

**Ratings: See "Ratings" Herein**

*In the opinion of Buchanan Ingersoll Professional Corporation, Bond Counsel, under existing law and subject to conditions described in "TAX MATTERS" herein, interest on the Series 2002 Bonds (a) will not be included in gross income for federal income tax purposes and (b) will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Under existing law, interest on all Series 2002 Bonds, is exempt from personal income taxes imposed by the United States Virgin Islands, any state, other territory or possession of the United States or any political subdivision thereof, or by the District of Columbia,, as described in the section "TAX MATTERS" herein.*

**\$20,845,000**

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
**Revenue Bonds (Federal Highway Reimbursement Anticipation Loan Note) Series 2002**

Dated: October 1, 2002

Due: September 1, as shown on the inside cover

The Revenue Bonds (Federal Highway Reimbursement Anticipation Loan Note) Series 2002 (the "Series 2002 Bonds") are being issued by the Virgin Islands Public Finance Authority (the "Authority") for the purpose of financing certain approved federal-aid transportation projects in the United States Virgin Islands (the "Territory"). The Series 2002 Bonds are being issued pursuant to the Indenture of Trust, dated as of October 1, 2002 (the "Trust Indenture"), by and between the Authority and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee") as supplemented by the First Supplemental Indenture of Trust, dated as of October 1, 2002 (the "First Supplemental Indenture" and together with the Trust Indenture, the "Indenture"), by and between the Authority and the Trustee. The Series 2002 Bonds will be secured on parity with any like obligations issued by the Authority pursuant to the Indenture (collectively, the "Bonds"), as described herein. See "SECURITY FOR THE BONDS - Additional Bonds." The Trustee will act as Bond Registrar and Paying Agent for the Series 2002 Bonds. See "THE SERIES 2002 BONDS - General".

Proceeds of the Series 2002 Bonds will be deposited into (i) the Series 2002 Projects Account in the Construction Fund and applied to the payment of a portion of the costs of construction of the Enighed Pond Project and the Red Hook Project, (ii) the Series 2002 Debt Service Reserve Account in the Debt Service Reserve Fund in the amount of the Series 2002 Debt Service Reserve Requirement, and (iii) the Series 2002 Costs of Issuance Account in the Costs of Issuance Fund to pay certain costs associated with the authorization, issuance and delivery of the Series 2002 Bonds. See "PLAN OF FINANCE - Use of Proceeds of the Series 2002 Bonds".

When delivered, the Series 2002 Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC") New York, New York. So long as DTC or its nominee is the registered owner of the Series 2002 Bonds, transfers of ownership of Series 2002 Bonds will be made only through book-entry system of DTC. Beneficial owners of the Series 2002 Bonds will not receive physical delivery of the Series 2002 Bond certificates. Payment of principal of and interest on the Series 2002 Bonds will be made by the Paying Agent directly to DTC or its nominee. Disbursement of such payments to the DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of the DTC participants. Principal of and interest on the Series 2002 Bonds will be payable on March 1 and September 1 of each year, commencing on March 1, 2003. See "THE SERIES 2002 BONDS".

The scheduled payment of principal of and interest on the Series 2002 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2002 Bonds by



The Bonds, including the Series 2002 Bonds, are limited special obligations of the Authority solely payable from, and secured on parity by, a pledge of the Trust Estate (as defined herein). The Series 2002 Bonds are the first Series of Bonds under the Indenture. Concurrently with the issuance of the Series 2002 Bonds, the Government of the United States Virgin Islands (the "Government") shall issue, pursuant to the 2002 Loan Agreement (as defined herein), the 2002 Loan Note (as defined herein) which shall constitute a portion of the Trust Estate. Upon the issuance of additional Series of Bonds, the Government, the Trustee and the Authority will execute new Loan Agreements and the Government will deliver new Loan Notes which will become part of the Trust Estate. The 2002 Loan Note constitutes, and any new Loan Notes, when delivered, will constitute, special obligations of the Government limited solely to the payments received by the Government from the United States Federal Highway Administration as payments from the Federal Highway Trust Fund.

The Bonds shall under no circumstances constitute a general obligation of the Authority, the Territory or the United States of America nor shall the Bonds be an evidence of a debt of the Territory or the United States of America nor shall the Territory or the United States of America be liable thereon. The Authority has no taxing power.

The purchase and ownership of the Series 2002 Bonds involves certain investment risks. Information contained on the cover of this Official Statement is a summary only. Prospective purchasers of the Series 2002 Bonds are advised to read this Official Statement in its entirety. See "Bondholder Risks".

**Maturities, Amounts, Interest Rates and Prices or Yields (On Inside Cover)**

*The Series 2002 Bonds are offered, subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriter, subject to the approval of legality by Buchanan Ingersoll Professional Corporation, New York, New York, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by its counsel, Hawkins, Delafield & Wood, New York, New York. It is expected that the Series 2002 Bonds will be available for delivery to DTC in New York, New York on or about November 13, 2002.*

**UBS PaineWebber Inc.**

October 31, 2002

**CUSIPs, MATURITIES, AMOUNTS, INTEREST RATES  
AND YIELDS**

**\$20,845,000**

**Series 2002 Bonds**

<b>Maturity (September 1)</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP</b>
2003	\$2,200,000	2.50%	1.62%	927676 JS6
2004	2,805,000	3.50	1.75	927676 JT4
2005	2,900,000	3.50	2.06	927676 JU1
2006	3,000,000	5.00	2.38	927676 JV9
2007	3,155,000	5.00	2.72	927676 JW7
2008	3,310,000	5.00	3.07	927676 JX5
2009	3,475,000	5.00	3.29	927676 JY3

# **VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**

PO Box 430  
Charlotte Amalie  
St. Thomas, United States Virgin Islands 00804

## **DIRECTORS AND OFFICERS**

The Honorable Charles W. Turnbull, Governor - Chairman  
Bernice A. Turnbull, Commissioner of Finance - Executive Director  
Ira R. Mills, Director of the Office of Management and Budget - Secretary  
Paul Arnold, St. Croix Representative  
Roy Jackson, St. Thomas/St. John Representative  
Kenneth E. Mapp, Director of Finance and Administration

## **TRUSTEE**

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Jacksonville, Florida

## **BOND COUNSEL**

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New York, New York

## **FINANCIAL ADVISOR**

Banc of America Securities LLC  
New York, New York

## **UNDERWRITER**

UBS PaineWebber Inc.

This Official Statement is furnished in connection with the sale of Series 2002 Bonds and may not be reproduced or be used, in whole or in part, for any other purpose. The information and expressions of opinion herein are subject to change without notice. The delivery of this Official Statement, including the Appendices attached hereto, does not imply that information herein is correct as of any time subsequent to its date.

No dealer, salesman or any other person has been authorized by the Authority, the Government, the United States Virgin Islands Port Authority (the "Port Authority"), the United States Virgin Islands Department of Public Works (the "Public Works") or UBS PaineWebber Inc. (the "Underwriter") to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described herein and, if given, or made, such other information or representation must not be relied upon as having been authorized by the Authority, the Government, the Port Authority, Public Works or the Underwriter.

This Official Statement does not constitute an offer of any securities other than those described on the cover page or an offer to sell or a solicitation of any offer to buy in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information contained in this Official Statement has been obtained from the Authority, the Government, the Port Authority, Public Works and other sources which are believed to be reliable, and is based primarily on a review of such information and discussions with the Government, the Authority, the Port Authority and Public Works. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information and this Official Statement is not to be construed as the promise or guarantee of the Underwriter.

THE SERIES 2002 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2002 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Other than with respect to information concerning Financial Security Assurance Inc. ("Bond Insurer") contained under the caption "Bond Insurance" and Appendix G "Specimen of the Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2002 Bonds; or (iii) the tax exempt status of the interest on the Series 2002 Bonds.

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## **OFFICIAL STATEMENT**

**\$20,845,000**

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**

**Revenue Bonds**

**(Federal Highway Reimbursement Anticipation Loan Note) Series 2002**

### **INTRODUCTION**

The purpose of this Official Statement, which includes the cover page and the Appendices hereto, is to furnish certain information concerning the Virgin Islands Public Finance Authority (the "Authority") and the sale and delivery of its Revenue Bonds (Federal Highway Reimbursement Anticipation Loan Note) Series 2002 (the "Series 2002 Bonds") in the aggregate principal amount of \$20,845,000. The Series 2002 Bonds are being issued pursuant to the Virgin Islands Revised Organic Act, 48 U.S.C. 1574-1574c (West 1987), as amended, and Title 29 of the Virgin Islands Code, 2000 V.I. Act 6359, as amended by 2000 V.I. Act 6361 of the Legislature of the United States Virgin Islands (the "Legislature"), (collectively, the "Act"), and an Indenture of Trust, dated as of October 1, 2002 (the "Trust Indenture"), by and between the Authority and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"), as supplemented by the First Supplemental Indenture of Trust, dated as of October 1, 2002 (the "First Supplemental Indenture" and together with the Trust Indenture, the "Indenture"), by and between the Authority and the Trustee. All capitalized terms not defined in this Official Statement have meanings as defined in Appendix A hereto entitled "GLOSSARY OF TERMS".

Pursuant to the Act, the Authority is authorized to issue one or more series of bonds in an aggregate principal amount not to exceed \$75 million for the purposes of funding the Enighed Pond port project on St. John (the "Enighed Pond Project"), the Red Hook terminal facility on St. Thomas (the "Red Hook Project" and, together with the Enighed Pond Project, the "2002 Projects"), and certain other transportation projects listed in the Act or subsequently approved by the Legislature in accordance with applicable Territory and federal laws. See "SECURITY FOR THE BONDS – Authorization."

Proceeds of the Series 2002 Bonds will be used to make a loan to the Government of the United States Virgin Islands (the "Government"), and the Government, pursuant to a loan agreement, dated as of October 1, 2002 (the "2002 Loan Agreement"), by and among the Government, the Authority and the Trustee, will apply, or cause the Authority to apply, the proceeds of the Series 2002 Bonds in accordance with the terms of the Indenture. The loan shall be evidenced by a loan note issued to the Authority and the Trustee by the Government upon the delivery of the proceeds of the Series 2002 Bonds (the "2002 Loan Note"). See "SECURITY FOR THE BONDS - Loan Agreement and Loan Note."

The Indenture provides that the proceeds of the Series 2002 Bonds will be deposited into (i) the Series 2002 Projects Account (and credited to the Enighed Pond Subaccount and the Red Hook Subaccount) in the Construction Fund and applied to the payment of a portion of the construction costs of the Enighed Pond Project and the Red Hook Project, (ii) the Series 2002 Costs of Issuance Account in the Costs of Issuance Fund to pay certain costs associated with the issuance of the Series 2002 Bonds, and (iii) the Series 2002 Debt Service Reserve Account in the Debt Service Reserve Fund, to fund the Series 2002 Debt Service Reserve Requirement. See "PLAN OF FINANCE - Use of Proceeds."

**The Bonds, including the Series 2002 Bonds, are limited special obligations of the Authority payable solely from, and secured by a pledge of, the Trust Estate. The Series 2002 Bonds are the first Series of Bonds under the Indenture. Concurrently with the issuance of the Series 2002 Bonds, the Government of the United States Virgin Islands (the "Government") shall issue, pursuant to the 2002 Loan Agreement, the 2002 Loan Note which shall constitute a portion of the Trust Estate. Upon the issuance of additional Series of Bonds, the Government will execute new Loan Notes which will become a part of the Trust Estate. The 2002 Loan Note constitutes, and any new Loan Notes, when delivered, will constitute, special obligations of the Government limited solely to the payments received by the Government from the United States Federal Highway Administration (the "FHWA") as payment from the Federal Highway Trust Fund (the "Fund"). See "SECURITY FOR THE BONDS - Trust Estate".**

**The Bonds shall under no circumstances constitute a general obligation of the Authority, the United States Virgin Islands (the "Territory") or the United States of America nor shall the Series 2002 Bonds be an evidence of a debt of the Territory or the United States of America nor shall the Territory or the United States of America be liable thereon. The Authority has no taxing power.**

The Memorandum of Agreement, dated as of October 25, 2002 (the "2002 MOA"), by and among the FHWA, the Authority, the Virgin Islands Port Authority (the "Port Authority") and the Virgin Islands Department of Public Works ("Public Works"), documents the procedures, roles and responsibilities (i) for managing the stewardship and construction oversight of the 2002 Projects, (ii) timely transfer of the federal transportation funds on deposit in the Federal Highway Trust Fund (the "Federal Highway Reimbursement Revenues") in the amounts sufficient to pay semiannually the Debt Service on the Series 2002 Bonds (including the Bond Related Costs), and (iii) for establishing the funding, transfer and disbursement process of the proceeds of the Series 2002 Bonds for any eligible construction costs of the 2002 Projects. See "PLAN OF FINANCE - Series 2002 Bonds Proceeds Construction Requisition Process" and "SECURITY FOR THE BONDS - Memorandum of Agreement".

To ensure the availability of the Federal Highway Reimbursement Revenues allocated to the Territory for the payment of the Debt Service on the Series 2002 Bonds (including the Bond Related Costs), the Government has covenanted in the 2002 Loan Agreement to obligate each year the Federal Highway Reimbursement Revenues in amounts sufficient to make timely payments of the Debt Service on the Series 2002 Bonds (including the Bond Related Costs) prior to obligating any Federal Highway Reimbursement Revenues for any other purpose. See "SECURITY FOR THE BONDS - Loan Agreement and Loan Note," "PLAN OF FINANCE -Construction, Requisition Process" and "SECURITY FOR THE BONDS - Memorandum of Agreement."

Payment of the Debt Service on the Series 2002 Bonds when due will be insured by an insurance policy (the "Bond Insurance Policy") issued concurrently with the delivery of the Series 2002 Bonds by Financial Security Assurance Inc. (the "Bond Insurer"). See "BOND INSURANCE."

