Rate Indebtedness as of the date of issuance thereof; provided, however, that if a Hedge Agreement is in effect which provides that the Authority is to pay to the Qualified Counterparty an amount determined with reference to a fixed rate of interest on a notional amount equal to the principal of such Indebtedness for purposes of determining the Annual Debt Service on such Variable Rate Indebtedness, it will be deemed to bear interest at such fixed rate of interest in accordance with such Hedge Agreement; and provided, further, however, that interest on such Indebtedness that is the subject of a Qualified Swap shall be deemed to be 120% of the higher of (i) the average rate or rates which were assumed by the Authority in its Annual Budget corresponding to the period for which such Rate Covenant computation is being made, and (ii) the actual weighted average rate or rates borne by such Indebtedness during such period;

(e) For purposes of determining the Debt Service Reserve Requirement, if any, attributable to Variable Rate Indebtedness, the rate of interest to be borne by such Variable Rate Indebtedness will be deemed to be 120% of the rate quoted as of its date of issuance in an index generally accepted in the securities industry for securities having ratings and maturity or tender dates comparable to that of such Indebtedness and in no event will Qualified Swaps be considered;

(f) For purposes of determining the annual amount payable in respect of Bond Anticipation Notes and any other Indebtedness designated by the Authority as a Refundable Principal Installment, such Indebtedness that is or would be a Refundable Principal Installment shall be treated on the date of calculation as if (i) from the date of issuance thereof the principal amount of such Indebtedness had been payable as part of equal annual installments of principal and interest over a period extending from the due date thereof through the 30th anniversary of the issue date of such Indebtedness and (ii) interest accrued at a rate equal to the rate quoted in the 30-year revenue bond index, or if different, the revenue bond index most closely related to the term of the Indebtedness, as applicable, published in *The Bond Buyer* no more than two weeks prior to the date of calculation, or if that index is no longer published, another similar index selected by the Authority;

(g) The Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall be included in the calculation of Annual Debt Service at the times and in the manner provided in subsection (a) of Section 2.19;

(h) Any interest paid or to be paid from a Crossover Escrow Account on Crossover Refunding Bonds and any principal of and premium to be paid from such Escrow Account on Crossover Refunded Bonds shall be excluded from the calculation of Annual Debt Service;

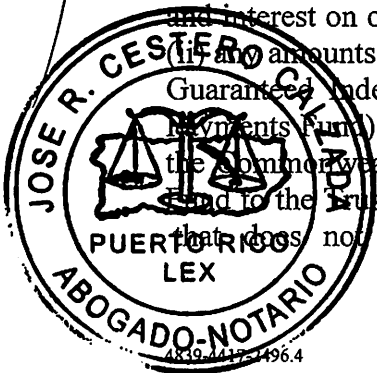
(i) For any Indebtedness for which a binding commitment, letter of credit or other credit arrangement providing for the extension of such Indebtedness beyond its original maturity date exists, the computation of the Annual Debt Service payable on such Indebtedness shall, at the option of the Authority, be made on the assumption that such Indebtedness will amortize in accordance with such credit arrangement, as long as such credit arrangement is rated in one of the three highest long-term rating categories or in the highest short term rating category (without regard to any gradations within such categories) by a Rating Agency; and

(j) For purposes of computing the Rate Covenant and whether Bonds may be issued in compliance with respective tests set forth in Sections 2.16, 2.17 or 2.18, any termination payment due under a Qualified Swap or Hedge Agreement shall be included in the calculation of Annual Debt Service (assuming such amount will amortize as required under the applicable Qualified Swap or Hedge Agreement) to the extent such payment is not paid from the proceeds of Bonds or Other System Indebtedness.

“Appreciated Value” shall mean, with respect to any Deferred Income Bond, (i) as of any date of computation prior to the Current Interest Commencement Date, an amount equal to the principal amount of such Bond plus the interest accrued on such Bond from its date of original issuance to the Periodic Compounding Date next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Deferred Income Bonds set forth in the Supplemental Agreement authorizing such Bonds, compounded periodically on each Periodic Compounding Date as in such Agreement provided, plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Appreciated Value as of the immediately preceding Periodic Compounding Date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Appreciated Value as of the immediately succeeding Periodic Compounding Date, calculated based upon an assumption that, unless otherwise provided in the Supplemental Agreement authorizing such Deferred Income Bonds, Appreciated Value accrues in equal daily amounts on the basis of a year consisting of twelve 30-day months and (ii) as of any date of computation on and after the Current Interest Commencement Date, the Appreciated Value on the Current Interest Commencement Date.

“Authority” shall mean Puerto Rico Aqueduct and Sewer Authority, a public corporation and an autonomous governmental instrumentality of the Commonwealth of Puerto Rico created by the Act.

“Authority Revenues” shall mean Operating Revenues plus (i) any governmental grants or appropriations available to pay Current Expenses of the Authority, including grants or appropriations received by the Authority and specifically made for the payments of principal of and interest on obligations of the Authority or for reimbursing the Authority for such payments, (ii) any amounts received from the Commonwealth of Puerto Rico on account of Commonwealth Guaranteed Indebtedness (which is required to be deposited directly in the Commonwealth Payments Fund) or Commonwealth Supported Obligations (which is required to be deposited in the Commonwealth Payments Fund), (iii) any amounts transferred from the Budgetary Reserve Fund to the Trustee and (iv) any amounts received by the Authority from any source of funding that does not otherwise constitute Authority Revenues as reimbursement for Costs of



Improvements paid by the Authority in the current or the immediately preceding three fiscal years from Operating Revenues.

“Authorized Representative of the Authority” shall mean such person or persons as may be designated to act on behalf of the Authority by the Board.

“Beneficiaries” shall mean Bondholders, holders of Other System Indebtedness, Enhancement Facility Providers and the counterparties on any Qualified Swap or Hedge Agreement.

“Board” shall mean the Governing Board of the Authority as constituted from time to time pursuant to the Act, or, if said Board shall be abolished, the board, body or officer succeeding to the principal functions thereof or to whom the powers of the Authority shall be given by law.

“Bond Anticipation Notes” shall mean any obligations issued in anticipation of the issuance of Bonds.

“Bond Counsel” shall mean an attorney or firm of attorneys nationally recognized on the subject of municipal bonds.

“Bondholder” or **“Holder”** shall mean, as to Bonds, the person in whose name a Bond is registered and, as to Indebtedness other than Bonds, the lender or other entity to which the Authority is obligated with respect to such Indebtedness.

“Bond Insurance Policy” shall mean each financial guaranty insurance policy insuring the scheduled payment of principal and interest on a Series of Bonds.

“Bonds” shall mean any bonds, notes or other obligations issued from time to time pursuant to Article III, including Senior Bonds, Senior Subordinate Bonds, Subordinate Bonds or Bond Anticipation Notes, but not including Other System Indebtedness, Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations.

“Budgetary Reserve Fund” shall mean the Budgetary Reserve Fund maintained by Government Development Bank for Puerto Rico in trust for the Authority, pursuant to the amended and restated Fiscal Oversight and Support Agreement, dated as of February 15, 2012, by and among the Authority, the Commonwealth of Puerto Rico and Government Development Bank for Puerto Rico.

“Business Day” shall mean a day on which banking business is transacted, but not including a Saturday, Sunday or legal holiday, or a day on which banking institutions are authorized by law to close in the city in which the Trustee has its principal corporate trust office or in the Commonwealth of Puerto Rico.

“Calculation Date” shall have the meaning set forth in Section 2.19(a).

“Capital Appreciation Bonds” shall mean any Bonds issued under this Agreement as to which interest is (i) compounded on the periodic compounding dates that are specified in the

Supplemental Agreement authorizing such Capital Appreciation Bonds and (ii) payable only at maturity, earlier redemption or other payment thereof pursuant to this Agreement or such Supplemental Agreement.

“Capitalized Interest Account” shall mean the Capitalized Interest Account established in Section 5.01.

“Capital Improvement Fund” shall mean the Capital Improvement Fund established in Section 5.01.

“Capital Improvement Fund Requirement” shall mean for each Fiscal Year, an amount equal to the greater of (i) the amount set forth in the Annual Budget for such Fiscal Year and (ii) the amount recommended by the Consulting Engineer.

“Code” shall mean the Internal Revenue Code of 1986, as amended, including applicable regulations, rulings and revenue procedures promulgated or applicable thereunder.

“Commonwealth Guaranteed Indebtedness” shall mean any obligations of the Authority that are designated as Commonwealth Guaranteed Indebtedness by the Authority and are guaranteed by the Commonwealth of Puerto Rico, including but not limited to the Authority’s Puerto Rico Aqueduct and Sewer Authority Revenue Refunding Bonds, Series 2008 but shall not include any loans from the United States Department of Agriculture, Rural Development, Rural Utilities Service or obligations of the Authority to the Puerto Rico Infrastructure Financing Authority evidencing revolving loans pursuant to the Puerto Rico Water Pollution Control and Drinking Water Treatment Revolving Funds or any loans granted by the Commonwealth Revolving Funds under the provisions of the Federal Clean Water Act of 1972, as amended and the Federal Safe Drinking Water Act of 1996, as amended.

“Commonwealth Payments Fund” shall mean the Commonwealth Payments Fund established in Section 5.01.

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“Commonwealth Supported Obligations” shall mean the note of the Authority, dated June 28, 2004, relating to the construction of the North Coast Superaqueduct.

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“Consent” shall have the meaning set forth in Section 13.01(a).

“Construction” or **“construction”** shall mean construction, acquisition, renovation, repair, renewal, replacement and expansion or any combination of the foregoing.

“Construction Fund” shall mean the Construction Fund established in Sections 4.01 and 5.01.

“Consultant” shall mean any qualified and experienced firm or corporation retained by or on behalf of the Authority to perform the acts and duties required of a Consultant under the provisions of this Agreement, which may be, without limitation, a firm of independent certified public accountants, the Consulting Engineer or an independent insurance consultant, and which may include governmental or nongovernmental entities, acceptable to the Consulting Engineer or



other Consultants depending on their skill and expertise for the specific acts and duties they are to perform under the provisions of this Agreement.

“Consulting Engineer” shall mean any qualified and experienced engineering firm or corporation retained by the Authority to perform the acts and duties required of the Consulting Engineer under the provisions of this Agreement.

“Cost of Improvements” shall mean the cost of construction of Improvements, including the cost of all labor, materials, machinery and equipment, the cost of all lands, structures, real or personal property, rights, rights-of-way, roads, easements, franchises and interest acquired or used for, or in connection with the Authority, any termination payments payable under any Qualified Swap or Hedge Agreements, the cost of engineering and legal services, the cost of preliminary surveys, plans and specifications, payments with respect to litigation, expenses of administration properly chargeable to such construction, legal, architectural and engineering expenses and fees, the cost of audits, the fees and expenses of Consultants, financing charges, taxes or other governmental charges lawfully assessed during construction, claims arising in connection with construction, premiums on insurance in connection with construction, interest on the Indebtedness or other obligations of the Authority issued to finance Costs of Improvements, during and for a reasonable period after completion of the acquisition, construction, reconstruction, repair, improvement or equipping of the Improvement; the annual fees for any Enhancement Facility and tender agent fees and fees payable for remarketing Indebtedness during such period as may be specified in the resolution of the Board or the Supplemental Agreement authorizing the issuance of such Bonds and all other items of expense not elsewhere in this definition specified, incident to the financing or construction of any Improvements and the placing of the same in operation.

“Cost of Issuance Account” shall mean the Cost of Issuance Account established in Section 5.01.

“Costs of Issuance” means the items of cost or expense incurred in connection with the authorization, sale and issuance of Indebtedness, which items of expenses shall include, but not be limited to, document printing, reproduction and execution and delivery costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee or a Qualified Depository, legal fees and charges, professional consultants’ fees, fees and charges for execution, authentication, transportation and safekeeping of Bonds, premiums, fees and charges for insurance on Bonds, commitment fees or similar charges relating to an Enhancement Facility, a Qualified Swap or a Hedge Agreement, costs and expenses in connection with the refunding of Indebtedness or other obligations of the Authority, costs and expenses incurred pursuant to a remarketing agreement and other costs, charges and fees, including those of the Authority, in connection with the foregoing.

“Crossover Amount” shall mean the amount of money and Defeasance Obligations on deposit in a Crossover Escrow Account and which, together with investment income thereon, are held as provided in the definition of “Crossover Refunded Bond.”

“Crossover Date” shall mean the date on which the Crossover Amount on deposit in a Crossover Escrow Account shall be used to retire all Outstanding Crossover Refunded Bonds for which such Crossover Escrow Account was established.

“Crossover Escrow Account” shall mean an escrow account in which a Crossover Amount is deposited.

“Crossover Escrow Deposit Agreement” shall mean an escrow deposit or similar agreement under which a Crossover Escrow Account is created and administered.

“Crossover Refunded Bond” shall mean any Indebtedness deemed to be refunded from the proceeds of Crossover Refunding Bonds. Any Indebtedness shall be deemed to have been refunded from the proceeds of Crossover Refunding Bonds and shall be deemed to be Crossover Refunded Bonds if the Trustee shall have received and shall hold in the applicable Crossover Escrow Account in trust therefor and irrevocably committed thereto.

(a) moneys, together with any amounts described in paragraph (b) below, sufficient, or

(b) Defeasance Obligations, which shall not contain provisions permitting the redemption thereof at the option of the issuer, the principal of and interest on which when due, and without any reinvestment thereof, will provide moneys, together with any amounts described in paragraph (a) above, sufficient:

(i) for the payment of all principal of and premium, if any, on such Crossover Refunded Bonds as the same become due, whether at their maturity or redemption dates or otherwise, as the case may be, or if a default in payment shall have occurred on any maturity or redemption date, then for the payment of all principal of and premium on such Crossover Refunded Bonds to the date of the tender of payment; provided, that if any of those Crossover Refunded Bonds are to be redeemed prior to the maturity thereof, notice of that redemption shall have been duly given or irrevocable provision shall have been duly made for the giving of that notice, and

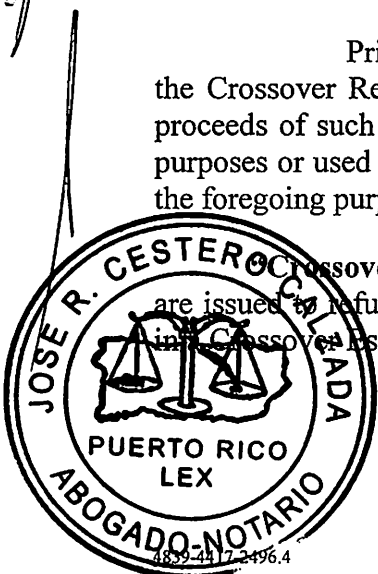
(ii) for the payment of interest (in whole or in part) on such Crossover Refunding Bonds.

Prior to the Crossover Date, the Crossover Amount may be pledged as security for the Crossover Refunding Bonds, such Crossover Refunded Bonds, or both. The moneys and proceeds of such Defeasance Obligations shall, to the extent needed, be used for the foregoing purposes or used to reimburse an Enhancement Facility Provider for amounts advanced by it for the foregoing purposes.

“Crossover Refunding” shall mean a transaction in which Crossover Refunding Bonds are issued to refund Crossover Refunded Bonds and in which a Crossover Amount is deposited in a Crossover Escrow Account.

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“Crossover Refunding Bonds” shall mean Bonds, to the extent that any proceeds from the sale thereof shall, upon deposit in a Crossover Escrow Account, constitute a Crossover Amount.

“Current Expenses” shall mean the reasonable and necessary current expenses, incurred by the Authority in the ordinary course of business, of maintaining, repairing and operating the properties constituting the Systems or causing said maintenance, repair and operation, which expenses shall exclude depreciation, reserves for allowances for doubtful accounts and other non-cash reserves or expenses. For purposes of Section 7.01 and the Annual Budget required by Section 7.02, Current Expenses will be calculated on an accrual basis. For all other purposes of this Agreement, Current Expenses will be calculated on a cash basis. Notwithstanding any accounting treatment to the contrary, the amount of any termination or similar payment under any interest rate swap or similar hedge agreement shall, if payable by the Authority, not be taken into account in computing Current Expenses to the extent the same is paid by or on behalf of the Authority from the proceeds of any Indebtedness.

“Current Expense Fund” shall mean the Current Expense Fund established in Section 5.01.

“Current Interest Commencement Date” shall mean, with respect to any particular Deferred Income Bonds, the date specified in the Supplemental Agreement authorizing such Deferred Income Bonds (which date must be prior to the maturity date for such Deferred Income Bonds) after which interest accruing on such Deferred Income Bonds shall be payable periodically on dates specified in such Supplemental Agreement with the first such payment date being the first such periodic date immediately succeeding such Current Interest Commencement Date.

“Debt Service Reserve Facility” shall mean (i) any irrevocable, unconditional letter of credit issued by a bank or savings and loan association whose long-term uncollateralized debt obligations are rated in one of the two highest long-term rating categories (without regard to any gradations within such categories) by each Rating Agency, and (ii) any insurance policy providing substantially equivalent liquidity as an instrument described in clause (i) and which is issued by a municipal bond or other insurance company, the obligations insured by which are rated in one of the two highest long-term rating categories (without regard to any gradations within such categories) by each Rating Agency and which is used, to the extent permitted hereunder, to fund all or a portion of the applicable Debt Service Reserve Requirement, provided that (x) the term of the Debt Service Reserve Facility is at least 36 months, (y) the only condition to a drawing under the Debt Service Reserve Facility is insufficient amounts in the applicable fund or account held by the Trustee to which such Facility relates when needed to pay debt service on the applicable Bonds or the expiration of such Facility and (z) the provider of the Debt Service Reserve Facility shall notify the Authority and the Trustee at least 24 months prior to the expiration of such Facility.

“Debt Service Reserve Requirement” shall mean with respect to each Account within the Senior Debt Service Reserve Fund, the Senior Subordinate Debt Service Reserve Fund or the Subordinate Debt Service Reserve Fund, as applicable, as of any particular date of computation an amount equal to (i) the amount set forth in the Supplemental Agreement authorizing the

issuance of a particular Series of Bonds, or (ii) if not otherwise specified in a Supplemental Agreement authorizing the issuance of a particular Series of Bonds, the lesser of (x) maximum Annual Debt Service on the Outstanding Bonds secured by such Account, payable in any Fiscal Year for the related Bonds, (y) ten percent (10%) of the proceeds of the Outstanding Bonds secured by such Account calculated in accordance the Code and (z) 125% of the average Annual Debt Service for the payment of the principal of and interest on the Outstanding Bonds secured by such Account.

“Deferred Income Bonds” shall mean any Bonds as to which interest accruing prior to the Current Interest Commencement Date is (i) compounded periodically on the dates specified in the Supplemental Agreement authorizing such Deferred Income Bonds and (ii) payable only at redemption or other payment thereof pursuant to such Supplemental Agreement.

“Defeasance Obligations” shall mean any non-callable and non-prepayable obligations described in clauses (a), (b) or (c) of the definition of Investment Obligations.

“Deposit Date” shall mean the last Business Day of each month.

“Disbursement Schedule” shall mean the schedule by that name referred to in Section 7.02.

“Enhancement Facility” shall mean any letter of credit, standby purchase agreement, line of credit, policy of bond insurance, surety bond, guarantee or similar instrument, or any other agreement, securing, providing liquidity for, supporting or enhancing outstanding Indebtedness, including any Bond Insurance Policy, Debt Service Reserve Facility, Operating Reserve Facility or any combination of the foregoing, or any agreement relating to the reimbursement thereof, whether or not such instrument or agreement has been drawn upon, obtained by the Authority.

“Enhancement Facility Provider” shall mean the provider or issuer of any Enhancement Facility.

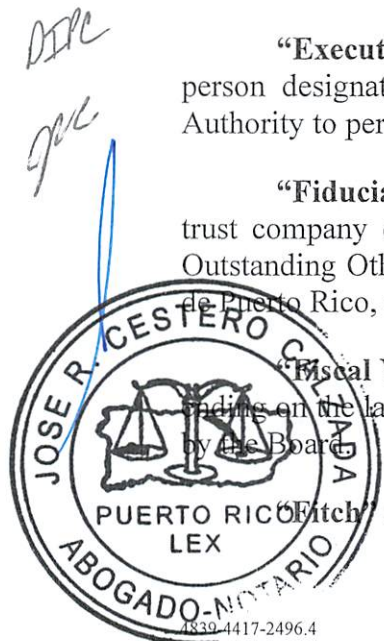
“Event of Default” shall mean any of the events enumerated in Section 8.01.

“Executive President” shall mean the Executive President of the Authority or any other person designated by the Board or by the Authority’s legislation or by the bylaws of the Authority to perform the functions of the Executive President.

“Fiduciary” shall mean (i) the Trustee, (ii) a Qualified Depository or any other bank or trust company designated as trustee, fiscal agent, administrative agent or other fiduciary for Outstanding Other System Indebtedness and (iii) with respect to the Term Loan, Banco Popular de Puerto Rico, as administrative agent.

“Fiscal Year” shall mean the period commencing on the first day of July of any year and ending on the last day of June of the following year or any other twelve month period designated by the Board.

“Fitch” shall mean Fitch Ratings, New York, New York, or its successors or assigns.



“Government Certificates” shall mean certificates or other instruments representing proportionate ownership of Government Obligations, which Government Obligations are held by a bank or trust company organized under the laws of the United States of America or any of its states or territories in the capacity of custodian of such certificates or instruments.

“Government Obligations” shall mean (i) direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America; (ii) Government Certificates, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on the underlying obligations described in said clause (i) and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated; and (iii) evidences of ownership of proportionate interests in future interest or principal payments on obligations specified in clauses (i) and (ii) above held by a bank (including the Trustee) or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the underlying obligations described in said clauses (i) and (ii) and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated.

“Guaranty Act” shall mean Act No. 45 of the Legislature of Puerto Rico, approved July 28, 1994, as amended.

“Hedge Agreement” shall mean an interest rate swap or other hedging agreement, arrangement or security however denominated, with or guaranteed by a Qualified Counterparty and expressly identified pursuant to its terms as being entered into in connection with and in order to hedge interest rate fluctuations on all or a portion of any Bonds where (i) interest on such Indebtedness or such portion of such Indebtedness is payable at a variable rate of interest for any future period of time or is calculated at a varying rate per annum, and (ii) a fixed rate is specified as payable by the Authority in such agreement, or such Indebtedness, taken together with such agreement, results in a net fixed rate payable by the Authority for such period of time (the “Hedge Fixed Rate”), assuming the Authority and the Qualified Counterparty(ies) with whom the Authority has entered into the agreement make all payments required to be made by the terms of the agreement. If the required rating of a Qualified Counterparty is lowered below the minimum rating level specified herein for such Qualified Counterparty and collateral has not been posted as required by such Hedge Agreement, such Hedge Agreement shall no longer constitute a “Hedge Agreement” hereunder.

“Improvements” shall mean such betterments, renewals and replacements of the Systems or any part thereof, and such additions and extensions thereto, as may be necessary or desirable to keep the same in proper condition for the safe, efficient and economic operation thereof and for the interconnection thereof where feasible to integrate into the Systems any unit or part thereof, and shall include such water and sewer projects as may be authorized to be constructed or acquired under the provisions of the Act, and such betterments, renewals and replacements of such properties and such additions and extensions thereto as may be necessary or desirable for continuous and efficient service by or on behalf of the Authority to the public.

“Indebtedness” shall mean, collectively, Bonds, Other System Indebtedness, Commonwealth Supported Obligations and Commonwealth Guaranteed Indebtedness.

“Insurance Consultant” shall mean any qualified and experienced firm or corporation retained by the Authority to perform the act and duties of an Insurance Consultant required by the provisions of this Agreement.

“Interest Accrual” shall mean for any period the amount of interest on Indebtedness that would accrue during such period if such interest accrued ratably on the basis of a year consisting of twelve (12) thirty-day months. Unless otherwise provided by resolution of the Authority or a Supplemental Agreement, the monthly accrual in respect of interest on Indebtedness shall commence on the later to occur of the date of issue of the applicable Indebtedness and the date that is six months prior to the due date of such interest and shall end on the first day of the month following the relevant Deposit Date. In the case of Variable Rate Indebtedness (i) other than the Term Loan, the Interest Accrual shall be calculated based on the sum of the interest accrued through the Business Day preceding the relevant Deposit Date and the interest (calculated at the rate on such Indebtedness on the Business Day preceding the Deposit Date plus one percent (1%)) that would accrue on such Indebtedness from the Deposit Date to the later to occur of the first day of the next calendar month and any interest payment date on such Indebtedness occurring prior to the next Deposit Date and (ii) with respect to the Term Loan, the amount accrued during such period as calculated thereunder.

“Interest Payment Date” shall mean each date on which interest on Indebtedness or any portion thereof is scheduled to be due and payable, as provided in the Supplemental Agreement, resolution or other document authorizing the issuance of such Indebtedness.

“Investment Obligations” shall mean any of the following, to the extent that the same is legal for the investment of public funds under the laws of the Commonwealth of Puerto Rico:

- (a) Government Obligations;
 - (b) Obligations issued or guaranteed by any of the following:
 - (i) Federal Home Loan Bank System,
 - (ii) Export-Import Bank of the United States,
 - (iii) Federal Financing Bank,
 - (iv) Government National Mortgage Association,
 - (v) Federal Home Loan Mortgage Company,
 - (vi) Federal Housing Administration,
 - (vii) Private Export Funding Corp.,
 - (viii) Federal National Mortgage Association,
 - (ix) Federal Farm Credit Bank,
 - (x) Resolution Funding Corporation, and
 - (xi) Rural Economic Community Development Administration (formerly, Farmers Home Administration).
- or any indebtedness issued or guaranteed by any instrumentality or agency of the United States;



(c) Refunded municipal obligations rated in the highest long-term rating category by at least one Rating Agency (without regard to any gradations within such category) and meeting the following conditions:

(i) (A) such obligations are not to be redeemed prior to maturity or the trustee therefor has been given irrevocable instructions concerning their call for redemption, and (B) the issuer of such obligations has covenanted not to redeem such obligations other than as set forth in such instructions;

(ii) such obligations are secured by Government Obligations that may be applied only to interest, principal, and premium payments on such obligations;

(iii) the principal of or interest on such Government Obligations (plus any cash held in escrow with respect to such obligations) are sufficient to meet the liabilities of such obligations;

(iv) such Government Obligations are held by an escrow agent or trustee; and

(v) such Government Obligations are not available to satisfy any other claims, including those against said trustee or escrow agent;

(d) Direct and general, long-term obligations of any state of the United States of America, the District of Columbia or the Commonwealth of Puerto Rico (each a "State"), to the payment of which the full faith and credit of such State is pledged and that are rated in any of the three highest long-term rating categories or in the highest short-term rating category (without regard to any gradations within such categories) by at least two Rating Agencies;

(e) Direct and general, short-term obligations of any State, to the payment of which the full faith and credit of such State are pledged and that are rated in either of the two highest short-term rating categories (without regard to any gradations within such categories) by at least two Rating Agencies;

(f) Interest-bearing demand or time deposits with, or interests in money market portfolios issued by, State banks or trust companies, national banking associations or savings and loan associations that are members of the Federal Deposit Insurance Corporation ("FDIC"), including the Trustee or any of its affiliates. Such deposits or interests must be (i) continuously and fully insured by FDIC or (ii) fully secured by Government Obligations or obligations described in clause (b) of this definition ("Clause (b) Securities") or (iii) secured by surety company bonds held by the Trustee which, when executed, shall be for an amount equal to the amount of such interest-bearing demand or time deposits that are not secured by (i) or (ii) above. Such Government Obligations or Clause (b) Securities must have a market value at all times at least equal to the principal amount of the deposits or interests. The Government Obligations or Clause (b) Securities must be held by a third party (who shall not be the provider of the collateral), or by any Federal Reserve Bank or depository, as custodian for the institution issuing the deposits or interests. Such third party shall have a perfected first lien in the Government Obligations or Clause (b) Securities serving as collateral, and such collateral is to be free from all other third party liens;

(g) Repurchase agreements entered into with a Qualified Counterparty. The repurchase agreement shall be in respect of Government Obligations or Clause (b) Securities. The repurchase agreement securities and, to the extent necessary, Government Obligations or Clause (b) Securities, plus accrued interest, shall be maintained in an amount equal to at least 100% of the amount invested in the repurchase agreements. In addition, the provisions of the repurchase agreement shall meet the following additional criteria;

- (A) An Authority designated third party (who shall not be the provider of the collateral selected by the Authority) has possession of the repurchase agreement securities and the Government Obligations or Clause (b) Securities;
- (B) Failure by the repurchase agreement provider to cure any deficiency in the requisite collateral levels within two (2) Business Days will require the person having possession of the securities to liquidate the securities immediately; and
- (C) The repurchase agreement provider represents to grant the person having possession of the securities a perfected, first priority security interest in the securities;

(h) Money market accounts of any state or federal bank, including the Trustee or any of its affiliates, or bank whose holding parent company is rated in any of the three highest long-term rating categories or the highest short-term rating category (without regard to any gradations within such categories) by at least two Rating Agencies;

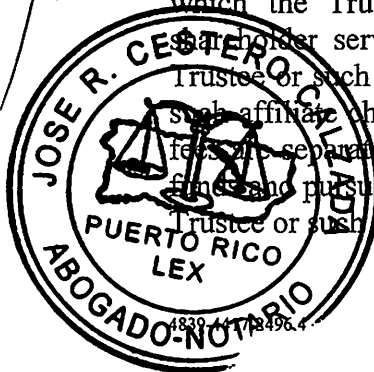
(i) Investment agreements the issuer or guarantor of which is a Qualified Counterparty;

(j) Any debt or fixed income security the issuer of which is rated in any of the three highest long-term rating categories or the highest short-term rating category (without regard to any gradations within such categories) by at least two Rating Agencies;

(k) Demand deposits, including interest-bearing money market accounts trust deposits, time deposits or bankers acceptances (in each case having maturities of not more than 360 days) of a domestic bank (including the Trustee or any of its affiliates), including a branch office of a foreign bank, which branch office is located in the United States, provided that such bank at the time of purchase, has a short-term bank deposit rating of "prime-1" or better by Moody's and a rating of "A-1" or better by Standard & Poor's; and

(l) Money market mutual funds, including, without limitation any mutual fund for which the Trustee or any of its affiliates serves as investment manager, administrator, servicer, or servicer agent, and/or custodian or sub custodian, notwithstanding that (i) the Trustee or such affiliate receives fees from such funds for services rendered, (ii) the Trustee or such affiliate charges and collects fees for services rendered pursuant to this Agreement which fees are separate from the fees received from such funds, and (iii) services performed for such funds pursuant to this Agreement may at times duplicate those provided to such funds by the Trustee or such affiliate.

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“Moody’s” shall mean Moody’s Investors Service, New York, New York, or its successors or assigns.

“1995 Resolution Trustee” shall mean the Fiscal Agent under the Authority’s Resolution No. 1583, adopted December 7, 1995 and as amended and restated as of March 1, 2008.

“Operating Reserve Facility” shall mean any irrevocable, unconditional letter of credit or revolving line of credit issued by (i) Government Development Bank for Puerto Rico or (ii) a bank or savings and loan association whose long-term uncollateralized debt obligations are rated in any of the three highest long-term rating categories or in the two highest short-term rating categories (without regard to any gradations within such categories) by each Rating Agency and which Facility is used, to the extent permitted hereunder, to fund all or a portion of the Operating Reserve Requirement.

“Operating Reserve Fund” shall mean the Operating Reserve Fund established in Section 5.01.

“Operating Reserve Requirement” shall mean \$150,000,000 until March 1, 2013, and thereafter (i) if there is an Operating Reserve Facility on deposit in the Operating Reserve Fund, shall mean for the term of such Operating Reserve Facility (without regard to any renewal provisions contained therein) an amount equal to at least ninety (90) days of Current Expenses determined on the first day of the Fiscal Year in which such Operating Reserve Facility is delivered or renewed as set forth in the Annual Budget for such Fiscal Year or (ii) if funded from Authority Revenues, shall mean an amount equal to not less than ninety (90) days of Current Expenses determined annually based on the Current Expenses relating to the Fiscal Year of such calculation as set forth in the Annual Budget for such Fiscal Year.

“Operating Revenue Fund” shall mean the Operating Revenue Fund established in Section 5.01.

“Operating Revenues” shall mean all moneys received by or on behalf of the Authority, including (i) the moneys derived by or on behalf of the Authority from the sale of water produced, treated or distributed by, or the collection, transmission, treatment or disposal of sewage by the Systems, (ii) any proceeds of use and occupancy insurance on the Systems or any part thereof, (iii) except as provided in the following sentence, any income from the investments made under this Agreement, (iv) any special assessments, including assessments in the nature of impact fees, (v) amounts, if any, paid from the Rate Stabilization Account into the Operating Revenue Fund in any Fiscal Year minus the amounts, if any, paid from the Operating Revenue Fund into the Rate Stabilization Account during the same Fiscal Year; and (vi) regularly scheduled payments received under any Qualified Swap or Hedge Agreement during such period. In no event shall Operating Revenues include (i) income from the investment of moneys on deposit to the credit of the Construction Fund, proceeds of insurance (except use and occupancy insurance) or condemnation awards (which are required to be deposited directly to the credit of the Capital Improvement Fund), (ii) proceeds of sales of property constituting a part of the Systems (which are required to be deposited directly to the credit of the Capital Improvement Fund), (iii) the proceeds of Bonds or other Indebtedness, (iv) any governmental grants or

appropriations available to pay Current Expenses of the Authority, including grants or appropriations received by the Authority and specifically made for the payments of principal of and interest on obligations of the Authority or for reimbursing the Authority for such payments, (v) any amounts received from the Commonwealth of Puerto Rico on account of Commonwealth Guaranteed Indebtedness (which is required to be deposited directly in the Commonwealth Payments Fund) or Commonwealth Supported Obligations (which is required to be deposited in the Commonwealth Payments Fund), (vi) any amounts transferred from the Budgetary Reserve Fund to the Trustee and (vii) any termination or similar payment under any interest rate swap or similar hedge agreement received by the Authority (which are required to be deposited directly to the credit of the Capital Improvement Fund).