This Official Statement describes, among other items, the Series 2002 Bonds, the 2002 Loan Agreement, the 2002 Loan Note, the 2002 MOA, the Federal-Aid Highway Program, the Trust Indenture, the First Supplemental Indenture, the Bond Insurance Policy, the 2002 Projects, the Authority, the Port Authority, Public Works, the Bond Insurer and the Territory. The descriptions do not purport to be comprehensive or definitive and reference is made to the 2002 Loan Agreement, the 2002 Loan Note, the 2002 MOA, the Trust Indenture and the First Supplemental Indenture for full and complete statements of the provisions thereof. Copies of the 2002 MOA, the Trust Indenture, the First Supplemental Indenture, the 2002 Loan Agreement and the 2002 Loan Note, including the form of the Series 2002 Bonds and the 2002 Loan Note, are available at the office of the Trustee, 10161 Centurion Parkway, Jacksonville,



Florida 32256, and at the Authority, PO Box 430, Charlotte Amalie, St. Thomas, United States Virgin Islands 00804 (340-714-1635); Attention: Kenneth E. Mapp, Director of Finance and Administration.

## **BONDHOLDER RISKS**

*The purchase and ownership of the Series 2002 Bonds may involve investment risks. Prospective purchasers of the Series 2002 Bonds are urged to read this Official Statement in its entirety. This Section entitled "Bondholder Risks" does not purport to provide investors with a comprehensive enumeration of all possible investment risks. The factors set forth below among others may affect the security for the Series 2002 Bonds. In addition to possible adverse effects on security for the Series 2002 Bonds, purchasers should be aware that these factors, among others, may adversely affect the market price of the Series 2002 Bonds in the secondary market. (See Also "SECURITY FOR THE BONDS")*

### **Special Limited Obligations**

The Series 2002 Bonds are special, limited obligations of the Authority, payable solely from the Trust Estate. Rights under the Loan Notes, including the 2002 Loan Note, constitute a substantial portion of the Trust Estate. The 2002 Loan Note is secured by the Federal Highway Reimbursement Revenues allocated on an annual basis by the FHWA to the Territory, in the federal government's sole discretion, in accordance with federal laws. The Owners of the Series 2002 Bonds may not look to any general or other fund of the Authority or the Government for payment of the Debt Service on the Series 2002 Bonds, and the Series 2002 Bonds will not be deemed or construed as creating an indebtedness of the Authority or the Government within the meaning of laws of the Territory concerning or limiting the creation of indebtedness of the Territory. See "SECURITY FOR THE BONDS" and APPENDIX B -"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

### **Factors Affecting Federal Highway Reimbursement Revenues**

The Federal Highway Reimbursement Revenues have historically been authorized under multiple-year authorizing legislation, and the current authorizing legislation, the Transportation Equity Act for the 21<sup>st</sup> Century, as amended ("TEA-21"), is scheduled to expire September 30, 2003. TEA-21 includes certain provisions that are designed to provide continuity in the flow of the Federal Highway Reimbursement Revenues to the states, the Commonwealth of Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands. However, there can be no assurance that such measures will be sufficient to ensure that the Federal Highway Reimbursement Revenues will be available if in the future Congress amends existing laws or fails to reauthorize expired transportation legislation, or if future legislation or federal administrative action reduces the amount of the Federal Highway Reimbursement Revenues available to the Territory. See "SECURITY FOR THE BONDS."

An action challenging the use of federal funds to repay state obligations similar in certain respects to the Series 2002 Bonds was filed in the federal district court for the Western District of Oklahoma on November 5, 2001. The suit, *Higginbotham v. Oklahoma*, No. CIV-01-1729-L, alleges, among other matters, that 23 U.S.C. §122 is an unconstitutional exercise of Congress' spending power, and seeks to prevent the issuance of certain State of Oklahoma obligations. The case has been dismissed by the district court for plaintiff's lack of standing, and is currently under appeal to the 10<sup>th</sup> Circuit Court of Appeals. In the opinion of Bond Counsel, the claims asserted in the *Higginbotham* case would be without merit if asserted in an action challenging the issuance of the Bonds, including the Series 2002 Bonds, by the Virgin Islands and a final decision determining Section 122 unconstitutional in that matter would not apply to the Bonds, including the Series 2002 Bonds, issued pursuant to the Indenture by the Authority.

## **Default and Remedies**

The Indenture does not provide for acceleration of the Bonds, including the Series 2002 Bonds, if an Event of Default occurs and is continuing. In such event, the Trustee shall apply all funds on deposit in the Funds and Accounts to the payment of principal or Redemption Price of and interest on the Bonds in the following order of priority: (i) cost and expenses of the Trustee, (ii) payment of interest due on the Bonds, (iii) payment of principal or Redemption Price due on the Bonds, and (iii) payment of principal and interest as it comes due. There is no assurance that the moneys on deposit in the Funds and Accounts will be sufficient to pay all principal or Redemption Price of and interest on the Bonds due or coming due.

The rights of the Owners of the Series 2002 Bonds and the enforceability of the Series 2002 Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally, by equitable principles, whether construed at law or in equity.

## **Federal Highway Reimbursement Revenue Requisition Process**

Pursuant to the 2002 Loan Agreement, at the beginning of each Federal Fiscal Year and as soon as obligating authority is available, the Government is required to obligate the Federal Highway Reimbursement Revenues to the payment of the Debt Service on the Series 2002 Bonds (including the Bond Related Costs) prior to obligating the Federal Highway Reimbursement Revenues for any other purpose. In furtherance of such covenant and pursuant to the 2002 MOA, at the beginning of each Federal Fiscal Year, Public Works shall request that the FHWA convert Advance Construction funding authorization (as defined below under "THE FEDERAL HIGHWAY REIMBURSEMENT REVENUES - Federal-Aid Financing Procedures - Program Implementation") relating to the 2002 Projects into current funding authorization in the amount sufficient to pay the Debt Service on the Series 2002 Bonds (including the Bond Related Costs) during such Federal Fiscal Year (the "Funding Authorization Request"). After the FHWA obligates such funding, Public Works shall semiannually bill the FHWA thirty days prior to each Payment Date using the federal-aid current billing system. Such bills shall be in amounts sufficient to pay semiannually the Debt Service on the Series 2002 Bonds (including the Bond Related Costs). See "SECURITY FOR THE BONDS - Memorandum of Agreement". There is no assurance that Public Works will submit the Funding Authorization Requests for the 2002 Projects. Should Public Works fail to submit the appropriate Funding Authorization Requests or timely bill the FHWA in connection with the 2002 Projects, there may not be sufficient money on deposit in respective Funds and Accounts to pay the Debt Service on the Series 2002 Bonds.

## **Project Completion**

The FHWA has approved in its project approvals and the 2002 MOA, the use of Federal Highway Reimbursement Revenues to pay the Debt Service on the Series 2002 Bonds (including the Bond Related Costs), as reimbursement for the eligible construction costs of the 2002 Projects. Should the Government, acting through the Port Authority and Public Works, not complete the 2002 Projects or spend the proceeds of the Series 2002 Bonds to pay any ineligible construction costs, there is no assurance that the FHWA's approval of the application of the Federal Highway Reimbursement Revenues to pay the Debt Service on the Series 2002 Bonds (including the Bond Related Costs) shall remain unaffected. Notwithstanding, Public Works, the Port Authority and the FHWA have agreed in the 2002 MOA to work together to ensure completion of the 2002 Projects. In addition to approving each of the 2002 Projects, the FHWA has approved the bid proposal package for Enighed Pond Project and, upon the Port Authority's completion of the bid proposal package for the Red Hook Project, is expected to approve the bid proposal package for the Red Hook Project. In connection with each 2002 Project, Public Works, the Port Authority and the FHWA have further agreed that, in the event any 2002 Project cannot be completed, they will exercise their best efforts to substitute Eligible Transportation Projects (defined

herein) approved for financing under the Act, to maintain continued receipt of the Federal Highway Reimbursement Revenues sufficient to pay the Debt Service on the Series 2002 Bonds.

## **PLAN OF FINANCE**

### **Use of Proceeds of the Series 2002 Bonds**

Proceeds of the Series 2002 Bonds will be applied to (i) the payment of certain Costs of Issuance of the Series 2002 Bonds, and (ii) the balance deposited into (a) the Series 2002 Projects Account in the Construction Fund and credited to the Enighed Pond Subaccount and the Red Hook Subaccount for payment of a portion of the construction costs of the Enighed Pond Project and the Red Hook Project, (b) the Series 2002 Debt Service Reserve Account in the Debt Service Reserve Fund in the amount equal to the Series 2002 Debt Service Reserve Requirement, and (c) the Series 2002 Costs of Issuance Account in the Costs of Issuance Fund to pay certain other costs associated with the authorization, issuance and delivery of the Series 2002 Bonds and other Bond Related Costs

Upon delivery of the Series 2002 Bonds, a portion of the proceeds of the Series 2002 Bonds will be applied to pay certain Costs of Issuance of the Series 2002 Bonds and the balance will be lent to the Government in accordance with the 2002 Loan Agreement. The Government has covenanted in the 2002 Loan Agreement to immediately deposit, or cause the Authority to deposit, all such proceeds into the Funds and Accounts held by the Trustee pursuant to the Indenture and apply such funds in accordance with the Indenture.

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The estimated sources and uses of the proceeds of the Series 2002 Bonds shall be as follows:

**Sources**

Principal Amount of the Series 2002 Bonds	\$20,845,000.00
Plus Original Issue Premium	<u>1,516,270.05</u>
<b>Total</b>	<b>\$22,361,270.05</b>

**Uses**

Series 2002 Projects Account:

Enighed Pond Project	\$16,000,000.00
Red Hook Project	2,500,000.00
Series 2002 Debt Service Reserve Requirement	2,236,127.01
Series 2002 Costs of Issuance Account <sup>(1)</sup>	<u>1,625,143.04</u>
<b>Total</b>	<b><u>\$22,361,270.05</u></b>

<sup>(1)</sup> The Costs of Issuance of the Series 2002 Bonds shall include legal fees, Trustee fees, the Authority's Administrative Fee, bond insurance premium, underwriter's discount and other costs incurred in connection with the issuance of the Series 2002 Bonds.

**Description of the 2002 Projects**

The proceeds of the Series 2002 Bonds on deposit in the Series 2002 Projects Account in the Construction Fund, together with certain funds of the Port Authority, will be used to pay a portion of the costs of construction of the Enighed Pond Project and the Red Hook Project. The Act limits the funding authorization for use of bond proceeds for such projects to up to \$16 million for the Enighed Pond Project and up to \$2.5 million for the Red Hook Project. The Port Authority has agreed in the 2002 MOA that any cost in excess of \$16 million of the costs of construction of the Enighed Pond Project and \$2.5 million of the costs of construction of the Red Hook Project shall be provided from the funds of the Port Authority.

***Enighed Pond Project.*** The Port Authority plans to develop the Enighed Pond port facility, which is located in Cruz Bay, St. John, into a cargo facility to alleviate congestion at the St. John Cargo Dock. The Enighed Pond dock currently handles cargo and foreign vessels in a limited space in Cruz Bay. The estimated cost of the Enighed Pond Project is expected to not exceed \$16 million. The project will be entirely financed with the proceeds of the Series 2002 Bonds. The Port Authority's selection committee has selected the contractor for the design/build construction contract for the Enighed Pond Project which will be submitted to the FHWA for concurrence in the award. The Port Authority reasonably expects prompt receipt of the FHWA concurrence. Upon receipt of such concurrence, the Port Authority will deliver to the successful contractor a notice to proceed. The Port Authority expects construction to be completed within the specified contract time of 18 months from the date of the notice to proceed, subject to potential extension due to any approved change orders. The Enighed Pond Project was bid as a design/build project.

**Red Hook Project.** The Port Authority plans to upgrade the Red Hook facility on St. Thomas to improve accommodations for the traveling public. The Red Hook Project involves the expansion of the dock to allow for the berthing of six vessels simultaneously. Currently, Red Hook can only accommodate three vessels in port simultaneously. The Red Hook Project also includes: the construction of a passenger terminal building, a restaurant and a roll on roll off cargo facility, expansion of a passenger ferry dock, the development of 150 parking spaces, a passenger pick-up area and a passenger walkway along the main road. The construction contract for the Red Hook Project has been advertised for bids which upon selection of the successful contractor, will be submitted to the FHWA for concurrence in award. The Port Authority reasonably expects prompt receipt of the FHWA concurrence. Upon receipt of such concurrence, the Port Authority will deliver to the successful contractor a notice to proceed. The Port Authority expects construction to be completed within the specified contract time of 15 months from the notice to proceed, subject to potential extension due to any approved change orders. The estimated cost of the Red Hook Project is \$7.5 million and will be financed in part with \$2.5 million from proceeds of the Series 2002 Bonds and the balance from funds of the Port Authority.

### **Series 2002 Bond Proceeds Construction Requisition Process**

The proceeds of the Series 2002 Bonds on deposit the Enighed Pond Subaccount and the Red Hook Subaccount in the Series 2002 Projects Account in the Construction Fund shall be disbursed to pay the eligible costs of design and construction of each 2002 Project. The amounts on deposit in each subaccount in the 2002 Projects Account represent maximum funding from the Series 2002 Bond proceeds for each 2002 Project. Any eligible costs of construction exceeding such approved funding shall be the responsibility of the Port Authority. The Series 2002 Bond proceeds requisition and disbursement process, and each party's responsibilities during construction of the 2002 Projects, are set forth in the 2002 MOA.

Pursuant to the 2002 MOA, the Port Authority has direct and sole responsibility for construction, supervision and control of the 2002 Projects, including design, bidding, awards, project coordination, management, execution and construction contract administration. Such responsibilities include certification of eligibility of contractor invoices for payment, preparation, processing and submission of the 2002 Projects requisitions and change order requests (collectively, the "2002 Project Requisitions") to Public Works, review of shop drawings for design consistency and schedule and attendance at weekly 2002 Projects meetings. The Port Authority shall also prepare construction progress reports, material testing and other acceptance reports for quality assurance and for examination by Public Works, the FHWA, the Authority and the Trustee, if and when required or requested.

Public Works shall be responsible for the oversight of the 2002 Projects' implementation activities carried out by the Port Authority to ensure adherence to the federal requirements applicable to the 2002 Projects. Public Works' administrative responsibilities include review and certification of the 2002 Project Requisitions, the right to periodically inspect the 2002 Projects and the right to participate in all 2002 Project meetings with the 2002 Projects contractors. Within five (5) Business Days from receipt of a 2002 Project Requisition from the Port Authority, Public Works shall review the eligibility of the submitted construction costs and upon approval of such 2002 Project Requisition, shall transmit such requisition to the Authority for its review and approval.

The Authority shall review the 2002 Project Requisitions and upon its approval, within five (5) Business Days after receipt of each such 2002 Project Requisition from Public Works, the Authority shall submit the same to the Trustee for payment.

Upon the receipt of the 2002 Project Requisition prepared by the Port Authority, as approved by Public Works and the Authority, the Trustee shall pay the 2002 Projects costs of construction described in

such 2002 Project Requisition either directly to the contractor requesting such payment, or the Port Authority.

The FHWA shall be responsible for reviewing and determining concurrence with construction contract awards, conducting periodic 2002 Projects oversight activities to ensure compliance with the applicable federal requirements and for final inspection of each completed 2002 Project, close-out and acceptance activities.

## **SECURITY FOR THE BONDS**

### **Authorization**

In order to allow the Government to borrow money in anticipation of receiving the Federal Highway Reimbursement Revenues, the Act authorized, as a part of its Territorial Transportation Improvement Program, issuance of one or more series of bonds by the Authority in the amount not to exceed \$75 million to fund certain projects listed in the Act (which include the 2002 Projects), or any projects that may be subsequently approved by the Legislature in accordance with the applicable laws. The Government and the Authority are authorized under the Act to, among the others, (i) execute a loan agreement, (ii) issue a loan note evidencing its repayment obligation, (iii) execute such other instruments as would be necessary to effectuate the issuance of the bonds, and (iv) pledge and assign the Government's security interest in the Federal Highway Reimbursement Revenues. In addition, the Government has covenanted for the benefit of the bondholders, including the Owners of the Bonds, to take necessary steps to ensure continued receipt of the federal highway funds, and to obligate and commit such funds to the payment of the debt service on the bonds and other bond-related charges. The Government has also covenanted and agreed to remain in compliance with all applicable federal transportation laws and regulations, as they may be amended or modified from time to time.

Pursuant to the Act, the Authority and the Trustee executed the Trust Indenture establishing the Trust Estate and providing the conditions of issuance of the Bonds. At the same time, the Authority and the Trustee executed the First Supplemental Indenture authorizing the issuance of the Series 2002 Bonds. The Series 2002 Bonds are the first issue of the Bonds under the Trust Indenture.

The Bonds, including the Series 2002 Bonds, are special, limited obligations of the Authority secured solely by the Trust Estate. The Authority may, subject to the \$75 million aggregate principal amount limitation, issue additional Series of the Bonds in accordance with the Act, the Indenture and the applicable Supplemental Indenture. Such additional Series of Bonds shall be secured by the Trust Estate on parity with the Series 2002 Bonds, as provided in the applicable Supplemental Indenture authorizing such Series of Bonds and upon receipt of written approval by the Bond Insurer, subject to provisions of the Trust Estate.

### **Trust Estate**

Pursuant to the Trust Indenture, payment of the principal or Redemption Price of and interest on the Bonds, including the Series 2002 Bonds, is secured by the Trust Estate comprising: (i) all rights and interest of the Authority in, under and to the Revenues (defined as any proceeds and collections from any Loan Notes deposited in the Pledged Revenue Fund, including investment earnings thereon and any proceeds which arise with respect to any disposition of the Trust Estate) and the Loan Agreements, including, but not limited to, the Loan Notes, (ii) amounts on deposit from time to time in the Funds and Accounts created pursuant to the Indenture, including the earnings thereon, subject to the provisions of the Indenture and any Supplemental Indenture, provided that amounts on deposit in any Series Interest Account, Series Principal Account and Series Redemption Account in the Debt Service Fund, any Series

Debt Service Reserve Account in the Debt Service Reserve Fund, in any Series Project Account in the Construction Fund and any Series Costs of Issuance Account in the Costs of Issuance Fund shall be held for the sole and exclusive benefit of the Owners of the respective Series of Bonds, unless otherwise provided in the respective Supplemental Indenture, and (iii) any and all other property or security interest therein, of every name and nature from time to time hereafter by delivery or by writing of any kind granted, bargained, sold, conveyed, mortgaged, pledged and assigned as and for additional security thereunder, by the Authority or by anyone on its behalf pursuant to the Indenture or with its consent, to the Trustee, which is authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms thereof. In addition, any instrument, fund property or contract right or proceeds thereof designated by a Supplemental Indenture to be pledged, mortgaged or assigned to secure a specific Series (or specific Bonds within a Series) shall be held by the Trustee for the sole and exclusive benefit of the Owners of the Series of Bonds (or such specific Bonds within a Series) so designated. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE".

Each Supplemental Indenture may establish a Series Debt Service Reserve Requirement applicable to such Series of Bonds. At the time of delivery of each Series of Bonds, the Authority will fund the Series Debt Service Reserve Account applicable to such Series of Bonds. See "Debt Service Reserve Account".

**The Bonds, including the Series 2002 Bonds, are limited special obligations of the Authority payable solely from, and secured by a pledge of, the Trust Estate. The Series 2002 Bonds are the first Series of Bonds issued under the Indenture. Concurrently with the issuance of the Series 2002 Bonds, the Government shall issue, pursuant to the 2002 Loan Agreement, the 2002 Loan Note which shall constitute a portion of the Trust Estate. Upon the issuance of additional Series of Bonds, the Government, the Trustee and the Authority will execute new Loan Agreements and the Government will deliver new Loan Notes which will become a part of the Trust Estate. The 2002 Loan Note constitutes, and any new Loan Notes when delivered, will constitute, special obligations of the Government limited solely to the payments received by the Government from the FHWA as Federal Highway Reimbursement Revenues.**

**The Bonds shall under no circumstances constitute a general obligation of the Authority, the Territory or the United States of America nor shall the Series 2002 Bonds be an evidence of a debt of the Territory or the United States of America nor shall the Territory or the United States of America be liable thereon. The Authority has no taxing power.**

Pursuant to the terms of the First Supplemental Indenture, the Authority shall grant the Trustee a security interest in, and shall assign, transfer, pledge, grant and convey unto the Trustee for the equal and proportionate benefit of the Owners of the Series 2002 Bonds, all of its interest in the Trust Estate, whether held by the Authority, the Trustee or the Depository. Such pledge expressly excludes from the Trust Estate any amounts on deposit in the Rebate Fund. Further, any amounts on deposit in the Series 2002 Debt Service Reserve Account, the Series 2002 Interest Account, the Series 2002 Principal Account, the Series 2002 Projects Account and the Series 2002 Costs of Issuance Account shall be pledged to the sole and exclusive benefit of the Owners of the Series 2002 Bonds. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE".

### **Loan Agreement and Loan Note**

Upon issuance of a Series of Bonds, the Government, the Trustee and the Authority shall execute a Loan Agreement, as evidenced by a Loan Note in an amount sufficient to pay the principal or Redemption Price of and interest on such Series of Bonds when due, and the Authority shall assign such

Loan Agreement and Loan Note to the Trustee for the benefit of the Owners of such Series of Bonds and the Loan Note will be deposited in the Pledged Revenue Fund.

Under the 2002 Loan Agreement, upon delivery of the Series 2002 Bonds, the Authority will lend to the Government the sum of \$20,845,000 which will be evidenced by the 2002 Loan Note. The Authority shall assign the 2002 Loan Agreement and the 2002 Loan Note to the Trustee for the benefit of the Owners of the Series 2002 Bonds and it will deposit the 2002 Loan Note in the Pledged Revenue Fund. Upon the receipt of the Federal Highway Reimbursement Revenues and not later than the third Business Day preceding each March 1 and September 1, commencing on the third Business Day preceding March 1, 2003 and ending on the third Business Day preceding the date when the Series 2002 Bonds are paid in full and fully defeased (each such March 1 and September 1, a "Payment Date"), the Government shall cause the FHWA to deposit such Federal Highway Reimbursement Revenues with the Trustee in the amounts sufficient to pay the Debt Service on the Series 2002 Bonds (including the Bond Related Costs) due on the succeeding Payment Date.

The Government's obligation to repay any Loan Note, including the 2002 Loan Note, is a special limited obligation, secured solely by a pledge of the Federal Highway Reimbursement Revenues. The Government is not obligated to commit any other funds to the payment of the principal or Redemption Price of and interest on the Bonds (including the Bond Related Costs). **The Loan Notes, including the 2002 Loan Note, are not obligations of the United States of America and the United States of America is not liable on the Loan Notes.**

In the 2002 Loan Agreement, the Government pledges and assigns its interest in the Federal Highway Reimbursement Revenues to the Trustee as security for the payment of the 2002 Loan Note and consents to deposit a sufficient amount of the Federal Highway Reimbursement Revenues into the Pledged Revenue Fund held by the Trustee under the Indenture. Although the payments under the 2002 Loan Note are calculated to be sufficient to pay the Debt Service on the Series 2002 Bonds (including the Bond Related Costs), no assurance can be given as to the sufficiency of Federal Highway Reimbursement Revenues for such purpose. (See "FEDERAL HIGHWAY REIMBURSEMENT REVENUES").

The Government has covenanted in the 2002 Loan Agreement, among other things, to comply with the provisions of the 2002 MOA, to: (i) request, deliver and take any other steps necessary to ensure the timely receipt of the Federal Highway Reimbursement Revenues, (ii) at the beginning of each Federal Fiscal Year, obligate the Federal Highway Reimbursement Revenues in amounts sufficient to pay the Debt Service on the Series 2002 Bonds (including the Bond Related Costs) for such Federal Fiscal Year, prior to obligation of such revenues for any other purpose, and (iii) take any actions necessary to preserve the tax-exempt status of the Series 2002 Bonds.

The Authority also has covenanted in the 2002 Loan Agreement to use its best efforts to cause the Government to comply with the terms and the covenants set forth in the 2002 Loan Agreement and 2002 MOA.

For the summary of the provisions of the 2002 Loan Agreement and 2002 Loan Note, see APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE 2002 LOAN AGREEMENT AND 2002 LOAN NOTE".

### **Federal Highway Reimbursement Revenues**

The 2002 Loan Note is payable solely from the Federal Highway Reimbursement Revenues allocated on an annual basis by the federal government, in its sole discretion, to the Government in accordance with TEA-21 and other federal statutes. On January 10, 2002, the FHWA granted approval to



the Enighed Pond Project and Red Hook Project, as Advance Construction projects under TEA-21 thus establishing eligibility for reimbursement of debt service and any eligible bond related charges on any bonds issued to finance the construction of such 2002 Projects in lieu of payment of costs of construction of each 2002 Project. In the 2002 Loan Agreement, the Government has covenanted to annually obligate a sufficient amount of Federal Highway Reimbursement Revenues for the purpose of paying Debt Service on the Bonds, including the Series 2002 Bonds, and any eligible Bond Related Costs under the Indenture, prior to obligating such Federal Highway Reimbursement Revenues for any other purpose. Pursuant to the terms of the 2002 MOA, the FHWA, the Authority and the Government have established procedures for requisition and transfer of the obligated Federal Highway Reimbursement Revenues to timely pay the Debt Service on the Series 2002 Bonds (including the Bond Related Costs). The procedure for authorization, allocation and obligation of the Federal Highway Reimbursement Revenues is described in detail in "FEDERAL HIGHWAY REIMBURSEMENT REVENUES - Federal-Aid Financing Procedures." See also "Memorandum of Agreement."

### **Memorandum of Agreement**

On October 25, 2002, the FHWA, the Authority, the Port Authority and Public Works executed the 2002 MOA, which documents the procedures and each party's roles and responsibilities for (i) managing the stewardship and construction oversight of the 2002 Projects, (ii) timely transfer of the Federal Highway Reimbursement Revenues in the amounts sufficient to pay semiannually the Debt Service on the Series 2002 Bonds (including the Bond Related Costs), and (iii) the funding, transfer and disbursement process of the proceeds of the Series 2002 Bonds for any eligible construction costs of the 2002 Projects in connection therewith. For a description of the procedures, each party's roles and responsibilities in relation to the stewardship and construction oversight of the 2002 Projects and disbursement of the proceeds of the Series 2002 Bonds in connection with such construction see "PLAN OF FINANCE - Series 2002 Bonds Proceeds Construction Requisition Process.

The FHWA approved each 2002 Project as eligible "Advance Construction funding authorization" projects on January 10, 2002. The Advance Construction funding authorization request described: (i) the Federal-aid funding category to be used, (ii) the aid funding category to be used, (ii) FHWA policy describing the planned use of Advance Construction funding and timing of periodic conversions, and (iii) the estimated debt service schedule on the Series 2002 Bonds. The FHWA has reviewed and approved the Advance Construction funding requests and entered the pertinent data into the Federal Financial Management Information System.

Pursuant to the 2002 MOA, at the beginning of each Federal Fiscal Year and as soon as the obligating authority is available, Public Works shall deliver a request that the FHWA convert Advance Construction funding authorization relating to the Series 2002 Bonds into current funding authorization in amounts sufficient to pay the Debt Service on the Series 2002 Bonds (including the Bond Related Costs) during such Federal Fiscal Year (the Funding Authorization Request"). Within 10 days from the receipt of such Funding Authorization Request, the FHWA shall obligate the funding and so notify Public Works in writing. After the FHWA has obligated the funding, Public Works shall within thirty days prior to each Payment Date (but not later than each February 1 and August 1) bill the FHWA, using the federal-aid current billing system. Such bills shall be in amounts sufficient to pay semiannually the Debt Service on the Series 2002 Bonds (including the Bond Related Costs). The United States Treasury shall, through the FHWA, transfer sufficient funds to the Trustee not later than three Business Days prior to each Payment Date. Upon receipt, the Trustee shall deposit such amounts in accordance with the Indenture.