“Opinion of Counsel” or “Opinion” shall mean an opinion of any attorney or firm of attorneys acceptable to the Trustee, who may be counsel for the Authority but shall not be an employee of either the Authority or the Trustee.

“Other System Indebtedness” shall mean the Term Loan and any other obligation of the Authority, including Qualified Swaps and Hedge Agreements and any termination payments thereunder but not including Bonds, that the Authority is required, or has elected, to treat as payable on a parity with Bonds with respect to the pledge of Authority Revenues.

“Outstanding” shall mean Indebtedness that has been duly issued and delivered under this Agreement or under other documents and has not been (i) canceled or surrendered to the Trustee or a comparable fiduciary for cancellation or (ii) deemed to have been paid as provided in Article XI or under similar provisions of such different documents, has not had other obligations issued in exchange therefor or had its principal become due and moneys sufficient for its payment deposited with the Trustee as provided in Section 2.09, or otherwise so treated under comparable issuance documents.

In determining whether holders of a requisite aggregate principal amount of the Outstanding Indebtedness have concurred in any request, demand, authorization, direction, notice, consent or waiver under this Agreement or other applicable documents, words referring to or connoting “principal of” or “principal amount of” Outstanding Indebtedness shall include the Accreted Value or similar value of Indebtedness as of the immediately preceding interest compounding or similar date for such Indebtedness. Indebtedness that is owned by or for the benefit of the Authority shall be disregarded and deemed not to be Outstanding for the purpose of any such determination.

“Principal Accrual” shall mean for any period the amount of principal or sinking fund installment on Indebtedness that would accrue during such period if such principal or sinking fund installment accrued ratably on the basis of a year consisting of twelve (12) thirty-day months. Unless otherwise provided by resolution of the Authority or a Supplemental Agreement, the monthly accrual in respect of the principal of Indebtedness or sinking fund installment for a Term Bond shall commence on the first day of the twelfth month preceding the due date of such principal or sinking fund installment and shall end on the first day of the month succeeding the relevant Deposit Date.



“Qualified Counterparty” shall mean (at the time of delivery of the applicable Investment Obligation or the execution of the applicable Hedge Agreement or Qualified Swap) (i) a bank, trust company, savings and loan association, national banking association, insurance company or other financial services company, including the Trustee or any of its affiliates, whose senior long term debt obligations, other senior unsecured long term obligations, financial program rating, counterparty rating or claims paying ability are rated in any of the three highest long-term rating categories (without regard to any gradations within such categories) by a Rating Agency or any institution listed as a primary government securities dealer in the Federal Reserve Bank of New York and (ii) in the case of Hedge Agreements and Qualified Swaps, a person whose obligations are guaranteed by a person whose senior long term debt obligations, other senior unsecured long term obligations, financial program rating, counterparty rating or claims paying ability, are rated in any of the three highest long-term rating categories (without regard to any gradations within such categories) by a Rating Agency, or whose obligation, if any, to make payment to the Authority upon the termination of the subject Hedge Agreement or Qualified Swap is fully collateralized by Investment Obligations described in clauses (a), (b) or (c) of the definition of Investment Obligations; provided, however, that such obligation shall be deemed to be fully collateralized if the Investment Obligations shall have a market value, determined periodically in accordance with such Hedge Agreement or Qualified Swap, that is not less than 100% of the amount of any termination payment. If the required rating of a Qualified Counterparty is lowered below the minimum rating level specified herein for such Qualified Counterparty and collateral has not been posted as required by such Hedge Agreement, such Qualified Counterparty shall no longer constitute a “Qualified Counterparty” hereunder.

“Qualified Depository” or **“Depositaries”** shall mean one or more banks or trust companies meeting the requirements of Section 10.13 and designated or permitted to be designated by the Secretary of the Treasury of the Commonwealth as a depository for funds of agencies and instrumentalities of the Commonwealth of Puerto Rico, which have been designated as depositaries of the Authority by resolution of the Board remaining in full force and effect. A certified copy of each resolution of the Board designating a Qualified Depository or Depositaries shall be filed with the Trustee.

“Qualified Swap” shall mean a contract pursuant to which a Qualified Counterparty has agreed to make payments to the Authority during a particular period equal to the interest payable on specified Indebtedness or on a specified nominal amount at the actual rate or rates or, if on a nominal amount at a stated rate or rates, payable thereon and, in consideration therefor, the Authority agrees to make payments to the Qualified Counterparty equal to the interest required to be paid on the specified Indebtedness or stated to be due on the nominal amount during the period calculated as if the specified Indebtedness or nominal amount bore an assumed rate (fixed or variable) of interest specified in the contract.

“Rate Covenant” shall mean the obligation of the Authority to fix, charge, collect and revise rates, fees and other charges for the use of and the services furnished by the Systems sufficient to meet the requirements of Section 7.01(a).

“Rate Stabilization Account” shall mean the account within the Surplus Fund established in Section 5.01 hereof.

“Rating Agency” or **“Rating Agencies”** shall mean Fitch, Moody’s, Standard & Poor’s or any other nationally recognized securities rating agency which then maintains a rating on Bonds at the request of the Authority.

“Refundable Principal Installment” shall mean the Term Loan, Bond Anticipation Notes or any other Indebtedness, the principal of which the Authority intends to pay with moneys which are not Authority Revenues, provided that such intent shall have been expressed in the Supplemental Agreement or other document authorizing such Indebtedness and provided further that such Indebtedness shall be a Refundable Principal Installment only through the date which is thirty (30) days prior to the date on which such Indebtedness comes due or such earlier time as the Authority has determined to pay such Indebtedness with moneys which are not Authority Revenues.

“Reserve Determination Date” shall mean (a) each Interest Payment Date for Bonds, or (b) any other date established in writing by an Authorized Representative of the Authority for the valuation of obligations on deposit in any Senior Debt Service Reserve Account or Senior Subordinate Debt Service Reserve Account.

“Secretary” shall mean the Secretary or Assistant Secretary of the Authority from time to time, or if there is no secretary or assistant secretary, then any person designated by the Board or by the by-laws of the Authority to perform the functions of the Secretary.

“Senior Bond Fund” shall mean the Senior Bond Fund established in Section 5.01.

“Senior Bonds” shall mean Bonds issued pursuant to Section 2.16.

“Senior Debt Service Reserve Fund” shall mean the Senior Debt Service Reserve Fund established in Section 5.01.

“Senior Indebtedness” shall mean, collectively, Senior Bonds and any Other System Indebtedness secured on a parity therewith.

“Senior Interest Account” shall mean the Senior Interest Account in the Senior Bond Fund established in Section 5.01.

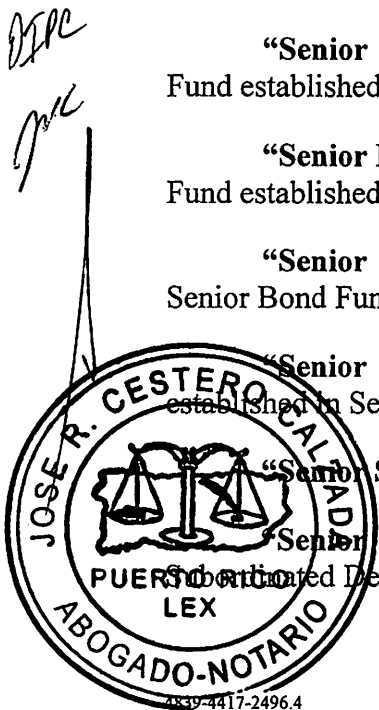
“Senior Principal Account” shall mean the Senior Principal Account in the Senior Bond Fund established in Section 5.01.

“Senior Sinking Fund Account” shall mean the Senior Sinking Fund Account in the Senior Bond Fund established in Section 5.01.

“Senior Subordinate Bond Fund” shall mean the Senior Subordinate Bond Fund established in Section 5.01.

“Senior Subordinated Bonds” shall mean Bonds issued pursuant to Section 2.17.

“Senior Subordinated Debt Service Reserve Fund” shall mean the Senior Subordinated Debt Service Reserve Fund established in Section 5.01.



“Senior Subordinated Indebtedness” shall mean, collectively, Senior Subordinated Bonds and any Other System Indebtedness secured on a parity therewith.

“Senior Subordinate Interest Account” shall mean the Senior Subordinate Interest Account in the Senior Subordinate Bond Fund established in Section 5.01.

“Senior Subordinate Principal Account” shall mean the Senior Subordinate Principal Account in the Senior Subordinate Bond Fund established in Section 5.01.

“Senior Subordinate Sinking Fund Account” shall mean the Senior Subordinate Sinking Fund Account in the Senior Subordinate Bond Fund established in Section 5.01.

“Series” or **“Series of Bonds”** shall mean a separate series of Bonds issued under this Agreement and a Supplemental Agreement.

“Series 2008 Bonds” shall mean the initial series of Bonds issued under this Agreement.

“Standard and Poor’s” shall mean Standard & Poor’s Ratings Service, a Division of The McGraw-Hill Companies, Inc., New York, New York, or its successors or assigns.

“Subordinate Bond Fund” shall mean the Subordinate Bond Fund established in Section 5.01.

“Subordinate Bonds” shall mean Bonds issued pursuant to Section 2.18.

“Subordinated Debt Service Reserve Fund” shall mean the Subordinated Debt Service Reserve Fund established in Section 5.01.

“Subordinated Indebtedness” shall mean, collectively, Subordinate Bonds and any Other System Indebtedness secured on a parity therewith.

“Subordinate Interest Account” shall mean the Subordinate Interest Account in the Subordinate Bond Fund established in Section 5.01.

“Subordinate Principal Account” shall mean the Subordinate Principal Account in the Subordinate Bond Fund established in Section 5.01.

“Subordinate Sinking Fund Account” shall mean the Subordinate Sinking Fund Account in the Subordinate Bond Fund established in Section 5.01.

“Subordinated Obligations” shall have the meaning set forth in Section 12.01.

“Supplemental Agreement” shall mean any Agreement supplementing or modifying the provisions of this Agreement entered into by the Authority and the Trustee pursuant to Sections 9.01 or 9.02.

“Surplus Fund” shall mean the Surplus Fund established in Section 5.01.

“**Systems**” shall mean collectively, the existing water supply, treatment and distribution system and the existing sewage collection, transmission, treatment and disposal system owned or operated by or on behalf of the Authority, together with all Improvements, and shall include any rights of service, leasehold interests or other contractual rights of the Authority in said Systems and any Improvements.

“**Tender Indebtedness**” shall mean any Indebtedness a feature of which is an option or obligation on the part of the Holders of such Indebtedness to tender all or a portion of such Indebtedness to a fiduciary for purchase or redemption prior to the stated maturity date of such Indebtedness, which may include Variable Rate Indebtedness with such a feature.

“**Term Bonds**” shall mean any Bonds stated to mature on a specified date and required to be redeemed in part prior to maturity according to a sinking fund schedule.

“**Term Loan**” shall mean that loan made to the Authority pursuant to the Term Loan Agreement, dated as of September 8, 2006, by and among the Authority, Banco Popular de Puerto Rico, as administrative agent, and the other financial institutions which are parties thereto.

“**Trustee**” shall mean Banco Popular de Puerto Rico or its successors serving as such hereunder.

“**Trustee’s Fees and Expenses**” shall mean an initial acceptance fee and an annual administrative fee plus expenses in accordance with an agreement between the Trustee and the Authority, as the same may be renegotiated from time to time.

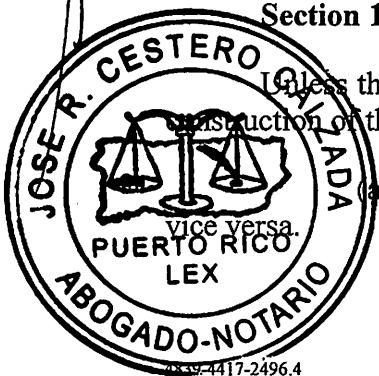
“**Variable Rate Indebtedness**” shall mean any Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate, provided that (a) the maximum interest rate on such Indebtedness and the maximum rate payable to any Enhancement Facility Provider with respect to such Indebtedness shall be specified at the time of issuance of such Indebtedness; (b) the Enhancement Facility shall cause such Indebtedness to be rated by a Rating Agency in the two highest long-term or one of the two highest short-term rating categories (without regard to any gradations within such categories) of such Rating Agency; (c) any obligation of the Authority to reimburse such Enhancement Facility Provider shall (i) amortize in equal annual installments of principal and interest over a term of no less than the shorter of ten years and stated final maturity of such Variable Rate Indebtedness or (ii) be payable solely from amounts on deposit in the Subordinate Debt Service Fund, and (d) any two or more Series of Bonds that are issued on the same date, the interest on which when such Series are considered in the aggregate shall be a fixed or constant rate, shall not be considered Variable Rate Indebtedness.

Section 1.03 Rules of Construction.

Unless the context clearly indicates to the contrary, the following rules shall apply to the construction of this Agreement:

- (a) Words importing the singular number shall include the plural number and

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(b) Words importing the redemption or calling for redemption of Bonds shall not be deemed to refer to or connote the payment of Bonds at their stated maturity.

(c) All references herein to particular Articles or Sections are references to Articles or Sections of this Agreement.

(d) The headings herein and Table of Contents to the Agreement are solely for convenience of reference and shall not constitute a part of this Agreement nor shall they affect its meaning, construction or effect.

(e) All references herein to the payment of Bonds are references to payment of principal of and premium, if any, and interest on Bonds.

ARTICLE II

EXECUTION, AUTHENTICATION, DELIVERY REGISTRATION AND FORM OF BONDS

Section 2.01 Form and Details of Bonds.

Unless otherwise provided in the applicable Supplemental Agreement, the Bonds shall be substantially in the form set forth in Exhibit A hereto, shall bear an appropriate series designation, shall be issuable only as registered Bonds without coupons, in denominations of \$5,000 and multiples thereof, and shall be appropriately numbered. The Bonds shall be issued in fully registered form.

The Bonds of a Series shall be payable, with respect to interest, principal and premium, if any, in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts (or other coin or currency provided for in the applicable Supplemental Agreement). The principal of Bonds shall be payable only to the Holder or his legal representative at the principal corporate trust office of the Trustee and at such other office or agency of any paying agent as the Board may designate from time to time upon the presentation and surrender of the Bonds (except as otherwise contemplated in Section 2.05 hereof).

The Bonds of each Series shall be dated as provided in the applicable Supplemental Agreement; shall bear interest, which may be fixed or variable, at the rates provided in such Supplemental Agreement, from the Interest Payment Date next preceding the date on which they are authenticated, unless authenticated on an Interest Payment Date, in which event they shall bear interest from such Interest Payment Date, or unless authenticated before the first Interest Payment Date in which event they shall bear interest from their date; provided, however, that if at the time of authentication of any Bond interest is in default, such Bond shall bear interest from the date to which interest has been paid. Unless otherwise provided in the applicable Supplemental Agreement, interest on the Bonds shall be computed on the basis of a three hundred sixty (360) day year of twelve (12) thirty (30) day months.

Capital Appreciation Bonds shall bear interest as described under the defined term Accreted Value, payable only upon redemption or maturity thereof, and Deferred Income Bonds

shall bear interest as described under the defined term Appreciated Value, payable from and after the Interest Commencement Date or upon the prior redemption thereof.

Prior to the issuance of Variable Rate Indebtedness, the applicable Supplemental Agreement shall specify, without limitation, the interest rate calculation methods and any conversion features, and any Enhancement Facility which may be drawn upon to make principal and interest payments on the Variable Rate Indebtedness. The Variable Rate Indebtedness may provide that the Holder of any such Bond may demand payment of principal and interest within a stated period after delivering notice to a designated agent for the Authority and providing a copy of the notice with the tender of the Variable Rate Indebtedness to such agent. The designated agent for the Authority, in accordance with the terms of a remarketing agreement, may provide for the resale or redelivery of the Variable Rate Indebtedness on behalf of the Authority at a price provided for in such agreement. If the Variable Rate Indebtedness shall not be resold or redelivered within a stated period, the agent for the Authority may be authorized to draw upon a previously executed Enhancement Facility for payment of interest and principal for a particular Series of Variable Rate Indebtedness to which such Enhancement Facility shall pertain. The particular form or forms of such demand provisions, the period or periods for payment of principal and interest after delivery of notice, the appointment of the agent for the Authority, the terms and provisions for the remarketing agreement, and the terms and provisions of the Enhancement Facility shall be as set forth in the applicable Supplemental Agreement.

The Bonds shall be lettered and numbered in such manner and shall be in the denominations provided in the applicable Supplemental Agreement. Unless otherwise specified in the applicable Supplemental Agreement, in the event that interest is not punctually paid or duly provided for, such interest shall forthwith cease to be payable to the Holder shown on the registration books held by the Trustee at the close of business on the fifteenth (15th) day of the calendar month preceding such Interest Payment Date and may be paid to the person in whose name Bonds are registered at the close of business on a special record date to be fixed by the Trustee, on a special payment date designated by the Trustee, notice having been given by the Trustee to the Holders not less than ten (10) days prior to such special record date or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which Bonds may be listed and upon such notice as may be required by such exchange, or as more fully provided for in the applicable Supplemental Agreement.

Section 2.02 Execution of Bonds.

Unless otherwise provided in the applicable Supplemental Agreement, the Bonds shall be signed in the name of the Authority by the manual or facsimile signature of the Executive President, and the Authority's seal shall be affixed thereto or a facsimile thereof printed thereon, attested by the manual or facsimile signature of the Secretary of the Authority. In case any officer whose signature or a facsimile of whose signature shall appear on any Bond shall cease to be such officer before the delivery of such Bond, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes the same as if he had remained in office until such delivery. Any Bond may bear the facsimile signature of or may be signed by such persons as at the actual time of the execution thereof shall be the proper officers to sign such Bond although at the date of such Bond such persons may not have been such officers.



Section 2.03 Authentication of Bonds.

Unless otherwise provided in the applicable Supplemental Agreement, the Bonds shall bear a certificate of authentication and shall not be valid until the Trustee shall have executed the certificate of authentication and inserted the date of authentication thereon. The Trustee shall authenticate each Bond with the signature of an authorized officer or employee, but it shall not be necessary for the same person to authenticate all of the Bonds or all of the Bonds of any Series. Only such authenticated Bonds shall be entitled to any right or benefit under this Agreement, and such certificate on any Bond issued hereunder shall be conclusive evidence that the Bond has been duly issued and is secured by the provisions hereof.

Section 2.04 Registration and Transfer of Bonds; Persons Treated as Owners.

(a) All Bonds issued under this Agreement shall be negotiable, subject to the provisions for registration and registration of transfer thereof contained herein or in the Bonds.

(b) The Trustee shall maintain registration books with respect to each Series of Bonds at the offices of the Trustee and shall provide for the registration, registration of transfer and exchange of any Bond of such Series under such reasonable regulations as the Trustee may prescribe.

(c) Each Bond shall be registered and the transfer of such Bond shall be registered only upon the registration books maintained by the Trustee, by the Bondholder thereof in person or by his attorney duly authorized in writing, upon presentation and surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered Bondholder or his duly authorized attorney. Upon surrender for registration of transfer of any such Bond, the Authority shall cause to be executed and the Trustee shall authenticate and deliver, in the name of the transferee, one or more new Bonds of the same Series, interest rate, maturity, principal amount and date as the surrendered Bond, as fully registered Bonds only.

(d) The Trustee shall treat the registered owner as the person exclusively entitled to payment of principal, premium, if any, and interest and the exercise of all other rights and powers of the owner on the registration books, except that interest payments shall be made to the person shown as owner on the fifteenth day of the month preceding each Interest Payment Date.

Section 2.05 Exchange of Bonds; Charges for Exchange of Bonds.

Bonds, upon presentation and surrender thereof to the Trustee together with written instructions satisfactory to the Trustee, duly executed by the registered Bondholder or his attorney duly authorized in writing, may be exchanged for an equal aggregate principal amount of fully registered Bonds of the same Series and tenor.

Any exchange of Bonds shall be at the expense of the Authority, except that the Trustee may charge the person requesting such exchange the amount of any tax or other governmental charge required to be paid with respect thereto.

Section 2.06 Temporary Bonds.

Prior to the preparation of Bonds in definitive form, the Authority may issue temporary Bonds in the form of registered bonds without coupons in such denominations, or in the form of a single registered bond without coupons in a denomination equal to the aggregate principal amount of such definitive bonds of such Series, with payment record attached for the notation of payments of principal and interest, without presentation and surrender of such single registered bond, as the Authority may direct, substantially of the tenor herein set forth and with such appropriate omissions, insertions and variations as may be required.

Until definitive bonds of any Series are ready for delivery, any temporary bond may, if so provided by the Authority by resolution, be exchanged at the corporate trust office of the Trustee, without charge to the Holder thereof, for an equal aggregate principal amount of temporary registered bonds without coupons of authorized denominations, of like tenor, of the same Series and maturity and bearing interest at the same rate. The Authority shall promptly prepare, execute and deliver to the Trustee Bonds in definitive form and thereupon, upon surrender of Bonds in temporary form, the Trustee shall authenticate and deliver in exchange therefor Bonds in definitive form of the same Series and maturity having an equal aggregate principal amount. Until so exchanged, the temporary Bond or Bonds of any Series shall in all respects be entitled to the same benefit and security of this Agreement as the corresponding definitive Bonds of such Series to be issued and authenticated hereunder. No charge of any kind shall be made against the Holder upon an exchange of a temporary bond for a definitive Bond.

Section 2.07 Mutilated, Lost or Destroyed Bonds.

If any Bond has been mutilated, lost or destroyed, the Authority shall cause to be executed, and the Trustee shall authenticate and deliver, a new Bond of like date, number and tenor in exchange and substitution for and upon the cancellation of such mutilated Bond or in lieu of and in substitution for such lost or destroyed Bond; provided, however, that the Authority and the Trustee shall so execute and deliver any new Bond only if the Holder has paid the reasonable expenses and charges of the Authority and the Trustee in connection therewith and, in the case of a lost or destroyed Bond, (a) has filed with the Authority and the Trustee evidence satisfactory to them that such Bond was lost or destroyed and of his ownership thereof, and (b) has furnished indemnity satisfactory to them. If any such Bond has matured, or is about to mature, instead of issuing a new Bond the Trustee may pay the same without surrender thereof.

Upon the issuance of any new Bond under this Section, the Authority may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Section 2.08 Cancellation and Disposition of Bonds.

All Bonds that have been surrendered for registration of transfer or exchange pursuant to Sections 2.04 and 2.05, paid (whether at maturity, by sinking fund redemption, acceleration, call for redemption or otherwise), or delivered by the Authority to the Trustee for cancellation shall not be reissued, and the Trustee shall, unless otherwise directed by the Authority, shred or

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otherwise destroy such Bonds. The Trustee shall deliver to the Authority a certificate of any such shredding or other destruction.

Section 2.09 Non-Presentation of Bonds.

(a) If any Bond is not presented for payment when the principal thereof becomes due (whether at maturity, by sinking fund redemption, upon acceleration or call for redemption or otherwise), all liability of the Authority to the Holder thereof for the payment of such Bond shall be completely discharged if moneys sufficient to pay such Bond and the interest due thereon shall be held by the Trustee for the benefit of such Holder, and thereupon it shall be the duty of the Trustee to hold such moneys, subject to subsection (b) below, without liability for interest thereon, for the benefit of such Holder, who shall thereafter be restricted exclusively to such moneys for any claim of whatever nature on his part under this Agreement or on, or with respect to, such Bond.

(b) Notwithstanding anything in this Agreement to the contrary, any cash, Government Obligations or Government Certificates deposited with the Trustee for the payment of the principal of and premium, if any, and interest on any Series of Bonds remaining unclaimed for more than one year after the principal of such Series of Bonds has become due and payable shall be paid to the Authority and shall be held by the Authority in trust for the benefit of Holders of such Bonds in a separate account for seven years and thereafter in the general fund of the Authority. After such moneys have been paid to the Authority, the Holders of such Bonds shall be entitled to look only to the Authority, and all liability of the Trustee with respect to such amounts shall cease.

Section 2.10 Purposes of Bonds.

Bonds may be issued to pay Cost of Improvements and to provide funds for any other lawful purposes, including (a) to refund any obligations of the Authority, (b) to fund reserves, (c) to pay Costs of Issuance of such Bonds or (d) for a combination of such purposes.

Section 2.11 Parity of Senior Indebtedness; Pledge of Authority Revenues and Certain Funds and Accounts.

(a) This Agreement constitutes a continuing, irrevocable pledge of Authority Revenues to secure payment of all amounts due with respect to all Senior Indebtedness that may from time to time be issued or incurred and Outstanding, including but not limited to the principal of and premium, if any, and interest thereon and for the other purposes as provided herein; provided, however, that any Authority Revenues received from the Commonwealth of Puerto Rico on account of Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations are not subject to the lien hereof and shall only be used for the purposes set forth in Section 5.12 hereof.

(b) Senior Indebtedness shall be issued pursuant to a Supplemental Agreement or evidenced by other documents and shall be equally and ratably secured by the pledge of Authority Revenues under this Agreement, without preference, priority or distinction over any other issue of Senior Indebtedness; provided, however, that the moneys in any Senior Debt Service Reserve Account shall only secure the Series of Senior Bonds to which such

Account relates, and provided, further, that any Senior Bonds may have additional security pledged to its payment. In no event will moneys in any Senior Debt Service Reserve Account be available to pay Other System Indebtedness secured on a parity with Senior Bonds. The Senior Bond Fund, the Construction Fund (but only to the extent of moneys derived from the proceeds of Senior Indebtedness on deposit therein), the Current Expense Fund, the Operating Reserve Fund, the Capital Improvement Fund and the Surplus Fund shall be trust funds and are hereby pledged equally and ratably to the payment of the principal of and interest on all Senior Indebtedness and for the other purposes as provided herein.

(c) In connection with the issuance or incurrence of Senior Indebtedness, the Authority, as provided in the applicable Supplemental Agreement or evidenced in other documentation, may create additional accounts and subaccounts within any fund or account established by this Agreement. Moneys in any account of the Senior Bond Fund relating to particular Senior Indebtedness shall only secure such Senior Indebtedness.

(d) Nothing herein shall be construed, however, as (a) requiring that any Senior Indebtedness bear interest at the same rate or in the same manner as any other Senior Bonds, have the same, or an earlier or later, maturity, or be subject to redemption prior to maturity on the same basis as any other Senior Indebtedness, (b) prohibiting the Authority from entering into financial arrangements designed to assure that moneys will be available for the payment of certain Senior Indebtedness when due, or (c) prohibiting the Authority from pledging moneys or assets of the Authority other than those pledged herein for the benefit of certain Senior Indebtedness.

(e) The lien and trust hereby created are for the benefit of the Holders of Senior Indebtedness and any Beneficiaries relating thereto and for their additional security until all the Senior Indebtedness have been paid or defeased in accordance with Article XI or if such Indebtedness was not incurred hereunder, in accordance with similar provisions of the controlling document.

Section 2.12 Parity of Senior Subordinate Indebtedness; Pledge of Authority Revenues and Certain Funds and Accounts.

(a) This Agreement constitutes a continuing, irrevocable pledge of Authority Revenues to secure payment of all amounts due with respect to all Senior Subordinate Indebtedness that may from time to time be issued or incurred and Outstanding, including but not limited to the principal of and premium, if any, and interest thereon, subject and subordinate to the right of the Authority to pledge Authority Revenues to secure payment of the principal and premium, if any, and interest on all Senior Indebtedness Outstanding; provided, however, that any Authority Revenues received from the Commonwealth of Puerto Rico on account of Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations are not subject to the lien hereof and shall only be used for the purposes set forth in Section 5.12 hereof.

(b) Senior Subordinate Indebtedness shall be issued pursuant to a Supplemental Agreement or evidenced by other documents and shall be equally and ratably secured by the pledge of Authority Revenues under this Agreement, without preference, priority or distinction over any other issue of Senior Subordinate Indebtedness; provided, however, that

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the moneys in any Senior Subordinate Debt Service Reserve Account shall only secure the Series of Senior Subordinate Bonds to which such Account relates, and provided, further, that any Series of Senior Subordinate Bonds may have additional security pledged to its payment. In no event will moneys in any Senior Subordinate Debt Service Reserve Account be available to pay Other System Indebtedness secured on a parity with Senior Subordinate Bonds. The Senior Subordinate Bond Fund (but only to the extent of moneys derived from the proceeds of Senior Subordinate Indebtedness on deposit therein), the Current Expense Fund, the Operating Reserve Fund, the Capital Improvement Fund and the Surplus Fund are hereby pledged equally and ratably to the payment of the principal of and interest on all Senior Subordinate Indebtedness, subject only and subordinate to the pledge of Authority Revenues to secure payment of the principal of and premium, if any, and interest on all Senior Indebtedness Outstanding and for the other purposes as provided herein.

(c) In connection with the issuance or incurrence of Senior Subordinate Indebtedness, the Authority, as provided in the applicable Supplemental Agreement or evidenced in other documentation, may create additional accounts and subaccounts within any fund or account established by this Agreement. Moneys in any account of the Senior Subordinate Bond Fund relating to particular Senior Subordinate Indebtedness shall only secure such Senior Subordinate Indebtedness.

(d) Nothing herein shall be construed, however, as (a) requiring that any Senior Subordinate Indebtedness bear interest at the same rate or in the same manner as any other Senior Subordinate Indebtedness, have the same, or an earlier or later, maturity date, or be subject to redemption prior to maturity on the same basis as any other Senior Subordinate Indebtedness, (b) prohibiting the Authority from entering into financial arrangements designed to assure that moneys will be available for the payment of certain Senior Subordinate Indebtedness when due, or (c) prohibiting the Authority from pledging moneys or assets of the Authority other than those pledged herein for the benefit of certain Senior Subordinate Indebtedness.

(e) The lien and trust hereby created are for the benefit of the Holders of Senior Subordinate Indebtedness and any Beneficiaries relating thereto and for their additional security until all the Senior Subordinate Indebtedness have been paid or defeased in accordance with Article XI or if such Indebtedness was not incurred hereunder, in accordance with similar provisions of the controlling document.

Section 2.13 Parity of Subordinate Indebtedness; Pledge of Authority Revenues and Certain Funds and Accounts.

(a) This Agreement constitutes a continuing, irrevocable pledge of Authority Revenues to secure payment of all amounts due with respect to all Subordinate Indebtedness that may from time to time be issued or incurred and Outstanding, including but not limited to the principal of and premium, if any, and interest thereon, subject and subordinate to the right of the Authority to pledge Authority Revenues to secure payment of the principal of and premium, if any, and interest on all Senior Indebtedness and Senior Subordinate Indebtedness Outstanding; provided, however, that any Authority Revenues received from the Commonwealth of Puerto Rico on account of Commonwealth Guaranteed Indebtedness or Commonwealth Supported

Obligations are not subject to the lien hereof and shall only be used for the purposes set forth in Section 5.12 hereof.

(b) Subordinate Indebtedness shall be issued pursuant to a Supplemental Agreement or evidenced by other documents and shall be equally and ratably secured by the pledge of Authority Revenues under this Agreement, without preference, priority or distinction over any other issue of Subordinate Indebtedness; provided, however, that the moneys in any Subordinate Debt Service Reserve Account shall only secure the Series of Subordinate Bonds to which such Account relates, and provided, further, that any Series of Subordinate Bonds may have additional security pledged to its payment. In no event will moneys in any Subordinate Debt Service Reserve Account be available to pay Other System Indebtedness secured on a parity with Subordinate Bonds. The Subordinate Bond Fund, the Construction Fund (but only to the extent of moneys derived from the proceeds of Subordinate Bonds on deposit therein), the Current Expense Fund, the Operating Reserve Fund, the Capital Improvement Fund and the Surplus Fund are hereby pledged equally and ratably to the payment of the principal of and interest on all Subordinate Indebtedness, subject only and subordinate to the pledge of Authority Revenues to secure payment of the principal of and premium, if any, and interest on all Senior Indebtedness and Senior Subordinate Indebtedness Outstanding and for the other purposes as provided herein.

(c) In connection with the issuance or incurrence of Subordinate Indebtedness, the Authority, as provided in the applicable Supplemental Agreement or evidenced in other documentation, may create additional accounts and subaccounts within any fund or account established by this Agreement. Moneys in any account of the Subordinate Bond Fund relating to particular Subordinate Indebtedness shall only secure such Subordinate Indebtedness.

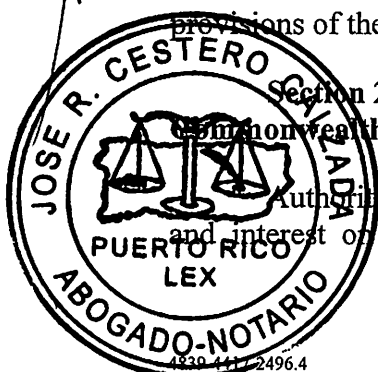
(d) Nothing herein shall be construed, however, as (a) requiring that any Subordinate Indebtedness bear interest at the same rate or in the same manner as any other Subordinate Indebtedness, have the same, or an earlier or later, maturity, or be subject to mandatory, optional or extraordinary redemption prior to maturity on the same basis as any other Subordinate Indebtedness, (b) prohibiting the Authority from entering into financial arrangements designed to assure that moneys will be available for the payment of certain Subordinate Indebtedness when due, or (c) prohibiting the Authority from pledging moneys or assets of the Authority other than those pledged herein for the benefit of certain Subordinate Indebtedness.