To comply with the FHWA's planning and programming process, Public Works shall include in each year's Territorial Transportation Improvement Program, the subsequent years' planned Federal

Highway Reimbursement Revenues for the reimbursement of the Series 2002 Bonds Debt Service (including the Bond Related Costs).

### **Creation of Funds and Accounts**

Under the Indenture, the Authority established the following funds to be held by the Trustee: (i) the Federal Transportation and Highway Grant Escrow Account (the "Pledged Revenue Fund"), (ii) the Debt Service Fund, (iii) the Debt Service Reserve Fund, (iv) the Construction Fund, (v) the Costs of Issuance Fund, and (vi) the Rebate Fund. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE".

The Indenture provides that each Supplemental Indenture may establish the following accounts in the Debt Service Fund: Series Interest Account, Series Principal Account, Series Redemption Account, Series Credit Account, Series Expense Account, Series Purchase Account, Series Capitalized Interest Account and any other account established by the applicable Supplemental Indenture. Also each Supplemental Indenture may provide for an establishment of each Series accounts in all other Funds established under the Indenture.

With respect to the Series 2002 Bonds, the First Supplemental Indenture establishes the following accounts in the above funds: (i) Series 2002 Principal Account and Series 2002 Interest Account of the Debt Service Fund, (ii) Series 2002 Debt Service Reserve Account of the Debt Service Reserve Fund, (iii) the Enighed Pond Project Subaccount and the Red Hook Project Subaccount in the Series 2002 Projects Account of the Construction Fund, (iv) the Series 2002 Costs of Issuance Account of the Costs of Issuance Fund, and (v) the Series 2002 Rebate Account of the Rebate Fund. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE".

### **Flow of Funds**

The Public Works, together with the Authority shall semiannually requisition, and the FHWA shall not later than three Business Days preceding each March 1 and September 1 deposit the Federal Highway Reimbursement Revenues in an amount sufficient, together with any other available moneys on deposit in the Pledged Revenue Fund and the Debt Service Fund, to pay the principal or Redemption Price of and interest on the Bonds coming due, including any Bond Related Costs on such date and make payments into the Debt Service Reserve Fund and the Rebate Fund, if required.

Upon receipt, the Trustee shall transfer such Federal Highway Reimbursement Revenues, in the following order of priority: (i) to the credit of the each applicable Interest Account in the Debt Service Fund an amount sufficient to pay the interest due on such Payment Date (taking in account any money already on deposit in each Interest Account and, to the extent applicable, any money on deposit in such Series Capitalized Interest Account available for the payment of interest on such Payment Date, including any net payments the Authority is required to make with respect to a Qualified Swap Agreement), (ii) to the credit of each applicable Principal Account in the Debt Service Fund, an amount sufficient to pay the principal due on such Payment Date (taking in account any money already on deposit in each Principal Account), (iii) to the credit of each applicable Credit Account in the Debt Service Fund an amount then owing to the Credit Provider pursuant to the Supplemental Indenture and Credit Agreement by reason of drawing under a Credit Facility to pay principal or Redemption Price of and interest on the such Series of Bonds, (iv) to the credit of each applicable Redemption Account in the Debt Service Fund, in the amount sufficient to redeem the Bonds subject to redemption pursuant to the applicable Supplemental Indenture on the next redemption date, (v) to the credit of each applicable Rebate Account, an amount sufficient to comply with the provisions of the Indenture relating to the tax exempt status of the Bonds and arbitrage rebate regulations, (vi) to the credit of each applicable Project Account in the Construction Fund, an

amount sufficient to replenish amounts transferred to the Debt Service Fund to cover deficiencies in the Debt Service Fund, (vii) to the credit of each applicable Debt Service Reserve Account, in the amount sufficient to meet the Debt Service Reserve Requirement in accordance with the Indenture, (viii) to the credit of each Expense Account, an amount sufficient to pay the Bond Related Costs. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE"

In the event that on any Payment Date the amounts on deposit in the applicable Interest Account and Principal Account are not sufficient to pay the full amount of principal or Redemption Price of or interest on the Bonds then due, the Trustee shall notify the Authority of such fact and thereafter shall draw on funds on deposit in the following accounts of such Series of Bonds (or portion thereof as provided in the applicable Supplemental Indenture) and transfer to such Series Interest Account or Principal Account an amount equal to such deficiency: (i) the Pledged Revenue Fund, (ii) such Series Redemption Account in the Debt Service Fund (other than the amounts held therein to pay and redeem Bonds for which a notice of redemption has been given), (iii) such Series Project Account in the Construction Fund, (iv) such Series Debt Service Reserve Account in the Debt Service Reserve Fund, and (v) such Series Principal Account in the Debt Service Fund. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE"

### **Debt Service Reserve Fund**

The Indenture provides that a Supplemental Indenture shall establish a Debt Service Reserve Requirement applicable to one or more Series of Bonds issued pursuant to such Supplemental Indenture. An amount at least equal to the Debt Service Reserve Requirement shall be deposited into a separate Debt Service Reserve Account in the Debt Service Reserve Fund established solely for the benefit of the Owners of such Series of Bonds at the time of the delivery of such Series of Bonds. The Debt Service Reserve Account may be funded with either cash or a Debt Service Reserve Fund Credit Facility delivered to the Trustee for that purpose.

In case the amount on deposit in a Series Debt Service Reserve Account is less than the applicable Series Debt Service Reserve Requirement due to a transfer from such Series Debt Service Reserve Account to such Series Interest or Principal Accounts, the Authority shall be required to restore such deficiency from the semiannual payments made from the Pledged Revenue Fund pursuant to the Indenture. If the deficiency is due to the change in investment valuation, the Debt Service Reserve Requirement shall be restored from the Revenues deposited semiannually no later than twelve months following a determination that such deficiency exists.

Should at any time the amount of the Federal Highway Reimbursement Revenues be insufficient to pay the principal or Redemption Price of and interest on a Series of Bonds, the Trustee shall use the money on deposit in the Pledged Revenue Fund, the applicable Series Redemption Account, the applicable Series Projects Account and, if the money in the above mentioned accounts is still insufficient to pay the principal or Redemption Price of and interest on such Series of Bonds, then the Trustee shall use the money on deposit in the applicable Series Debt Service Reserve Account to make up the deficiency. Such money shall be applied first to the payment of any interest coming due on such date and, if any money is left in such Debt Service Reserve Account, to the payment of the principal coming due on such date.

The First Supplemental Indenture established the Series 2002 Debt Service Reserve Requirement in the amount equal to the least of (a) the maximum Annual Debt Service due on the Series 2002 Bonds in the current or any other future Bond Year, (b) 10% of the original stated principal amount of the Series 2002 Bonds (or 10% of the issue price of the Series 2002 Bonds as required by the Code), or (c) 125% of the average Annual Debt Service due on the Series 2002 Bonds in the current and each future Fiscal Year,

with an initial requirement of \$2,236,127.01. The First Supplemental Indenture established the Series 2002 Debt Service Reserve Account in the Debt Service Reserve Fund and, on the delivery of the Series 2002 Bonds, the Authority shall deposit the proceeds of the Series 2002 Bonds into such account in an amount equal to the Series 2002 Debt Service Reserve Requirement. The money on deposit in the Series 2002 Debt Service Reserve Account shall be for the sole benefit of the Owners of the Series 2002 Bonds. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE"

### **Additional Bonds**

The Authority may issue additional Bonds to be secured on a parity under the Indenture after the receipt by the Trustee of certain documents, including: (i) a Supplemental Indenture providing for the issuance of such Series of Bonds, (ii) Loan Agreement and, but not limited to Loan Note applicable to such Series of Bonds, (iii) Credit Facility Agreements, if any, (iv) Memorandum of Agreement applicable to such Series of Bonds, (v) as long as the Series 2002 Bonds are outstanding, a written consent of the Bond Insurer, and (vi) a certificate of the Authority that the average amount of annual Federal Highway Reimbursement Revenues allocated to the Territory during the most recent three Federal Fiscal Years was not less than 300% of the maximum Annual Debt Service for the Outstanding Bonds, and any new Series of Bonds proposed to be issued for the then current or any subsequent Bond Year. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE".

Subject to the provisions of the Indenture, the Authority may authorize and issue any indebtedness that is secured by the pledge of the Trust Estate that is junior and subordinate to the pledge given to the holders of the Bonds, including the Series 2002 Bonds. The issuance of such indebtedness shall comply with all conditions to the issuance of the Bonds other than the written consent of the Bond Insurer. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE".

The Authority may issue parity Bonds refunding the Bonds pursuant to a Supplemental Indenture upon compliance with the conditions precedent to the issuance of additional Bonds set forth above. The Authority shall not be obligated to deliver the certificate described in (vi) above, if the Annual Debt Service on the refunding Bonds in every year is equal to or less than the Annual Debt Service on the refunded Bonds in each such year and if there is evidence that the Authority has made provisions for the repayment of the Bonds to be refunded. In addition, the consent of the Bond Insurer shall not be required for the issuance of Series of Bonds refunding all outstanding Series 2002 Bonds.

### **Bond Insurance**

Principal of and interest on the Series 2002 Bonds shall be secured by an insurance policy to be issued by the Bond Insurer concurrently with the delivery of the Series 2002 Bonds. See "BOND INSURANCE".

## **THE SERIES 2002 BONDS**

### **General**

The Series 2002 Bonds will be dated October 1, 2002, and will bear interest at the rates and will mature on the dates set forth on the inside cover of this Official Statement. Interest on the Series 2002 Bonds will be payable on March 1 and September 1, commencing on March 1, 2003. Pursuant to the Indenture, the Authority has appointed The Bank of New York Trust Company of Florida, N.A., the Trustee under the Indenture, as the Paying Agent and Bond Registrar for the Series 2002 Bonds. Interest on the Series 2002 Bonds shall be calculated on the basis of a 360-day year consisting of twelve 30-day months and will be payable to Cede & Co., or such other owner of record as shown in the Bond Registry

maintained by the Bond Registrar. The Series 2002 Bonds will be available initially in minimum denominations of \$5,000 and integral multiples of \$5,000 in excess thereof, in book-entry only form as described below.

### **Redemption**

The Series 2002 Bonds are not subject to redemption prior to maturity.

### **Book-Entry-Only System**

*This information concerning The Depository Trust Company, New York, New York ("DTC"), and DTC's book-entry system has been obtained from sources that the Authority, the Port Authority, Public Works, the Underwriter and the Trustee believe to be reliable, but the Authority, the Port Authority, Public Works, the Underwriter and the Trustee take no responsibility for the accuracy thereof.*

DTC will act as securities depository for the Series 2002 Bonds. The Series 2002 Bonds will be issued as fully-registered securities in the name of Cede & Co (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2002 Bond certificate will be issued for each maturity of the Series 2002 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC) as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system also is available to others such as both U.S. and non-U.S. securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Series 2002 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2002 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2002 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or

Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2002 Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2002 Bonds, except in the event that use of the book-entry system for the Series 2002 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2002 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2002 Bonds with DTC and their registration in the name of Cede & Co. do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2002 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2002 Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2002 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2002 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2002 Bond documents. For example, Beneficial Owners of Series 2002 Bonds may wish to ascertain that the nominee holding the Series 2002 Bonds for their benefit has agreed to obtain and transit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the Series 2002 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2002 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2002 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal, interest, redemption proceeds and other distributions on the Series 2002 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, its nominee, the Authority or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest redemption proceeds and other distributions to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2002 Bonds purchased or tendered, through its Participant, to the tender agent, and shall effect delivery of such Series 2002 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2002 Bonds, on DTC's records, to the tender agent. The requirement for physical delivery of Series 2002 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2002 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2002 Bonds to the tender agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Series 2002 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2002 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2002 Bond certificates will be printed and delivered.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE SERIES 2002 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DIRECT PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES 2002 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

The Authority and the Trustee cannot and do not give any assurances that DTC will distribute to Participants, or that Participants or others will distribute to the Beneficial Owners, payments of principal of and interest and premium, if any, on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Authority nor the Trustee is responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Series 2002 Bonds or any error or delay relating thereto.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2002 Bonds, payment of principal of and interest and other payments with respect to the Series 2002 Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Bonds and other related transactions by and between DTC, the Direct Participants, the Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Direct Participants, the Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the Participants, as the case may be.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2002 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2002 BONDS

## BOND INSURANCE

*The following information concerning the Bond Insurer and payment pursuant to the Bond Insurance Policy has been supplied by the Bond Insurer. No representation is made by the Authority as to the accuracy or adequacy of such information. The Bond Insurance Policy does not constitute a part of the contract between the Authority and the Owners of the particular Series 2002 Bonds evidenced by the Indenture and such Series 2002 Bonds. Except for the payment of the premium on the Bond Insurance Policy, the Authority has no responsibility with respect to such insurance in any way, including maintenance, enforcement or collection thereof.*

### **Bond Insurance Policy**

Concurrently with the issuance of the Series 2002 Bonds, Financial Security Assurance Inc. ("Bond Insurer" or "Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Bond Insurance Policy"). The Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Series 2002 Bonds when due as set forth in the form of the specimen Bond Insurance Policy included as an Appendix G to this Official Statement.

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

### **Financial Security Assurance Inc.**

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

At June 30, 2002, Financial Security's total policyholders' surplus and contingency reserves were approximately \$1,710,044,000 and its total unearned premium reserve was approximately \$898,579,000 in accordance with statutory accounting principles. At June 30, 2002, Financial Security's total shareholders' equity was approximately \$1,817,013,000 and its total net unearned premium reserve was approximately \$744,499,000 in accordance with generally accepted accounting principles.

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

The Bond Insurance Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series 2002 Bonds or the advisability of investing in the Series 2002 Bonds. Financial Security makes no representation regarding this Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Authority the information presented under this caption for inclusion in this Official Statement.



## **Bond Insurer Deemed Sole Holder of the Series 2002 Bonds for Certain Purposes**

As long as the Series 2002 Bonds are insured by the Bond Insurer, the Bond Insurer shall be deemed to be the sole holder of the Series 2002 Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Series 2002 Bonds insured by it are entitled to take pursuant to the Indenture. See APPENDIX B - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE"

## **DEBT SERVICE SCHEDULE**

<b><u>Year Ending (September 30)</u></b>	<b><u>Principal of the Series 2002 Bonds</u></b>	<b><u>Interest on the Series 2002 Bonds</u></b>	<b><u>Total Debt Service</u></b>
2003	\$2,200,000	\$826,535.42	\$3,026,535.42
2004	2,805,000	846,675.00	3,651,675.00
2005	2,900,000	748,500.00	3,648,500.00
2006	3,000,000	647,000.00	3,647,000.00
2007	3,155,000	497,000.00	3,652,000.00
2008	3,310,000	339,250.00	3,649,250.00
2009	3,475,000	173,750.00	3,648,750.00

## **FEDERAL HIGHWAY REIMBURSEMENT REVENUES**

*The procedures described in this caption are those in effect under current law; however, there can be no assurance that there will not be future changes in law, regulation, or policy that materially alter these procedures and the resulting levels of federal transportation funding.*

### **General**

The federal government makes federal transportation aid available to states, the Commonwealth of Puerto Rico ("Puerto Rico") and to Guam, the United States Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands (the "U.S. Territories") and local entities, under a number of federal programs for highway, safety, transit, and motor carrier projects. The Bonds, including the Series 2002 Bonds, are primarily secured by the Federal Highway Reimbursement Revenues to be received by the Government under the Federal-Aid Highway Program (the "Program"), pursuant to which the federal government reimburses states and U.S. Territories for the federal share of the costs of certain FHWA approved transportation projects (the "Eligible Transportation Projects"). Payments to states, Puerto Rico and U.S. Territories under the Program are administered by the FHWA and payments are made from the Federal Highway Trust Fund (the "Fund").

Funding under the Program is provided through a number of steps, consisting of:

- (i) authorization, under which Congress authorizes the expenditure of federal funds, which for the Program has historically been, and continues to be, provided on a multi-year basis;
- (ii) apportionment and allocation, under which the federal government apportions the authorized funding among the states, Puerto Rico and U.S. Territories for each Federal Fiscal Year (October 1 through September 30) either according to statutory formulas ("contract authority") or (for some funding categories) through discretionary administrative action

("appropriated budget authority") (as described below, a special formula applies to the U.S. Territories);

(iii) obligation, or obligation authority under which the federal government commits to disburse to the states, Puerto Rico and U.S. Territories the apportioned or allocated funds for a reimbursement of a portion of the eligible expenditures on Eligible Transportation Projects;

(iv) program implementation, under which states, Puerto Rico and U.S. Territories develop highway programs describing how federal reimbursements will be earned on a project-by-project level; and

(v) reimbursement, under which a state or U.S. Territory requests and is paid federal reimbursements for Eligible Transportation Projects.

Each of these steps is described in more detail in the following subsections.

### **Federal Highway Trust Fund**

The FHWA administers payments to states, Puerto Rico and U.S. Territories under the Program through the Fund which is funded by the collection of excise taxes on fuel and tires as well as other federally imposed motor vehicle user fees. The largest revenue source for the Fund is federal gasoline excise tax, currently set at \$0.184 per gallon for gasoline and \$0.244 per gallon for diesel fuel. Most of the excise taxes that constitute revenues of the Fund are imposed on producers of the taxable product (i.e.: gasoline and tires).

There are two accounts in the Fund: the Highway Account and the Mass Transit Account. Out of all revenues deposited into the Fund, approximately 84% of gasoline tax revenues and 88% of diesel fuel tax revenues are credited to the Highway Account, and the remainder is credited to the Mass Transit Account. The FHWA uses the funds on deposit in the Highway Account to reimburse states, Puerto Rico and U.S. Territories for expenditures related to the Eligible Transportation Projects. The FHWA distributes these revenues based on the apportionment and allocation rules prescribed by federal law. Current law requires that the cash balance of the Highway Account plus projected revenues for the next two years, must suffice to repay all unpaid authorizations before any additional apportionments of revenues can be made from the Fund.

Collection of the Fund revenues is authorized for a limited period of time and, like the Program itself, must periodically be reauthorized by Congress. Since 1972, Congress has authorized and reauthorized such collection a number of times. The latest reauthorization was effectuated through the adoption on May 22, 1998 of the Transportation Equity Act for the 21<sup>st</sup> Century which further authorized and extended the Program through September 30, 2003, authorized imposition of the excise taxes through September 30, 2005 and authorized the transfer of such excise taxes to the Fund and the payment of refunds through September 30, 2006.

### **History of the Program**

The Program originated in the Federal Highway Act of 1956. The Program was initially established as a pay-as-you-go system, meaning that costs of constructing and maintaining the national highway system were to be borne primarily by users, who pay a federally imposed tax on motor fuels. Federal user fees were to provide 90% of the cost of construction, with the remainder paid by the states. The states were able to use the apportioned funds for national highway system purposes including construction, reconstruction and rehabilitation of the system, operational improvements of the system,

highway safety improvements, transportation planning, highway research, carpool, vanpool projects and bus terminals.

In 1970, as a part of the Program, Congress enacted the Federal -Aid Highway Act of 1970 which extended certain benefits of the Program to the U.S. Territories. See "History of the Territorial Highway Program."

The 1982 Surface Transportation Assistance Act ("STAA") made substantive changes to the Program, and began the existing multi-year authorizing process. STAA also guaranteed each state a minimum 85% return on their money paid in by users purchasing fuel in the state. Such "equity" provisions have continued in all subsequent authorizing legislations to date, and operate to compensate so-called "donor states" whose historic highway funding levels have been below their collections for the Fund.

In 1991, the Intermodal Surface Transportation Efficiency Act of 1991 ("ISTEA") broadened the focus of the Program, changed its structure and created several new funding categories. ISTEA also gave states, U.S. Territories and local governments far greater flexibility in determining their transportation infrastructure priorities whether transit or highways, and for the first time allowed significant flexibility to redirect federal revenues among such priorities. ISTEA also authorized innovative approaches to federal aid funding, including the use of private sector funding sources for transportation improvements. Innovative financing procedures were encouraged, and states and the U.S. Territories were authorized to augment federal revenues with alternate sources of revenues.

On May 22, 1998, the United States Congress passed TEA-21, an approximately \$217 billion reauthorization of the nation's Program and mass transit programs; and on June 9, 1998 the President approved TEA-21. TEA-21 extends the authorization of the Program through September 30, 2003. Under TEA-21, average annual authorizations to the states for Federal Fiscal Year 1998 through Federal Fiscal Year 2003 are expected to be approximately \$26 billion. TEA-21 increases equity protections by assuring each state at least a 90.5% return on its collections for the Fund. Under TEA-21, Fund revenues shall be spent on transportation-related improvements, rather than allowed to accumulate into large surpluses.

### **History of the Territorial Highway Program**

As a part of the Program, in 1970 Congress enacted the Federal -Aid Highway Act of 1970 which established the Territorial Highway Program ("Territorial Highway Program"). In addition to the existing funding of the national highway system in states, the Federal-Aid Highway Act of 1970 authorized assistance and funding from the Fund for highway projects for the U.S. Territories of Guam, American Samoa and the United States Virgin Islands. The Commonwealth of Northern Mariana Islands was added to the Territorial Highway Program in 1978. Each U.S. Territory established, with FHWA approval, a system of arterial and collector highways and interisland connectors, called the Federal-Aid Territorial Highway System ("Territorial Highway System"). The money received from the Fund can be used for improvements on all routes designated as part of the Territorial Highway System. TEA-21 added airports and seaports to the list of projects eligible for funding from the Fund with respect to the U.S. Territories.

Until 1978, the federal share of the expenditures relating to approved projects was 70%. In 1978, Congress adopted the Surface Transportation Assistance Act of 1978 ("1978 STAA"), which increased the federal share to 100% where it remains today. The 1978 STAA authorized 0.5% of federal aid primary funds to be apportioned to all four U.S. Territories considered together as one state. Such authorization was in effect through Federal Fiscal Year 1991. Initially, the apportioned amount was allocated to each U.S. Territory in accordance with a certain formula that took into account urban

population, rural population, public road mileage and general area of each respective U.S. Territory. That formula proved to be controversial to some U.S. Territories and in September 1983, the FHWA decided that future apportionments of the total authorized amount would be calculated in accordance with the following ratios:  $\frac{5}{12}$  to Guam,  $\frac{5}{12}$  to United States Virgin Islands,  $\frac{1}{12}$  to American Samoa, and  $\frac{1}{12}$  to the Commonwealth of Northern Mariana Islands.

The apportionment formula was in effect until 1992, when it was determined that American Samoa and the Commonwealth of Northern Mariana Islands were not receiving their fair share based on population, area or road mileage. Since September 1993, a new formula has been applied, distributing  $\frac{4}{10}$  and  $\frac{1}{10}$  of the total allocation to: each of Guam and the United States Virgin Islands, and American Samoa and Northern Mariana Islands, respectively.

The ISTEA established the National Highway System and provided continued funding for the Territorial Highway Program as a 1% set aside from the Fund. The ISTEA also required the functional reclassification of all roads and streets in each state and U.S. Territory which resulted in a new designation of each U.S. Territory's Territorial Highway System when approved by the FHWA division office. The Federal Highway Reimbursement Revenues for the U.S. Territories may be used on the Territorial Highway System for any eligible activity, or may be transferred to the Surface Transportation Program and then be used for any eligible activity thereunder.

In 1998, TEA-21 was enacted and established the Territorial Highway Program in its current form. As discussed above, TEA-21 is expected to expire at the end of the Federal Fiscal Year 2003 and a new act authorizing future expenditures under the Program and the Territorial Highway Program may modify the procedure of authorization and allocation as well as the levels of such authorization and allocation of any funds to the U.S. Territories.

### **Territorial Highway Program**

In 1998, TEA-21 eliminated the provision that set aside the 1% allocation of the Federal-aid funds for the U.S. Territories, and instead, provided for a set amount of \$36.4 million each Federal Fiscal Year, to be allocated to the U.S. Territories. Pursuant to the apportionment formula, the United States Virgin Islands' portion (of  $\frac{4}{10}$ ) can not be higher than \$14.56 million. Pursuant to TEA-21, only the funds for which the obligation authority is provided shall be allocated. As a result, the actual allocation to be distributed to the U.S. Territories each year is determined by multiplying the \$36.4 million by the established obligation limitation percentage for that Federal Fiscal Year.

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The following chart shows the Federal Highway Reimbursement Revenues allocated to the Territory for each Federal Fiscal Year from 1998 to 2002, based upon each year's respective obligation authority and including amounts received through the redistribution process.

**Territory's Federal Highway Reimbursement Revenues  
Federal Fiscal Years 1998 – 2002  
(in millions)**

<u>Year</u>	<u>Obligation Limitation</u>	<u>Amount</u>
1998	89.1%	\$12,972,960*
1999	88.3	12,856,480
2000	87.1	12,681,760
2001	87.9	12,798,240
2002	90.4	13,690,396**

\* Includes allocation of unused allocations of other U.S. Territories in the amount of \$1,630,279.

\*\* Includes carry-over of unused allocation in Federal Fiscal Year 2001 in the amount of \$500,000.

In accordance with TEA-21, any Federal Highway Reimbursement Revenues provided to the U.S. Territories may be used for any project eligible for assistance such as bridge projects, public road projects, pedestrian and bicycle facilities, highway and transit safety improvements, any airport, and any seaport. It shall be the responsibility of each U.S. Territory to maintain, or cause to be maintained, any project constructed with Federal Highway Reimbursement Revenues. Design standards for any Eligible Transportation Project in the U.S. Territories shall be approved by the responsible FHWA division office. Federal requirements and the functional classification of the highway should be considered in development of the appropriate standards.

The FHWA provides technical assistance to the U.S. Territories to help them develop and administer their Territorial Highway Program. The FHWA division offices are flexible in determining how much responsibility each U.S. Territory can assume, because the size of the program and the amount of Federal-aid funding is not the same for each U.S. Territory. In deciding how much oversight to provide, the FHWA considers the needs of the particular U.S. Territory as well as the resources available to the FHWA to provide assistance. In the Virgin Islands, the FHWA has been cooperating closely with Public Works pursuant to the Stewardship Agreement, by and between Public Works and the FHWA. See "DEPARTMENT OF PUBLIC WORKS – Operations".

### **Federal-Aid Financing Procedures**

#### ***Authorization***

When an authorization act establishes a program, it sets certain ground rules under which the program operates, including: (i) the amount of funds available to the program for each fiscal year, (ii) a description of how those funds are to be distributed, (iii) the length of time during which the funds may be used, and (iv) a listing of eligible activities. These can be changed by subsequent authorization acts, as well as by other acts.

Since 1921, Congress has authorized the expenditure of federal highway funds and the budget and contract authorities of the FHWA on a multi-year basis. As mentioned above, the modern Federal-Aid Highway Program originated in 1956, and since 1978, Congress has included highway legislation as part of a larger surface transportation act.

The current legislative authorization for the Program is provided by TEA-21, which went into effect on October 1, 1998 and is scheduled to remain in effect through the Federal Fiscal Year ending September 30, 2003. TEA-21 authorizes a total of nearly \$218 billion in federal funds nationwide over the life of the authorization, a 40% increase over the previous legislative authorization for transportation, the ISTEA, which was also a six-year program. See "FEDERAL HIGHWAY REIMBURSEMENT REVENUES - History of the Program."