(e) The lien and trust hereby created are for the benefit of the Holders of Subordinate Indebtedness and any Beneficiaries relating thereto and for their additional security until all the Subordinate Indebtedness shall have been paid or defeased in accordance with Article XI or if such Indebtedness was not incurred hereunder, in accordance with similar provisions of the controlling document.

Section 2.14 Parity of Commonwealth Guaranteed Indebtedness and Commonwealth Supported Obligations; Pledge of Authority Revenues.

Authority Revenues are hereby pledged equally and ratably to the payment of principal of and interest on all Commonwealth Guaranteed Indebtedness and Commonwealth Supported

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Obligations subject and subordinate to the liens securing Senior Indebtedness, Senior Subordinate Indebtedness and Subordinate Indebtedness, and for the payment of Current Expenses; provided, however, that any Authority Revenues received from the Commonwealth of Puerto Rico on account of Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations are not subject to the lien hereof and shall only be used for the purposes set forth in Section 5.12 hereof. The lien and trust hereby created are for the benefit of the Holders of Commonwealth Guaranteed Indebtedness and Commonwealth Supported Obligations, and for their additional security until all Commonwealth Guaranteed Indebtedness and Commonwealth Supported Obligations have been paid or its payment has been duly provided for.

Section 2.15 Conditions for Issuing Bonds.

On or prior to the issuance and authentication of any Series of Bonds by the Trustee, the Authority shall file with the Trustee the following:

- (a) In the case of the initial Series of Bonds issued hereunder:
 - (1) An original executed counterpart of this Agreement;
 - (2) A certified copy of a resolution of the Board of the Authority authorizing the execution and delivery of this Agreement; and
 - (3) An Opinion or Opinions of Counsel, subject to customary exceptions and qualifications, substantially to the effect that this Agreement has been duly authorized, executed and delivered to the Trustee and is a valid, binding and enforceable obligation of the Authority.
- (b) An original executed counterpart of a Supplemental Agreement which (1) shall, in addition to any other provisions otherwise mandated by this Agreement, include: (A) whether such Bonds are being issued as Senior Bonds, Senior Subordinate Bonds or Subordinate Bonds; (B) provisions authorizing the issuance, fixing the principal amount and setting forth the details of such Bonds, including their date, the interest rate or rates and the manner in which the Bonds are to bear and pay interest, the principal and Interest Payment Dates of the Bonds, the purposes for which such Bonds are being issued, the manner of numbering of such Bonds, the Series designation, the denominations, the maturity dates and principal maturities, the principal amounts required to be redeemed pursuant to any mandatory redemption provisions or the manner for determining such principal amounts, any provisions for optional or extraordinary redemption before maturity, any provisions regarding the Senior Debt Service Reserve Account, Senior Subordinate Debt Service Reserve Account, or Subordinate Debt Service Reserve Account and whether the interest on such Bonds shall be excluded from gross income for Federal income tax purposes or subject to Federal income taxation; and (C) provisions for the application of the proceeds of such Bonds; and (2) may include: (A) provisions for Enhancement Facilities and for other Funds and Accounts to be established with respect to such Bonds; (B) provisions necessary or expedient for the issuance of Variable Rate Indebtedness or other manner of bearing interest, including remarketing provisions, Enhancement Facility provisions and provisions for establishing the variable rate and converting

to a fixed rate; (C) provisions for entering into Qualified Swaps or Hedge Agreements, guarantees or other arrangements to limit interest rate risks; and (D) such other provisions as the Authority may deem appropriate.

(c) A certified copy of applicable resolution(s) of the Board authorizing the execution and delivery of a Supplemental Agreement, the issuance, sale, award, execution and delivery of such Bonds and, in the case of a Series of Bonds issued to refund Indebtedness, calling for redemption or payment of the Indebtedness to be refunded, fixing any redemption date and authorizing any required notice of redemption in accordance with the provisions of this Agreement.

(d) A certificate signed by the Executive President of the Authority and dated the date of such issuance, to the effect that:

(1) Upon the issuance of such Series of Bonds, the balance to the credit of each Account within each Debt Service Reserve Fund will not be less than the Debt Service Reserve Requirement corresponding thereto; provided, that if the Authority has elected upon the issuance of a Series of Bonds to fund the applicable Debt Service Reserve Account in accordance with Section 5.04(a), 5.06(a) or 5.08(a), such Account shall be deemed to be funded at the applicable requirement therefor so long as the deposits required by Sections 5.02(c)(ii), (iv) and (vi) have been made;

(2) Upon and immediately following such issuance, no Event of Default has occurred which has not been cured or waived, and no event or condition exists which, with the giving of notice or lapse of time or both, would become an Event of Default and

(3) All required approvals, limitations, conditions and provisions precedent to the issuance of such Series of Bonds have been obtained, observed, met and satisfied.

(e) An Opinion of Counsel, subject to customary exceptions and qualifications, substantially to the effect that the Supplemental Agreement for such Series of Bonds has been duly authorized, executed and delivered, is binding on the Authority and complies in all respects with the requirements of this Agreement.

(f) An opinion of Bond Counsel, subject to customary exceptions and qualifications, substantially to the effect that the issuance of such Bonds has been duly authorized, that such Bonds are valid and binding limited obligations of the Authority, and with respect to Bonds to be issued on a tax-exempt basis that the interest on such Bonds is excludable from gross income for purposes of Federal income taxation.

(g) Except upon the issuance of the Series 2008 Bonds, if the Bonds are issued to refund any obligations of the Authority, the following:

(1) evidence that the Authority has made provision as required by this Agreement of other similar agreement relating to the obligations being refunded for the payment or redemption of all obligations to be refunded;

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(2) the certificates required in Sections 2.16 or 2.17 or in clauses (a) and (b) of Section 2.18, as applicable, provided that the Authority need not deliver said certificates if the Executive President delivers a certificate to the effect that (i) the Annual Debt Service on such refunding Bonds for each applicable Fiscal Year following the issuance thereof is not greater than the Annual Debt Service for each such Fiscal Year on the obligations to be refunded; or (ii) the maximum aggregate Annual Debt Service for any Fiscal Year thereafter on the Indebtedness Outstanding after the issuance of such refunding Bonds is not greater than the maximum aggregate Annual Debt Service for any Fiscal Year thereafter on the Indebtedness Outstanding prior to the issuance of such refunding Bonds. For purposes of this clause (2), applicable Fiscal Year shall mean any Fiscal Year in which such refunding Bonds are Outstanding.

(h) A request and authorization of the Authority, signed by an Authorized Representative of the Authority, to the Trustee to authenticate and deliver such Bonds to the purchasers upon payment by such purchasers to the Trustee for the account of the Authority of the purchase price thereof plus accrued interest, if any, to the date of delivery.

None of the requirements in this Section may be waived without the consent of the Holders of not less than a majority in aggregate principal amount of the Outstanding Senior Bonds.

Section 2.16 Special Provisions Relating to the Issuance of Senior Bonds.

Except for the Series 2008 Bonds or as provided in Section 2.15(g) above, if the Bonds to be issued are to be issued as Senior Bonds, the Authority shall also file with the Trustee a certificate dated the date of initial issuance of such Senior Bonds, signed by the Executive President and approved by a Consultant, setting forth:

(i) the amount of the Operating Revenues for any twelve (12) consecutive calendar months out of the eighteen (18) calendar months immediately preceding the date of issuance of such Senior Bonds; provided that such amount shall be adjusted to give effect for such twelve (12) month period to any increases or decreases in rates, fees, rentals or other charges for which all legal conditions to effectiveness have been met on the date of issuance of such Senior Bonds;

(ii) the amount of the maximum aggregate Annual Debt Service for any Fiscal Year thereafter on the Senior Indebtedness then Outstanding, the Senior Bonds to be issued and any other Senior Indebtedness to be issued or incurred simultaneously therewith;

(iii) the amount of the maximum aggregate Annual Debt Service for any Fiscal Year thereafter on all Bonds and Other System Indebtedness then Outstanding, the Senior Bonds proposed to be issued and any other Bonds and Other System Indebtedness to be issued or incurred simultaneously therewith, plus amounts required to be deposited in the Senior Debt Service Reserve Fund, the Senior Subordinate Debt Service Reserve Fund and the Subordinate Debt Service Reserve Fund pursuant to Section 5.02;

(iv) the percentage derived by dividing the amount in item (i) above by the amount shown in item (ii) above, which percentage shall not be less than 250%; and

(v) the percentage derived by dividing the amount in item (i) above by the amount shown in item (iii) above, which percentage shall not be less than 150%.

Section 2.17 Special Provisions Relating to the Issuance of Senior Subordinated Bonds.

Except as provided in Section 2.15(g) above, if the Bonds to be issued are to be issued as Senior Subordinate Bonds, the Authority shall also file with the Trustee a certificate dated the date of initial issuance of such Senior Subordinate Bonds, signed by the Executive President and approved by a Consultant, setting forth:

(i) the amount of the Operating Revenues for any twelve (12) consecutive calendar months out of the eighteen (18) calendar months immediately preceding the date of issuance of such Senior Subordinate Bonds; provided that such amount shall be adjusted to give effect for such twelve (12) month period to any increases or decreases in rates, fees, rentals or other charges for which all legal conditions to effectiveness have been met on the date of issuance of such Senior Subordinate Bonds;

(ii) the amount of the maximum aggregate Annual Debt Service for any Fiscal Year thereafter on the Senior Indebtedness and the Senior Subordinate Indebtedness then Outstanding, the Senior Subordinate Bonds to be issued and any other Senior or Senior Subordinate Indebtedness to be issued or incurred simultaneously therewith;

(iii) the amount of the maximum aggregate Annual Debt Service for any Fiscal Year thereafter on all Bonds and Other System Indebtedness then Outstanding, the Senior Subordinate Bonds proposed to be issued and any other Bonds and Other System Indebtedness to be issued or incurred simultaneously therewith, plus amounts required to be deposited in the Senior Debt Service Reserve Fund, the Senior Subordinate Debt Service Reserve Fund and the Subordinate Debt Service Reserve Fund pursuant to Section 5.02;

(iv) the percentage derived by dividing the amount in item (i) above by the amount shown in item (ii) above, which percentage shall not be less than 200%; and

(v) the percentage derived by dividing the amount in item (i) above by the amount shown in item (iii) above, which percentage shall not be less than 150%.

Section 2.18 Special Provisions Relating to the Issuance of Subordinate Bonds.

Except as provided in Section 2.15(g) above, if the Bonds to be issued are to be issued as Subordinate Bonds, the Authority shall also file with the Trustee the following:

(a) a certificate dated the date of initial issuance of such Subordinate Bonds, signed by the Executive President and approved by a Consultant, setting forth:

(i) the amount of the Operating Revenues for any twelve (12) consecutive calendar months out of the eighteen (18) calendar months immediately preceding the date of issuance of such Subordinate Bonds; provided that such amount shall be adjusted to give effect for such twelve (12) month period to any increases or decreases in rates, fees, rentals or



other charges for which all legal conditions to effectiveness have been met on the date of issuance of such Subordinate Bonds;

(ii) the amount of the maximum aggregate Annual Debt Service for any Fiscal Year thereafter on the Bonds and Other System Indebtedness then Outstanding, the Subordinate Bonds proposed to be issued and any Bonds or Other System Indebtedness to be issued or incurred simultaneously therewith, plus amounts required to be deposited to the Senior Debt Service Reserve Fund, the Senior Subordinate Debt Service Reserve Fund and the Subordinate Debt Service Reserve Fund pursuant to Section 5.02;

(iii) the percentage derived by dividing the amount in item (i) above by the amount shown in item (ii) above, which percentage shall not be less than 150%; and

(b) a certificate dated the date of original issuance of such Subordinate Bonds, signed by a Consultant, setting forth:

(i) the amount of the projected Operating Revenues for each of the three (3) full Fiscal Years following the issuance of such Subordinate Bonds;

(ii) the amount of the maximum aggregate Annual Debt Service for any Fiscal Year thereafter on all Bonds and Other System Indebtedness then Outstanding, the Subordinate Bonds proposed to be issued and any other Bonds and Other System Indebtedness to be issued or incurred simultaneously therewith, plus amounts required to be deposited in the Senior Debt Service Reserve Fund, the Senior Subordinate Debt Service Reserve Fund and the Subordinate Debt Service Reserve Fund pursuant to Section 5.02; and

(iii) the percentage derived by dividing each amount in item (i) above by the amount shown in item (ii) above, which percentages shall not be less than 150% in each such year.

Section 2.19 Special Provisions Relating to Capital Appreciation Bonds and Deferred Income Bonds

(a) The Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds becoming due at maturity or by virtue of a sinking fund installment shall be included in the calculations of accrued and unpaid and accruing interest or principal installments made under the definitions of Annual Debt Service only from and after the date (the "Calculation Date") which is one year prior to the date on which such Accreted Value or Appreciated Value, as the case may be, becomes so due, and the principal and interest portions of such Accreted Value or Appreciated Value shall be deemed to accrue in equal daily installments from the Calculation Date to such due date.

(b) For the purposes of (i) receiving payment of the redemption price if a Capital Appreciation Bond is redeemed prior to maturity, or (ii) receiving payment of a Capital Appreciation Bond if the principal of Bonds is declared immediately due and payable following an Event of Default, as provided in Section 8.03, or (iii) computing the principal amount of Bonds held by the Holder of a Capital Appreciation Bond in giving to the Authority any notice, consent, request, or demand pursuant to this Agreement for any purpose whatsoever, the

principal amount of such Capital Appreciation Bond shall be deemed to be its then current Accredited Value.

(c) For the purposes of (i) receiving payment of the redemption price if a Deferred Income Bond is redeemed prior to maturity, or (ii) receiving payment of a Deferred Income Bond if the principal of Bonds is declared immediately due and payable following an Event of Default, as provided in Section 8.03, or (iii) computing the principal amount of Bonds held by the Holder of a Deferred Income Bond in giving to the Authority any notice, consent, request, or demand pursuant to the provisions hereof for any purpose whatsoever, the principal amount of a such Deferred Income Bond shall be deemed to be its then current Appreciated Value.

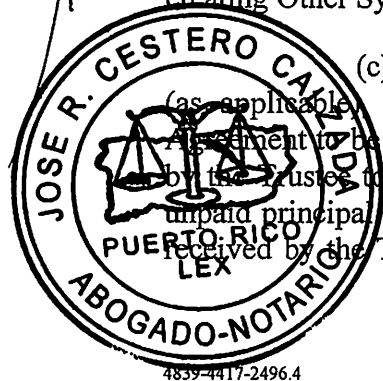
Section 2.20 Other System Indebtedness.

(a) In addition to the Term Loan, which the Authority hereby designates as Other System Indebtedness secured hereunder on a parity with the Senior Subordinate Bonds, the Authority may incur or refinance Other System Indebtedness, including entering into Qualified Swaps or Hedge Agreements, or any agreements with Enhancement Facility Providers, provided that: (1) the documents relating to the Other System Indebtedness (A) acknowledge that such debt (i) constitutes Other System Indebtedness under this Agreement and (ii) is subject to the applicable terms and conditions hereof, (B) specify the amounts and due dates of Annual Debt Service with respect to the Other System Indebtedness, and (C) provide for all notices given thereunder to be given to the Trustee, (2) the Authority designates such Other System Indebtedness as Senior Indebtedness, Senior Subordinate Indebtedness or Subordinate Indebtedness and certifies that, except with respect to Qualified Swap and Hedge Agreements, the requirements of Sections 2.16, 2.17 or 2.18, as appropriate, have been met as if the Other System Indebtedness was an additional Series of Bonds, (3) the Trustee receives written notice of the issuance of the Other System Indebtedness and the material terms and conditions thereof, and the Trustee shall register the lender or holder as owner thereof as such on its books and records, and (4) the Trustee receives an Opinion of Counsel that the documents creating the Other System Indebtedness have been duly authorized, executed and delivered on behalf of the Authority and constitute valid, binding and enforceable obligations. In connection with the incurrence of any Other System Indebtedness other than Qualified Swaps or Hedge Agreements, the Fiduciary or Beneficiary therefor shall enter into an intercreditor arrangement with the Fiduciaries and/or Beneficiaries for any Outstanding Other System Indebtedness, including the Fiduciary for the Term Loan, the terms of which shall be determined at the time of incurrence of such Other System Indebtedness.

(b) The Authority shall fulfill its obligations under all contracts or agreements creating Other System Indebtedness as they may exist from time to time.

(c) The Trustee hereby agrees to provide to each Fiduciary for, and Holder of Other System Indebtedness (1) copies of all notices required under this Agreement to be delivered by the Trustee to Holders of Bonds and any written notice delivered by the Trustee to the Authority pursuant to Section 8.04 of this Agreement declaring the entire unpaid principal of the Bonds due and payable, (2) copies of all notices from Holders of Bonds received by the Trustee in accordance with the provisions of this Agreement, (3) notice of the

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resignation of the Trustee hereunder at least thirty (30) days prior to the effective date of any such resignation, (4) notice that the Trustee has received an instrument or concurrent instruments or other notice of the removal of the Trustee in accordance with the provisions of this Agreement within thirty (30) days of receiving such an instrument or instruments and (5) notice that the Trustee has appointed a co-trustee in accordance with the provisions of the Agreement. The Trustee shall not, however, be subject to any liability to any Fiduciary or Holder by reason of its failure to provide any such notice.

ARTICLE III

REDEMPTION OF BONDS

Section 3.01 Redemption Provisions to be Fixed by Supplemental Agreements.

The Bonds of any Series shall be subject to mandatory, extraordinary or optional redemption prior to maturity on such dates and under such conditions as may be provided in the Supplemental Agreement authorizing the issuance of such Series of Bonds. The Bonds of any Series to be called for redemption shall be selected as provided in the applicable Supplemental Agreement. The Trustee shall treat each Bond of a denomination greater than the minimum denomination authorized in the applicable Supplemental Agreement as representing the number of Bonds as can be obtained by dividing the principal amount of such Bond by such minimum denomination.

Section 3.02 Notice of Redemption.

Unless otherwise provided in the applicable Supplemental Agreement, the Trustee shall send notice of the call for redemption, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (a) by registered or certified mail or overnight express delivery, to the Holder of each Bond to be redeemed at the address as it appears on the registration books kept by the Trustee, (b) by registered or certified mail or overnight express delivery, to all organizations registered with the Securities and Exchange Commission as securities depositories, and (c) to each nationally recognized municipal securities information repository designated as such by the Securities and Exchange Commission. Such notice shall specify: (i) the Bonds to be redeemed which shall be identified by the designation of the Bonds, the maturity dates and interest rates of the Bonds to be redeemed and the date such Bonds were issued; (ii) the numbers and other distinguishing marks of the Bonds to be redeemed, including CUSIP numbers; (iii) the redemption date; (iv) the redemption price; (v) of each such Bond, the principal amount thereof to be redeemed; (vi) that such Bonds will be redeemed at the principal corporate trust office of the Trustee, giving the address thereof and the name and telephone number of a representative of the Trustee to whom inquiries may be directed; (vii) that no representation is made as to the correctness of the CUSIP number either as printed on the Bonds or as contained in such notice and that an error in a CUSIP number as printed on such Bond or as contained in such notice shall not affect the validity of the proceedings for redemption; and (viii) if the Authority's obligation to redeem the Bonds is subject to one or more conditions, a statement to the effect that describes the condition to such redemption. In preparing and delivering such notice, the Trustee shall take into account, to the extent applicable, the prevailing tax exempt securities industry standards and any regulatory statement of any federal or state administrative body having jurisdiction over the

Authority or the tax exempt securities industry, including Release No. 34-23856 of the Securities and Exchange Commission or any subsequent amending or superseding release.

Failure to give any notice specified in clause (a) of the previous paragraph or any defect therein, shall not affect the validity of any proceedings for the redemption of any other Bond. Failure to give any notice specified in clause (b) or (c) of the previous paragraph, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Bonds.

Any notice mailed or provided herein shall conclusively be presumed to have been given whether or not actually received by any Bondholder.

Notice of any optional redemption may be canceled by the Authority prior to the designated redemption date by giving written notice of such cancellation to all parties who were given notice of redemption in the same manner as the notice was given.

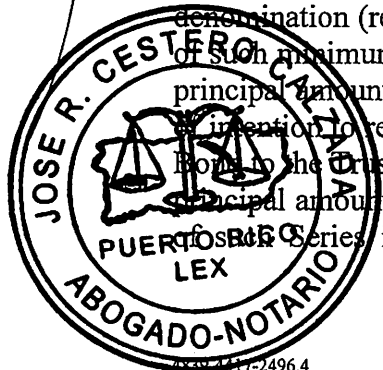
Section 3.03 Bonds Payable on Redemption Date; Interest Ceases to Accrue.

On or before the date fixed for redemption, moneys shall be deposited with the Trustee to pay the principal of and premium, if any, and interest accrued to the redemption date on the Bonds called for redemption. Upon the happening of the conditions of this Section, the Bonds or portions thereof duly called for redemption shall cease to bear interest from and after the redemption date, shall no longer be entitled to the benefits provided by this Agreement and shall not be deemed to be Outstanding under the provisions of this Agreement.

Section 3.04 Selection of Bonds to be Redeemed. Unless otherwise required by any Supplemental Agreement, in the event of redemption of less than all the Outstanding Bonds of the same Series and maturity, the particular Bonds or portions thereof to be redeemed shall be selected by the Trustee in such manner as the Trustee in its discretion may deem fair, except that to the extent practicable, the Trustee shall select Bonds for redemption such that no Bond remaining Outstanding shall be of a denomination of less than \$5,000. In the event of redemption of less than all the Outstanding Bonds of the same Series stated to mature on different dates, the principal amount of such Series of Bonds to be redeemed shall be applied in any order of maturity of the Outstanding Series of Bonds to be redeemed that the Authority may elect upon receipt of an opinion of Bond Counsel that such redemption would not result in the interest payable on such Bonds being included in gross income for federal income tax purposes to the Holders thereof under the Code. The portion of Bonds of any Series to be redeemed in part shall be in the principal amount of the minimum authorized denomination thereof or some integral multiple thereof and, in selecting Bonds of a particular Series for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of such Series which is obtained by dividing the principal amount of such registered Bond by the minimum denomination (referred to below as a "unit") then issuable rounded down to the integral multiple of such minimum denomination. If it is determined that one or more, but not all, of the units of principal amount represented by any such Bond is to be called for redemption, then, upon notice of intention to redeem such unit or units, the Holder of such Bond shall forthwith surrender such Bond to the Trustee for (a) payment to such Holder of the redemption price of the unit or units of principal amount called for redemption and (b) delivery to such Holder of a new Bond or Bonds of the same Series in the aggregate unpaid principal amount of the unredeemed balance of the

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principal amount of such Bond. New Bonds of the same Series and maturity representing the unredeemed balance of the principal amount of such Bond shall be issued to the registered Holder thereof, without charge therefor. If the Holder of any such Bond of a denomination greater than a unit shall fail to present such Bond to the Trustee for payment and exchange as aforesaid, such Bond shall, nevertheless, become due and payable on the date fixed for redemption to the extent of the unit or units of principal amount called for redemption (and to that extent only).

Section 3.05 Purchase of Bonds.

The Authority may purchase or cause to be purchased any Bonds of any particular Series or maturity in lieu of redemption of such Bonds (in which event any Bonds so purchased shall be cancelled and shall cease to bear interest as provided in Sections 2.08 and 4.03) or for any other purpose pursuant to written instructions given by the Authority to the Trustee. Such purchases shall be made in such manner as directed by the Authority. The Authority or the Trustee shall pay the purchase price of such Bonds together with accrued interest thereon from such funds as may be available therefor pursuant to this Agreement, any Supplemental Agreement, or as otherwise may be made available by the Authority.

ARTICLE IV

CONSTRUCTION FUND

Section 4.01 Construction Fund.

A special fund is hereby created and designated the "Puerto Rico Aqueduct and Sewer Authority Construction Fund" (herein called the "Construction Fund") which shall be held by the Trustee.

There shall be deposited with the Trustee to the credit of the Construction Fund (i) the amounts required to be deposited under the resolution of the Board authorizing the issuance of particular Series of Bonds or the applicable Supplemental Agreement and (ii) at the election of the Board, any moneys of the Authority that may properly be deposited to the credit of said Fund, or the proceeds of any grants received from any source, to be used for the purpose of paying the Cost of Improvements. All earnings on moneys in each Account and subaccount shall be credited to such Account and subaccount and in accordance with Section 6.01(a).

The moneys in the Construction Fund shall be held in trust, separate and apart from all other funds of the Authority and applied only to the payment of the Costs of Issuance of the Bonds, interest during construction and for such period thereafter as the Authority shall determine and the Cost of Improvements (in accordance with and subject to the limitations of this Article), and, pending such application, such moneys shall be subject to a lien and charge in favor of the Holders of the Bonds and for the further security of such Holders until paid out as herein provided.

The Authority may establish additional Accounts and subaccounts within the Construction Fund as may be provided in said Supplemental Agreement which Accounts and the proceeds of the particular Series of Bonds deposited therein (together with all investments

thereof and investment income earned thereon), unless otherwise provided in the applicable Supplemental Agreement, are pledged solely to the payment of such particular Series of Bonds. Deposits shall be made to the credit of the Construction Fund and any Accounts and subaccounts as provided in such Supplemental Agreement.

Section 4.02 Payment From Construction Fund.

(a) Payment or reimbursement from the Construction Fund of the Cost of Improvements shall be made by the Trustee upon written approval of an Authorized Representative of the Authority stating the name of the payee, the purpose of each payment in terms sufficient for identification, the amount of each payment and that such cost constitutes a Cost of Improvement hereunder.

(b) Payment of Costs of Issuance shall be made by the Trustee upon receipt of, and in accordance with, a certificate signed by an Authorized Representative of the Authority stating the name of the payee, the purpose of each payment in terms sufficient for identification, and the amount of each such payment.

(c) Payment of interest on Bonds during construction and for such period thereafter as aforesaid shall be made by the Trustee upon receipt of, and in accordance with, the written direction of an Authorized Representative of the Authority instructing the Trustee to transfer such amount from the Construction Fund to the applicable Interest Account.

(d) When the construction of any Improvement for which a Series of Bonds was issued shall have been completed, which fact shall be evidenced to the Trustee by a certificate stating the date of such completion, signed by the Executive President and approved by the Consulting Engineer, the balance in the Construction Fund not reserved by the Authority for the payment of any remaining part of any Cost of Improvements or for any other purpose for which moneys to the credit of the Construction Fund may be expended shall be transferred to the credit of the Capital Improvement Fund, or at the option of the Authority, to the credit of the Sinking Fund for the payment of principal of Bonds or retained in the Construction Fund for other Improvements.

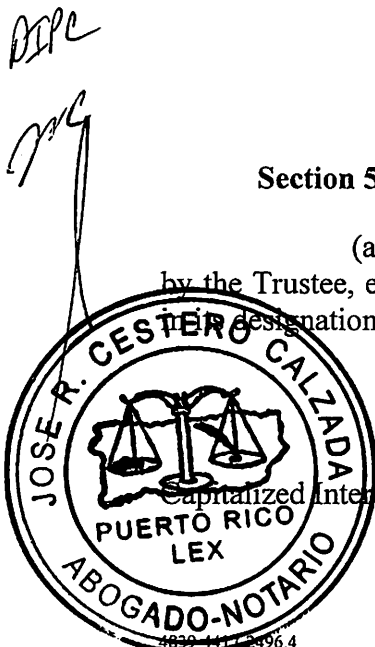
ARTICLE V

FUNDS AND ACCOUNTS

Section 5.01 Establishment of Certain Funds and Accounts.

(a) There are hereby established the following funds and accounts to be held by the Trustee, each of which Fund shall include "Puerto Rico Aqueduct and Sewer Authority" in its designation:

- (i) Operating Revenue Fund;
- (ii) Construction Fund, in which there shall be established a Capitalized Interest Account and a Costs of Issuance Account;



(iii) Senior Bond Fund, in which there shall be established a Senior Interest Account, a Senior Principal Account and a Senior Sinking Fund Account, and a separate subaccount in each such Account with respect to each issue of Senior Indebtedness;

(iv) Senior Debt Service Reserve Fund, in which there shall be established a Senior Debt Service Reserve Account for each Series of Senior Bonds as required by the applicable Supplemental Agreement;

(v) Senior Subordinate Bond Fund, in which there shall be established a Senior Subordinate Interest Account, a Senior Subordinate Principal Account and a Senior Subordinate Sinking Fund Account, and a separate subaccount in each such Account with respect to each issue of Senior Subordinate Indebtedness;

(vi) Senior Subordinate Debt Service Reserve Fund, in which there shall be established a Senior Subordinate Debt Service Reserve Account for each Series of Senior Subordinate Bonds as required by the applicable Supplemental Agreement;

(vii) Subordinate Bond Fund, in which there shall be established a Subordinate Interest Account, a Subordinate Principal Account and a Subordinate Sinking Fund Account, and a separate subaccount in each Account with respect to each issue Subordinate Indebtedness;

(viii) Subordinate Debt Service Reserve Fund in which there shall be established a Subordinate Debt Service Reserve Account for each Series of Subordinate Bonds, as required by the applicable Supplemental Agreement;

(ix) Operating Reserve Fund;

(x) Capital Improvement Fund;

(xi) Commonwealth Payments Fund in which there shall be established a Commonwealth Guaranteed Indebtedness Account and a Commonwealth Supported Obligations Account; and

(xii) Surplus Fund in which there shall be established a Rate Stabilization Account.

(b) There is hereby established the Current Expense Fund to be held by the Authority or by a Qualified Depository on behalf of the Authority.

Section 5.02 Disposition of Operating Revenues and Authority Revenues

(a) The Authority shall deposit, or cause to be deposited, all Operating Revenues in the Operating Revenue Fund. Upon the occurrence of an Event of Default specified in Section 8.01(a), (b), (c), (d) or (e) hereof, amounts on deposit in the Operating Revenue Fund shall be applied in accordance with Section 8.06 hereof. Authority Revenues consisting of governmental grants or appropriations available to pay Current Expenses of the Authority, shall be deposited in the Current Expense Fund. Authority Revenues consisting of grants or

appropriations received by the Authority for the purpose of paying of principal of and interest on Bonds or Other System Indebtedness shall be deposited in the applicable debt service fund. Authority Revenues consisting of amounts transferred from the Budgetary Reserve Fund to the Trustee shall be deposited in the fund designated in the applicable Disbursement Schedule. Authority Revenues consisting of amounts received from the Commonwealth on account of Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations shall be deposited directly in the Commonwealth Payments Fund, are not subject to the lien of the Trust Agreement and shall only be applied to the payment of principal and interest on Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations, as applicable.

(b) Beginning on the first Business Day of each month, the Trustee shall transfer the amount on deposit in the Operating Revenue Fund, in the following order of priority, but if the amounts so transferred shall be insufficient (after taking into account all prior deposits) to make any deposit as set forth below in this subsection, the Trustee shall only be required to deposit the amount then remaining after such prior deposits:

(i) To the Senior Bond Fund, the amount required to be deposited therein pursuant to Section 5.03(a);

(ii) To the Senior Debt Service Reserve Fund, the amount required to be deposited therein pursuant to Section 5.04(a);

(iii) To the Senior Subordinate Bond Fund, the amount required to be deposited therein pursuant to Section 5.05(a);

(iv) To the Senior Subordinate Debt Service Reserve Fund, the amount required to be deposited therein pursuant to Section 5.06(a);

(v) To the Subordinate Bond Fund, the amount required to be deposited therein pursuant to Section 5.07(a);

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(vi) To the Subordinate Debt Service Reserve Fund, the amount required to be deposited therein pursuant to section 5.08(a);

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(vii) To the Current Expense Fund, the amount required to be deposited therein pursuant to section 5.09;

(viii) To the Operating Reserve Fund, the amount required to restore the balance on deposit therein to the Operating Reserve Requirement and to pay interest on and reimbursement obligations due with respect to an Operating Reserve Facility in accordance with Section 5.10(a);

(ix) To the Capital Improvement Fund, the amount required to be deposited therein pursuant to Section 5.11(a);

(x) To the Commonwealth Payments Fund, the amount required to be deposited therein pursuant to Section 5.12(a) and (b); and



(xi) To the Surplus Fund, any remaining balance.

(c) The Trustee shall provide the Authority with a monthly certificate setting forth that, to the extent that amounts on deposit in the Operating Revenue Fund were sufficient therefor, the transfers required by clauses (i) through (x) of subsection (b) above have been made and the respective balances of such Funds and Accounts. If the amount so deposited on or before any Deposit Date to the credit of the foregoing Funds, Account and subaccounts shall be less than the respective required amounts for such month, said requirements therefor shall nevertheless be cumulative and the amount of any deficiency on any Deposit Date shall be added to the amount otherwise required to be deposited in each month thereafter until such time as such deficiency shall have been eliminated; provided, however, that any deficiency in the amounts required to be deposited in the Commonwealth Payments Fund pursuant to clause (x) of subsection (b) above to pay the Interest Accrual and the Principal Accrual on Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations on any applicable Interest Payment Date or principal payment date shall not be cumulative and shall be deemed to be eliminated as of such Interest Payment Date or principal payment date. In accordance with the provisions of Section 10.02 hereof, in the event that by any Deposit Date there are insufficient moneys to make in full the deposit to the Commonwealth Payments Fund for such month as required by clause (x) of subsection (b) above, the Trustee shall provide notice of such insufficiency to the Consulting Engineer, other Consultants, if any, and to the Government Development Bank for Puerto Rico. In no event will failure to make the transfers required by subsection (b) of this Section 5.02 be an Event of Default hereunder if such failure is due to insufficient moneys therefor.