### ***Apportionment and Allocation***

All federal programs require budget or contract authority before revenues may be committed and spent. Normally this authority is provided through a two-step process with authorizing legislation describing the purpose for a specific program and setting a proposed level of spending, and appropriations acts providing the budget authority or legal ability to spend federal funds. The Program combines these two steps, with authorizing legislation providing to the U.S. Secretary of Transportation contract authority or the legal ability to enter into binding contracts with the state transportation departments or other bodies specified in the Program. Under the contract authority the authorized amounts become available for obligation according to the provisions of the authorizing act, without further legislative action. Contract authority gives the states advance notice of the size of the Program available to them and which, in turn, makes it easier to plan and execute multi-year construction projects.

The distribution of funds using a formula provided in law is called apportionment. An apportionment is usually made on the first day of the Federal Fiscal Year. Almost all expenditures from the Fund are made on the apportionment basis. Apportionments set the maximum amount of contract authority that a state can expend for eligible projects in specific programs. TEA-21 provides that each state's share of apportionments for specified programs shall be at least 90.5% of such state's percentage share of past contributions to the Highway Account in the Fund, based on the latest data available at the time of apportionment. As discussed in "FEDERAL HIGHWAY REIMBURSEMENT REVENUES - History of Territorial Highway Program," under TEA-21, unlike the states, all four U.S. Territories are apportioned on an annual basis an aggregate amount of \$36.4 million out of which the Virgin Islands is apportioned \$14.56 million.

Distributions of funds when there are no formulas provided in law are called "allocations" and may be made at any time during a Federal Fiscal Year. Such allocations are made at the discretion of the U.S. Secretary of Transportation.

When new appropriations or allocations are made, the amounts are added to the Program's unused balance from the previous years (Program funds are available for a period of three years after the last day of the fiscal year for which the funds are authorized). Should a state or a U.S. Territory not obligate a particular year's funding within the period of availability, the authority to obligate any remaining amount lapses.

### ***Obligation***

After federal funds have been apportioned or allocated to the states and U.S. Territories, the states and U.S. Territories can direct the use of the funds for specific projects through a process known as "**obligation**." Obligation commits the federal government to reimburse a state or U.S. Territory for the federal share of an approved project's eligible costs as long as federal requirements are met. The obligation step further limits the amount of federal transportation funds available to states and U.S. Territories to pay project costs, but obligation allows states and U.S. Territories to award contracts on the understanding that the federal government will reimburse its share of incurred costs.

Congress uses its appropriation authority to balance multi-year federal spending programs with its annual budgetary priorities. For each Federal Fiscal Year, Congress establishes domestic discretionary spending caps as part of the federal budgetary process and then distributes spending levels across various program areas, including transportation. For the Program, spending limitations take effect in the form of limits on obligations. Each state or U.S. Territory is provided a certain amount of obligation authority (or limitation), which is generally less than the level of authorized funding provided in apportionments or allocations. Thus, the amount of federal transportation spending authorized that is actually allowed to be spent is usually reduced by annual appropriations legislation, and the actual portion of the authorized amount that is allowed to be spent may vary significantly from one Federal Fiscal Year to the next during the life of the authorizing legislation (although the difference between authorization levels and obligation limitations creates "unobligated balances" that do not lapse from year to year, and these unobligated balances may allow states or U.S. Territories to continue to fund highway projects during periods in which Congress has failed to reauthorize expired authorization legislation). In a major change from past legislative authorization for state transportation, state highway programs and transit programs are guaranteed a minimum level of spending under TEA-21. However, such rule does not apply to the U.S. Territories. Under the new TEA-21 budget rules, guaranteed amounts for highways are based on actual Highway Account receipts, and are estimated to total approximately \$198 billion for highways and transit over the six-year life of TEA-21. If appropriations fail to provide this level of funding, it cannot be used for other federal domestic purposes under current law.

Once overall spending limits have been set for a Federal Fiscal Year, the FHWA determines the amount that each state or U.S. Territory can spend for that Federal Fiscal Year ("obligation authority"). The FHWA distributes obligation authority proportionately to each state or U.S. Territory's share of apportioned and allocated revenues (although the actual ratio of each state or U.S. Territory's obligation authority may vary from year to year because certain federal-aid programs are exempt from the obligation limitation). Each state or U.S. Territory then submits requests to the FHWA to obligate funds representing the federal share of specific projects throughout the years. As a state or U.S. Territory obligates funds, the balance of its obligation authority is reduced accordingly (although, as described below, it may receive additional obligation authority in some circumstances such as a reallocation of other states or U.S. Territories' unused allocations). See "BONDHOLDERS' RISKS — Factors Affecting Federal Transportation Funds."

These funds will be distributed to the states and U.S. Territories each year with an equal amount of obligation authority. At the end of each Federal Fiscal Year, any unobligated funds will be withdrawn along with any unused obligation authority. As withdrawn funds will be reallocated to the same state or U.S. Territory from which the funds were withdrawn in the next succeeding Federal Fiscal Year with an equal amount of obligation authority, such allocation of funds is not lost.

It should be rare that there are funds that are not obligated. However, where U.S. Territories have received special high priority project ("HPP") funding under TEA-21, those U.S. Territories may choose to fully obligate funds for HPP's by using some of their regular Territorial Highway Program obligation authority to make up the lack of total special obligation authority that is provided for the HPP's. In such a case, a U.S. Territory would not be able to fully obligate its regular Territorial Highway Program funds because it utilized portions of its obligation authority for a HPP. Those unobligated regular Territorial Highway Program funds would be withdrawn and reallocated the following year with an equal amount of obligation authority.

The Virgin Islands and American Samoa receive HPP funding under TEA-21. These funds are only to be used for certain projects and according to the schedule described therein. These HPP funds are available until expended, can only be used for the authorized HPP, will not be withdrawn annually if unexpended and are also subject to obligation limitation. Due to the obligation limitation established each

Federal Fiscal Year, these HPP funds do not receive full obligation authority. The U.S. Territories may choose to use their regular Territorial Highway Program obligation authority to make up the difference as described above. Pursuant to the terms of the 2002 Loan Agreement, the Government has covenanted to obligate its Federal Highway Reimbursement Revenues to payment of the Debt Service on the Series 2002 Bonds (including the Bond Related Costs), prior to any other obligation for an Eligible Transportation Project.

In mid-summer of each year, the FHWA determines whether each state or U.S. Territory plans to use its obligation authority before the end of that Federal Fiscal Year. If a state or U.S. Territory does not plan to use all its obligation authority, the FHWA may redistribute the excess authority to other states or U.S. Territories. Other than in Federal Fiscal Year 2001, the Virgin Islands has obligated all of its annual allocation for Eligible Transportation Projects. In Federal Fiscal Year 1998, the Virgin Islands also received additional obligation authority through the redistribution process. See the Table entitled "Territory's Federal Highway Reimbursement Revenues, Federal Fiscal Years 1998-2002" under "Territorial Highway Program."

### ***Program Implementation***

In order to be eligible to receive federal reimbursement for transportation programs, states and U.S. Territories must develop comprehensive transportation plans ("Transportation Improvement Programs") that are based on anticipated long-term state and federal funding levels for specific categories. Specific projects may not receive federal reimbursements unless they are either directly identified in a long-range plan or consistent with policies and objectives identified in long-range plans.

The FHWA allows states and the U.S. Territories to begin some projects before they have received sufficient obligation authority to cover the entire federal share of the project. This is called the "Advance Construction" approach. Under Advance Construction, a state or a U.S. Territory asks the FHWA to authorize the project without obligating federal revenues, so that the state or the U.S. Territory pays the project costs and may request the obligation of revenues later when obligation authority is sufficient. A state or a U.S. Territory may request "partial conversion" of an Advance Construction project by obligating and receiving reimbursement for only a portion of its funding of the project in a given year. Partial conversion allows a state to obligate varying amounts of a project's costs in each year, depending on the amount of obligation authority available and how much the state desires to apply to the project.

Once federal funds have been authorized and obligated, states and U.S. Territories must have developed highway programs that describe, on a project by project basis, exactly how federal reimbursements will be spent. It is done through the process of budgeting, planning and programming and fiscal management and reimbursement. Projected federal funding levels are used to budget transportation needs. Consequently, state or U.S. Territory's transportation budget officials track the availability of funding and develop forecasts of future state and federal revenues. That process provides also the context for transportation planning and programming. The long range planning process provides a big picture perspective of anticipated project needs regionally across the Virgin Islands. The Transportation Improvement Program provides a detailed outline of projects that are proposed for implementation in a time-frame of two to six years. As soon as the authorization for a project has been obtained, a state or a U.S. Territory advertises the project and receives bids from contractors. After awarding the contract, the state or the U.S. Territory requests the FHWA to make any necessary adjustments to federal obligations for the project based on the costs indicated in the winning bid. If approved, the agreed-upon amounts are included in a project agreement which identifies the revenues that will be encumbered by the state or the U.S. Territory and the percentage that the federal government will reimburse.



## ***Reimbursement***

Once budgeting, planning and programming are complete, projects move into a fiscal management phase. The fiscal management process is the third element of the implementation step in the overall federal highway funding process conducted in accordance with the FHWA requirements (i) to determine exactly how much federal funding will be received by a state or U.S. Territory for each project, (ii) to obtain final FHWA authorization before projects are implemented, and (iii) to ensure timely federal reimbursement of expenditures or contractor costs.

In a traditional approach, a state or U.S. Territory simply obligates the full federal share of available funding at the beginning of the project, concurrent with project authorization. Such state or U.S. Territory first requests authorization to use federal funding on a project and, after receipt of such authorization, submits plans and specifications for such project. The FHWA evaluates the project's plans and specifications to ensure that the project is eligible for federal funding and meets variety of federal requirements. Provided all federal requirements are satisfied, the FHWA authorizes federal participation in the project and obligates the federal share of project costs. By doing so, the FHWA makes a commitment to reimburse the state or U.S. Territory for the federal share of project costs.

Once authorization for a project has been obtained, the state advertises the project and receives bids. Based on actual costs identified in the bids, the state or U.S. Territory awards the contract to the lowest qualified bidder and submits a request to the FHWA asking for any adjustments, if necessary. During construction, (i) the contractor submits bills to a state or U.S. Territory, (ii) the state or U.S. Territory bills electronically the FHWA, and (iii) the FHWA makes payment to the state or U.S. Territory via electronic transfer.

In more innovative approach, a state or U.S. Territory can finance a project with proceeds of indebtedness such as the Series 2002 Bonds and use the anticipated Federal Highway Reimbursement Revenues to repay the debt service and other eligible financing costs. Using "Advance Construction" funding authorization a state or U.S. Territory receives the FHWA project authorization without obligating the full amount of the federal share of funding the costs of construction of such project, and the FHWA agrees to annually convert a portion of such Advanced Construction funding authorization into current funding authorization in the amount sufficient to pay the debt service and other eligible financing costs.

The 2002 Projects are funded as Advance Construction projects. Under the 2002 MOA, the FHWA has agreed that the 2002 Projects will be treated as Advance Construction projects, and that funds will be obligated to reimburse the Authority for the Debt Service on the Series 2002 Bonds (including the other Bond Related Costs). On January 10, 2002, the FHWA approved the 2002 Projects as Eligible Transportation Projects approved for Advance Construction and authorized reimbursement of such Debt Service costs including the Bond Related Costs, subject to annual appropriation to FHWA by the United States Congress. See "SECURITY FOR THE BONDS - Memorandum of Agreement".

## **VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**

### **Purposes and Powers**

The Authority was created in 1988 by the United States Virgin Islands Act No. 5365 of the Legislature as a public corporation and autonomous governmental instrumentality for the purposes of aiding the Government in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under its enabling legislation, the Authority is vested with, but not limited to, the following powers: (i) to have perpetual existence as a

corporation, (ii) to borrow money and issue bonds, (iii) to lend the proceeds of its bonds or other money to the Government or any agency, authority or instrumentality thereof or private enterprise in the Virgin Islands subject to the approval of the Legislature of the Virgin Islands, (iv) to establish one or more revolving loan funds with the proceeds of bonds issued by the Authority or issued by the Government or any agency, authority or instrumentality thereof, (v) to encourage economic development through the issuance of special obligations issued to finance a project for the benefit of private parties which special obligations are payable out of revenue generated by the involved project and a payable to the Authority by said private party (vi) to invest its funds and to arrange for the investment of the funds of the Government or any agency, authority or instrumentality thereof, (vii) to enter into contracts and agreements with the federal government, the Government and any agency, authority or political subdivision thereof, (viii) to make, modify and repeal by-laws, rules and regulations, (ix) to acquire, sell, lease, mortgage, pledge, dispose of or encumber property or interests therein, and (x) to sue and be sued.

## **Management**

The powers of the Authority are exercised by a board of directors (the "Board of Directors") consisting of five members. The Governor of the Territory, the Commissioner of Finance and the Director of the Office of Management and Budget of the Territory, are members and serve ex-officio. The two remaining members are appointed by the Governor of the Territory with the advice and consent of the Legislature and represent the private sector. Of these two members, one must be a resident of the District of St. Thomas/St. John and one must be a resident of the District of St. Croix. Both must be experienced in the area of municipal finance. The Governor of the Territory serves as Chairman of the Board of Directors while the Commissioner of Finance serves as the Authority's Executive Director and the Director of the Office of Management and Budget serves as Secretary to the Authority. Kenneth E. Mapp serves as the Director of Finance and Administration of the Authority and is responsible for the administration and operation of the Authority.

The following is a list of the current members of the Board of Directors with their official posts or, for private sector representatives, their island of residency, and date of expiration of their current terms on the Board of Directors. The Governor of the Territory, the Commissioner of Finance and the Director of the Office of Management and Budget serve terms which are coincident with their terms in such offices. The Directors who represent the private sector serve 4-year terms.