Section 5.03 Senior Bond Fund.

(a) Deposits to the Senior Bond Fund. In accordance with Section 5.02 (except that no distinction or preference shall exist in making the following deposits into the Senior Interest Account, the Senior Principal Account or the Senior Sinking Fund Account of the Senior Bond Fund, in each case, such accounts being on a parity with each other as to the deposits therein under said Section 5.02), beginning on the first Business Day of a month, the Trustee shall make the following deposits:

(1) to the subaccounts established for each issue of Senior Indebtedness in the Senior Interest Account, (i) an amount of Authority Revenues equal to the Interest Accrual on all the outstanding Senior Indebtedness to and including the last day of the next calendar month; (ii) the amount of any payments or reimbursements due in the next ensuing month to each Enhancement Facility Provider to the extent such payment or reimbursement obligation constitutes Senior Indebtedness hereunder; and (iii) the amount of any payments due in the next ensuing month under any Hedge Agreement or Qualified Swap secured on a parity with Senior Indebtedness; provided, further, that any such deposits shall be adjusted to give credit for any other available money then in such interest account or subaccount or otherwise available and designated to be used for such purpose; and

(2) to the subaccounts established for each issue of Senior Indebtedness in the Senior Principal Account and Senior Sinking Fund Account, an amount of Authority Revenues equal to the Principal Accrual on the outstanding Senior Indebtedness to and

including the last day of the next calendar month; provided, however, such deposits shall be adjusted to give credit for any other available money then in the principal or sinking fund account or subaccount or otherwise available and designated to be used for such purpose.

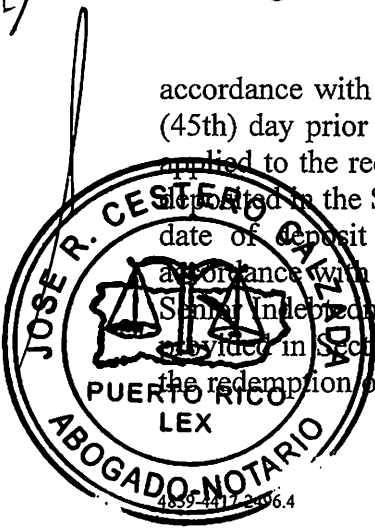
(b) Use of Moneys in Senior Bond Fund. (1) On or before each Interest Payment Date, the Trustee shall pay to the Holders of Senior Indebtedness from funds on deposit in the Senior Interest Account, the amount required for the payment of the interest becoming due on Senior Indebtedness on such Interest Payment Date; provided, however, if the Trustee is not the Fiduciary for such Senior Indebtedness, the Trustee will withdraw from the Senior Interest Account and transfer to the Fiduciary therefor not later than one (1) Business Day prior to the applicable Interest Payment Date the amount required for the payment of interest becoming due on the Senior Indebtedness for which such Fiduciary so serves. On or before the date on which (x) regularly scheduled payments under a Hedge Agreement or Qualified Swap are due or (y) payments or reimbursements to an Enhancement Facility Provider are to be made, in each case relating to Senior Indebtedness, the Trustee shall pay to the persons entitled thereto from funds on deposit in the Senior Interest Account the corresponding amounts owing to such persons on such date.

(2) On or before each payment date, the Trustee shall pay to the Holders of Senior Indebtedness from funds on deposit in the Senior Principal Account, the amount required for the payment of principal becoming due on and any termination payment due in respect of Senior Indebtedness on such payment date and with respect to Senior Indebtedness as to which the Trustee is not the Fiduciary therefor, the Trustee shall pay to each such Fiduciary not later than one (1) Business Day prior to the applicable payment date from funds on deposit in the Senior Principal Account the corresponding amounts required for the payment of principal becoming due on and any termination payment due in respect of such Senior Indebtedness.

(3) On or before each mandatory redemption date, the Trustee shall pay to the Holders of Senior Indebtedness from funds on deposit in the Senior Sinking Fund Account, the amount required for the payment of mandatory sinking fund installments becoming due on Senior Indebtedness on such mandatory redemption payment date and with respect to Senior Indebtedness as to which the Trustee is not the Fiduciary therefor, the Trustee shall pay to each such Fiduciary not later than one (1) Business Day prior to the applicable mandatory redemption payment date from funds on deposit in the Senior Sinking Fund Account the corresponding amounts required for the payment of mandatory sinking fund installments becoming due on such Senior Indebtedness.

(4) Any amount in the Senior Sinking Fund Account not applied in accordance with subsection (c) below to the purchase of Senior Indebtedness by the forty-fifth (45th) day prior to the next date on which such Senior Indebtedness is so redeemable shall be applied to the redemption of such Senior Indebtedness on such redemption date. Any amounts not applied to the redemption of such Senior Indebtedness on such redemption date shall be applied to the Senior Sinking Fund Account and not applied within twelve (12) months of their date of deposit to the purchase or redemption of Senior Indebtedness (except if held in accordance with Section 11.01 hereof) shall be transferred to the Senior Interest Account. The Senior Indebtedness to be purchased or redeemed shall be selected by the Trustee in the manner provided in Section 3.04 hereof. Amounts in the Senior Sinking Fund Account to be applied to the redemption of Senior Indebtedness shall be paid to the respective Trustee or Fiduciary on or

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before the redemption date and applied by them on such redemption date to the payment of the redemption price of the Senior Indebtedness being redeemed.

(c) Notwithstanding the provisions of clause (3) of paragraph (b) of this Section, the Authority may, at any time but in no event less than forty-five (45) days prior to the date on which a mandatory sinking fund installment is scheduled to be due on Senior Indebtedness, direct the Trustee or Fiduciary to purchase, with money on deposit in the Senior Sinking Fund Account, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, term bonds to be redeemed on such date. At the direction of the Authority, any term bond so purchased may be cancelled upon receipt thereof by the Trustee or the Fiduciary and evidence of such cancellation shall be given to the Authority. The principal amount of each term bond so canceled shall be credited against the sinking fund installment due on such date as long as such term bond is canceled by the Trustee or Fiduciary prior to the date on which notice of redemption is given.

(d) In the event the amount on deposit in the Senior Interest Account on any Interest Payment Date exceeds the amount required to pay interest on the Senior Indebtedness on such Interest Payment Date, the Authority shall, if the amount on deposit in any Senior Debt Service Reserve Account is less than the applicable Debt Service Reserve Requirement, instruct the Trustee to transfer such excess to such Senior Debt Service Reserve Account to the extent of such deficiency, and otherwise retain any remaining excess in the Senior Interest Account or instruct the Trustee to transfer any such remaining excess to the Senior Principal Account or Senior Sinking Fund Account to be credited against subsequent required deposits thereto, as determined by the Authority.

(e) In the event the amount on deposit in the Senior Principal Account or Senior Sinking Fund Account on any principal or mandatory redemption payment date exceeds the amount required on such date to pay Senior Indebtedness at maturity or pursuant to mandatory sinking fund requirements, the Authority shall, if the amount on deposit in any Senior Debt Service Reserve Account is less than the applicable Debt Service Reserve Requirement, instruct the Trustee to transfer such excess to such Senior Debt Service Reserve Account to the extent of such deficiency, and otherwise retain such excess in the Senior Principal Account or Senior Sinking Fund Account, as the case may be, or instruct the Trustee to transfer such excess to the Senior Interest Account to be credited against subsequent required deposits thereto, as determined by the Authority.

(f) In the event the balance on deposit in the Senior Principal Account, the Senior Sinking Fund Account or the Senior Interest Account is insufficient for the purposes thereof, the Trustee shall deposit in such Accounts such amounts as may be necessary therefor first, from other legally available funds transferred by the Authority to the Trustee not subject to the lien of this Agreement; second, from the Surplus Fund; third, from the Commonwealth Payments Fund; fourth, from the Capital Improvement Fund; fifth, from the Operating Reserve Fund; sixth, from the Current Expense Fund and last, from the applicable Senior Debt Service Reserve Account pursuant to Section 5.04.

Section 5.04 Senior Debt Service Reserve Fund.

(a) In each month the Trustee shall deposit to each Account in the Senior Debt Service Reserve Fund (i) beginning on the first Business Day of such month, after making the deposit required by Section 5.02 (b)(i), an amount of Authority Revenues equal to (x) 1/60 of the amount (or such greater amount specified in the Supplemental Agreement authorizing any Senior Bonds), if any, necessary to restore the amount on deposit therein to the related Debt Service Reserve Requirement in the event of an increase in the applicable Debt Service Reserve Requirement upon the issuance of additional Senior Bonds, and (y) except as provided in paragraph (c) below, 1/12 of the amount, if any, necessary to restore the amount on deposit therein to the related Debt Service Reserve Requirement in the event of any other deficiency and (ii) the amount of proceeds of any Senior Bonds as required by the applicable Supplemental Agreement.

(b) Amounts in each Account in the Senior Debt Service Reserve Fund shall be used to pay debt service on the related Series of Senior Bonds on the dates such debt service is due when insufficient funds for that purpose are available in the Senior Bond Fund, after making any transfers pursuant to Section 5.03(f) and all cash and investments in an Account in the Senior Debt Service Reserve Fund shall be used, together with other amounts available for such purpose hereunder, to provide for payment in full of the related Series of Senior Bonds when the aggregate of such amounts is sufficient for such purpose. Amounts in each Account of the Senior Debt Service Reserve Fund shall be pledged to the Holders of the applicable Series of Senior Bonds to which such Account relates. In no event shall amounts on deposit in the Senior Debt Service Reserve Fund be used to pay principal of, interest on, or any other amounts due with respect to, Other System Indebtedness.

(c) In lieu of or in addition to cash or investments, at any time the Authority may cause to be deposited to the credit of any Senior Debt Service Reserve Account, a Debt Service Reserve Facility in the stated amount equal to all or a portion of the applicable Debt Service Reserve Requirement, irrevocably payable to the Trustee, as beneficiary for the Holders of the Senior Bonds to which such Account relates. If (x) the Authority receives an expiration notice and the applicable Enhancement Facility Provider does not extend the expiration date of a Debt Service Reserve Facility, (y) the Authority receives notice of the termination of a Debt Service Reserve Facility, or (z) the Authority receives notice that the applicable Enhancement Facility Provider of a Debt Service Reserve Facility no longer has the required credit rating, the Authority immediately shall (i) provide a substitute Debt Service Reserve Facility, (ii) deposit a sum equal to the Debt Service Reserve Requirement to the credit of the Senior Debt Service Reserve Account to which such Debt Service Reserve Facility relates (A) in equal monthly installments over the next succeeding 12 months in the case of receipt of an expiration notice, (B) prior to the termination date in the case of receipt of a termination notice, or (C) immediately in the case of such reduction in credit rating, or (iii) instruct the Trustee to draw on such Debt Service Reserve Facility (A) 12 months prior to expiration of the Debt Service Reserve Facility in the case of receipt of an expiration notice, (B) prior to the termination date in the case of receipt of a termination notice, or (C) immediately in the case of such reduction in credit rating and deposit the proceeds of such drawing to the credit of the Senior Debt Service Reserve Account to which such Debt Service Reserve Facility relates.



If a disbursement is made pursuant to a Debt Service Reserve Facility, the Authority shall either (i) reinstate such Facility in full or (ii) deposit to the credit of the Senior Debt Service Reserve Account a sum equal to the amount of the disbursement made under such Facility in accordance with its provisions.

(d) On or within five days after each Reserve Determination Date, the Trustee shall determine whether the balance on deposit in each Senior Debt Service Reserve Account was, as of the Reserve Determination Date, at least equal to the applicable Debt Service Reserve Requirement. In making such determination, any obligations in a Senior Debt Service Reserve Account shall be valued in accordance with Section 6.01.

In the event the amount on deposit in a Senior Debt Service Reserve Account exceeds the applicable Debt Service Reserve Requirement, the Trustee shall transfer such excess as directed in writing by an Authorized Representative of the Authority, such direction to be accompanied by an Opinion of Bond Counsel that such transfer will not adversely affect the exclusion (if applicable) from gross income of interest on the respective Series of Senior Bonds to which such excess relates (i) to the subaccount of the Senior Principal Account corresponding to such Series of Senior Bonds, (ii) to fund the Operating Reserve Fund until the balance therein equals the Operating Reserve Requirement, or (iii) to the Authority to be used to pay all or any portion of the Costs of Improvements designated by the Authority and approved by Bond Counsel. If an Authorized Representative of the Authority calls for a Reserve Determination Date in connection with the refunding and/or defeasance of a Series of Senior Bonds, then the Trustee is authorized to take such refunding and/or defeasance into account in valuing the Senior Debt Service Reserve Account securing such Series of Senior Bonds and is further authorized to apply the amount of any surplus arising from such valuation to reduce the amount of the refunding Bonds and/or to provide for the refunding or defeasance of the Series of Senior Bonds in such manner as such Authorized Representative may direct.

(e) In connection with any issuance of Senior Bonds, the Authority may, in the applicable Supplemental Agreement, provide that no deposit to the Senior Debt Service Reserve Fund shall be made for or with respect to such additional Senior Bonds, in which case: (i) the lien of and pledge on the Senior Debt Service Reserve Fund shall not extend to or be for the benefit of the Holders of such Senior Bonds, and (ii) the Annual Debt Service on such Senior Bonds shall not be taken into account in determining the applicable Debt Service Reserve Requirement.

In the event that a Supplemental Agreement so provides, then such Supplemental Agreement may also provide for the creation of a special reserve account solely for the Senior Bonds to which such Supplemental Agreement relates, separate from the Senior Debt Service Reserve Fund, and may provide for the deposit therein, at the time of issuance or from time to time thereafter, of an amount specified in the applicable Supplemental Agreement as the required reserve for such Senior Bonds, or may require the Authority to deposit to the credit of such special reserve account a Debt Service Reserve Facility to enhance the security for such Senior Bonds in lieu of a funded reserve account.

Section 5.05 Senior Subordinate Bond Fund.

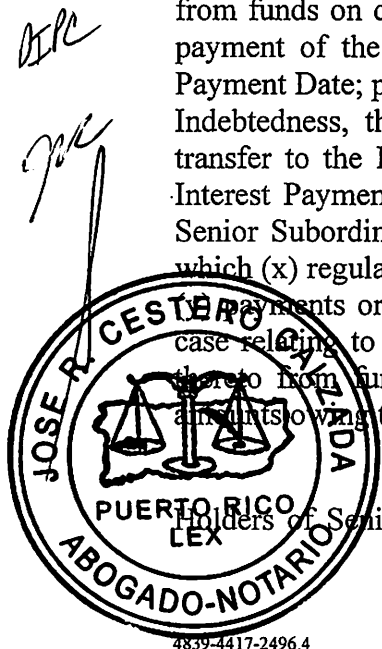
(a) Deposits to the Senior Subordinate Bond Fund. In accordance with Section 5.02 (except that no distinction or preference shall exist in making the following deposits into the Senior Subordinate Interest Account, the Senior Subordinate Principal Account or the Senior Subordinate Sinking Fund Account of the Senior Subordinate Bond Fund, in each case, such accounts being on a parity with each other as to the deposits therein under said Section 5.02), beginning on the first Business Day of the month, after making the deposits required by Section 5.02(b)(i) and (ii), the Trustee shall make the following deposits:

(1) to the subaccounts established for each issue of Senior Subordinate Indebtedness in the Senior Subordinate Interest Account, (i) an amount of Authority Revenues equal to the Interest Accrual on all the outstanding Senior Subordinate Indebtedness to and including the last day of the next calendar month; (ii) the amount of any payments or reimbursements due in the next ensuing month to each Enhancement Facility Provider to the extent such payment or reimbursement obligation constitutes Senior Subordinate Indebtedness hereunder; (iii) the amount of any payments due in the next ensuing month under any Hedge Agreement or Qualified Swap secured on a parity with Senior Subordinate Indebtedness; provided, further, that any such deposits shall be adjusted to give credit for any other available money then in such interest account or subaccount or otherwise available and designated to be used for such purpose; and

(2) to the subaccounts established for each issue of Senior Subordinate Indebtedness in the Senior Subordinate Principal Account and Senior Subordinate Sinking Fund Account, an amount of Authority Revenues equal to the Principal Accrual on the outstanding Senior Subordinate Indebtedness to and including the last day of the next calendar month; provided, however, such deposits shall be adjusted to give credit for any other available money then in the principal or sinking fund account or subaccount or otherwise available and designated to be used for such purpose.

(b) Use of Moneys in Senior Subordinate Bond Fund. (1) On or before each Interest Payment Date, the Trustee shall pay to the Holders of Senior Subordinate Indebtedness from funds on deposit in the Senior Subordinate Interest Account, the amount required for the payment of the interest becoming due on Senior Subordinate Indebtedness on such Interest Payment Date; provided, however, if the Trustee is not the Fiduciary for such Senior Subordinate Indebtedness, the Trustee will withdraw from the Senior Subordinate Interest Account and transfer to the Fiduciary therefor not later than one (1) Business Day prior to the applicable Interest Payment Date the amount required for the payment of interest becoming due on the Senior Subordinate Indebtedness to which the Fiduciary so serves. On or before the date on which (x) regularly scheduled payments under a Hedge Agreement or Qualified Swap are due or payments or reimbursements to an Enhancement Facility Provider are to be made, in each case relating to Senior Subordinate Indebtedness, the Trustee shall pay to the persons entitled thereto from funds on deposit in the Senior Subordinate Interest Account the corresponding amounts owing to such persons on such date.

(2) On or before each payment date, the Trustee shall pay to the Holders of Senior Subordinate Indebtedness from funds on deposit in the Senior Subordinate



Principal Account, the amount required for the payment of principal becoming due on and any termination payment due in respect of Senior Subordinate Indebtedness on such payment date and with respect to Senior Subordinate Indebtedness as to which the Trustee is not the Fiduciary therefor, the Trustee shall pay to each such Fiduciary not later than one (1) Business Day prior to the applicable payment date from funds on deposit in the Senior Subordinate Principal Account the corresponding amounts required for the payment of principal becoming due on and any termination payment due in respect of such Senior Subordinate Indebtedness.

(3) On or before each mandatory redemption date, the Trustee shall pay to the Holders of Senior Subordinate Indebtedness from funds on deposit in the Senior Subordinate Sinking Fund Account, the amount required for the payment of mandatory sinking fund installments becoming due on Senior Subordinate Indebtedness on such mandatory redemption payment date and with respect to Senior Subordinate Indebtedness as to which the Trustee is not the Fiduciary therefor, the Trustee shall pay to each such Fiduciary not later than one (1) Business Day prior to the applicable mandatory redemption payment date from funds on deposit in the Senior Subordinate Sinking Fund Account the corresponding amounts required for the payment of mandatory sinking fund installments becoming due on such Senior Subordinate Indebtedness.

(4) Any amount in the Senior Subordinate Sinking Fund Account not applied in accordance with subsection (c) below to the purchase of Senior Subordinate Indebtedness by the forty-fifth (45th) day prior to the next date on which such Senior Subordinate Indebtedness is so redeemable shall be applied to the redemption of such Senior Subordinate Indebtedness on such redemption date. Any amounts deposited in the Senior Subordinate Sinking Fund Account and not applied within twelve (12) months of their date of deposit to the purchase or redemption of Senior Subordinate Indebtedness (except if held in accordance with Section 11.01 hereof) shall be transferred to the Senior Subordinate Interest Account. The Senior Subordinate Indebtedness to be purchased or redeemed shall be selected by the Trustee in the manner provided in Section 3.04 hereof. Amounts in the Senior Subordinate Sinking Fund Account to be applied to the redemption of Senior Subordinate Indebtedness shall be paid to the respective Trustee or Fiduciary on or before the redemption date and applied by them on such redemption date to the payment of the redemption price of the Senior Subordinate Indebtedness being redeemed.

(c) Notwithstanding the provisions of this Section, the Authority may, at any time but in no event less than forty-five (45) days prior to the date on which a mandatory sinking fund installment is scheduled to be due on Senior Subordinate Indebtedness, direct the Trustee or Fiduciary to purchase, with money on deposit in the Senior Subordinate Sinking Fund Account, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, term bonds to be redeemed on such date. At the direction of the Authority, any term bond so purchased may be cancelled upon receipt thereof by the Trustee or the Fiduciary and evidence of such cancellation shall be given to the Authority. The principal amount of each term bond so canceled shall be credited against the sinking fund installment due on such date as long as such term bond is canceled by the Trustee or Fiduciary prior to the date on which notice of redemption is given.

(d) In the event the amount on deposit in the Senior Subordinate Interest Account on any Interest Payment Date exceeds the amount required to pay interest on the Senior Subordinate Indebtedness on such Interest Payment Date, the Authority shall, if the amount on deposit in any Senior Subordinate Debt Service Reserve Account is less than the applicable Debt Service Reserve Requirement, instruct the Trustee to transfer such excess to such Senior Subordinate Debt Service Reserve Account to the extent of such deficiency, and otherwise retain any remaining excess in the Senior Subordinate Interest Account or instruct the Trustee to transfer any such remaining excess to the Senior Subordinate Principal Account or Senior Subordinate Sinking Fund Account to be credited against subsequent required deposits thereto, as determined by the Authority.

(e) In the event the amount on deposit in the Senior Subordinate Principal Account or Senior Subordinate Sinking Fund Account on any principal or mandatory redemption payment date exceeds the amount required on such date to pay Senior Subordinate Indebtedness at maturity or pursuant to mandatory sinking fund requirements, the Authority shall, if the amount on deposit in any Senior Subordinate Debt Service Reserve Account is less than the applicable Debt Service Reserve Requirement, instruct the Trustee to transfer such excess to such Senior Subordinate Debt Service Reserve Account to the extent of such deficiency, and otherwise retain such excess in the Senior Subordinate Principal Account or Senior Subordinate Sinking Fund Account, as the case may be, or instruct the Trustee to transfer such excess to the Senior Subordinate Interest Account to be credited against subsequent required deposits thereto, as determined by the Authority.

(f) In the event the balance on deposit in the Senior Subordinate Principal Account, the Senior Subordinate Sinking Fund Account or the Senior Subordinate Interest Account is insufficient for the purposes thereof, the Trustee shall deposit in such Accounts such amounts as may be necessary therefor, after any transfer required by Section 5.03(f), first, from other legally available funds transferred by the Authority to the Trustee not subject to the lien of this Agreement; second, from the Surplus Fund; third, from the Commonwealth Payments Fund; fourth, from the Capital Improvement Fund; fifth, from the Operating Reserve Fund; sixth, from the Current Expense Fund and last, from the applicable Senior Subordinate Debt Service Reserve Account pursuant to Section 5.06.

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Section 5.06 Senior Subordinate Debt Service Reserve Fund.

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(a) In each month the Trustee shall deposit to each Account in the Senior Subordinate Debt Service Reserve Fund (i) beginning on the first Business Day of such month, after making the deposits required by Section 5.02(b)(i) through (iii), an amount of Authority Revenues equal to (x) 1/60 of the amount (or such greater amount specified in the Supplemental Agreement authorizing any Senior Subordinate Bonds), if any, necessary to restore the amount on deposit therein to the related Debt Service Reserve Requirement in the event of an increase in the applicable Debt Service Reserve Requirement upon the issuance of additional Senior Subordinate Bonds, and (y) except as provided in paragraph (c) below, 1/12 of the amount, if any, necessary to restore the amount on deposit therein to the related Debt Service Reserve Requirement in the event of any other deficiency and (ii) the amount of proceeds of any Senior Subordinate Bonds as required by the applicable Supplemental Agreement.



(b) Amounts in each Account in the Senior Subordinate Debt Service Reserve Fund shall be used to pay debt service on the related Series of Senior Subordinate Bonds on the dates such debt service is due when insufficient funds for that purpose are available in the Senior Subordinate Bond Fund, after making any transfers pursuant to Section 5.05(f) and all cash and investments in an Account in the Senior Subordinate Debt Service Reserve Fund shall be used, together with other amounts available for such purpose hereunder, to provide for payment in full of the related Series of Senior Subordinate Bonds when the aggregate of such amounts is sufficient for such purpose. Amounts in each Account of the Senior Subordinate Debt Service Reserve Fund shall be pledged to Holders of the Senior Subordinate Bonds to which such Account relates. In no event shall amounts on deposit in the Senior Subordinate Debt Service Reserve Fund be used to pay principal of, interest on or any other amounts due with respect to Other System Indebtedness.

(c) In lieu of or in addition to cash or investments, at any time the Authority may cause to be deposited to the credit of any Senior Subordinate Debt Service Reserve Account, a Debt Service Reserve Facility, in the stated amount equal to all or a portion of the applicable Debt Service Reserve Requirement, irrevocably payable to the Trustee, as beneficiary for the Holders of the Senior Subordinate Bonds to which such Account relates. If (x) the Authority receives an expiration notice and the applicable Enhancement Facility Provider does not extend the expiration date of a Debt Service Reserve Facility, (y) the Authority receives notice of the termination of a Debt Service Reserve Facility, or (z) the Authority receives notice that the Enhancement Facility Provider of a Debt Service Reserve Facility no longer has the required credit rating, the Authority immediately shall (i) provide a substitute Debt Service Reserve Facility, (ii) deposit a sum equal to the applicable Debt Service Reserve Requirement to the credit of the Senior Subordinate Debt Service Reserve Account to which such Debt Service Reserve Facility relates (A) in equal monthly installments over the next succeeding 12 months in the case of receipt of an expiration notice, (B) prior to the termination date in the case of receipt of a termination notice, or (C) immediately in the case of such reduction in credit rating, or (iii) instruct the Trustee to draw on such Debt Service Reserve Facility (A) 12 months prior to expiration of the Debt Service Reserve Facility in the case of receipt of an expiration notice, (B) prior to the termination date in the case of receipt of a termination notice, or (C) immediately in the case of such reduction in credit rating and deposit the proceeds of such drawing to the credit of the Senior Subordinate Debt Service Reserve Account to which such Debt Service Reserve Facility relates.

If a disbursement is made pursuant to a Debt Service Reserve Facility, the Authority shall either (i) reinstate such Facility in full or (ii) deposit to the credit of the Senior Subordinate Debt Service Reserve Account a sum equal to the amount of the disbursement made under such Facility in accordance with its provisions.

(d) On or within five days after each Reserve Determination Date, the Trustee shall determine whether the balance on deposit in each Senior Subordinate Debt Service Reserve Account was, as of the Reserve Determination Date, at least equal to the applicable Debt Service Reserve Requirement. In making such determination, any obligations in a Senior Subordinate Debt Service Reserve Account shall be valued in accordance with Section 6.01.

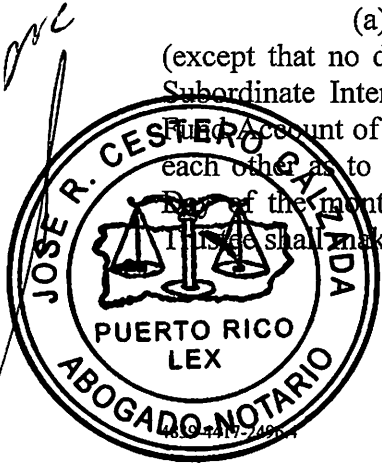
In the event the amount on deposit in a Senior Subordinate Debt Service Reserve Account exceeds the applicable Debt Service Reserve Requirement, the Trustee shall transfer such excess as directed in writing by an Authorized Representative of the Authority, such direction to be accompanied by an Opinion of Bond Counsel that such transfer will not adversely affect the exclusion (if applicable) from gross income of interest on the respective Series of Senior Subordinate Bonds to which such excess relates, (i) to the subaccount of the Senior Subordinate Principal Account corresponding to such Series of Senior Subordinate Bonds, (ii) to Fund the Operating Reserve Fund until the balance thereof equals the Operating Reserve Requirement, or (iii) to the Authority to be used to pay all or any portion of the Costs of Improvements designated by the Authority and approved by Bond Counsel. If an Authorized Representative of the Authority calls for a Reserve Determination Date in connection with the refunding and/or defeasance of a Series of Senior Subordinate Bonds, then the Trustee is authorized to take such refunding and/or defeasance into account in valuing the Senior Subordinate Debt Service Reserve Account securing such Series of Senior Subordinate Bonds and is further authorized to apply the amount of any surplus arising from such valuation to reduce the amount of the refunding bonds and/or to provide for the refunding or defeasance of the Series of Senior Subordinate Bonds in such manner as such Authorized Representative may direct.

(e) In connection with any issuance of Senior Subordinate Bonds, the Authority may, in the applicable Supplemental Agreement, provide that no deposit to the Senior Subordinate Debt Service Reserve Fund shall be made for or with respect to such additional Senior Subordinate Bonds, in which case: (i) the lien of and pledge on the Senior Subordinate Debt Service Reserve Fund shall not extend to or be for the benefit of the Holders of such Senior Subordinate Bonds, and (ii) the Annual Debt Service on such Senior Subordinate Bonds shall not be taken into account in determining the applicable Debt Service Reserve Requirement.

In the event that a Supplemental Agreement so provides, then such Supplemental Agreement may also provide for the creation of a special reserve account solely for the Senior Subordinate Bonds to which such Supplemental Agreement relates, separate from the Senior Subordinate Debt Service Reserve Fund, and may provide for the deposit therein, at the time of issuance or from time to time thereafter, of an amount specified in the applicable Supplemental Agreement as the required reserve for such Senior Subordinate Bonds, or may require the Authority to deposit to the credit of such special reserve account a Debt Service Reserve Facility to enhance the security for such Senior Subordinate Bonds in lieu of a funded reserve account.

Section 5.07 Subordinate Bond Fund.

(a) Deposits to the Subordinate Bond Fund. In accordance with Section 5.02 (except that no distinction or preference shall exist in making the following deposits into the Subordinate Interest Account, the Subordinate Principal Account or the Subordinate Sinking Fund Account of the Subordinate Bond Fund, in each case, such accounts being on a parity with each other as to the deposits therein under said Section 5.02), beginning on the first Business Day of the month, after making the deposits required by Section 5.02(b)(i) through (iv), the Trustee shall make the following deposits:



(1) to the subaccounts established for each issue of Subordinate Indebtedness in the Subordinate Interest Account, (i) an amount of Authority Revenues equal to the Interest Accrual on all the outstanding Subordinate Indebtedness to and including the last day of the next calendar month; (ii) the amount of any payments or reimbursements due in the next ensuing month to each Enhancement Facility Provider to the extent such payment or reimbursement obligation constitutes Subordinate Indebtedness hereunder; and (iii) the amount of any payments due in the next ensuing month under any Hedge Agreement or Qualified Swap secured on a parity with Subordinate Indebtedness; provided, further, that any such deposits shall be adjusted to give credit for any other available money then in such interest account or subaccount or otherwise available and designated to be used for such purpose; and

(2) to the subaccounts established for each issue of Subordinate Indebtedness in the Subordinate Principal Account and Subordinate Sinking Fund Account, an amount of Authority Revenues equal to the Principal Accrual on the outstanding Subordinate Indebtedness to and including the last day of the next calendar month; provided, however, such deposits shall be adjusted to give credit for any other available money then in the principal or sinking fund account or subaccount or otherwise available and designated to be used for such purpose.

(b) Use of Moneys in Subordinate Bond Fund. (1) On or before each Interest Payment Date, the Trustee shall pay to the Holders of Subordinate Indebtedness from funds on deposit in the Subordinate Interest Account, the amount required for the payment of the interest becoming due on Subordinate Indebtedness on such Interest Payment Date; provided, however, if the Trustee is not the Fiduciary for such Subordinate Indebtedness, the Trustee will withdraw from the Subordinate Interest Account and transfer to the Fiduciary therefor not later than one (1) Business Day prior to the applicable Interest Payment Date the amount required for the payment of interest becoming due on the Subordinate Indebtedness to which the Fiduciary so serves. On or before the date on which (x) regularly scheduled payments under a Hedge Agreement or Qualified Swap are due or (y) payments or reimbursements to an Enhancement Facility Provider are to be made, in each case relating to Subordinate Indebtedness, the Trustee shall pay to the persons entitled thereto from funds on deposit in the Subordinate Interest Account the corresponding amounts owing to such persons on such date.

(2) On or before each payment date, the Trustee shall pay to the Holders of Subordinate Indebtedness from funds on deposit in the Subordinate Principal Account, the amount required for the payment of principal becoming due on and any termination payment due in respect of Subordinate Indebtedness on such payment date and with respect to Subordinate Indebtedness as to which the Trustee is not the Fiduciary therefor, the Trustee shall pay to each such Fiduciary not later than one (1) Business Day prior to the applicable payment date from funds on deposit in the Subordinate Principal Account the corresponding amounts required for the payment of principal becoming due on and any termination payment due in respect of such Subordinate Indebtedness.

(3) On or before each mandatory redemption date, the Trustee shall pay to the Holders of Subordinate Indebtedness from funds on deposit in the Subordinate Sinking Fund Account, the amount required for the payment of mandatory sinking fund installments becoming due on Subordinate Indebtedness on such mandatory redemption payment date and

with respect to Subordinate Indebtedness as to which the Trustee is not the Fiduciary therefor, the Trustee shall pay to each such Fiduciary not later than one (1) Business Day prior to the applicable mandatory redemption payment date from funds on deposit in the Subordinate Sinking Fund Account the corresponding amounts required for the payment of mandatory sinking fund installments becoming due on such Subordinate Indebtedness.

(4) Any amount in the Subordinate Sinking Fund Account not applied in accordance with subsection (c) below to the purchase of Subordinate Indebtedness by the forty-fifth (45th) day prior to the next date on which such Subordinate Indebtedness is so redeemable shall be applied to the redemption of such Subordinate Indebtedness on such redemption date. Any amounts deposited in the Subordinate Sinking Fund Account and not applied within twelve (12) months of their date of deposit to the purchase or redemption of Subordinate Indebtedness (except if held in accordance with Section 11.01 hereof) shall be transferred to the Subordinate Interest Account. The Subordinate Indebtedness to be purchased or redeemed shall be selected by the Trustee in the manner provided in Section 3.04 hereof. Amounts in the Subordinate Sinking Fund Account to be applied to the redemption of Subordinate Indebtedness shall be paid to the respective Trustee or Fiduciary on or before the redemption date and applied by them on such redemption date to the payment of the redemption price of the Subordinate Indebtedness being redeemed.

(c) Notwithstanding the provisions of this Section, the Authority may, at any time but in no event less than forty-five (45) days prior to the date on which a mandatory sinking fund installment is scheduled to be due on Subordinate Indebtedness, direct the Trustee or Fiduciary to purchase, with money on deposit in the Subordinate Sinking Fund Account, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, term bonds to be redeemed on such date. At the direction of the Authority, any term bond so purchased may be cancelled upon receipt thereof by the Trustee or the Fiduciary and evidence of such cancellation shall be given to the Authority. The principal amount of each term bond so canceled shall be credited against the sinking fund installment due on such date as long as that such term bond is canceled by the Trustee or Fiduciary prior to the date on which notice of redemption is given.

(d) In the event the amount on deposit in the Subordinate Interest Account on any Interest Payment Date exceeds the amount required to pay interest on the Subordinate Indebtedness on such Interest Payment Date, the Authority shall, if the amount on deposit in any Subordinate Debt Service Reserve Account is less than the applicable Debt Service Reserve Requirement, instruct the Trustee to transfer such excess to such Subordinate Debt Service Reserve Account to the extent of such deficiency, and otherwise retain any remaining excess in the Subordinate Interest Account or instruct the Trustee to transfer any such remaining excess to the Subordinate Principal Account or Subordinate Sinking Fund Account to be credited against subsequent required deposits thereto, as determined by the Authority.

(e) In the event the amount on deposit in the Subordinate Principal Account or Subordinate Sinking Fund Account on any principal or mandatory redemption payment date exceeds the amount required on such date to pay Subordinate Indebtedness at maturity or pursuant to mandatory sinking fund requirements, the Authority shall, if the amount on deposit in the Subordinate Debt Service Reserve Account is less than the applicable Debt Service Reserve

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Requirement, instruct the Trustee to transfer such excess to such Subordinate Debt Service Reserve Account to the extent of such deficiency, and otherwise retain such excess in the Subordinate Principal Account or Subordinate Sinking Fund Account, as the case may be, or instruct the Trustee to transfer such excess to the Subordinate Interest Account to be credited against subsequent required deposits thereto, as determined by the Authority.

(f) In the event the balance on deposit in the Subordinate Principal Account, the Subordinate Sinking Fund Account or the Subordinate Interest Account is insufficient for the purposes thereof, the Trustee shall deposit in such Accounts such amounts as may be necessary therefor after any transfers required by Section 5.03(f) and 5.05(f), first, from other legally available funds transferred by the Authority to the Trustee not subject to the lien of this Agreement; second, from the Surplus Fund; third, from the Commonwealth Payments Fund; fourth, from the Capital Improvement Fund; fifth, from the Operating Reserve Fund; sixth, from the Current Expense Fund and last, from the applicable Subordinate Debt Service Reserve Account pursuant to Section 5.08.

Section 5.08 Subordinate Reserve Fund.

(a) In each month the Trustee shall deposit to each Account in the Subordinate Debt Service Reserve Fund (i) beginning on the first Business Day of such month, after making the deposits required by Section 5.02(b)(i) through (v), an amount of Authority Revenues equal to (x) 1/60 of the amount (or such greater amount specified in the Supplemental Agreement authorizing such additional Subordinate Bonds), if any, necessary to restore the amount on deposit therein to the related Debt Service Reserve Requirement in the event of an increase in the applicable Debt Service Reserve Requirement upon the issuance of additional Subordinate Bonds, and (y) except as provided in paragraph (c) below, 1/12 of the amount, if any, necessary to restore the amount on deposit therein to the related Debt Service Reserve Requirement in the event of any other deficiency and (ii) the amount of proceeds of any Subordinate Bonds as required by the applicable Supplemental Agreement.

(b) Amounts in each Account in the Subordinate Debt Service Reserve Fund shall be used to pay debt service on the related Series of Subordinate Bonds on the dates such debt service is due when insufficient funds for that purpose are available in the Subordinate Bond Fund, after making any transfers pursuant to Section 5.07(f) and all cash and investments in an Account in the Subordinate Debt Service Reserve Fund shall be used, together with other amounts available for such purpose hereunder, to provide for payment in full of the related Series of Subordinate Bonds when the aggregate of such amounts is sufficient for such purpose. Amounts in each Account of the Subordinate Debt Service Reserve Fund shall be pledged to Holders of the Subordinate Bonds to which such Account relates. In no event shall amounts on deposit in the Senior Subordinate Debt Service Reserve Fund be used to pay principal of, interest on or any other amounts due with respect to Other System Indebtedness.

(c) In lieu of or in addition to cash or investments, at any time the Authority may cause to be deposited to the credit of any Subordinate Debt Service Reserve Account, a Debt Service Reserve Facility, in the stated amount equal to all or a portion of the applicable Debt Service Reserve Requirement, irrevocably payable to the Trustee, as beneficiary for the Holders of the Subordinate Bonds to which such Account relates. If (x) the Authority receives

an expiration notice and the applicable Enhancement Facility Provider does not extend the expiration date of a Debt Service Reserve Facility, (y) the Authority receives notice of the termination of a Debt Service Reserve Facility, or (z) the Authority receives notice that the Enhancement Facility Provider of a Debt Service Reserve Facility no longer has the required credit rating, the Authority immediately shall (i) provide a substitute Debt Service Reserve Facility, (ii) deposit a sum equal to the applicable Debt Service Reserve Requirement to the credit of the Subordinate Debt Service Reserve Account to which such Debt Service Reserve Facility relates (A) in equal monthly installments over the next succeeding 12 months in the case of receipt of an expiration notice, (B) prior to the termination date in the case of receipt of a termination notice, or (C) immediately in the case of such reduction in credit rating, or (iii) instruct the Trustee to draw on such Debt Service Reserve Facility (A) 12 months prior to expiration of the Debt Service Reserve Facility in the case of receipt of an expiration notice, (B) prior to the termination date in the case of receipt of a termination notice, or (C) immediately in the case of such reduction in credit rating and deposit the proceeds of such drawing to the credit of the Subordinate Debt Service Reserve Account to which such Debt Service Reserve Facility relates.

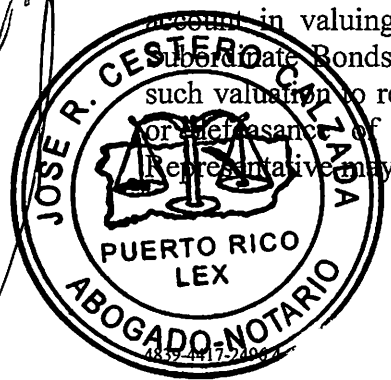
If a disbursement is made pursuant to a Debt Service Reserve Facility, the Authority shall either (i) reinstate such Facility in full or (ii) deposit to the credit of the Subordinate Debt Service Reserve Account a sum equal to the amount of the disbursement made under such Facility in accordance with its provisions.

(d) On or within five days after each Reserve Determination Date, the Trustee shall determine whether the balance on deposit in each Subordinate Debt Service Reserve Account was, as of the Reserve Determination Date, at least equal to the applicable Debt Service Reserve Requirement. In making such determination, any obligations in a Subordinate Debt Service Reserve Account shall be valued in accordance with Section 6.01.

In the event the amount on deposit in a Subordinate Debt Service Reserve Account exceeds the applicable Debt Service Reserve Requirement, the Trustee shall transfer such excess as directed by an Authorized Representative of the Authority, such direction to be accompanied by an Opinion of Bond Counsel that such transfer will not adversely affect the exclusion (if applicable) from gross income of interest on the respective Series of Subordinate Bonds to which such excess relates, (i) to the subaccount of the Subordinate Principal Account corresponding to such Series of Subordinate Bonds, (ii) to Fund the Operating Reserve Fund until the balance therein is equal to the Operating Reserve Requirement, or (iii) to the Authority to be used to pay all or any portion of the Costs of Improvements designated by the Authority and approved by Bond Counsel. If an Authorized Representative of the Authority calls for a Reserve Determination Date in connection with the refunding and/or defeasance of a Series of Subordinate Bonds, then the Trustee is authorized to take such refunding and/or defeasance into account in valuing the Subordinate Debt Service Reserve Account securing such Series of Subordinate Bonds and is further authorized to apply the amount of any surplus arising from such valuation to reduce the amount of the refunding bonds and/or to provide for the refunding or defeasance of the Series of Subordinate Bonds in such manner as such Authorized Representative may direct.

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(e) In connection with any issuance of Subordinate Bonds, the Authority may, in the applicable Supplemental Agreement, provide that no deposit to the Subordinate Debt Service Reserve Fund shall be made for or with respect to such additional Subordinate Bonds, in which case: (i) the lien of and pledge on the Subordinate Debt Service Reserve Fund shall not extend to or be for the benefit of the Holders of such Subordinate Bonds, and (ii) the Annual Debt Service on such Subordinate Bonds shall not be taken into account in determining the applicable Debt Service Reserve Requirement.

In the event that a Supplemental Agreement so provides, then such Supplemental Agreement may also provide for the creation of a special reserve account solely for the Subordinate Bonds to which such Supplemental Agreement relates, separate from the Subordinate Debt Service Reserve Fund, and may provide for the deposit therein, at the time of issuance or from time to time thereafter, of an amount specified in the applicable Supplemental Agreement as the required reserve for such Subordinate Bonds, or may require the Authority to deposit to the credit of such special reserve account a Debt Service Reserve Facility to enhance the security for such Subordinate Bonds in lieu of a funded reserve account.

Section 5.09 Current Expense Fund.

(a) In accordance with Section 5.02, beginning on the first Business Day of the month and after making the deposits required by Section 5.02(b)(i) through (vi), the Trustee shall transfer to the Current Expense Fund, Authority Revenues in an amount equal to the amount set forth in the Disbursement Schedule delivered on the most recent Deposit Date to pay Current Expenses of the Systems for the current month and, at the discretion of the Authority, up to two additional months.

(b) Amounts on deposit in the Current Expense Fund shall be available (i) to pay Current Expenses and (ii) subject to the provisions of Sections 5.03(f), 5.05(f) and 5.07(f), to the extent that moneys on deposit in the Senior Bond Fund, the Senior Subordinate Bond Fund or the Subordinate Bond Fund are insufficient to make the required interest and principal payments, prior to any withdrawal from the Senior Debt Service Reserve Fund, the Senior Subordinate Debt Service Reserve Fund or the Subordinate Debt Service Reserve Fund. In accordance with the provisions of Section 10.02 hereof, in the event that amounts on deposit in the Current Expense Fund are transferred to pay a termination payment or to fund a deficiency in the Senior Bond Fund, the Senior Subordinate Bond Fund or the Subordinate Bond Fund, the Trustee shall provide notice of such transfer to the Consulting Engineer, any other Consultants identified by the Authority, if any, and to Government Development Bank for Puerto Rico.

Section 5.10 Operating Reserve Fund.

(a) In each month the Trustee shall deposit to the Operating Reserve Fund (i) beginning on the first Business Day of the month and after making the deposits required by Section 5.02(b)(i) through (vii), an amount of Authority Revenues equal to 1/60 of the amount, if any, necessary to restore the amount on deposit therein to the Operating Reserve Requirement and to pay interest on any reimbursement obligations due with respect to an Operating Reserve Facility. Earnings on moneys held in the Operating Reserve Fund shall be retained therein.

(b) Amounts on deposit in the Operating Reserve Fund shall be available (i) to be requisitioned by the Authority to pay Current Expenses, (ii) to pay any termination payment due under a Qualified Swap or Hedge Agreement, (iii) to pay interest or any reimbursement obligation due with respect to an Operating Reserve Facility, and (iv) subject to the provisions of Sections 5.03(f), 5.05(f) and 5.07(f), to the extent that moneys on deposit in the Senior Bond Fund, the Senior Subordinate Bond Fund or the Subordinate Bond Fund are insufficient to make the required interest and principal payments, prior to any withdrawal from the Senior Debt Service Reserve Fund, the Senior Subordinate Debt Service Reserve Fund or the Subordinate Debt Service Reserve Fund. In accordance with the provisions of Section 10.02 hereof, in the event that (i) there is no deposit required to be made to the Commonwealth Payments Fund and (ii) amounts on deposit in the Operating Reserve Fund are transferred to pay a termination payment or to fund a deficiency in the Senior Bond Fund, the Senior Subordinate Bond Fund or the Subordinate Bond Fund, the Trustee shall provide notice of such transfer to the Consulting Engineer, any other Consultants identified by the Authority, if any, and to Government Development Bank for Puerto Rico.

(c) In lieu of or in addition to cash or investments, at any time, the Authority may cause to be deposited to the credit of the Operating Reserve Fund, an Operating Reserve Facility, in the stated amount equal to all or a portion of the application Operating Reserve Requirement. Any withdrawals from the Operating Reserve Fund made in accordance with the above paragraph (b), shall be made first from any cash or investments on deposit therein and then to the extent no such cash or investments are available, from a draw on any Operating Reserve Facility.

(d) For so long as the provisions of Section 8.05(a) remain in effect, from the time during any Fiscal Year at which aggregate Current Expenses for such year exceed the amount therefor set forth in the applicable Annual Budget, each requisition from the Operating Reserve Fund must be approved in writing by the Consulting Engineer.

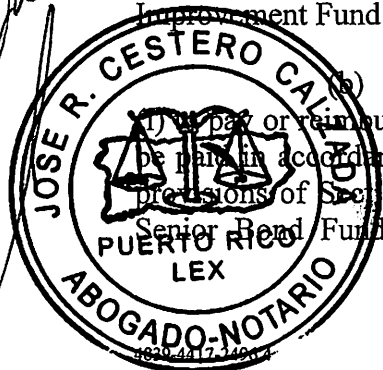
Section 5.11 Capital Improvement Fund.

(a) There shall be credited to the Capital Improvement Fund (i) beginning on the first Business Day of the month and after making the deposits required by Section 5.02(b)(i) through (viii) an amount of Authority Revenues equal to that which may be necessary to make the balance on deposit therein equal to the Capital Improvement Fund Requirement for the Fiscal Year as set forth in the applicable Annual Budget in equal monthly deposits over such Fiscal Year, (ii) the proceeds of any condemnation awards, (iii) proceeds of insurance (other than use and occupancy insurance), (iv) the proceeds of sales of property constituting a part of the Systems and (v) the proceeds of any termination or similar payment received by the Authority under any interest rate swap or similar hedge agreement. Earnings on moneys held in the Capital Improvement Fund shall be retained therein.

(b) Amounts on deposit in the Capital Improvement Fund shall be available (i) to pay or reimburse the Authority for Costs of Improvements, such Costs of Improvements to be paid in accordance with the procedures established in Section 4.02(a) and (ii) subject to the provisions of Sections 5.03(f), 5.05(f) and 5.07(f), to the extent that moneys on deposit in the Senior Bond Fund, the Senior Subordinate Bond Fund or the Subordinate Bond Fund are

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insufficient to make the required interest and principal payments on Bonds prior to any withdrawal from the Senior Debt Service Reserve Fund, the Senior Subordinate Debt Service Reserve Fund or the Subordinate Debt Service Reserve Fund, to satisfy any such deficiencies.

Section 5.12 Commonwealth Payments Fund.

(a) There shall be credited to the Commonwealth Guaranteed Indebtedness Account (i) any Authority Revenues received by the Authority from the Commonwealth of Puerto Rico on account of Commonwealth Guaranteed Indebtedness and (ii) beginning on the first Business Day of the month and after making the deposits required by Section 5.02(b)(i) through (ix) an amount of Authority Revenues sufficient to pay:

(i) the Interest Accrual on Commonwealth Guaranteed Indebtedness in respect of the next Interest Payment Date; provided, however, that such deposits shall be adjusted to give credit for any other available money then in such account or otherwise available and designated to be used for such purpose; and

(ii) the Principal Accrual on Commonwealth Guaranteed Indebtedness in respect of the next principal payment date; provided, however, that such deposits shall be adjusted to give credit for any other available money then in such account or otherwise available and designated to be used for such purpose.

(b) There shall be credited to the Commonwealth Supported Obligations Account (i) any Authority Revenues received by the Authority from the Commonwealth of Puerto Rico on account of Commonwealth Supported Obligations and (ii) after the deposits required by paragraph (a) have been made in full, beginning on the first Business Day of the month and after making the deposits required by Section 5.02(i) through (ix) an amount of Authority Revenues sufficient to pay:

(i) the Interest Accrual on Commonwealth Supported Obligations in respect of the next Interest Payment Date; provided, however, that such deposits shall be adjusted to give credit for any other available money then in such account or otherwise available and designated to be used for such purpose; and

(ii) the Principal Accrual on Commonwealth Supported Obligations in respect of the next principal payment date; provided, however, that such deposits shall be adjusted to give credit for any other available money then in such account or otherwise available and designated to be used for such purpose.

(c) Amounts on deposit in the Commonwealth Guaranteed Indebtedness Account and Commonwealth Supported Obligations Account within the Commonwealth Payments Fund will be transferred by the Trustee to the respective Fiduciaries therefor not later than one (1) Business Day prior to the applicable interest or principal payment date; provided, however, to the extent that moneys on deposit in the Commonwealth Guaranteed Indebtedness Account are insufficient to make the required interest and principal payments on Commonwealth Guaranteed Indebtedness, moneys in the Commonwealth Supported Obligations Account (other than amounts received from the Commonwealth of Puerto Rico to pay principal or interest on Commonwealth Supported Obligations) shall be used to satisfy any such deficiency.

(d) (1) Amounts on deposit in the Commonwealth Payments Fund, excluding Authority Revenues received from Commonwealth to pay bonds, shall be available to replenish any deficiencies in the Operating Reserve Fund, including any payments with respect to any Operating Reserve Facility or to pay any amounts due under any other operating line of credit of the Authority.

(2) Subject to the provisions of Sections 5.03(f), 5.05(f) and 5.07(f), to the extent that moneys on deposit in the Senior Bond Fund, the Senior Subordinate Bond Fund or the Subordinate Bond Fund are insufficient to make the required interest and principal payments on Bonds, moneys in the Commonwealth Supported Obligations Account (other than Authority Revenues received from the Commonwealth of Puerto Rico to pay principal or interest on Commonwealth Supported Obligations) and in the Commonwealth Guaranteed Indebtedness Account (other than Authority Revenues received from the Commonwealth of Puerto Rico to pay principal or interest on Commonwealth Guaranteed Indebtedness) shall be used, in that order of priority, prior to any withdrawal from the Senior Debt Service Reserve Fund, the Senior Subordinate Debt Service Reserve Fund or the Subordinate Debt Service Reserve Fund, to satisfy any such deficiencies.

(e) Authority Revenues received by the Authority from the Commonwealth of Puerto Rico to pay principal or interest when due on Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations shall be used only for such purpose. Any Authority Revenues received from the Commonwealth of Puerto Rico by the Authority which represents a reimbursement for principal or interest previously paid by the Authority on Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations shall be transferred to the Surplus Fund for application in accordance with Section 5.12.

(f) If the amounts so deposited on or before any Deposit Date to the credit of the foregoing Accounts in the Commonwealth Payment Fund shall be less than the respective required amounts for such month, the Trustee shall provide notice of such insufficiency to the 1995 Resolution Trustee, the Consulting Engineer, other Consultants, if any, and to Government Development Bank for Puerto Rico.

(g) On each September 15 and February 15 and at any other time requested by the 1995 Resolution Trustee, the Trustee shall provide the 1995 Resolution Trustee with information as to the respective amounts on deposit in each of the accounts within the Commonwealth Payments Fund.

(h) At the request of the Fiduciary for any Commonwealth Supported Obligations, the Trustee shall provide such trustee with information as to the amount on deposit in the Commonwealth Supported Obligations Account.

Section 5.13 Surplus Fund.

(e) After all the deposits required by Section 5.02(b)(i) through (x) have been made in accordance with the provisions of this Article, any remaining moneys shall be deposited to the credit of the Surplus Fund.



(b) From the amounts deposited in the Surplus Fund, there shall be credited to the Rate Stabilization Account, an amount equal to one twelfth (1/12) of the amount, if any, necessary to fund the Rate Stabilization Account at the amount set forth in the applicable Annual Budget.

(c) At any time the Authority may direct the Trustee to withdraw amounts on deposit in the Rate Stabilization Account and (i) transfer such amounts to any other Fund or Account established under this Agreement, (ii) use such amounts to purchase or redeem Indebtedness, or (iii) use such amounts to otherwise provide for the payment of Indebtedness or interest thereon. Subject to the provisions of Sections 5.03(f), 5.05(f) and 5.07(f), to the extent that moneys on deposit in the Senior Bond Fund, the Senior Subordinate Bond Fund or the Subordinate Bond Fund are insufficient to make the required interest and principal payments on Bonds, moneys in the Rate Stabilization Account shall be used prior to any withdrawal from the Senior Debt Service Reserve Fund, the Senior Subordinate Debt Service Reserve Fund or the Subordinate Debt Service Reserve Fund, to satisfy any such deficiencies. To the extent that any amounts are withdrawn from the Rate Stabilization Account for the purposes of this Section 5.13(c) and deposited in an account outside this Agreement for the purpose of providing for the payment of Indebtedness or interest thereon, the balance of such amounts, if any, that remain after the payment of such Indebtedness or interest shall be redeposited in the Rate Stabilization Account for future application in accordance with this Section 5.13 and for all other purposes of this Agreement.

(d) Subject to the provisions of Sections 5.03(f), 5.05(f) and 5.07(f), to the extent that moneys on deposit in the Senior Bond Fund, the Senior Subordinate Bond Fund or the Subordinate Bond Fund are insufficient to make the required interest and principal payments on Bonds, moneys in the Surplus Fund shall be used prior to any withdrawal from the Senior Debt Service Reserve Fund, the Senior Subordinate Debt Service Reserve Fund or the Subordinate Debt Service Reserve Fund, to satisfy any such deficiencies.

(e) At such time as all purposes described in paragraphs (a) through (d) above of this Section 512 are satisfied, amounts remaining to the credit of the Surplus Fund may be applied by the Authority to any lawful purpose of the Authority, including the payment of principal of and interest on any Operating Reserve Facility issued by Government Development Bank for Puerto Rico.

(f) On each September 15 and February 15 and at any other such time requested by the 1995 Resolution Trustee, the Trustee shall provide the 1995 Resolution Trustee with information as to the respective amounts on deposit in each of the accounts within the Surplus Fund.

(g) At the request of the Fiduciary for any Commonwealth Supported Obligations, the Trustee shall provide such trustee with information as to the amount on deposit in the Surplus Fund.

Section 5.14 Other Funds and Accounts.

In each Supplemental Agreement the Authority may establish such other funds and Accounts within funds as the Authority may determine.

Section 5.15 Disposition of Balances in Funds after Payment of Indebtedness.

After the principal of and premium, if any, and interest on all of the Indebtedness, any amounts required to be paid pursuant to the terms of this Agreement or any Supplemental Agreement and all expenses and charges herein required have been paid or defeased in accordance with Article XI hereof or, if such Indebtedness was not incurred hereunder, in accordance with similar provisions of the controlling document, the Trustee shall pay to the Authority any balance remaining in any fund then held by it.

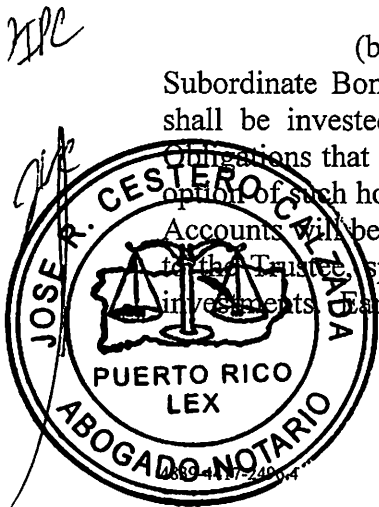
ARTICLE VI

INVESTMENT OF FUNDS

Section 6.01 Investment of Funds.

(a) Any moneys held to the credit of the Construction Fund shall be invested or reinvested by the Trustee as directed by the Authority in Investment Obligations that shall mature, or that shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when moneys held for the credit of said Account will be required for the purposes intended. The Authority shall give written directions to the Trustee, specifying the maturity date, interest rate, principal amount and the nature of such investments. Prior to the filing of a certificate of completion related to Improvements, all earnings on moneys held in the Construction Fund related to such Improvements shall be retained therein. Subsequent to the filing of such certificate of completion, the Trustee shall (i) deposit any remaining proceeds of Senior Bonds or investment earnings thereon to the related subaccount of the Senior Interest Account of the Senior Bond Fund, (ii) deposit any remaining proceeds of Senior Subordinate Bonds or investment earnings thereon to the related subaccount of the Senior Subordinate Interest Account of the Senior Subordinate Bond Fund, and (iii) deposit any remaining proceeds of Subordinate Bonds or investment earnings thereon to the related subaccount of the Subordinated Interest Account of the Subordinate Bond Fund. The Authority shall direct the investment of amounts held in the Construction Account, and such investments shall have maturities consonant with the need for funds as estimated by the Authority.

(b) Any moneys held to the credit of the Senior Bond Fund, Senior Subordinate Bond Fund, the Subordinate Bond Fund or the Commonwealth Payments Fund, shall be invested or reinvested by the Trustee as directed by the Authority in Investment Obligations that shall mature, or that shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when moneys held for the credit of said Accounts will be required for the purposes intended. The Authority shall give written directions to the Trustee, specifying the maturity date, interest rate, principal amount and nature of such investments. Earnings on moneys held in any Account in a Bond Fund shall be transferred when



received to the related subaccount of the Interest Account of such Bond Fund and earnings on moneys held in the Commonwealth Payments Fund shall be retained therein.

(c) Any moneys held as part of the Operating Revenue Fund, the Operating Reserve Fund, the Capital Improvement Fund and the Surplus Fund, shall be invested and reinvested by the Trustee as directed by the Authority in Investment Obligations that shall mature, or that shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when moneys held for the credit of said Accounts will be required for the purposes intended.

(d) Any moneys held as part of the Current Expense Fund shall be invested or reinvested by the Authority in Investment Obligations that shall mature, or that shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when moneys held for the credit of said Fund will be required for the purposes intended. Earnings on moneys held in the Current Expense Fund shall be retained therein.

(e) Any moneys held as part of the Senior Debt Service Reserve Fund, the Senior Subordinate Debt Service Reserve Fund or the Subordinate Debt Service Reserve Fund shall be invested or reinvested by the Trustee as directed by the Authority in Investment Obligations that shall mature, or that shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when moneys held for the credit of said Accounts will be required for the purposes intended. Earnings on moneys held in any Account in a Debt Service Reserve Account shall be retained therein.

(f) In computing the amount in any Fund or Account created by this Agreement, except for the Senior Debt Service Reserve Fund, the Senior Subordinate Debt Service Reserve Fund and the Subordinate Debt Service Reserve Fund, obligations purchased as an investment of moneys therein shall be valued at the lower of market value and the amortized value thereof. Amortized value, when used with respect to an obligation purchased at par, means the par amount thereof, and, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each Interest Payment Date after such purchase from the purchase price in the case of an obligation purchased at a premium and adding the amount thus calculated for each Interest Payment Date after such purchase to the purchase price in the case of an obligation purchased at a discount. Except as set forth in the following sentence, valuations shall be made by the party holding each such Fund or Account at least annually not later than the end of each Fiscal Year and at such other times as the Authority may deem appropriate. Investments in the Senior Debt Service Reserve Fund, the Senior Subordinate Debt Service Reserve Fund and the Subordinate Debt Service Reserve Fund shall be valued by the Trustee at least semiannually at the fair market value thereof, plus accrued interest. In computing the value of the assets of any Fund or Account established hereunder, investments and accrued interest thereon shall be deemed a part thereof.

(g) For the purposes of this Section, each investment agreement shall be valued at par if amounts thereunder may be withdrawn without penalty in accordance with the terms thereof.

(h) The Trustee may sell or redeem any obligation in which moneys shall have been invested as provided in this Article to the extent necessary to provide cash in the respective funds or accounts, to make any payments required to be made therefrom or to facilitate the transfers of money between various funds and accounts as may be required or permitted from time to time pursuant to the provisions of this Agreement.

(i) Notwithstanding provisions herein for transfer to or holding in particular funds and accounts amounts received or held by the Trustee hereunder, investments in any and all funds and accounts created by this Agreement may be commingled (except amounts held in any arbitrage rebate fund), provided that, notwithstanding any such commingling, the Trustee shall at all times account for such investments in the funds and accounts to which they are credited and otherwise as provided in this Agreement.

(j) The Authority, each Qualified Depositary and the Trustee shall not be liable for any depreciation in the value of any investments held in the funds or accounts created by this Agreement, or for any loss arising from any investment permitted hereby. The investments authorized by this Article shall at all times be subject to the provisions of applicable law, as amended from time to time. In the event that the Authority, upon the written opinion of Bond Counsel, addressed to the Trustee and the Authority, is of the opinion that it is necessary to restrict or limit the yield on the investment of any money or securities held in any fund in order to avoid the Bonds being considered "arbitrage bonds" within the meaning of Section 148 of the Code, the Authority may direct the Trustee in writing to take whatever action is necessary to properly restrict or limit the yield on such investment in accordance with such instructions, in which event the Trustee shall follow such directions. If the Trustee has not received directions from the Authority on how to invest any of the Funds and Accounts established hereunder, the Trustee shall invest the moneys in such Funds and Accounts in Government Obligations.

ARTICLE VII

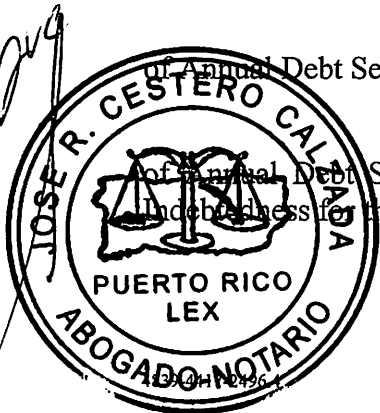
PARTICULAR COVENANTS

Section 7.01 Rate Covenant.

(a) The Authority shall fix, charge and collect such rates, fees, rentals and other charges for the use of and the services furnished by the Systems and shall, from time to time and as often as shall appear necessary, revise such rates, fees and other charges so as to meet the following four independent requirements (which will be calculated annually no later than six (6) months after the end of each Fiscal Year based upon the Operating Revenues and Authority Revenues set forth in the Authority's most recent audited financial statements):

(i) Operating Revenues shall be sufficient to be at least equal to 250% of Annual Debt Service with respect to the Senior Indebtedness for the current Fiscal Year;

(ii) Operating Revenues shall be sufficient to be at least equal to 200% of Annual Debt Service with respect to the Senior Indebtedness and the Senior Subordinate Indebtedness for the current Fiscal Year;



(iii) Operating Revenues shall be sufficient to be at least equal to 150% of Annual Debt Service with respect to all Bonds and Other System Indebtedness for the current Fiscal Year; and

(iv) Authority Revenues, shall be sufficient to be at least equal to 100% of (A) Annual Debt Service on Indebtedness, (B) Current Expenses, (C) the amounts, if any, necessary to be deposited in any Senior Debt Service Reserve Account, Senior Subordinate Debt Service Reserve Account or Subordinate Debt Service Reserve Account to restore the amount on deposit therein to the amount of the applicable Debt Service Reserve Requirement (provided that such Accounts will be deemed to be funded at the applicable Debt Service Reserve Requirement for so long as the deposits required by Sections 5.02(c)(ii), (iv) and (vi) are being made), (D) the amount, if any, necessary to be deposited in the Operating Reserve Fund to maintain the balance therein at the Operating Reserve Fund Requirement and, (E) the amount, if any, necessary to be deposited in the Capital Improvement Fund and the Rate Stabilization Account of the Surplus Fund in accordance with the Annual Budget for the current Fiscal Year.

(b) The Authority shall immediately retain a Consultant to submit a written report and recommendations with respect to increases in the Authority's rates, fees and other charges and improvements in the operations of and the services rendered by the Systems and the Authority's accounting and billing procedures necessary to bring the Authority into compliance with the Rate Covenant if (i) at the end of any Fiscal Year the Authority is not in compliance with the Rate Covenant, (ii) the Authority fails for three consecutive months to make the deposits required by Section 5.02 to the Senior Bond Fund, the Senior Subordinate Bond Fund and the Subordinate Bond Fund, (iii) there is a deficiency in a Senior Debt Service Reserve Account, a Senior Subordinate Debt Service Reserve Account or a Subordinate Debt Service Reserve Account for longer than three consecutive months (provided no such deficiency shall be deemed to exist so long as the deposits required by Section 5.02(c)(ii), (iv) and (vi) are being made), or (iv) there is a deficiency in the Operating Reserve Fund for longer than six consecutive months. The report and recommendations shall be filed with the Trustee and the Authority within 120 days from the date the Consultant is retained. The Authority shall promptly revise its rates, fees and charges, and alter its operations and services to conform with the report and recommendations of the Consultant to the extent permitted by law.