<u>Name</u>	<u>Government Post or Profession/Residency</u>	<u>Term Expiration</u>
Hon. Charles W. Turnbull, Chairman.....	Governor of the United States Virgin Islands .....	Ex-Officio
Bernice A. Turnbull, Executive Director .....	Commissioner of Finance.....	Ex-Officio
Ira R. Mills, Secretary.....	Director, Office of Management and Budget .....	Ex-Officio
Paul Arnold.....	Human Resources and Communications Manager, Jacobs Engineering, St. Croix .....	holdover appointee*
Roy Jackson.....	Certified Public Accountant, St. Thomas.....	holdover appointee*

\* Mr. Arnold and Mr. Jackson shall serve on the board of directors until the appointment and confirmation of a successor

## **Outstanding Indebtedness of the Authority**

The Authority has issued and, as of October 1, 2002, had outstanding (i) \$7,295,000 aggregate principal amount of Virgin Islands Public Finance Authority Project Revenue Bonds, Series 1999; (ii) \$283,335,000 Virgin Islands Public Finance Authority Revenue Bonds (Virgin Islands Gross Receipt Taxes Loan Note) Series 1999A; and (iii) \$486,970,000 aggregate principal amount of the Virgin Islands Public Finance Authority Revenue and Refunding Bonds (Matching Fund Loan Notes) Series 1998 A, B, C, D, and E. **Each such series of bonds is a special limited obligation of the Authority secured by revenues of the Authority that are different and separate from the Federal Highway Reimbursement Revenues to be received from the FHWA and pledged as part of the Trust Estate. Such outstanding bonds do not constitute the "Bonds" under the Indenture. No recourse may be had for the payment of the bonds of the Authority that are not the Bonds under the Indenture against the Federal Highway Reimbursement Revenues that secure the Series 2002 Bonds and no bonds of the Authority, including the Bonds, have any recourse against the general funds of the Authority or the Government.**

## **Recent Developments**

Recent news reports describe a non-public draft of a proposed audit report by the Office of the Inspector General of the United States Department of the Interior which raises certain concerns regarding the Authority's management of bond proceeds and Authority funds. The Authority has submitted a non-public response to such findings and recommendations to the Office of Inspector General. The Authority has, in its response, vehemently challenged the accuracy of the findings set forth in the draft report. The draft report is subject to revision following consultation with representatives of the Authority. It is uncertain at this time when the final report will be available. Based upon information available to date, the Authority believes that nothing in the draft of the proposed Inspector General's audit report would preclude the receipt and application of the Federal Highway Reimbursement Revenues.

## **DEPARTMENT OF PUBLIC WORKS**

### **General**

Public Works, as a department of the Government, is authorized under Title 3, Chapter 15, and Title 31 of the Virgin Islands Code, as amended by Act No. 5265 (Bill No. 17-0051) to operate and maintain the wastewater and sewage systems of the Territory. Public Works is mandated to plan, construct, and maintain public buildings, public roads, and highways, collect and dispose of solid waste and manage public sanitation landfill sites and public cemeteries. Public Works also provides engineering services; regulates vehicle weights on the public highways; assists with the preservation and protection of governmental property during natural disasters and emergencies, and develops and operates the Territory's mass transit systems.

The mission of Public Works is to provide timely, efficient and responsive services to the Territory's community in the areas of: collection and disposal of solid and liquid waste, designing, building and maintaining highways, roads and other government facilities, providing quality, state-of-the-art transportation services, and beautifying the roadways in collaboration with other Government departments and federal agencies.

### **Management**

Public Works is organized into various divisions under the Office of the Commissioner of Public Works. The Commissioner is nominated by the Governor of the Territory. Mr. Wayne D. Callwood was

appointed the Commissioner in May 2001. Public Works is divided into fifteen (15) divisions, including separate district divisions for most functions. Three divisions: Office of the Commissioner, Engineering and Transportation Divisions serve the entire Territory. Of the remaining twelve divisions, six operate in St. Thomas and St. John jointly, and six operate in St. Croix. The local divisions in both areas comprise Administration, Construction, Roads and Highways, Utilities and Solid Waste Divisions.

Current senior administrative officers of Public Works are as follows:

*Commissioner – Wayne D. Callwood.* Mr. Callwood was appointed as Acting Commissioner of Public Works and was confirmed as Commissioner in May, 2001. Mr. Callwood has been employed at Public Works for nearly fifteen years. Prior to becoming the Commissioner, Mr. Callwood worked at Public Works as a Civil Engineer, Engineering Consultant, Director of Engineering (1993-1999) and Assistant Commissioner of Public Works (1999-2001). Prior to his employment with Public Works, Mr. Callwood worked as a Field and Soil Engineer at P.M.K. Engineering Firm in New Jersey. Mr. Callwood attended Norfolk State University where he earned an associate of science degree in architectural drafting. He also attended Old Dominion University where he earned his Bachelor of Science degree.

*Deputy Commissioner of Engineering – Eduardo O'Neal.* Mr. O'Neal has served as the Deputy Commissioner of Engineering at Public Works since 1997. He has been employed by Public Works since 1984. His past positions were: Civil Engineer III, Project Manager, Supervisor of Project Managers and St. Thomas/St. John District Engineer. Prior to working for Public Works, Mr. O'Neal worked for the Dominican Republic Ministry of Public Works with his last position being General Director of the Highway Department. Mr. O'Neal earned his degrees in Santo Domingo City in the Dominican Republic.

*Assistant Commissioner – Robert "General" Moorehead.* Mr. Moorehead has served as Assistant Commissioner since February 2002. He also served in this position from 1992 to 1995. After 1990 but before becoming Assistant Commissioner of Public Works, Mr. Moorehead served in numerous governmental and private enterprises in the Territory such as in the Attorney General's office, service as the Director of the Bureau of Corrections and the General Manager for Nollind & Associates, construction firm. Before 1990 Mr. Moorehead served for twenty four years in the U.S. Army. Mr. Moorehead attended Fairleigh Dickinson University. He also graduated from the following senior military schools: Army Command & General Staff College, Armed Forces Staff College, NATO Communication School, ADP System Analysis/Operations Research School and the US Army Signal Officer Advanced School.

*Director, Federal-Aid Highway Program – Aloy W. Nielsen.* Mr. Nielsen has been employed by Public Works for the past twenty-five years. Mr. Nielsen's career at Public Works has focused on the planning and implementation of the Territory's highway transportation network system and administration of the Federal-Aid Highway Program for the Territory. Prior to his employment with Public Works, Mr. Nielsen was a partner of Rollins and Nielsen, Architect-Urban Planners/Urban Designers from 1973 to 1977. Mr. Nielsen attended the University of Cincinnati, where he earned the Bachelor of Science degree in highway planning and urban design and the University of Virgin Islands, where he earned an associate of arts degree in construction technology.

*Grants Manager - Eva E. Richardson.* Ms. Richardson has served as Grants Manager at Public Works since 1996. Her experience prior to the employment with Public Works included various positions with the Anguilla Government Service, the Port Authority and the University of the Virgin Islands. During her tenure with the Anguilla Government Service, Ms. Richardson was selected to attend six months special training in government accounting, auditing and general management at Wandsworth Technical College in London, UK. In 1982 and 1985, Ms. Richardson earned a Bachelor of Arts Degree

in Accounting (with honors) and a Masters in Business Administration Degree, respectively from the University of the Virgin Islands.

## **Operations**

Public Works has been engaged in the oversight, management and construction of numerous capital projects. Public Works' operations are financed through the Territory's annual budget or from funds received from various federal programs. The following federal agencies provide technical and financial assistance to Public Works in connection with federally financed projects and conduct oversight of construction and maintenance of such projects: Environmental Protection Agency (the "EPA"), the Army Corps of Engineers, the FHWA, the Federal Transportation Administration, the U.S. Department of the Interior, and the U.S. Geological Service. Public Works has cooperated with the FHWA since the inception of the Territorial Highway Program. The relationship between the FHWA and Public Works has been memorialized in a number of joint-cooperation stewardship agreements, the latest of which is the Memorandum of Agreement – Oversight and Administration of Federal-Aid Highway Projects, dated August 7, 2002 (the "Stewardship Agreement").

Over the last five years, Public Works has completed, or substantially completed, the management and construction of over \$45 million of Eligible Transportation Projects through the Federal Aid Highway Program pursuant to the Federal-Aid Highway Stewardship Agreement dated as of June 27, 1997, by and between Public Works and the FHWA. On August 7, 2002, pursuant to the Stewardship Agreement, the FHWA and Public Works agreed that FHWA shall remain ultimately accountable for all Eligible Transportation Projects, while Public Works may assume responsibility for project-level activities such as planning, environmental, rights of way acquisition, project scoping and, when scoping is completed and the FHWA and Public Works so determine, an oversight of design and construction of the project, depending on the complexity of the project.

Under the 2002 MOA, FHWA, Public Works and the Port Authority have agreed that the Port Authority shall be responsible for the oversight of the construction and design of the 2002 Projects. The Port Authority shall conduct the bidding process, select the winning bid and supervise the contractor. However, the FHWA shall have the right to approve the successful bid and oversee the contractors working on the 2002 Projects.

Listed below are certain of the more significant Eligible Transportation Projects constructed within the last five years, or currently under construction, by Public Works funded with Federal Highway Reimbursement Revenues:

- relocation of Route 64 on St. Croix; project cost – approximately \$4.8 million; funded 100% from the Federal Highway Reimbursement Revenues; completed in 2001;
- Magens Bay Road; project cost – approximately \$2 million; funded 100% from the Federal Highway Reimbursement Revenues; currently under construction; and
- Territory-wide Loop Detector Installations; project cost – approximately \$1.9 million, funded 100% from the Federal Highway Reimbursement Revenues; currently under construction.
- Island-wide pavement preservation projects, St. Thomas; project cost - approximately \$11.0 million, funded 100% from the Federal Highway Reimbursement Revenues.
- Island-wide pavement preservation projects, St. Croix; project cost - approximately \$9.8 million, funded 100% from the Federal Highway Reimbursement Revenues.

- Island-wide pavement preservation projects, St. John; project cost - approximately \$5.2 million, funded 100% from the Federal Highway Reimbursement Revenues.
- Christiansted Boardwalk, project cost - approximately \$1.9 million, funded 100% from the Federal Highway Reimbursement Revenues, completed in September, 2000.
- New Roadway Construction, Molasses Pier Access Road, St. Croix, project cost - \$3.8 million, funded 100% from the Federal Highway Reimbursement Revenues, completed March 2001.

As mentioned above, Public Works cooperates with certain other federal agencies and is responsible for construction and oversight of projects authorized by such agencies. Among the projects authorized under other federal programs during the last five years include:

- Territory-wide storm drainage construction, project cost – approximately \$13.6 million, funded 50% by Federal Emergency Management Assistance and 50% by the Government, completed in 2001;
- wastewater treatment project on St. John, project cost – approximately \$8 million, funded 100% by the EPA, completed in 2001; and
- wastewater treatment project on St. Thomas, project cost – approximately \$28 million, funded 100% by the EPA, substantially completed in 2001.

## **VIRGIN ISLANDS PORT AUTHORITY**

### **General**

The Port Authority was created by Act 2375 of the Legislature (the "Port Authority Act") on December 24, 1968, as a public body corporate and politic constituting a corporation and autonomous governmental instrumentality for the Government for the purposes of establishing, acquiring, constructing, developing and improving, owning, operating and managing any and all types of air and marine terminals; controlling the harbors of the Territory including controlling mooring and anchoring of vessels; and to make available the benefits thereof in the widest economic manner, thereby promoting the general welfare and increasing commerce and prosperity. The Port Authority began operations on February 11, 1969, assuming assets and operations of the Virgin Islands Airport and Industrial Resources Agency and the Marine Division of the Department of Commerce of the Virgin Islands.

The Port Authority is vested with, but not limited to, the following powers: (i) to have perpetual existence as a corporation, (ii) to make, modify and repeal bylaws, rules and regulations, (iii) to acquire, sell, lease, mortgage, pledge, dispose of or encumber property or interest therein, (iv) to borrow money, to make, issue and refund bonds, (v) to determine, fix, alter, charge, and collect rates, fees, and rental and other charges for the use of its facilities, (vi) to participate in programs of any federal agencies, and (vii) to sue and be sued.

The Port Authority is also empowered to control the harbors of the Territory, and, in so doing, to direct incoming ships to certain docking facilities. The Port Authority has never exercised this right.

The Port Authority works in close cooperation with territorial and federal government agencies in the performance of its duties and responsibilities as prescribed by statute. In addition to interacting with various governmental agencies, the Port Authority provides technical assistance, material and facilities as

needed to some Territorial agencies with respect to aviation and marine related matters. The Port Authority administers federal grants for capital improvement projects in the Territory both for airport and marine port development purposes. The Port Authority also interacts with federal agencies in securing permits for such projects.

### **Governing Board**

The powers of the Port Authority are exercised through a Governing Board consisting of nine members. Three individuals are members of the Governor's Cabinet and a fourth is a senior government official. These four Governing Board members serve ex-officio. They are: the Commissioner of the Department of Tourism who serves as Chairperson of the Governing Board, the Commissioner of Public Works, the Attorney General and the Commissioner of the Department of Planning and Natural Resources. The five remaining Governing Board members are appointed by the Governor with the advice and consent of the Legislature and represent the private sector. Of these, one must be a resident of St. John, two of St. Croix and two of St. Thomas.

Following is a list of the current Governing Board members. The list indicates members' official post or, for private sector representatives, the island of residency, and date of expiration of their current term on the Governing Board. Those members of the Governing Board who are ex-officio members serve terms which are coincident with their terms in the Government. The members of the Governing Board who represent the private sector serve 3-year terms and generally are eligible for reappointment for an additional term.