(c) If the Authority promptly revises its rates, fees, charges, operations, services and procedures in conformity with the report and recommendations of the Consultant and otherwise follows such recommendations to the extent permitted by law so that the Authority is expected to be, when its actions become fully effective, in compliance with the Rate Covenant, then any failure to meet the Rate Covenant will not constitute an Event of Default under this Agreement. Upon the adoption of any revision of rates, fees and charges, the Authority shall cause a certified copy thereof to be filed with the Trustee.

In the event that the Authority shall fail to diligently pursue an adjustment of the schedule of rates, fees and charges in accordance with the provisions of this Section, the Trustee, without regard to whether an Event of Default shall have occurred, shall, upon the request of the Holders of not less than ten per centum (10%) in principal amount of all Senior Bonds then Outstanding and upon being indemnified to its satisfaction, institute and prosecute in a court of competent jurisdiction an appropriate suit, action or proceeding to compel the Authority to adjust such

schedule in accordance with the requirements of this Section, and the Authority covenants that it will adopt and charge rates and charges in compliance with any judgment, order or decree entered in any such suit, action or proceeding.

Section 7.02 Annual Budget and Disbursement Schedule.

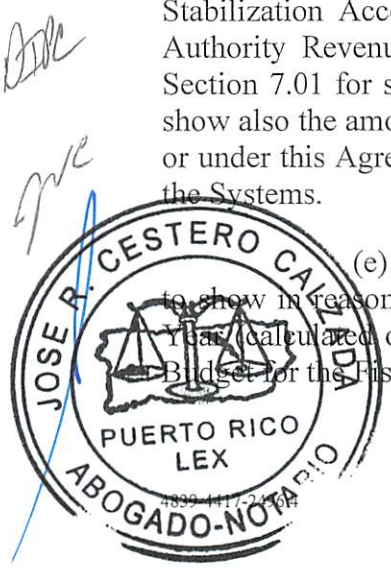
(a) Before the beginning of each Fiscal Year, (i) the Authority shall adopt a budget for the operation of the Systems for the ensuing Fiscal Year, which budget shall be called the Annual Budget and (ii) the chief financial officer of the Authority shall prepare a certified Disbursement Schedule for the payment of Current Expenses for the ensuing Fiscal Year..

(b) The Authority covenants that on or before April 15 of each year, it will cause a preliminary Annual Budget and a preliminary Disbursement Schedule to be prepared and delivered to the Consulting Engineer and the Government Development Bank for Puerto Rico. Within forty-five (45) days of receipt of the preliminary budget and Disbursement Schedule, the Consulting Engineer shall deliver to the Authority and the Government Development Bank for Puerto Rico any comments thereon.

(c) The Authority covenants that on or before June 30th of each year it will cause to be adopted a final Annual Budget and prepared a final Disbursement Schedule for the ensuing Fiscal Year and that it will file such budget and schedule with the Trustee, the Government Development Bank for Puerto Rico and the Consulting Engineer.

(d) Each Annual Budget shall be prepared in such manner as to show in reasonable detail (1) Authority Revenues estimated to be received during such Fiscal Year, (2) the amount of Annual Debt Service that will become due during such Fiscal Year, (3) the amount, if any, required to be deposited in the Senior Debt Service Reserve Fund, the Senior Subordinate Debt Service Reserve Fund and the Subordinate Debt Service Reserve Fund to make the amount on deposit in each respective Account therein equal to the applicable Debt Service Reserve Requirement (provided that such Accounts will be deemed to be funded at the applicable Debt Service Reserve Requirement so long as the deposits required by Section 5.02(c)(ii), (iv) and (vi) are being made), (4) the Current Expenses expected to be incurred during such Fiscal Year (calculated on an accrual basis), (5) the amount, if any, required to be deposited in the Operating Reserve Fund to make the amount on deposit therein equal to the amount of the Operating Reserve Requirement, (6) the amount, if any, required to be deposited in the Capital Improvement Fund, (7) the amount, if any, required to be deposited in the Rate Stabilization Account of the Surplus Fund, and (8) the amount of Operating Revenues and Authority Revenues that will be sufficient to meet the Rate Covenant required pursuant to Section 7.01 for such Fiscal Year. The Annual Budget shall be prepared in sufficient detail to show also the amounts to be deposited in the various funds, accounts and subaccounts created by or under this Agreement or funds and accounts otherwise required to be maintained on behalf of the Systems.

(e) Each annual Disbursement Schedule shall be prepared in such manner as to show in reasonable detail, the Current Expenses expected to be incurred during such Fiscal Year (calculated on a cash basis), including (i) all cash disbursements contained in the Annual Budget for the Fiscal Year, (ii) expenses that may have accrued in prior years and are expected to



be paid in the current Fiscal Year, (iii) amounts that are necessary to pay for or result from an emergency condition, (iv) amounts that are necessary to pay judgments or otherwise result from the settlement of litigation, (v) project expenditures that the Authority has determined to capitalize, (vi) amounts that are necessary to be advanced for Costs of Improvements and (vii) other similar disbursements.

(f) On or before each Deposit Date, the chief financial officer shall revise the Disbursement Schedule and deliver a certified copy of such revised Disbursement Schedule to the Trustee and the Government Development Bank for Puerto Rico, which schedule shall include the information required by Section 7.11(b).

(g) The Authority may amend the Annual Budget at any time during the Fiscal Year and any amendment which decreases Operating Revenues by 5% or more in the aggregate for such Fiscal Year shall be accompanied by a report of the Consulting Engineer. A copy of each amendment to the Annual Budget shall be filed promptly with the Trustee and the Consulting Engineer.

(h) If for any reason an Annual Budget is not adopted by the time required by subsection (c) of this Section, the last previously adopted Annual Budget shall be deemed to provide for and regulate and control expenditures during each subsequent Fiscal Year until an Annual Budget for such Fiscal Year has been adopted.

(i) If for any reason a Disbursement Schedule is not delivered by the time required by subsection (c) or (f) of this Section, the last previously certified Disbursement Schedule shall be deemed to provide for cash expenditures during the current and subsequent months until certified revised Disbursement Schedule has been delivered.

(j) Upon the occurrence and continuance of an Event of Default (other than an Event of Default specified in 8.01(f)) and until delivery of the documents set forth in Section 8.05(b), the Authority shall prepare and deliver to the Trustee a Disbursement Schedule which sets forth on a monthly cash basis the operating and maintenance expenses of the Systems, which Disbursement Schedule must be approved by the Consulting Engineer.

Section 7.03 Payment of Principal, Interest and Premium; Pledge of Authority Revenues.

The Authority covenants that it will promptly pay the principal of and the interest on every Bond issued hereunder and secured hereby at the places, on the dates and in the manner specified herein and in said Bonds and any premium required for the retirement of said Bonds by purchase or redemption, according to the true intent and meaning thereof. Except as in this Agreement otherwise provided, such principal, interest and premium, if any, are payable solely from the Authority Revenues, which Authority Revenues are hereby pledged to the payment thereof in the manner and to the extent hereinabove particularly specified; provided, however, that any Authority Revenues received from the Commonwealth of Puerto Rico on account of Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations are not subject to the lien hereof and shall only be used for the purposes set forth in Section 5.12 hereof. Nothing in the Bonds or in this Agreement shall be deemed to constitute the Bonds a debt or

obligation of the Commonwealth of Puerto Rico or any of its municipalities or other political subdivisions, other than the Authority, and neither the Commonwealth of Puerto Rico nor any such municipality or other political subdivision, other than the Authority, shall be liable for the payment of the principal of any premium, if any, or the interest on the Bonds.

Section 7.04 Construction of Improvements.

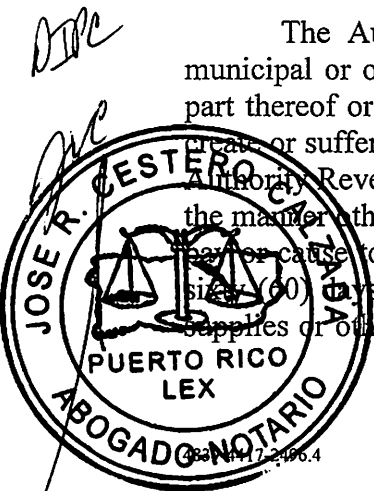
The Authority covenants that it will construct or cause the construction of Improvements reasonable and desirable for the operation of the Systems in a safe and efficient manner, and that upon the completion of any Improvements, the Authority will operate and maintain or cause the operation and maintenance of the Improvements as part of the Systems. If deemed advisable by the Authority, the Consulting Engineer shall review any plans and specifications for the Improvements and such construction shall proceed only after the Consulting Engineer approves the plans and specifications.

Section 7.05 Maintenance of the Systems.

The Authority further covenants that it will establish and enforce reasonable rules and regulations governing the use of the Systems and the operation thereof, that all compensation, salaries, fees and wages paid by it in connection with the maintenance, repair and operation of said Systems will be reasonable, that no more persons will be employed by it than are necessary, that it will operate said Systems or cause the Systems to be operated in a reasonable, efficient and economical manner, that it will at all times maintain said Systems or cause said Systems to be maintained in good repair and in sound operating condition and will make or cause to be made all necessary repairs, renewals and replacements, and that it will comply and cause compliance with all valid acts, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body applicable to said Systems, except to the extent that such non-compliance does not result in a material adverse effect or has not otherwise been provided for as an operational contingency and the Authority is exercising commercially reasonable efforts to comply therewith. The Authority may transfer, to the extent permitted by law and Section 7.12, the day-to-day operations of the Systems or any program that would be carried out by the Authority to another entity; as long as the Authority shall cause such other entity to undertake such operations or programs so that the Authority does not violate the terms of this Agreement and so that the Authority is not rendered unable to observe its covenants under this Agreement.

Section 7.06 Payment of Lawful Charges.

The Authority further covenants that, from the Authority Revenues, it will pay all municipal or other governmental charges lawfully levied or assessed upon the Systems or any part thereof or upon any Authority Revenues when the same shall become due, that it will not create or suffer to be created any lien or charge upon the Systems or any part thereof or upon the Authority Revenues ranking equally with or prior to the Indebtedness, except to the extent and in the manner otherwise permitted in this Agreement, and that, from the Authority Revenues, it will pay or cause to be discharged, or will make adequate provision to satisfy and discharge, within sixty (60) days after the same shall accrue, all lawful claims and demands for labor, materials, supplies or other objects which, if unpaid might by law become a lien upon the Systems or any



part thereof or the Authority Revenues; provided, however, that nothing contained in this Section shall require (i) the Authority to pay or cause to be discharged, or make provision for, any such lien or charge so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings or (ii) Authority Revenues received from the Commonwealth of Puerto Rico on account of Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations to be used for any purpose other than those specified in Section 5.12 hereof.

Section 7.07 Retention of Consulting Engineer and Other Consultants.

Unless the Senior Bonds shall have been rated investment grade by at least two Rating Agencies for twenty-four (24) consecutive months, the Authority covenants and agrees that it will, for the purpose of performing and carrying out the duties imposed on the Consulting Engineer and other Consultants by this Section 7.07, retain the Consulting Engineer and other Consultants. Except for fees and expenses incurred in connection with the issuance of Indebtedness or the construction of Improvements, the cost of retaining the Consulting Engineer and other Consultants shall be treated as a part of Current Expenses.

It shall be the duty of the Consulting Engineer to prepare and file reports with the Authority and the Trustee, no later than thirty (30) days after receipt of the Annual Budget, setting forth the following:

- (a) the recommendations of the Consulting Engineer as to the proper maintenance, repair and operation of the Systems during the ensuing Fiscal Year, and an estimate of the amounts of money necessary for such purposes;
- (b) the recommendations of the Consulting Engineer as to the amount that should be deposited in each month during the ensuing Fiscal Year to the credit of the Capital Improvement Fund;
- (c) the recommendations of the Consulting Engineer as to the Improvements which should be made during the ensuing Fiscal Year, and an estimate of the amounts of money necessary for such purposes, showing separately (i) the amount to be expended during such Fiscal Year from moneys to the credit of the Capital Improvement Fund and the Surplus Fund and (ii) the amount to be expended during such Fiscal Year from the proceeds of Bonds and other Indebtedness;
- (d) the recommendations of other Consultants retained by or relied upon by the Consulting Engineer as to the insurance to be carried under the provisions of Section 7.08 of this Article;
- (e) a statement by the Consulting Engineer of the cost of all additions made to the Systems and of the cost (if the cost cannot be accurately determined, the estimated cost) of all retirements of property made in such Fiscal Year;
- (f) a report of the Consulting Engineer (which may retain other Consultants as necessary) as to the adequacy of existing rates and charges for purposes of the Rate Covenant contained in Section 7.01 hereof for the then current Fiscal Year to date and recommendations as

to any necessary or advisable revisions of rates and charges and such other advices and recommendations as they may deem desirable; and

(g) the findings of the Consulting Engineer whether the properties of the Systems have been maintained in good repair and sound operating condition, and their estimate of the amount, if any, required to be expended to place such properties in such condition and the details of such expenditures and the approximate time required therefor.

The Authority further covenants that the Consulting Engineer and other Consultants shall at all times have free access to all properties of the Systems and every part thereof for the purposes of inspection and examination, and that its books, records and accounts may be examined by the Consulting Engineer and other Consultants at all reasonable times.

Section 7.08 Insurance.

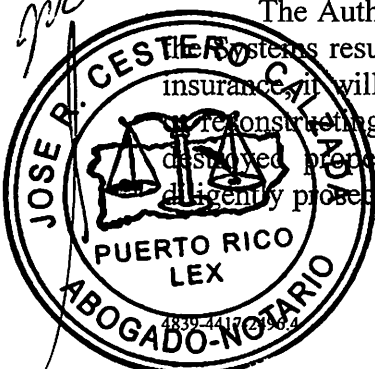
The Authority covenants that it will at all times carry or cause to be carried insurance, with a responsible insurance company or companies, approved by an Insurance Consultant, authorized and qualified under the laws of the Commonwealth of Puerto Rico to assume the risk thereof, covering such properties belonging to the Systems as are customarily insured, and against loss or damage from such causes as are customarily insured against, by the Authority in its insurance program. The Authority shall employ an Insurance Consultant to review the insurance program of the Authority from time to time (but not less frequently than biennially). If the Insurance Consultant makes recommendations for the increase of any coverage, the Authority shall increase or cause to be increased such coverage in accordance with such recommendations, subject to a good faith determination of the Authority that such recommendations, in whole or in part, are in the best interests of the Authority. Notwithstanding anything in this Section to the contrary, the Authority shall have the right, without giving rise to an Event of Default, solely on such account, (i) to maintain insurance coverage below that most recently recommended by Insurance Consultant, if the Authority furnishes to the Trustee a report of the Insurance Consultant to the effect that the issuance so provided, affords either the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management.

All insurance policies shall be to the extent practicable for the benefit of the Authority, the Trustee and other interested parties, as their interests may appear, shall be made payable to the Authority or other owners of portions of the Systems, and shall be deposited with the Authority or other officer of the Board designated for said purpose. The proceeds of any and all such insurance shall be deposited by the Authority in the name of the Authority with a Qualified Depository.

The Authority covenants that, immediately after any loss or damage to any properties of the Systems resulting from any cause, whether or not such loss or damage shall be covered by insurance, it will cause its engineers to prepare plans and specifications for repairing, replacing or reconstructing (either in accordance with the original or a different design) the damaged or destroyed property, and that it will forthwith commence or cause to be commenced and diligently prosecute or cause to be diligently prosecuted the repair, replacement or reconstruction

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of the damaged or destroyed property unless it shall determine that the repair, replacement or reconstruction of such property is not essential to the efficient operation of the Systems, in which case the proceeds of insurance shall be deposited in the Capital Improvement Fund.

Except as provided in the foregoing paragraph, the proceeds of all insurance referred to in this Section shall be available for, and shall to the extent necessary be applied to, the repair, replacement or reconstruction of the damaged or destroyed property, and shall be paid out in such manner hereinabove provided for payments from the Construction Fund. If such proceeds are more than sufficient for such purpose, the balance remaining shall be deposited to the credit of the Capital Improvement Fund. If such proceeds shall be insufficient for such purpose, the deficiency may be supplied out of moneys in the Capital Improvement Fund.

Notwithstanding the foregoing provisions of this Section, the Authority may institute a self-insurance program with regard to such risks as shall be consistent with the practices of utilities operating in a manner similar to the Systems as shall be approved by a Consultant.

Section 7.09 Insurance Policies.

Within the first ninety (90) days of each Fiscal Year the Authority shall mail to the Trustee and the Consulting Engineer a schedule of all insurance policies referred to in Section 7.08 of this Article which are then in effect, stating with respect to each policy the name of the insurer, the amount, number and expiration date, and the hazards and risks covered thereby. All insurance policies shall be open to the inspection of the Holders of Bonds and their representatives at all reasonable times. The Authority is hereby authorized to demand, collect, sue and receipt for any insurance money which may become due and payable under any policies payable to the Authority.

Section 7.10 Protection of Security; No Impairment.

(a) The Authority Revenues and other moneys, securities and funds pledged hereunder are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by this Agreement, except as otherwise expressly provided herein, and all action on the part of the Authority to that end has been duly and validly taken. The Bonds are and will be valid and legally enforceable obligations of the Authority in accordance with their terms and the terms of this Agreement. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Authority Revenues and other moneys, securities and funds pledged under this Agreement and each Supplemental Agreement and all the rights of the holders of Indebtedness hereto against all claims and demands of all persons whomsoever. In no event shall Authority Revenues received from the Commonwealth of Puerto Rico on account of Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations be subject to the lien hereof or be used for any purpose other than those specified in Section 5.12 hereof

(b) The Authority further covenants and agrees that, so long as any Indebtedness shall be Outstanding, none of the Authority Revenues will be used for any purpose other than as provided in this Agreement, and that no contract or contracts will be entered into or any action taken by which the rights of the Trustee or of the Holders might be impaired or

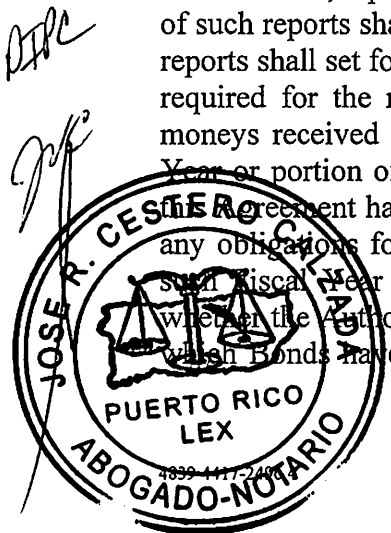
diminished. Any resolution adopted by the Board authorizing the issuance of a Series of Bonds or any Supplemental Agreement executed by the Authority for such purpose shall, for all purposes, be deemed part of this Agreement and shall constitute a contract for the benefit of the Holders of said Series. This Agreement and any such resolution may be supplemented and amended only in accordance with Article IX hereof, except for supplements and amendments adopted prior to the issuance of the applicable Series of Bonds, which may be adopted without restriction.

Section 7.11 Accounts and Records.

(a) The Authority further covenants that its accounts will be kept according to standard practices for public utility systems similar to the properties and business of the Authority and applicable in such circumstances, and in such manner as appropriate to segregate, insofar as advisable, the accounts in respect of the different classes of its operations, projects, undertakings and activities, that it will keep accurate records and accounts of all items of cost and expenditures relating to the Systems and to each integral unit of said Systems, the Authority Revenues and the application of such Authority Revenues, and the number of consumers, and that it will keep such records and accounts with respect to the physical properties comprising part of the Systems in such manner that it will be possible at all times to identify both the amounts and the items of all additions and retirements.

(b) The Authority further covenants that on or before each Deposit Date, it shall provide to the Trustee, the Consulting Engineer, other Consultants, if any, and Government Development Bank for Puerto Rico as part of the Disbursement Schedule required to be delivered pursuant to Section 7.02(f) (i) for the period commencing on the prior Deposit Date to the Business Day prior to such current Deposit Date a statement of (x) Authority Revenues, (y) cash payments for operating and maintenance expenses, and proceeds from the sale of property or other extraordinary revenue items (to the extent not included in Authority Revenues) and (ii) a reconciliation of Authority Revenues and cash payments for operating and maintenance expenses to Current Expenses and Operating Revenues for the monthly period ending on the preceding Deposit Date and Fiscal Year-to-date period through such preceding Deposit Date.

(c) The Authority further covenants that in the first month of each Fiscal Year it will cause an audit to be made of its books and accounts relating to the Systems by an independent firm of certified public accountants of suitable experience and responsibility to be chosen by the Executive President. Before the first day of the sixth month following the making of such audit, reports of such audits shall be filed with the Trustee and the Authority, and copies of such reports shall be mailed to the Consulting Engineer and the other Consultants. Such audit reports shall set forth in respect of the preceding Fiscal Year the same matters as are hereinabove required for the monthly reports, the findings of such public accountants as to whether the moneys received by the Authority under the provisions of this Agreement during such Fiscal Year or portion of such Fiscal Year for which Bonds have been issued and Outstanding under this Agreement have been applied in accordance with the provisions of this Agreement, whether any obligations for Current Expenses were incurred in the preceding Fiscal Year or portion of such Fiscal Year for which Bonds have been issued and Outstanding under this Agreement, whether the Authority Revenues for the preceding Fiscal Year or portion of such Fiscal Year for which Bonds have been issued and Outstanding under this Agreement have exceeded or were



less than the amount for such Fiscal Year or such portion thereof required pursuant to Section 7.01 of this Agreement and whether the Authority is in default in the performance of any of the other covenants contained in this Article VII.

(d) The Authority further covenants that it will cause any additional reports or audits relating to the Systems to be made as required by law and by any applicable rules or regulations of any governmental authority or of any securities exchange on which the Bonds may be listed or traded, and that, as often as may be requested, it will furnish to the Trustee such other information concerning said Systems or the operation thereof as any of them may reasonably request.

(e) The cost of such audits shall be treated as a part of Current Expenses.

Section 7.12 No Sale, Lease, or Encumbrances; Exceptions.

Except as expressly permitted in this Agreement, the Authority irrevocably covenants, binds, and obligates itself not to sell, lease, encumber, or in any manner dispose of the Systems as a whole or in part until all of the Indebtedness and all interest thereon shall have been paid in full or provision for such payment has been duly made in accordance with Article XI. The Authority shall have and hereby reserves the right, however, to sell, lease, or otherwise dispose of any of the property comprising a part of the Systems in the following manner, if any one of the following conditions exists: (i) such property is not necessary for the operation of the Systems; (ii) such property is not useful in the operation of the Systems; (iii) such property is not profitable in the operation of the Systems; or (iv) the disposition of such property will be advantageous to the Systems and will not adversely affect the security for the Bondholders. All proceeds of any such sale shall be deposited in the Capital Improvement Fund.

Prior to the sale or lease of assets constituting in excess of 3% of the net assets on the Authority's most recent audited balance sheet to an entity other than a political subdivision, authority or agency of the Commonwealth of Puerto Rico the Authority shall:

(i) obtain a written report of the Consultant, describing the financial impact of any such sale or lease on the Authority Revenues, Operating Revenues, and balance sheet of the Authority;

(ii) obtain a written report of the Consultant, setting forth alternatives to the proposed sale or lease of such assets and comparing such alternatives to the proposal;

(iii) obtain an opinion of the Consultant to the effect that such sale or lease will not, in the current or any future Fiscal Year, result in the Authority not meeting the Rate Covenant required by Section 7.01 after such sale or lease. In reaching its conclusion, the Consultant shall take into consideration such factors affecting the Authority Revenues of the Authority as the Consultant may deem significant, including (A) anticipated diminution of Operating Revenues or Authority Revenues, (B) anticipated increases or decreases in Current Expenses whether or not attributable to such sale or lease, and (C) the reduction in the Annual Debt Service attributable to the application of the sale proceeds to the provision for payment of Indebtedness theretofore Outstanding; and

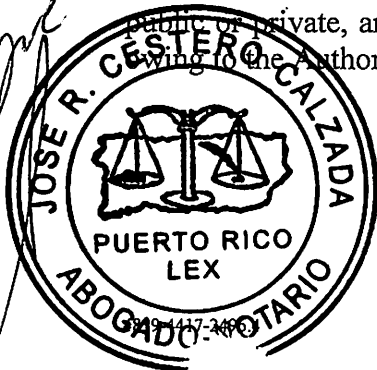
(iv) make a written determination, approved by the Board that the proposed sale or lease is more beneficial than (a) not entering into such sale or lease and (b) entering into one of the alternatives reviewed and presented by the Consultant.

The Authority reserves the right to sell any portion of the Systems to any political subdivision or authority or agency of one or more political subdivisions of the Commonwealth of Puerto Rico, provided that there shall be first filed with the Authority: (i) an opinion of Bond Counsel to the effect that such sale will not adversely affect the extent to which interest on any tax-exempt bonds is excluded from gross income for federal income tax purposes; and (ii) an opinion of a Consultant to the effect that such sale will not, in the current or any future Fiscal Year, result in Operating Revenues or Authority Revenues not meeting the required Rate Covenant required by Section 7.01 after such sale. In reaching its conclusion, the Consultant shall take into consideration such factors as the Consultant may deem significant, including (i) anticipated diminution of Operating Revenues or Authority Revenues, (ii) anticipated increases or decreases in Current Expenses whether or not attributable to such sale, and (iii) reduction in the Annual Debt Service attributable to the application of the sale proceeds to the provision for payment of Indebtedness theretofore Outstanding. Such sale may include a partial interest in a water or sewer facility owned or to be owned in whole or in part by the Authority. All proceeds of any such sale shall be deposited in the Capital Improvement Fund.

The Authority reserves the right to transfer the Systems as a whole to any political subdivision or authority or agency of one or more political subdivisions of the Commonwealth of Puerto Rico to which may be delegated the legal authority to own and operate the Systems, or any portion thereof, on behalf of the public, and which undertakes in writing, filed with the Authority, the Authority's obligations under this Agreement, provided that there shall be first filed with the Authority: (i) an opinion of Bond Counsel to the effect that such transfer will not adversely affect the extent to which interest on any tax-exempt bonds is excluded from gross income for federal income tax purposes; and (ii) an opinion of a Consultant expressing the view that such transfer will not result in any diminution of Operating Revenues or Authority Revenues to the extent that the Authority could not meet the Rate Covenant required by Section 7.01 after such transfer, in the then current or any succeeding Fiscal Year. In reaching this conclusion, the Consultant shall take into consideration such factors as the Consultant may deem significant, including any rate schedule to be imposed by the transferee political subdivision, authority, or agency.

Section 7.13 Authority Not to Furnish Free Service; Enforcement of Accounts Due.

So long as any Bonds issued pursuant to this Agreement are Outstanding, the Authority will not furnish or supply water or any other commodity, service or facility furnished by it or in connection with the operation of the Systems, free of charge to any person, firm or corporation, public or private, and the Authority will promptly enforce the payment of any and all accounts owing to the Authority by reason of the ownership and operation of the Systems.



Section 7.14 [Reserved]

Section 7.15 Tax Covenants.

The Authority covenants and agrees that so long as any Bonds remain Outstanding hereunder, to the extent permitted by the Constitution and the laws of the Commonwealth of Puerto Rico, it shall comply with the requirements of the Code, including any arbitrage rebate covenants contained on any agreement entered into by and between the Authority and the Trustee in connection with the issuance of any Series of Bonds, except to the extent failure to so comply would not, in the opinion of Bond Counsel, result in the interest payable on such Bonds being included in gross income for federal income tax purposes to the Holders thereof under the Code. Notwithstanding anything to the contrary contained herein or otherwise, the Authority shall not be required to comply with the covenants herein contained in respect of a Series of Bonds to the extent that interest on such Series of Bonds shall be intended by the Authority, on the date of issuance of such Bonds, to be included in gross income for federal income tax purposes to the Holders thereof under the Code.

ARTICLE VIII

DEFAULTS AND REMEDIES

Section 8.01 Events of Default.

Each of the following events shall be an Event of Default:

(a) default in the due and punctual payment of the principal of or premium, if any, on any Bonds or Other System Indebtedness whether at maturity, upon termination or call for redemption or otherwise; or

(b) default in the due and punctual payment of the interest on any Bonds or Other System Indebtedness; or

(c) the Authority shall for any reason be determined to be incapable by a court, governmental entity or agency of competent jurisdiction of fulfilling or shall not have full power and authority to fulfill its obligations hereunder; or

(d) an order or decree shall be entered, with the consent or acquiescence of the Authority, appointing a receiver or receivers of the Systems or any part thereof or of the Authority Revenues, or if such order or decree, having been entered without the consent or acquiescence of the Authority, shall not have been vacated, discharged or stayed on appeal within ninety (90) days after the entry thereof; or

(e) any proceeding shall be instituted, with the consent or acquiescence of the Authority, for the purpose of effecting a composition between the Authority and its creditors or for the purpose of adjusting the claims of such creditors, pursuant to any Federal or Commonwealth of Puerto Rico statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable out of the Authority Revenues and if said proceeding shall not have been discharged within ninety (90) days after the institution thereof, or if any such

proceeding, having been instituted without the consent or acquiescence of the Authority, shall not be contested in good faith; or

(f) the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in this Agreement on the part of the Authority to be performed, and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than ten per cent (10%) in principal amount of the Senior Bonds then Outstanding; provided, however, if the default specified in this clause (f) shall be of a type that cannot be remedied within thirty (30) days, it shall not constitute an event of default if the Authority shall begin diligently to remedy such default within such thirty-day period.

In no event shall the failure to pay principal of or interest on Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations be an Event of Default hereunder.

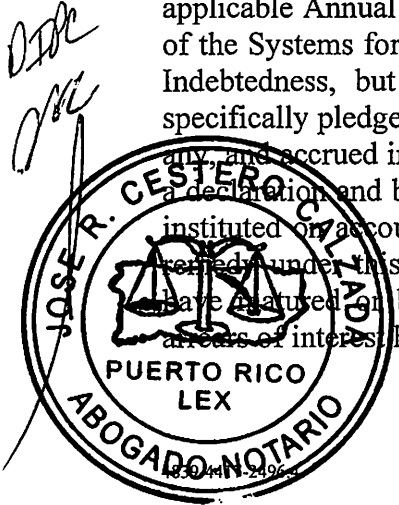
Section 8.02 [Reserved]

Section 8.03 Extended Interest Payments.

In case the time for the payment of the interest on any Bond shall be extended, whether or not such extension be by or with the consent of the Authority, such interest so extended shall not be entitled in case of default hereunder to the benefit or security of this Agreement except subject to the prior payment in full of the principal of all Indebtedness then Outstanding and of all interest the time for the payment of which shall not have been extended.

Section 8.04 Acceleration.

Upon the occurrence and continuation of an Event of Default, except for an Event of Default described in clause (f) of Section 8.01, the Trustee may (and if requested by the Holders of not less than a majority in aggregate principal amount of Senior Indebtedness (or if no Senior Indebtedness is then Outstanding, of Senior Subordinate Indebtedness) then Outstanding shall) by written notice to the Authority, declare the entire unpaid principal of the Bonds due and payable and, thereupon, the entire unpaid principal of the Bonds shall forthwith become due and payable. Upon any such declaration, on the first Business Day of each month, the Trustee (i) shall pay to the Authority, an amount of Authority Revenues equal to the amount set forth in the applicable Annual Budget prepared in accordance with Section 7.02(g) to pay Current Expenses of the Systems for such month and (ii) shall pay to the Holders of the Bonds and Other System Indebtedness, but only from the remaining Authority Revenues and other moneys herein specifically pledged for payments of Bondholders, the entire unpaid principal of and premium, if any, and accrued interest on the Bonds and Other System Indebtedness. If at any time after such a declaration and before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such default or before the completion of the enforcement of any other remedy under this Agreement, the principal of all Bonds and Other System Indebtedness that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other Events of Default which may have occurred have



been remedied, then the Trustee may, by written notice to the Authority, rescind or annul such declaration and its consequences. No such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon. Senior Subordinate Indebtedness may not be accelerated if any Senior Indebtedness is Outstanding. Subordinate Indebtedness may not be accelerated if any Senior Indebtedness or Senior Subordinate Indebtedness is Outstanding.

Section 8.05 Other Remedies; Rights of Bondholders.

(a) Upon the occurrence of an Event of Default (other than an Event of Default specified in Section 8.01(f)) and until delivery of the documents set forth in paragraph (b) below, amounts on deposit in the Operating Revenue Fund shall be applied in accordance with Section 8.06 hereof.

(b) Amounts on deposit in the Operating Revenue Fund shall continue to be applied in accordance with Section 8.06 until there shall have been filed with the Trustee (i) a certificate signed by the Executive President and approved by the Consulting Engineer that (x) the Authority complied with the Rate Covenant set forth in Section 7.01 for the most recent complete Fiscal Year and (y) no Event of Default (other than an Event of Default under Section 8.01(f)) is continuing hereunder and (ii) a report of the Consulting Engineer as to the adequacy of existing rates and charges of the Rate Covenant set forth in Section 7.01 for the then current Fiscal Year and the following Fiscal Year.

(c) Upon the occurrence and continuance of an Event of Default, the Trustee may (and if requested by the holders of not less than 25% in aggregate principal amount of Outstanding Senior Bonds then Outstanding (or if no Senior Bonds are then Outstanding, of Senior Subordinate Bonds) shall proceed to protect and enforce the rights of the Holders by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any covenant or agreement herein contained.

(d) No remedy conferred by this Agreement upon or reserved to the Trustee and Bondholders is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee and Bondholders hereunder or now or hereafter existing at law, in equity or by statute.

(e) The Holders of a majority in aggregate principal amount of the Senior Bonds then Outstanding hereunder shall have the right, subject to the provisions of Section 10.01(l) hereof, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all remedial proceedings to be taken by the Trustee hereunder or exercising any trust or power conferred upon the Trustee, provided that (i) such direction shall not be otherwise than in accordance with law and the provisions of this Agreement, (ii) subject to the provisions of Section 10.01(l) hereof, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction and (iii) the Trustee shall have the right not to follow such direction if the Trustee in good faith shall determine that such direction would be prejudicial to Holders not giving such direction or would involve the Trustee in personal liability.

Notwithstanding any other provision in this Agreement, the owner of any Bond shall have the right which is absolute and unconditional to receive payment of the principal of and premium, if any, and interest on such Bond when due (whether at maturity, upon redemption or otherwise) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such owner.

Section 8.06 Application of Moneys.

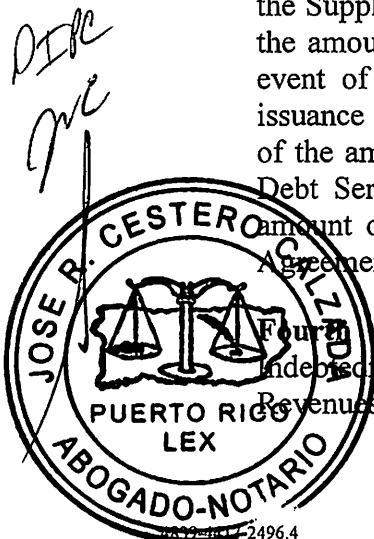
(a) Unless the principal of all Bonds shall have become due or shall have been declared due and payable, all amounts on deposit in the Operating Revenue Fund, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys, the expenses, liabilities and advances incurred or made by the Trustee and its fees and the expenses in carrying out this Agreement, shall be applied beginning on the first Business Day of each month in the following order of priority:

First - To the subaccounts established for each issue of Senior Indebtedness in the Senior Interest Account, (i) an amount of Authority Revenues equal to the Interest Accrual on all the Outstanding Senior Indebtedness to and including the first day of the next calendar month; (ii) the amount of any payments or reimbursements due in the next ensuing month to each Enhancement Facility Provider to the extent such payment or reimbursement obligation constitutes Senior Indebtedness hereunder; and (iii) the amount of any payments due in the next ensuing month under any Hedge Agreement or Qualified Swap secured on a parity with Senior Indebtedness, and all such deposits shall be adjusted to give credit for any other available money then in such interest account or subaccount or otherwise available and designated to be used for such purpose;

Second - To the subaccounts established for each issue of Senior Indebtedness in the Senior Principal Account and Senior Sinking Fund Account, an amount of Authority Revenues equal to the Principal Accrual on the Outstanding Senior Indebtedness to and including the first day of the next calendar month, and all such deposits shall be adjusted to give credit for any other available money then in the principal or sinking fund account or subaccount or otherwise available and designated to be used for such purpose;

Third - To each Account in the Senior Debt Service Reserve Fund, (i) an amount of Authority Revenues equal to (x) 1/60 of the amount (or such greater amount specified in the Supplemental Agreement authorizing any Senior Bonds), if any, necessary to restore the amount on deposit therein to the related Debt Service Reserve Requirement in the event of an increase in the applicable Debt Service Reserve Requirement upon the issuance of additional Senior Bonds, and (y) except as provided in Section 5.04(c), 1/12 of the amount, if any, necessary to restore the amount on deposit therein to the related Debt Service Reserve Requirement in the event of any other deficiency and (ii) the amount of proceeds of any Senior Bonds as required by the applicable Supplemental Agreement;

Fourth - To the subaccounts established for each issue of Senior Subordinate Indebtedness in the Senior Subordinate Interest Account, (i) an amount of Authority Revenues equal to the Interest Accrual on all the Outstanding Senior Subordinate



Indebtedness to and including the first day of the next calendar month; (ii) the amount of any payments or reimbursements due in the next ensuing month to each Enhancement Facility Provider to the extent such payment or reimbursement obligation constitutes Senior Subordinate Indebtedness hereunder; (iii) the amount of any payments due in the next ensuing month under any Hedge Agreement or Qualified Swap secured on a parity with Senior Subordinate Indebtedness, and all such deposits shall be adjusted to give credit for any other available money then in such interest account or subaccount or otherwise available and designated to be used for such purpose;

Fifth - To the subaccounts established for each issue of Senior Subordinate Indebtedness in the Senior Subordinate Principal Account and Senior Subordinate Sinking Fund Account, an amount of Authority Revenues equal to the Principal Accrual on the outstanding Senior Subordinate Indebtedness to and including the first day of the next calendar month, and all such deposits shall be adjusted to give credit for any other available money then in the principal or sinking fund account or subaccount or otherwise available and designated to be used for such purpose;

Sixth - To each Account in the Senior Subordinate Debt Service Reserve Fund (i) an amount of Authority Revenues equal to (x) 1/60 of the amount (or such greater amount specified in the Supplemental Agreement authorizing any Senior Subordinate Bonds), if any, necessary to restore the amount on deposit therein to the related Debt Service Reserve Requirement in the event of an increase in the applicable Debt Service Reserve Requirement upon the issuance of additional Senior Subordinate Bonds, and (y) except as provided in Section 5.06(c), 1/12 of the amount, if any, necessary to restore the amount on deposit therein to the related Debt Service Reserve Requirement in the event of any other deficiency and (ii) the amount of proceeds of any Senior Subordinate Bonds as required by the applicable Supplemental Agreement;

Seventh - To the subaccounts established for each issue of Subordinate Indebtedness in the Subordinate Interest Account, (i) an amount of Authority Revenues equal to the Interest Accrual on all the Outstanding Subordinate Indebtedness to and including the first day of the next calendar month; (ii) the amount of any payments or reimbursements due in the next ensuing month to each Enhancement Facility Provider to the extent such payment or reimbursement obligation constitutes Subordinate Indebtedness hereunder; and (iii) the amount of any payments due in the next ensuing month under any Hedge Agreement or Qualified Swap secured on a parity with Subordinate Indebtedness, and all such deposits shall be adjusted to give credit for any other available money then in such interest account or subaccount or otherwise available and designated to be used for such purpose;

Eighth - To the subaccounts established for each issue of Subordinate Indebtedness in the Subordinate Principal Account and Subordinate Sinking Fund Account, an amount of Authority Revenues equal to the Principal Accrual on the Outstanding Subordinate Indebtedness to and including the first day of the next calendar month, and all such deposits shall be adjusted to give credit for any other available money then in the principal or sinking fund account or subaccount or otherwise available and designated to be used for such purpose;

Ninth – To each Account in the Subordinate Debt Service Reserve Fund (i) an amount of Authority Revenues equal to (x) 1/60 of the amount (or such greater amount specified in the Supplemental Agreement authorizing such additional Subordinate Bonds), if any, necessary to restore the amount on deposit therein to the related Debt Service Reserve Requirement in the event of an increase in the applicable Debt Service Reserve Requirement upon the issuance of additional Subordinate Bonds, and (y) except as provided in Section 5.08(c), 1/12 of the amount, if any, necessary to restore the amount on deposit therein to the related Debt Service Reserve Requirement in the event of any other deficiency and (ii) the amount of proceeds of any Subordinate Bonds as required by the applicable Supplemental Agreement;

Tenth - To the credit of the Current Expense Fund, an amount of Authority Revenues equal to the amount set forth in the most recent Disbursement Schedule prepared in accordance with Section 7.02(j) to pay Current Expenses of the Systems for the current and next two succeeding months;

Eleventh – To the credit of the Operating Reserve Fund, an amount of Authority Revenues equal to that which is necessary to make the balance on deposit therein equal to the Operating Reserve Requirement;

Twelfth - To the Capital Improvement Fund (i) an amount of Authority Revenues equal to that which is necessary to make the balance on deposit therein equal to the Capital Improvement Fund Requirement for the Fiscal Year as set forth in the applicable Annual Budget in equal monthly deposits over such Fiscal Year;

Thirteenth - To the Commonwealth Payments Fund (i) (A) any Authority Revenues received by the Authority from the Commonwealth of Puerto Rico on account of Outstanding Commonwealth Guaranteed Indebtedness and (B) an amount of Operating Revenues sufficient to pay (x) the Interest Accrual on Commonwealth Guaranteed Indebtedness in respect of the next Interest Payment Date and (y) the Principal Accrual on Commonwealth Guaranteed Indebtedness in respect of the next principal payment date, and all such deposits in this paragraph shall be adjusted to give credit for any other available money then in such account or otherwise available and designated to be used for such purpose and (ii) (A) any Authority Revenues received by the Authority from the Commonwealth of Puerto Rico on account of Outstanding Commonwealth Supported Obligations and (B) an amount of Operating Revenues sufficient to pay (x) the Interest Accrual on Commonwealth Supported Obligations in respect of the next Interest Payment Date and (y) the Principal Accrual on Commonwealth Supported Obligations in respect of the next principal payment date, and all such deposits in this paragraph shall be adjusted to give credit for any other available money then in such account or otherwise available and designated to be used for such purpose; and

Fourteenth - To the Surplus Fund, any remaining balance.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid on the Senior Indebtedness, including, to the extent permitted by



law, interest on overdue installments of interest, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Senior Indebtedness over any other Senior Indebtedness, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Senior Indebtedness.

(c) If the principal of all the Bonds shall have become due or shall have been declared due and payable and there is no Senior Indebtedness Outstanding hereunder, all such moneys shall be applied to the payment of the principal and interest then due and unpaid on the Senior Subordinate Indebtedness, including, to the extent permitted by law, interest on overdue installments of interest, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Senior Subordinate Indebtedness over any other Senior Subordinate Indebtedness, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Senior Subordinate Indebtedness.

(d) If the principal of all the Bonds shall have become due or shall have been declared due and payable and there is no Senior Indebtedness or Senior Subordinate Indebtedness Outstanding hereunder, all such moneys shall be applied to the payment of the principal and interest then due and unpaid on the Subordinate Indebtedness, including, to the extent permitted by law, interest on overdue installments of interest, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Subordinate Indebtedness over any other Subordinate Indebtedness, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Subordinate Indebtedness.

(e) If the principal of all the Bonds shall have become due or shall have been declared due and payable and there is no Senior Indebtedness, Senior Subordinate Indebtedness or Subordinate Indebtedness Outstanding hereunder, all such moneys shall be applied to the payment of the principal and interest then due and unpaid on the Commonwealth Guaranteed Indebtedness, including, to the extent permitted by law, interest on overdue installments of interest, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Commonwealth Guaranteed Indebtedness over any other Commonwealth Guaranteed Indebtedness, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Commonwealth Guaranteed Indebtedness.

(f) If the principal of all the Bonds shall have become due or shall have been declared due and payable and there is no Senior Indebtedness, Senior Subordinate Indebtedness, Subordinate Indebtedness or Commonwealth Guaranteed Indebtedness Outstanding hereunder, all such moneys shall be applied to the payment of the principal and interest then due and unpaid on the Commonwealth Supported Obligations, including, to the extent permitted by law, interest on overdue installments of interest, without preference or priority of principal over interest or of

interest over principal, or of any installment of interest over any other installment of interest, or of any Commonwealth Supported Obligations over any other Commonwealth Supported Obligations, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Commonwealth Supported Obligations.

(g) Whenever moneys are to be applied pursuant to the provisions of this Section, such moneys shall be applied at such times and from time to time as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such moneys, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) on which such application is to be made and on such date interest on the amounts of principal to be paid and shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date.

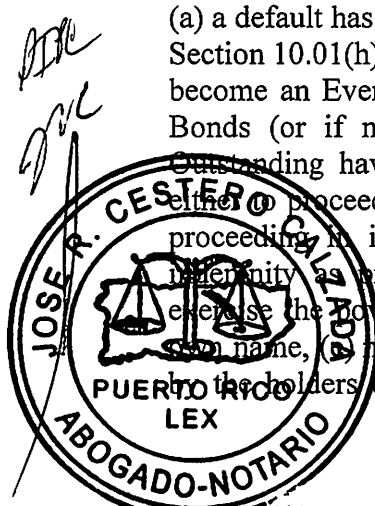
Whenever the principal of and premium, if any, and interest on all Indebtedness have been paid under the provisions of this Section, all payments required by the terms of any Supplemental Agreement have been paid and all expenses and charges of the Trustee have been paid, any balance remaining in the several funds created by this Agreement shall be paid to the Authority as provided in Section 5.15.

Section 8.07 Remedies Vested in Trustee.

All rights of action (including the right to file proof of claims) under this Agreement or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceeding relating thereto and any such suit or proceeding instituted by the Trustee may be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Bondholders, and, subject to the provisions of Section 8.06 hereof, any recovery of judgment shall be for the equal benefit of the Bondholders.

Section 8.08 Limitation on Suits.

Except to enforce the rights given under Sections 8.04 and 8.05, no Bondholder shall have the right to institute any action, suit or proceeding at law or in equity for the enforcement of this Agreement or for the execution of any trust thereof or any other remedy hereunder, unless (a) a default has occurred and is continuing of which the Trustee has been notified as provided in Section 10.01(h), or of which by such Section it is deemed to have notice, (b) such default has become an Event of Default and the holders of 25% in aggregate principal amount of Senior Bonds (or if no Senior Bonds are then Outstanding, of Senior Subordinate Bonds) then Outstanding have made written request to the Trustee and offered it reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, (c) such requesting Bondholders have offered to the Trustee indemnity as provided in Section 10.05, (d) the Trustee has thereafter failed or refused to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its own name, (e) no direction inconsistent with such written request has been given to the Trustee by the holders of a majority in aggregate principal amount of Senior Bonds (or if no Senior



Bonds is then Outstanding, of Senior Subordinate Bonds) then Outstanding, and (f) notice of such action, suit or proceeding is given to the Trustee; it being understood and intended that no one or more holders of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice this Agreement by its or their action or to enforce any rights hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted and maintained in the manner herein provided and for the equal benefit of the holders of all Bonds then Outstanding. The notification, request and offer of indemnity set forth above, at the option of the Trustee, shall be conditions precedent to the execution of the powers and trusts of this Agreement and to any action or cause of action for the enforcement of this Agreement or for any other remedy hereunder.

Section 8.09 Termination of Proceedings.

In case the Trustee shall have proceeded to enforce any right under this Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, then and in every such case the Authority and the Trustee shall be restored to their former positions and rights hereunder, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

Section 8.10 Waivers of Events of Default.

The Trustee may in its discretion waive any Event of Default hereunder or any action taken pursuant to any Event of Default and rescind any acceleration of maturity of principal of and interest on the Bonds, and shall do so at the request of the Holders of (a) a majority in aggregate principal amount of Senior Bonds then Outstanding in respect of which default in the payment of principal and/or premium, if any, and/or interest exists, or (b) a majority in aggregate principal amount of Senior Bonds then Outstanding in the case of any other default; provided, however, that there shall not be waived without the consent of the Holders of all Senior Bonds then Outstanding (A) any Event of Default in the payment of the principal of any Outstanding Bonds (whether at maturity or by sinking fund redemption), or (B) any default in the payment when due of the interest on any such Bonds unless, prior to such waiver or rescission,

(1) there shall have been paid or provided for all arrears of interest with interest, to the extent permitted by law, at the rate borne by the Bonds on overdue installments of interest, all arrears of principal and premium, if any, and all expenses of the Trustee in connection with such default, and

(2) in case of any such waiver or rescission or in the case of any discontinuance, abandonment or adverse determination of any proceeding taken by the Trustee on account of any such default, the Authority, the Trustee, and the Holders of Bonds shall be restored to their former positions and rights hereunder respectively.

No such waiver or rescission relating to the Bonds shall extend to any subsequent or other default or impair any right consequent thereon.

Section 8.11 No Delay or Omission Construed to be a Waiver.

No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or any acquiescence therein; and every power and remedy given by this Agreement to the Trustee and to the Bondholders, respectively, may be exercised from time to time and as often as may be deemed expedient.

Before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of this Agreement or before the completion of the enforcement of any other remedy under this Agreement, the Trustee shall be permitted to discontinue such suit, action, proceeding or enforcement of any remedy if in its opinion any default forming the basis of such suit, action, proceeding or enforcement of any remedy shall have been remedied; provided, however, that no such discontinuance shall extend to or affect any subsequent or other default, or impair any right or remedy consequent thereon.

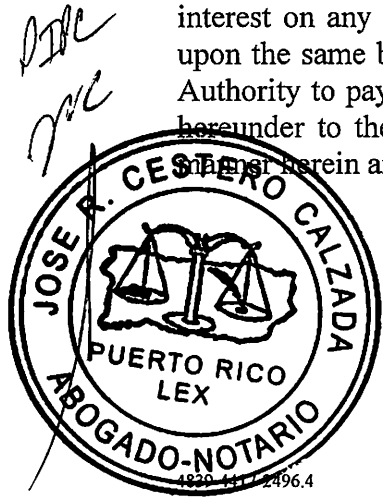
The Trustee may also, and upon written request of the Holders of not less than a majority in aggregate principal amount of the Senior Bonds then Outstanding shall, waive any default which shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it or the Holders under the provisions of this Agreement or before the completion of the enforcement of any other remedy under this Agreement in respect of such default, but no such waiver shall extend to or affect any other existing or any subsequent default or defaults or impair any rights or remedies consequent thereon.

Section 8.12 Notice of Default.

The Trustee shall mail to all owners of Bonds and the Fiduciaries for any Other System Indebtedness at their addresses as they appear on the registration books written notice of the occurrence of any Event of Default set forth in Section 8.01 within thirty (30) days after the Trustee shall have notice, pursuant to the provisions of Section 10.01 of this Agreement, that any such Event of Default shall have occurred. The Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail any such notice.

Section 8.13 Unconditional Right to Receive Principal, Premium and Interest.

Nothing in this Agreement shall, however, affect or impair the right of the Trustee or any Bondholder to enforce, by action at law, payment of the principal of and premium, if any, or interest on any Bond at and after the maturity thereof, or on the date fixed for redemption or upon the same being declared due prior to maturity as herein provided, or the obligation of the Authority to pay the principal of and premium, if any, and interest on each of the Bonds issued hereunder to the respective holders thereof at the time and place, from the source and in the manner herein and in the Bonds expressed.



ARTICLE IX

SUPPLEMENTAL AGREEMENTS

Section 9.01 Supplemental Agreements Not Requiring Consent of Holders of Bonds.

The Authority and the Trustee may, without the consent of, or notice to, any of the Bondholders, enter into such Supplemental Agreements as shall not be inconsistent with the intent of the terms and provisions hereof for any one or more of the following purposes:

- (a) To cure any ambiguity, formal defect or omission in this Agreement;
- (b) To grant to or confer upon the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred on the Bondholders;
- (c) To add to the covenants and agreements of the Authority in this Agreement other covenants and agreements to be observed by the Authority;
- (d) To modify, amend or supplement this Agreement in such manner as required to permit the Authority to comply with the provisions of the Code relating to the rebate to the United States of America of earnings derived from the investment of the proceeds of any Bonds, provided that such modification, amendment or supplement does not materially adversely affect the holders of all Outstanding Bonds;
- (e) To modify, amend or supplement this Agreement in such manner as may be required by a Rating Agency to maintain or enhance its rating on the Senior Bonds, provided that such modification, amendment or supplement does not materially adversely affect the Holders of all Outstanding Bonds;
- (f) To modify, amend or supplement this Agreement to make any change to the role of the Consulting Engineer as set forth in Section 7.07;
- (g) To authorize the issuance of and to secure one or more issues of Bonds pursuant to Article II;
- (h) To notify, amend or supplement this Agreement in such manner as required to implement any agreement with a securities depository relating to a book-entry system to be maintained with respect to any Bonds; and
- (i) To modify, amend or supplement this Agreement in any manner that the Trustee concludes is not materially adverse to the Holders of all Outstanding Bonds.

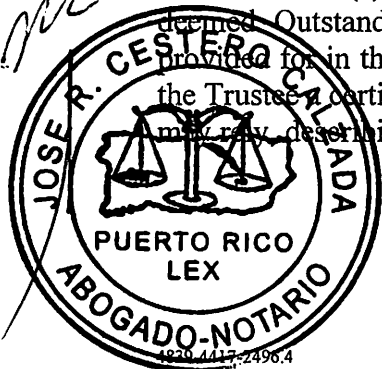
For purposes of this Section, any modification, amendment or supplement to this Agreement shall not be deemed to be materially adverse to the Holders of all Outstanding Bonds unless such modification, amendment or supplement results in a downgrade or withdrawal of any then existing rating on Outstanding Bonds.

Section 9.02 Supplemental Agreements Requiring Consent of Bondholders.

(a) Exclusive of Supplemental Agreements authorized by Section 9.01 and subject to the terms and provisions contained in this Section, the Holders of not less than a majority in aggregate principal amount of Outstanding Bonds shall have the right from time to time, notwithstanding anything in this Agreement to the contrary, to consent to the execution by the Authority and the Trustee of such other Agreements supplemental hereto as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Agreement and any Supplemental Agreement; provided, however, that nothing in this Agreement shall permit, or be construed as permitting, (i) an extension of the time for payment of the principal of or the interest on any Bonds, (ii) a preference or priority of any Senior Bonds over any other Senior Bonds, (iii) a preference or priority of any Senior Subordinate Bonds over any other Senior Subordinate Bonds, (iv) a preference or priority of any Subordinate Bonds over any other Subordinate Bonds, (v) a reduction in the aggregate principal amount of Bonds required for consent to such Supplemental Agreement, (vi) a reduction in the principal amount of or premium, if any, on any Bonds or the rate of interest thereon, (vii) the creation of any lien or pledge upon the Authority Revenues and the moneys and securities in the funds and accounts hereunder other than the lien and pledge permitted by this Agreement or (viii) an extension of time or a reduction in amount of any payment required by any sinking fund that may be applicable to any Bonds, without the consent of the Holders so affected.

(b) If at any time the Authority shall request the Trustee to enter into any such Supplemental Agreement, the Trustee shall cause notice of the proposed execution of such Supplemental Agreement to be sent by registered or certified mail to the registered owner of each Bond at his address as it appears on the registration books. Such notice shall briefly set forth the nature of the proposed Supplemental Agreement and shall state that a copy thereof is on file at the corporate trust office of the Trustee for inspection by all Bondholders. If, within ninety (90) days or such longer period as shall be prescribed by the Authority following the giving of such notice, the Holders of not less than a majority in aggregate principal amount of Outstanding Bonds, or in the case of (i) through (viii) above, the holders of all affected Bonds, shall have consented to and approved the execution thereof as herein provided, no Holder of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation hereof, or in any manner to question the propriety thereof, or to enjoin or restrain the Trustee or the Authority from executing such Supplemental Agreement or from taking any action pursuant to the provisions thereof. Upon the execution of any such Supplemental Agreement as in this Section permitted and provided, this Agreement shall be and be deemed to be modified and amended in accordance therewith.

(c) Bonds owned or held by or for the account of the Authority shall not be deemed Outstanding for the purpose of consent or any calculation of Outstanding Bonds provided for in this Agreement. At the time of any such calculation, the Authority shall furnish the Trustee a certificate of an Authorized Representative of the Authority upon which the Trustee may rely, describing all Bonds so to be excluded.



(d) It shall not be necessary for the consent of the Holders of Bonds under this Section 9.02 to approve the particular form of any proposed supplement or amendment, but it shall be sufficient if such consent shall approve the substance thereof.

(e) For the purposes of this Article IX, the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase, may consent to a modification or amendment permitted by this Section 9.02 in the manner provided herein, except that no proof of ownership shall be required, and with the same effect as a consent given by the Holder of such Bonds; provided, however, that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the purchaser consenting thereto shall be described in the official statement, prospectus, offering memorandum or other offering document prepared in connection with the primary offering or remarketing of the Bonds of such Series by the Authority.

(f) A Supplemental Agreement may provide that an Enhancement Facility Provider shall have the right to vote in lieu of the holders of the Bonds authorized thereunder.

Section 9.03 Discretion of Trustee in Entering into Supplements and Amendments.

In each and every case provided for in this Article, the Trustee shall not be obligated to execute any proposed supplement or amendment if the rights, obligations and interests of the Trustee would be thereby affected, and the Trustee shall not be under any responsibility or liability to the Authority, or to any Bondholder or to anyone whomsoever, for its refusal in good faith to enter into any such supplement or amendment if such supplement or amendment is deemed by it to be contrary to the provisions of this Article.

The Trustee shall be entitled to receive, and shall be fully protected in relying upon, an opinion of any counsel approved by it, who may be counsel for the Authority, as conclusive evidence that any such proposed supplement or amendment does or does not comply with the provisions of this Agreement, and that it is or is not proper for it, under the provisions of this Article, to join in the execution of such supplement or amendment.

ARTICLE X

TRUSTEE

Section 10.01 Acceptance of Trusts and Obligations.

The Trustee hereby accepts the trusts and obligations imposed upon it by this Agreement and agrees to perform such trusts and obligations, but only upon and subject to the following express terms and conditions and no implied covenants or obligations shall be read into this Agreement against the Trustee:

(a) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Agreement and no implied covenants or

obligations shall be read into this agreement against the Trustee. Upon the occurrence and continuation of an Event of Default (which has not been cured or waived), the Trustee shall exercise such of the rights and powers vested in it by this Agreement and use the same degree of care and skill in its exercise as a prudent man ordinarily would exercise and use under the circumstances in the conduct of his own affairs.

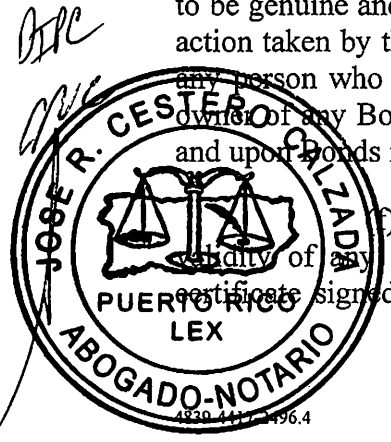
(b) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys or agents and shall not be liable for the misconduct of any attorney or agent selected by it with due care, and shall be entitled to consult with counsel and to act upon the opinion or advice of its counsel concerning all matters of trust hereof and the duties hereunder, and may in all cases pay reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trust hereof. The Trustee may act in reliance on an Opinion of Counsel and shall not be responsible for any loss or damage resulting from any action or nonaction by it taken or omitted to be taken in good faith and in reliance on such Opinion of Counsel.

(c) The Trustee shall not be responsible for any recital herein or in the Bonds (except in respect to the certificate of the Trustee endorsed on the Bonds) or for the recording, re-recording, filing or re-filing of any financing or continuation statement or any other document or instrument, or for insuring the Systems, collecting any insurance moneys, or for the validity of the execution by the Authority of this Agreement or for any supplements thereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby, and the Trustee shall not be bound to ascertain or inquire as to the observance or performance of any covenants, conditions or agreements on the part of the Authority except as hereinafter set forth. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of moneys made by it in accordance with Section 6.02.

(d) The Trustee shall not be accountable for the use of any Bonds authenticated or delivered hereunder. The bank or trust company acting as Trustee and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in the Bonds and may join in any action which any holder of Bonds may be entitled to take with like effect as if such bank or trust company were not the Trustee. To the extent permitted by law, such bank or trust company may also receive tenders and purchase in good faith Bonds for itself, including any department, affiliate or subsidiary, with like effect as if it were not the Trustee.

(e) The Trustee shall be protected in acting on any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document reasonably believed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to this Agreement on the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the owner of any Bonds shall be conclusive and binding upon all future owners of the same Bonds and upon Bonds issued in exchange therefor or in place thereof.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely on a certificate signed on behalf of the Authority by its Chairman, its Executive President or any



Executive or Senior Vice President and attested by the Secretary of the Authority under its seal, or such other person or persons as may be designated for such purposes by resolution of the Authority, as sufficient evidence of the facts therein contained, and prior to the occurrence of a default of which the Trustee has been notified as provided in subsection (h) of this Section, or of which by said subsection it is deemed to have notice, may also accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of the Secretary of the Authority under its seal to the effect that a resolution in the form therein set forth has been adopted by the Authority as conclusive evidence that such resolution has been duly adopted and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in this Agreement shall not be construed as a duty, and the Trustee shall not be answerable for other than its negligence or willful default.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any default hereunder, except failure by the Authority to cause to be made any of the payments to the Trustee required to be made by Article VI or failure by the Authority to file with the Trustee any document required by this Agreement to be so filed, unless the Trustee shall be notified of such default by the Authority or by the Holders of 25% in aggregate principal amount of Senior Bonds (or if no Senior Bonds are then Outstanding, Senior Subordinate Bonds) then Outstanding.

(i) At any and all reasonable times the Trustee and its duly authorized agents, attorneys, experts, engineers, accountants and representatives shall have the right, but shall not be required, to inspect the Systems and all books, papers and records of the Authority pertaining to the Systems and the Bonds, and to make such memoranda from and in regard thereto as may be desired.

(j) The Trustee shall not be required to give any bond or surety with respect to the exercise of its rights and obligations hereunder.

(k) Notwithstanding any other provision of this Agreement, the Trustee shall have the right, but shall not be required, to demand, as a condition of any action by the Trustee in respect of the authentication of any Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of this Agreement, any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition to that required by the terms hereof.

(l) Before taking any action under this Agreement the Trustee may require that satisfactory indemnity be furnished to it for the reimbursement of all expenses to which it may be put and to protect it against all liability by reason of any action so taken, except liability which is adjudicated to have resulted from its negligence or willful default.

(m) All moneys received by the Trustee shall, until used or applied or invested as herein provided, be held in trust in the manner and for the purposes for which they were

received but need not be segregated from other moneys except to the extent required by this Agreement or law. The Trustee shall not be under any liability for interest on any moneys received hereunder except such as may be agreed upon.

(n) In the absence of gross negligence or bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Agreement, if any; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Agreement.

(o) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of a majority in principal amount of the Senior Bonds (or, if there are no Senior Bonds outstanding, Senior Subordinated Bonds, or if there are no Senior Subordinated Bonds Outstanding, Subordinated Bonds) relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the provisions of this Agreement.

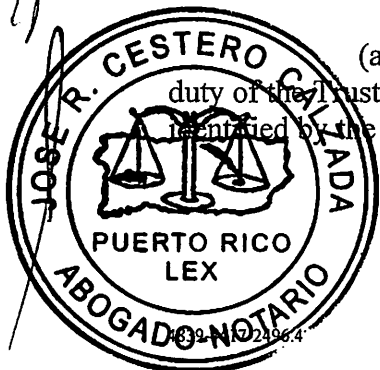
(p) No provision of this Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(q) Whenever in the administration of this Agreement, prior to the occurrence of an Event of Default, the Trustee shall deem it desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matters (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of the Authority and such certificate, in the absence of bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken or suffered by it under the provisions of this Agreement upon the faith thereof.

(r) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, note, or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit.

Section 10.02 Monthly Statements of Funds on Deposit.

(a) If such statements are not already filed on a monthly basis, it shall be the duty of the Trustee, to file with the Authority, the Consulting Engineer and any other Consultants identified by the Authority, a statement setting forth in respect of the preceding calendar month:



(i) the amount withdrawn or transferred by it and the amount deposited with it on account of each fund and account held by it under the provisions of this Agreement; and

(ii) the Authority's Outstanding Indebtedness by category.

(b) If on or before any Deposit Date, the amount transferred from the Operating Revenue Fund is insufficient to make the total required deposit to the Commonwealth Payments Fund for such month, the Trustee will notify the Authority, the Consulting Engineer, any other Consultants identified by the Authority, and Government Development Bank for Puerto Rico of such insufficiency.

(c) The Trustee shall notify the Authority, the Consulting Engineer, any other Consultants identified by the Authority, and Government Development Bank for Puerto Rico, of the amount transferred from the Operating Reserve Fund to the Senior Bond Fund, the Senior Subordinate Bond Fund and the Subordinate Bond Fund to fund deficiencies therein.

(d) The Trustee shall notify the Authority, the Consulting Engineer, any other Consultants identified by the Authority, and Government Development Bank for Puerto Rico, of the amount transferred from the Current Expense Fund to the Senior Bond Fund, the Senior Subordinate Bond Fund and the Subordinate Bond Fund to fund deficiencies therein.

(e) If any amount is required to be transferred from the Senior Debt Service Reserve Fund, Senior Subordinate Debt Service Reserve Fund or Subordinate Reserve Fund, pursuant to Article V herein, the Trustee shall notify the Authority, the Consulting Engineer, any other Consultants identified by the Authority, and Government Development Bank for Puerto Rico of such transfers.

(f) All records and files pertaining to the trusts hereunder in the custody of the Trustee shall be open at all reasonable times to the inspection of the Authority and its agents and representatives.

Section 10.03 Trustee May be Bondholder.

The bank, national banking association or trust company acting as Trustee under this Agreement, and its directors, officers, employees or agents, may in good faith buy, sell, own, hold and deal in any of the Bonds, and may join in the capacity of a Bondholder in any action which any Bondholder may be entitled to take with like effect as if such bank, national banking association or trust company were not the Trustee under this Agreement, may engage, as principal or agent, or be interested in any financial or other transaction with the Authority and may maintain any and all other general banking and business relations with the Authority, all with like effect and in the same manner as if the Trustee were not a party to this Agreement, and may act as depository, trustee or agent for any committee or body of Holders of the Bonds issued under and secured by this Agreement or other obligations of the Authority with like effect and in the same manner as if the Trustee were not a party to this Agreement; and no implied covenant shall be read into this Agreement against the Trustee in respect of such matters.

Section 10.04 Trustee not Responsible for Recitals.

The recitals, statements and representations contained herein and in the Bonds (excluding the Trustee's certificate of authentication on the Bonds) shall be taken and construed as made by and on the part of the Authority and not by the Trustee, and the Trustee shall not be under any responsibility for the correctness of the same. The Trustee makes no representations as to the validity or sufficiency of this Agreement or of the Bonds. The Trustee shall not be accountable for the use or application, other than those required to be made by the Trustee as herein provided, of any of the proceeds of the Bonds.

Section 10.05 Trustee not Responsible for Recording.

The Trustee shall not be under any obligation to see to the recording or filing of this Agreement or any other agreement or instrument or otherwise to the giving to any person of notice of the provisions hereof or thereof.

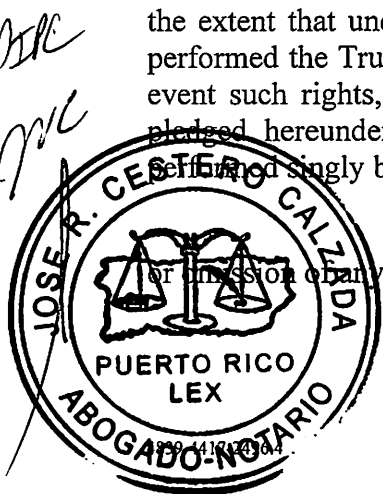
Section 10.06 Appointment of Co-Trustee.

(a) Notwithstanding any other provisions of this Agreement, at any time, for the purpose of meeting any legal requirement of any jurisdiction with respect to this Agreement, including any jurisdiction in which any part of the assets pledged hereunder may at the time be located, the Trustee shall have the power and may execute and deliver all instruments necessary to appoint one or more persons or entities to act as a co-trustee or co-trustees, or separate trustee or separate trustees with respect to this Agreement, including with respect to all or any part of such assets, and to vest in such person or entity, in such capacity and for the benefit of the Bondholders, such title to the collateral, or any part hereof, and subject to the other provisions of this Section, such powers, duties, obligations, rights and trusts as the Trustee may consider necessary or desirable. No co-trustee or separate trustee hereunder shall be required to meet the terms of eligibility as a successor trustee under Section 10.14 and no notice to Bondholders of the appointment of any co-trustee or separate trustee shall be required.

(b) Every separate trustee and co-trustee shall, to the extent permitted by law, be appointed and act subject to the following provisions and conditions:

(i) all rights, powers, duties and obligations conferred or imposed upon the Trustee shall be conferred or imposed upon and exercised or performed by the Trustee and such separate trustee or co-trustee jointly (it being understood that such separate trustee or co-trustee is not authorized to act separately without the Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed the Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to the assets pledged hereunder or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate trustee or co-trustee, but solely at the direction of the Trustee;

(ii) no trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder; and



(iii) the Trustee may at any time accept the resignation of or remove any separate trustee or co-trustee.

(c) Any notice, request or other writing given to the Trustee shall be deemed to have been given to each of the then separate trustees and co-trustees, as effectively as if given to each of them. Every instrument appointing any separate trustee or co-trustee shall refer to this Agreement and the conditions of this Article X. Each separate trustee and co-trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instrument of appointment, either jointly with the Trustee or separately, as may be provided therein, subject to all the provisions of this Agreement, specifically including every provision of this Agreement relating to the conduct of, affecting the liability of, or affording protection or rights (including the rights to compensation, reimbursement and indemnification hereunder) to, the Trustee. Every such instrument shall be filed with the Trustee.

(d) Any separate trustee or co-trustee may at any time constitute the Trustee its agent or attorney-in-fact with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of this Agreement on its behalf and in its name.

Section 10.07 Fees, Charges and Expenses of Trustee.

The Trustee shall be entitled to payment of and reimbursement for reasonable fees for its services and all expenses reasonably incurred by it hereunder, including the reasonable fees and disbursements of its counsel.

Section 10.08 Notice Required of Trustee.

If the Authority shall fail to transfer amounts to the Operating Revenue Fund as provided in Article V, the Trustee shall give notice thereof by telephone or telegram to the Authority on the next succeeding Business Day and shall confirm such notice in writing by first class registered or certified mail. In the event of (a) the continuance for thirty (30) days of any such failure to make payment, or (b) notification to the Trustee by the holders of 25% in aggregate principal amount of the Senior Bonds (or if no Senior Bonds are then Outstanding, Senior Subordinate Bonds) then Outstanding of any default hereunder, then the Trustee shall give notice thereof to the Bondholders.

Section 10.09 Intervention by Trustee.

In any judicial proceeding to which the Authority is a party and which in the opinion of the Trustee has a substantial bearing on the interests of the Bondholders, the Trustee may intervene on behalf of the Bondholders and, subject to Section 10.01(l), shall do so if requested by the holders of 25% in aggregate principal amount of Senior Bonds (or if no Senior Bonds are then Outstanding, Senior Subordinate Bonds) then Outstanding.

Section 10.10 Merger or Consolidation of Trustee.

Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from

any such conversion, sale, merger, consolidation or transfer to which it is a party shall be and become successor Trustee hereunder and vested with all the trusts, powers, discretion, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, provided, however, that so long as no Event of Default has occurred and is continuing, the Authority shall have the right to appoint a successor Trustee other than corporation or association that results from such conversion, safe, merger,-consolidation or transfer.

Section 10.11 Resignation by Trustee.

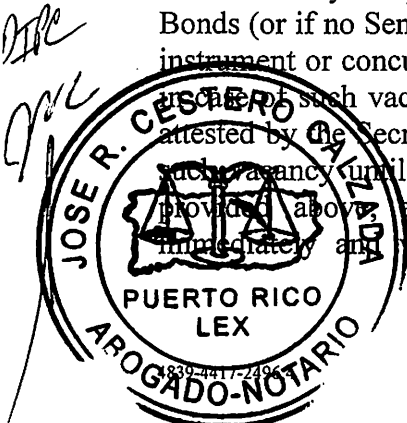
The Trustee may at any time resign from the trusts hereby created by giving thirty (30) days' notice to the Authority, provided that such resignation shall not take effect until the appointment of a successor or temporary Trustee by the Bondholders, the Authority or a court of competent jurisdiction.

Section 10.12 Removal of Trustee.

The Trustee may be removed at any time (a) by an instrument or concurrent instruments in writing delivered to the Trustee and the Authority, and signed by the owners of a majority in aggregate principal amount of Senior Bonds (or if no Senior Bonds are then Outstanding, Senior Subordinate Bonds) then Outstanding, or (b) by the Authority by notice in writing given by an Authorized Representative of the Authority to the Trustee thirty (30) days before the removal date; provided, however, that the Authority shall have no right to remove the Trustee during any time when an Event of Default has occurred or is continuing or when an event has occurred and is continuing or condition exists that with the giving of notice or the passage of time, or both, would be an Event of Default. The removed Trustee shall return to the Authority the amount of the Trustee's annual fee allocable to the portion of the current year remaining after the removal date. Notwithstanding the foregoing, nothing contained in this Agreement shall relieve the Authority of its obligation to pay the Trustee's fees and expenses incurred to the date of such removal. Such removal shall take effect upon the appointment of a successor Trustee or the earlier appointment of a temporary Trustee by the Bondholders, the Authority or a court of competent jurisdiction.

Section 10.13 Appointment of Successor Trustee by Bondholders; Temporary Trustee.

In case the Trustee hereunder shall resign, be removed, be dissolved, be in course of dissolution or liquidation or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public officer or officers or of a receiver appointed by a court, a successor may be appointed by the owners of a majority in aggregate principal amount of Senior Bonds (or if no Senior Bonds are then Outstanding, Senior Subordinate) then Outstanding, by an instrument or concurrent instruments in writing signed by such owners; provided, however, that in case of such vacancy the Authority, by an instrument signed by its Executive President and attested by the Secretary of the Authority under its seal, may appoint a temporary Trustee to fill such vacancy until a successor Trustee shall be appointed by the bondholders in the manner provided above, and any such temporary Trustee so appointed by the Authority shall immediately and without further act be superseded by the Trustee so appointed by such



bondholders. Every such Trustee appointed pursuant to this Section shall be, if there be such an institution willing, qualified and able to accept the trust upon reasonable or customary terms, a bank or trust company having a combined capital, surplus and undivided profits of not less than \$50,000,000 (or whose obligations hereunder are guaranteed by a bank or trust company duly authorized to exercise corporate trust powers and subject to examination by federal or state authority, of good standing, and having at the time of the appointment of such Trustee, a combined capital and surplus of at least such amount).

Section 10.14 Concerning any Successor Trustee.

Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the Authority an instrument in writing accepting such appointment hereunder, and thereupon such successor, without any further act or deed of conveyance, shall become fully vested with all the properties, rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the request of the Authority, execute and deliver an instrument transferring to such successor Trustee all the properties, rights, powers and trusts of such predecessor hereunder; and every predecessor Trustee shall deliver all securities and moneys held by it as Trustee hereunder to its successor. Should any instrument in writing from the Authority be required by any successor Trustee for more fully and certainly vesting in such successor the properties, rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Authority.

Section 10.15 Trustee Protected in Relying on Agreements, Etc.

The resolutions, opinions, certificates and other instruments provided for in this Agreement may be accepted by the Trustee as conclusive evidence of the facts and conclusions stated therein and shall be full warrant, protection and authority to the Trustee for the release of property and the withdrawal of cash hereunder or the taking of any other action by the Trustee as provided hereunder.

Section 10.16 Successor Trustee as Paying Agent, Registrar and Custodian of Funds.

In the event of a change in the office of Trustee, the predecessor Trustee which has resigned or been removed shall cease to be paying agent and registrar for the Bonds and custodian of the funds created hereunder, and the successor Trustee shall become such paying agent, registrar and custodian.

Section 10.17 Limitation of Liability.

The Trustee is entering into this Agreement solely in its capacity as trustee and not in its individual capacity (except as expressly stated herein), and in no case shall the Trustee (or any person acting as successor trustee under this Agreement) be personally liable for or on account of any of the statements, representations, warranties, covenants or obligations stated to be those of any other person or entity hereunder, all such liability, if any, being expressly waived by the parties hereto and any person claiming by, through or under such party; provided, however, that the Trustee (or any such successor trustee) shall be personally liable hereunder for its own gross

negligence or willful misconduct. The provisions of this Section shall survive the termination of this Agreement.

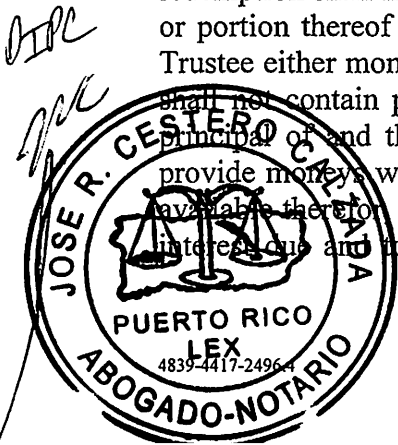
ARTICLE XI

DISCHARGE OF AGREEMENT

Section 11.01 Discharge of Agreement.

If (a) (1) all Bonds issued hereunder shall have become due and payable in accordance with their terms or otherwise as provided in this Agreement or have been duly called for redemption or irrevocable instructions to call the Bonds issued hereunder for redemption have been given by the Authority to the Trustee, and (2) the Trustee holds for such purpose cash or Defeasance Obligations, the principal of and the interest on which, as verified by a licensed independent certified public accountant (that carries errors and omissions insurance) reasonably acceptable to the Trustee and the Authority, at maturity will be sufficient (without reinvestment) (A) to redeem all Bonds issued hereunder that have been called for redemption, or for which such irrevocable instructions have been given, on the date set for such redemption, (B) to pay at maturity all Bonds issued hereunder not irrevocably called for redemption, (C) to pay interest accruing on all Bonds issued hereunder prior to their redemption or payment at maturity, (D) to make all payments required by the terms of any Supplemental Agreement, and (E) to pay the Trustee's fees and expenses and any other fees and expenses for which the Authority is responsible under this Agreement, including the costs and expenses of canceling and discharging this Agreement, and (b) the Trustee shall have received notification from the Holders of all other Indebtedness that such Indebtedness has been paid, or payment has been provided for such Indebtedness, in accordance with the documents related thereto, then the Trustee shall, at the expense of the Authority, cancel and discharge this Agreement and execute and deliver to the Authority such instruments in writing as shall be necessary to cancel the lien hereof, and assign and deliver to the Authority any property at the time subject to this Agreement that may then be in its possession, except moneys or securities in which such moneys are invested which are held by the Trustee for the payment of principal, or premium, if any, or interest on the Bonds issued hereunder;

Any Outstanding Bond, or portion thereof in any denomination authorized by this Agreement, shall be deemed to have been paid within the meaning and with the effect expressed in this Section 11.01 when the whole amount of the principal of and interest on such Bond or such portion shall have been paid or duly provided for and the conditions set forth in clause (c) below have been satisfied or when (a) in the event such Bond or such portion shall have been duly called for redemption or irrevocable instructions to call such Bond or such portion for redemption shall have been given to the Trustee by the Authority, (b) whether or not such Bond or portion thereof has been so called for redemption, there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Obligations, which shall not contain provisions permitting the redemption thereof at the option of the issuer, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee available therefor shall be sufficient, to pay when due the principal of and premium, if any, and interest due and to become due on such Bond or such portion on or prior to the maturity or



redemption date thereof, and (c) in the event such Bond or such portion does not mature and is not to be redeemed within the next succeeding 60 days, the Authority shall have given the Trustee irrevocable instructions to give, as soon as practicable, a notice to the Holder of such Bond or such portion by first-class mail, postage prepaid, stating that the deposit of moneys or Defeasance Obligations required by clause (b) of this paragraph has been made with the Trustee and that such Bond or such portion is deemed to have been paid in accordance with this Section and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and premium, if any, and interest on such Bond or such portion.

The moneys and Defeasance Obligations deposited with the Trustee pursuant to this Section and all payments of principal of or interest on any such Obligations shall not be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and premium, if any, and interest on said Bonds, or portions thereof, deemed to have been paid in accordance with this Section. If Bonds, or portions thereof, are deemed to have been paid in accordance with the provisions of this Article by reason of the deposit with the Trustee of moneys or Defeasance Obligations and the Trustee has received an opinion of counsel satisfactory to it as to such deemed payment, no amendment to the provisions of this Section which would adversely affect the Holders of such Bonds, or portions thereof, shall be made without the consent of each Holder affected thereby.

For purposes of determining whether any Outstanding Variable Rate Indebtedness is deemed paid and discharged pursuant to this Article XI, such Variable Rate Indebtedness shall be deemed to bear interest at the maximum rate of interest such Variable Rate Indebtedness may bear pursuant to the applicable Supplemental Agreement.

ARTICLE XII

SUBORDINATION

Section 12.01 Subordination

(a) Senior Subordinated Indebtedness, Subordinated Indebtedness, Commonwealth Guaranteed Indebtedness and Commonwealth Supported Obligations (collectively, the "Subordinated Obligations") shall to the extent provided in this Article be subordinate and subject in right of payment to the prior payment in full of the Senior Indebtedness, and the Holder of any Subordinated Obligation, whether upon original issue or upon transfer or assignment thereof, accepts and agrees to be bound by such provision. The Indebtedness evidenced by Subordinated Indebtedness shall to the extent provided in this Article be subordinate and subject in right of payment to the prior payment in full first of Senior Indebtedness and then of the Senior Subordinated Indebtedness, and the Holder of any Subordinate Indebtedness, whether upon original issue or upon transfer or assignment thereof, accepts and agrees to be bound by such provision.

(b) Upon any payment or distribution of assets of the Authority upon any dissolution or winding up or total or partial liquidation of the Authority whether in bankruptcy, insolvency or receivership proceedings, or otherwise,

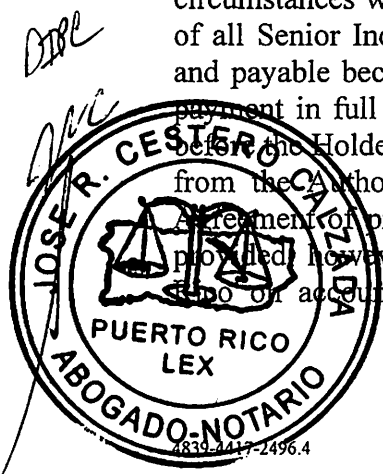
(1) all Senior Indebtedness shall first be paid or duly provided for to the extent of such payment or distribution before any payment is made upon the indebtedness evidenced by the Subordinated Obligations;

(2) any payment or distribution of assets of the Authority of any kind or character, whether in cash, property or securities, to which the Holders of the Subordinated Obligations or the Trustee would be entitled except for the provisions of this Article XII, including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of the Authority being subordinated to the payment of the Subordinated Obligations, shall be paid by the liquidating trustee or agent or other person making such payment or distribution, whether a trustee in bankruptcy, a receiver or liquidating trustee or otherwise, directly to the Holders of Senior Indebtedness, to the extent necessary to pay or provide for the payment of all Senior Indebtedness in full before any payment is made upon the indebtedness evidenced by the Subordinated Obligations; and

(3) in the event that, notwithstanding the foregoing, upon any such dissolution or winding up or liquidation any payment or distribution of assets of the Authority of any kind or character, whether in cash, property or securities, including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of the Authority being subordinated to the payment of the Subordinated Obligations, shall be received by the Trustee or by the Holders of the Subordinated Obligations before all Senior Indebtedness are paid or duly provided for in full, such payment or distribution shall be paid over to the Holders of such Senior Indebtedness for application to the payment thereof until such Senior Indebtedness shall have been paid or provision for such payment shall have been made in full.

Upon any payment or distribution of assets of the Authority referred to in this Section 12.01, the Trustee and the Holders of the Subordinated Obligations shall be entitled to rely upon a certificate of the liquidating trustee or agent or other person making any payment or distribution to the Trustee or the Holders of the Subordinated Obligations for the purpose of ascertaining the persons entitled to participate in such payment or distribution, the Holders of Senior Indebtedness and other indebtedness of the Authority, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto, or to this Article.

(c) (1) In the event that any Subordinated Obligation is declared due and payable before its expressed maturity because of the occurrence of an event of default (under circumstances when the provisions of subsection (b) above shall not be applicable), the owners of all Senior Indebtedness outstanding at the time such Subordinated Obligation becomes due and payable because of the occurrence of such an Event of Default shall be entitled to receive payment in full of all principal of and interest on all such Indebtedness then due and payable before the Holder of such Subordinated Obligation is entitled to receive any accelerated payment from the Authority Revenues and other moneys pledged to Senior Indebtedness under this Agreement of principal (and premium, if any) or interest upon such Subordinated Obligation; provided, however, that any Authority Revenues received from the Commonwealth of Puerto Rico or on account of Commonwealth Guaranteed Indebtedness or Commonwealth Supported



Obligations are not subject to the lien hereof and shall only be used for the purposes set forth in Section 5.12 hereof.

(2) If any Event of Default specified in Section 8.01 hereof with respect to the Senior Indebtedness shall have occurred and be continuing (under circumstances when the provisions of subsection (b) above shall not be applicable), the owners of all Senior Indebtedness then Outstanding shall be entitled to receive payment in full of all principal of and interest on all such Indebtedness as the same become due and payable before the Holders of the Subordinated Obligations are entitled to receive, subject to the provisions of (3) below, any payment from the Authority Revenues or other moneys pledged to Senior Indebtedness under this Agreement of principal (and premium, if any) or interest upon the Subordinate Obligations; provided, however, that any Authority Revenues received from the Commonwealth of Puerto Rico on account of Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations are not subject to the lien hereof and shall only be used for the purposes set forth in Section 5.12 hereof.

(3) The Subordinated Obligations may provide that the provisions of subsection (b) and (c) are solely for the purpose of defining the relative rights of the owners of Senior Indebtedness on the one hand, and the Holders of Subordinated Obligations on the other hand, and that nothing therein shall impair, as between the Authority and the Holders of the Subordinated Obligations, the obligation of the Authority, which is unconditional and absolute, to pay to the Holders thereof the principal thereof and premium, if any, and interest thereon in accordance with their terms, nor shall anything therein prevent the Holders of the Subordinated Obligations from exercising all remedies otherwise permitted by applicable law or thereunder upon default thereunder, subject to the rights under subsections (b) and (c) of the owners of Senior Indebtedness to receive cash, property or securities from the funds pledged to Senior Indebtedness under this Agreement otherwise payable or deliverable to the Holders of the Subordinated Obligations; and the Subordinated Obligations may provide that, insofar as a trustee or paying agent for such Subordinated Obligations is concerned, the foregoing provisions shall not prevent the application by such trustee or paying agent of any moneys deposited with such trustee or paying agent for the purpose of the payment of or on account of the principal (and premium, if any) and interest on such Subordinated Obligations if such trustee or paying agent did not have knowledge at the time of such application that such payment was prohibited by the foregoing provisions.

(d) No owner of Senior Indebtedness shall be prejudiced in this right to enforce subordination of the Subordinated Obligations by any act or failure to act on the part of the Authority.

(e) Any issue of Subordinated Obligations may have such rank or priority with respect to any other issue of Subordinated Obligations as may be provided herein, in the applicable Supplemental Agreement or in the resolution, trust Agreement or other instrument securing such issue of Subordinated Obligations and may contain such other provisions as are not in conflict with the provisions of this Agreement.

Section 12.02 Liability of Trustee and Qualified Depository in respect of Subordination.

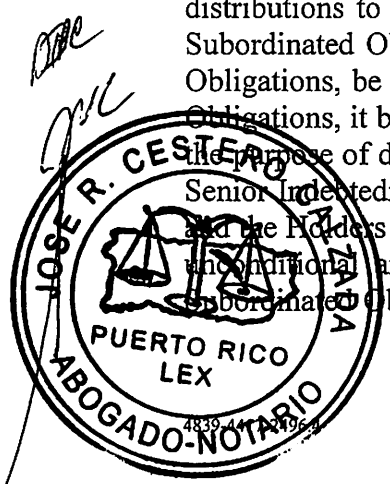
Neither the Trustee nor any Qualified Depository shall be deemed to owe any fiduciary duty to the Holders of Subordinated Obligations and shall not be liable to such Holders if it shall mistakenly pay over or transfer to owners of Senior Indebtedness, the Authority or any other person, moneys to which any Holders of Subordinated Obligations shall be entitled by virtue of this Section 12.02 or otherwise; provided, however, that neither the Trustee nor any Qualified Depository shall be relieved from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct. Notwithstanding any of the provisions of this Section 12.02 or any other provision of this Agreement, neither the Trustee nor any such Qualified Depository shall at any time be charged with knowledge of the existence of any facts that would prohibit the making of any payment of moneys to or by the Trustee or any such Qualified Depository in respect of Subordinated Obligations or of any default in the payment of the principal of or premium, if any, or interest on any Subordinated Obligations, unless and until the Trustee or such Qualified Depository shall have received written notice thereof from the Authority or the Holders of a majority in principal amount of any class or category of any Subordinated Obligations or from any trustee or other fiduciary therefor and any financial institution that provides credit or security for any Subordinated Obligations.

Section 12.03 When Payment of Subordinated Obligations Allowed.

Nothing contained in this Agreement or in any Senior Indebtedness or Subordinated Obligations shall (a) affect the obligation of the Authority to make, or prevent the Authority from making, at any time, except as provided in Section 12.01, payments of principal of or premium, if any, or interest on Senior Indebtedness or the Subordinated Obligations, or (b) prevent the application by the Trustee of any moneys deposited with it hereunder for such purpose to the payment of or on account of the principal of or premium, if any, or interest on Senior Indebtedness or the Subordinated Obligations, if, at the time of such payment or deposit, the Trustee did not have written notice or actual knowledge of any event prohibiting the making of such deposit by the Authority.

Section 12.04 Subrogation of Holders of Subordinated Obligations.

Subject to the payment in full of all Senior Indebtedness as provided in Section 12.01, the Holders of the Subordinated Obligations shall be subrogated to the rights of the Holders of Senior Indebtedness to receive payments or distributions of assets of the Authority made on Senior Indebtedness until the Subordinated Obligations shall be paid in full, and no payments or distributions to the Holders of Senior Indebtedness by the Authority or by the Holders of the Subordinated Obligations shall, as between the Authority and the Holders of the Subordinated Obligations, be deemed to be a payment by the Authority to or on account of the Subordinated Obligations, it being understood that the provisions of this Article are and are intended solely for the purpose of defining the relative rights of the Holders of the Subordinated Obligations and of Senior Indebtedness and nothing in this Article shall or is intended to, as between the Authority and the Holders of the Subordinated Obligations, impair the obligation of the Authority, which is unconditional and absolute, to pay from the sources herein provided to the Holders of the Subordinated Obligations the principal of and premium, if any, and interest on the Subordinated



Obligations in accordance with their terms, nor shall anything in this Article XII prevent the Trustee or the Holder of any Subordinated Obligation from exercising all remedies otherwise permitted by applicable law upon default hereunder, subject to the rights, if any, under this Article XII of the Holders of Senior Indebtedness in respect of cash, property or securities of the Authority received upon the exercise of any such remedy.

Section 12.05 Treatment of Enhancement Facilities.

Any payment made under an Enhancement Facility, to the Holders of the Subordinated Obligations having the benefit of such Enhancement Facility, by the appropriate obligor thereof shall be retained by such Holders for their own account, and no Holder of Senior Indebtedness is to have any right with respect to any such payment so made.

As between the obligor whose Enhancement Facility secures any Subordinated Obligation and the Holder of such Subordinated Obligations, any payment made on such Subordinated Obligation by the Authority which, under the subordination provisions of this Article, is required to be paid over to the Holders of the Senior Indebtedness, shall not constitute a payment on such Subordinated Obligation but, instead, shall be treated for all purposes of such Enhancement Facility, as though such payment had not been made by the Authority. Until the Holder of the Subordinated Obligation so guaranteed has received from the Authority, or from such obligor, moneys which such Holder is entitled to retain for its own account, equal in the aggregate to the principal amount of his Subordinated Obligation and any accrued and unpaid interest thereon, such obligor shall remain liable on its Enhancement Facility, and, unless otherwise provided in such Enhancement Facility, shall not be subrogated to any of the rights of the Holder of such Subordinated Obligation.

Section 12.06 Amendments to Senior Indebtedness not Requiring Consent of Holders of Subordinate Obligations.

Unless otherwise provided therefor in the Senior Indebtedness, the Holders of the Senior Indebtedness may extend, renew, modify or amend the terms of Senior Indebtedness or any security therefor and release, sell or exchange such security and otherwise deal freely with the Authority, all without notice to or consent of the Holders of the Subordinated Obligations and without affecting the liabilities and obligations of the Authority or the Holders of the Subordinated Obligations.

ARTICLE XIII

MISCELLANEOUS

Section 13.01 Consents, Etc., of Bondholders.

(a) Any consent, request, direction, approval, objection or other instrument (collectively, a "Consent") required by this Agreement to be executed by the Bondholders may be in any number of concurrent writings of similar tenor and may be executed by such Bondholders in person or by agent appointed in writing. Proof of the execution of a Consent or of the writing appointing any such agent shall be sufficient for any of the purposes of this Agreement and shall be conclusive in favor of the Authority with regard to any action taken

under the Consent if the fact and date of the execution by any person of any such writing is proved by a certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by affidavit of any witness to such execution.

(b) Nothing contained in this Section shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters herein stated which may be sufficient.

(c) If the Authority shall solicit from the Holders any request, direction, consent or other instrument in writing required or permitted by this Agreement to be signed or executed by Bondholders, the Authority may, at its option, fix in advance a record date for the determination of Holders entitled to give such request, direction, consent or other instrument, but the Authority shall have no obligation to do so. If such a record date is fixed, such request, direction, consent or other instrument may be given before or after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Bonds have authorized or agreed or consented to such request, direction, consent or other instrument, and for that purpose the Bonds shall be computed as of such record date; provided that no such consent by the Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Agreement no later than twelve (12) months after the record date.

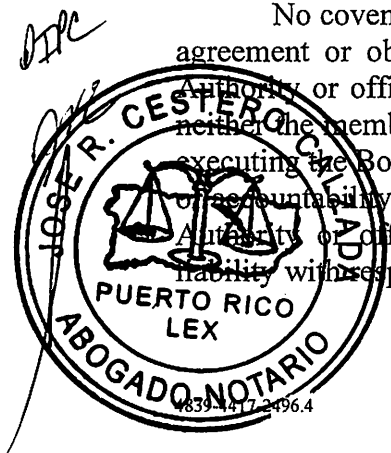
(d) Any request or consent of the Holder of any Bond shall bind every future Holder of the same Bond or any Bond issued in place thereof in respect of anything done by the Trustee in pursuance of such request or consent.

Section 13.02 Limitation of Rights.

With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Agreement or the Bonds is intended or shall be construed to give to any person other than the parties hereto and the holders of the Bonds any legal or equitable right, remedy or claim under or in respect to this Agreement or any covenants, conditions and agreements herein contained since this Agreement and all of the covenants, conditions and agreements hereof are intended to be and is for the sole and exclusive benefit of the parties hereto and the Holders of the Bonds as herein provided.

Section 13.03 Limitation of Liability of Board of Directors of the Authority, Etc.

No covenant, agreement or obligation contained herein shall be deemed to be a covenant, agreement or obligation of any present or future member of the Board of Directors of the Authority or officer, employee or agent of the Authority in his or her individual capacity, and neither the members of the Board of Directors of the Authority nor any officer of the Authority executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof. No member of the Board of Directors of the Authority or officer, employee, agent or advisor of the Authority shall incur any personal liability with respect to any other action taken by him pursuant to this Agreement, provided such



member, officer, employee, agent or advisor acts in good faith. All covenants, stipulations, obligations and agreements of the Authority contained in this Agreement shall be deemed to be covenants, stipulations, obligations and agreements of the Authority to the full extent permitted by the Constitution and laws of the Commonwealth of Puerto Rico.

Section 13.04 Severability.

If any provision of this Agreement shall be held invalid by any court of competent jurisdiction, such holding shall not invalidate any other provision hereof, and this Agreement shall be construed and enforced as if such illegal provision had not been contained herein. In case any covenant, stipulation, obligation, stipulation, obligation or agreement contained in the Bonds or in this Agreement shall for any reason be held to be in violation of law, then such covenant, stipulation, obligation or agreement of the Authority to the full extent permitted by law.

Section 13.05 Notices.

Unless otherwise provided herein, all demands, notices, approvals, consents, requests, opinions and other communications hereunder shall be in writing and shall be deemed to have been given when delivered in person or mailed by first class registered or certified mail, postage prepaid, addressed (a) if to the Authority, at 604 Barbosa Avenue, Barrio Obrero, San Juan, Puerto Rico 00916 (Attention: Executive President) or (b) if to the Trustee, at 153 Ponce de Leon Avenue, Suite 800, San Juan, Puerto Rico 00918 (Attention: Corporate Trust Department). The Authority and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent demands, notices, approvals, consents, requests, opinions or other communications shall be sent or persons to whose attention the same shall be directed.

Section 13.06 Substitute Mailing.

In case, by reason of the suspension of regular mail service as a result of a strike, work stoppage or similar activity, it shall be impractical to mail notice of any event to Bondholders when such notice is required to be given pursuant to any provision of this Agreement, any manner of giving notice as shall be satisfactory to the Trustee and the Authority shall be deemed to be a sufficient giving of such notice.

Section 13.07 Successors and Assigns.

This Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

Section 13.08 Payments Due on Saturdays, Sundays and Holidays.

In any case where the maturity or redemption date or date on which the payment of interest on or principal of the Bonds is due shall be a Saturday, Sunday or other day on which banking institutions in the Commonwealth of Puerto Rico are authorized or required by law to close, then payment of such interest, principal or premium, if any, need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made

on the date of maturity or the date fixed for redemption, and no interest on such payment shall accrue for the period after such date.

Section 13.09 Headings not Part of Agreement.

Any headings preceding the text of the several articles hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Agreement, and they shall not affect its meaning, construction or effect.

Section 13.10 Applicable Law.

This Agreement shall be governed by the applicable laws of the Commonwealth of Puerto Rico.

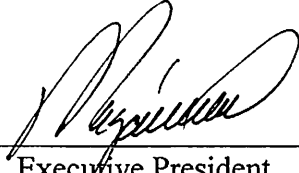
Section 13.11 Counterparts.

This Agreement may be executed in several counterparts, each of which shall be an original and all of which together shall constitute but one and the same instrument.

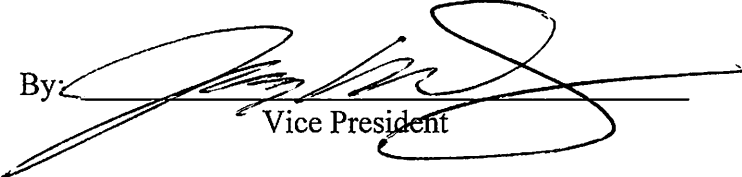


IN WITNESS WHEREOF, the Authority and the Trustee have caused this Agreement to be executed in their respective corporate names as of the date first above written.

**PUERTO RICO AQUEDUCT AND SEWER
AUTHORITY**

By: 
Executive President

**BANCO POPULAR DE PUERTO RICO,
as Trustee**

By: 
Vice President

[Signature Page to the Master Agreement of Trust]