<u><b>Name</b></u>	<u><b>Title or Island of Residency</b></u>	<u><b>Term Expires</b></u>
Pamela Richards	Chairperson of the Board, Commissioner, Department of Tourism	Ex-Officio
Leslie Milliner	St. Thomas	9-25-2003
Robert O'Connor Jr.	St. John	4-21-2005
Iver A. Stridiron	Attorney General, United States Virgin Islands, Vice Chairman - Port Authority	Ex-Officio
Kent Bernier	St. Thomas, Secretary	9-25-2003
Vacant	St. Croix	
Vacant	St. Croix	
Dean Plaskett	Commissioner, Department of Planning and Natural Resources	Ex-Officio
Wayne D. Callwood	Commissioner, Department of Public Works	Ex-Officio

### **Management**

The Port Authority is managed and administered by an Executive Director who is appointed by the Governing Board. The Executive Director is responsible for the operation and management of the Marine Division and the Aviation Division and for carrying out the policies of the Governing Board and administering the day-to-day affairs of the Port Authority. He manages the Port Authority with the assistance of four directors: a Director of Administration and Finance; an Assistant Executive Director, St. Croix; a Director of Property Management, Legal Counsel, and a Director of Engineering. In addition to the directors, the Executive Director maintains a staff that is responsible for public relations, internal auditing, planning and development, and legal/property management.

Current senior administrative officers of the Port Authority are as follows:

*Executive Director - Gordon A. Finch.* Mr. Finch was appointed as the Executive Director of the Port Authority by the Governing Board in 1992. For ten years immediately prior to assuming the position of Executive Director of the Port Authority, Mr. Finch owned and managed a civil engineering practice in the Territory. His clients included both private industry and government. Prior to his return to the Territory in 1971, Mr. Finch was employed by the U.S. Atomic Energy Commission in Washington, D.C. and Goudine Systems in Livingston, N.J. His Virgin Islands Government career includes positions as Director of Roads and Commissioner of Public Works as well as Executive Director of the Port Authority. Mr. Finch earned his engineering degree from Howard University and his masters degree in Structural Engineering from Carnegie Mellon University. Mr. Finch has notified the Governing Board that he intends to retire effective December 31, 2002. The Governing Board intends to either appoint an Acting Executive Director or commence the search for a new Executive Director prior to Mr. Finch's retirement from the Authority.

*Assistant Executive Director - David W. Mapp.* Mr. Mapp has served as the Assistant Executive Director of the Port Authority since 1986, Mr. Mapp was the head of the Computer Design and Analysis Department of a private engineering firm, The Office of Irwin G. Cantor, P.C. Mr. Mapp is a member of the American Association of Airport Executives, the Southeast Airport Manager's Association, and the American Association of Port Authorities. Mr. Mapp attended Howard University and the College of Staten Island, studying electrical engineering and computer science, respectively.

*Director of Finance and Administration - Lloyd W. Romeo.* Mr. Romeo has served as the Director of Administration and Finance of the Port Authority since 1992. From 1982 to 1992, Mr. Romeo served as the Accounting Manager to the Port Authority and director of its Accounting Office. Additionally, Mr. Romeo served from 1969 to 1979 as the Comptroller for the Virgin Islands Urban Renewal Board. Mr. Romeo earned a bachelor's degree in business administration from Catholic University of Puerto Rico and a masters degree in business administration from the Pace University Lubin Graduate School of business.

*Director of Engineering - Dale Gregory.* Mr. Gregory, is a licensed civil engineer, became the Director of Engineering for the Port Authority in 1995. Prior to that time, Mr. Gregory had served as Project Representative or Project Manager on various Port Authority projects since he joined the Port Authority in 1983. As Director, Mr. Gregory supervises the capital improvement programs for the Port Authority. Prior to joining the Port Authority, Mr. Gregory worked for a private engineering firm, W.F. McComb Engineering, P.C., of St. Thomas. Mr. Gregory earned a bachelor of science degree in civil engineering from the University of West Virginia and holds a civil engineer 585E license.

*Legal Counsel - Don C. Mills, Esq.* Mr. Mills has served as the Legal Counsel to the Port Authority since 1989. Prior to joining the Port Authority, Mr. Mills was engaged in the private practice of law in the Virgin Islands from 1978 until 1989. He also served as the Counsel to the Virgin Islands Office of Highway Safety from 1975-1978. He is a member of the United States Virgin Islands Bar Association and the Pennsylvania Bar Association (inactive). Mr. Mills earned a bachelor of arts degree in political science from Temple University and a J.D. degree from Villanova University School of Law.

## **Financial Operations**

Annual Budgets for the Port Authority are adopted by the Governing Board. The Executive Director prepares and submits to the Governing Board each proposed budget after receiving input from the various division heads and allowing for supplemental discussion regarding division expenditures. The budgeting process takes approximately six months. The Port Authority's Management seeks to have the budget approved by the end of August preceding the beginning of the fiscal year on October 1. The Port Authority's fiscal year 2003 budget was approved by the Governing Board on August 27, 2002 and



revised October 16, 2002 to reflect no increase in the aviation fees and charges for the first six months of fiscal year 2003. The fiscal year 2003 budget includes a proposed increase in certain aviation fees and charges which are currently under review by the Authority following preliminary negotiations with the airlines. The Governing Board has agreed to review the aviation fees prior to April 1, 2003.

The Port Authority's financial statements are audited annually and are kept in accordance with generally accepted accounting principles. Monthly Financial Statements are internally prepared and submitted to the Executive Director and Governing Board.

### **Indebtedness of the Port Authority**

The Port Authority has issued and currently has outstanding (i) \$8,750,000 aggregate principal amount of its Airport Revenue Bonds, Refunding Series 1998A, and (ii) \$1,425,000 aggregate principal amount of its Rohlsen Terminal Airport Revenue Bonds, Series 1998A. Each such series of bonds and notes is a special limited obligation of the Port Authority secured by certain revenues of the Port Authority that are different and separate from the Federal Highway Reimbursement Revenues to be received from the FHWA and pledged as part of the Trust Estate.

In September, 2000 the Port Authority entered into an agreement with a major tenant, Tropical Shipping, for the reconstruction of 580 linear feet of bulkhead in the Crown Bay cargo area of St. Thomas. The agreement called for the payment of the cost of the project by the crediting of docking, piloting and rental fees and the reimbursement of cargo lineage and cargo wharfage fees paid to the Port Authority via through United States Customs. The project cost and the balance owed is \$1,865,000.

The Port Authority intends to issue an additional series of bonds under the Marine Trust Indenture, dated as of September 1, 1998, as supplemented, by and between the Port Authority and HSBC Bank USA, successor trustee to Marine Midland Bank, as trustee, in December 2002, to finance a portion of the costs of construction of improvements to and the development of the Crown Bay Marine Facility.

**Such outstanding bonds of the Port Authority do not constitute the "Bonds" under the Indenture. No recourse may be had for the payment of the bonds and notes of the Port Authority that are not the Bonds under the Indenture against the general funds of the Authority and the Federal Highway Reimbursement Revenues that secure the Series 2002 Bonds.**

### **Capital Projects**

Listed below are certain of the significant capital projects constructed within the last five years, or currently under construction, by the Port Authority:

- Expansion and renovation of the Henry E. Rohlsen Airport Terminal, St. Croix; project cost - \$40 million; project construction commenced in 1997 and completed in 2002.
- Runway extension at the Henry E. Rohlsen Airport; St. Croix; project cost - \$18 million, project construction commenced in November 1999 and expected to be completed in the summer of 2003.
- Upgrading and Expansion of the Ann E. Abramson Marine Facility including the construction of four breasting dolphins and one mooring dolphin at the Ann E. Abramson Marine Facility, St. Croix; project cost - \$3.6 million; project completed in July 2000.
- Upgrade of Crown Bay Cargo Dock, St. Thomas; project cost - \$5 million; project completed in 2001.

## **LITIGATION**

There is no litigation pending in any court or, to the best of the knowledge of the Authority, the Port Authority, the Public Works or the Government, threatened, questioning the corporate existence of the Authority or which would restrain or enjoin the issuance or delivery of the Series 2002 Bonds, or which concerns the proceedings of the Authority, the Port Authority, the Public Works or the Government taken in connection with the Series 2002 Bonds, the 2002 Loan Agreement or the pledge or application of any Federal Highway Reimbursement Revenues provided for their payment, or which contest the powers of the Authority or the Government with respect to the foregoing.

## **TAX MATTERS**

### **General**

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2002 Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2002 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2002 Bonds. The Authority has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2002 Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code.

In the opinion of Bond Counsel, under existing law and assuming compliance with the aforementioned covenants, interest on the Series 2002 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest (and original issue discount treated as interest) on the Series 2002 Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

Under existing law, in the opinion of Bond Counsel, interest on the Series 2002 Bonds will be exempt from personal income taxes imposed by the Territory, any state, other territory or possession of the United States or any political subdivision thereof, or by the District of Columbia.

### **Original Issue Premium**

The Series 2002 Bonds are being offered at prices in excess of their principal amounts. Bond Counsel is of the opinion that an initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond. For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to state and local tax consequences (including, among others, the Territory) of owning such Premium Bonds.

## **Certain Federal Tax Information**

**General.** The following is a discussion of certain additional tax matters under existing statutes. It does not purport to deal with all aspects of federal taxation that may be relevant to particular investors. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2002 Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction. Bond Counsel will not be opining on the following matters.

**Social Security and Railroad Retirement Payments.** The Code provides that interest on tax-exempt obligations is included in the calculation of modified adjusted gross income in determining whether a portion of Social Security or railroad retirement benefits received are to be included in taxable income.

**Branch Profits Tax.** The Code provides that interest on tax-exempt obligations is included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States.

**Borrowed Funds.** The Code provides that interest paid (or deemed paid) on borrowed funds used during a tax year to purchase or carry tax-exempt obligations is not deductible. In addition, under rules promulgated by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or carrying particular assets, the purchase of obligations may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of such obligations.

**Property and Casualty Insurance Companies.** The Code contains provisions relating to property and casualty insurance companies whereunder the amount of certain loss deductions otherwise allowed is reduced by a specified percentage of, among other things, interest on tax-exempt obligations acquired after August 7, 1986.

**Financial Institutions.** The Code provides that commercial banks, thrift institutions and other financial institutions may not deduct the portion of their interest expense allocable to tax-exempt obligations acquired after August 7, 1986, other than certain "qualified" obligations. The Series 2002 Bonds are not "qualified" obligations for this purpose.

**S Corporations.** The Code imposes a tax on excess net passive income of certain S corporations that have subchapter C earnings and profits. Interest on tax-exempt obligations must be included in passive investment income for purposes of this tax.

**Earned Income Credit.** For any taxable year beginning after December 31, 1995, the Code denies the earned income credit to persons otherwise eligible for it if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds \$2,200, subject to adjustment for inflation for taxable years beginning after December 31, 1996. Interest on the Series 2002 Bonds will constitute disqualified income for this purpose.

**Changes in Federal Tax Law and Post Issuance Events.** From time to time, proposals are introduced in Congress that, if enacted into law, could have an adverse impact on the potential benefits of the exclusion from gross income for federal income tax purposes of the interest on the Series 2002 Bonds, and thus on the economic value of the Series 2002 Bonds. This could result from reductions in federal income tax rates, changes in the structure of the federal income tax rates, changes in the structure of the federal income tax or its replacement with another type of tax, repeal of the exclusion of the interest on

the Series 2002 Bonds from gross income for such purposes, or otherwise. It is not possible to predict whether any legislation having an adverse impact on the tax treatment of holders of the Series 2002 Bonds may be proposed or enacted.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2002 Bonds may affect the tax status of interest on the Series 2002 Bonds. Bond Counsel expresses no opinion as to any federal, Territory or local tax law consequences with respect to the Series 2002 Bonds, or the interest thereon, if any action is taken with respect to the Series 2002 Bonds or the proceeds thereof upon the advice or approval of other counsel.

#### **INDEPENDENT ACCOUNTANTS**

The financial statements of the Virgin Islands Public Finance Authority, a blended component of the Government of the Virgin Islands, as of September 30, 2001 and 2000 and for each of the years then ended, appended hereto as Appendix H as part of this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing therein. Such financial statements are included herein for informational purposes only, and the information contained in these financial statements should not be read to in any way modify the description of the security for the Series 2002 Bonds contained herein. The assets of the Authority, other than those pledged pursuant to the Indenture, are not pledged to nor are they available to Owners of the Series 2002 Bonds.

#### **LEGAL OPINIONS**

Certain legal matters incident to the issuance of the Series 2002 Bonds are subject to the approving opinion of Buchanan Ingersoll Professional Corporation, New York, New York, Bond Counsel. The approving opinion of Bond Counsel, substantially in the form set forth in Appendix G hereto, is to be furnished upon delivery of the Series 2002 Bonds. Bond Counsel's approving opinion does not express any opinion with respect to information in this Official Statement. Certain legal matters will be passed upon for the Underwriter by its counsel, Hawkins, Delafield & Wood, New York, New York.

#### **FINANCIAL ADVISOR**

The Authority has retained Banc of America Securities LLC, New York, as financial advisor in connection with the issuance of the Series 2002 Bonds. Although Banc of America Securities LLC has assisted in the preparation of the Official Statement, Banc of America Securities LLC is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

#### **RATINGS**

Moody's Investors Service and Standard & Poor's Ratings Group have assigned ratings of Aaa and AAA, respectively, to the Series 2002 Bonds, with the understanding that upon delivery of the Series 2002 Bonds a municipal insurance policy insuring the payment when due of the principal of and interest on the Series 2002 Bonds will be issued by Financial Security Assurance Inc. Standard & Poor's Ratings Group has assigned the underlying rating of BBB to the Series 2002 Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; and Standard & Poor's Ratings Group, 25

Broadway, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2002 Bonds.

### **CONTINUING DISCLOSURE**

The Authority has covenanted, for the benefit of the holders of the Series 2002 Bonds, to provide certain financial information and operating data relating to the Authority by not later than March 31 of the following year, beginning with the fiscal year ending September 30, 2002 (the "Annual Report") and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the Authority with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in "Appendix F — Form of the Continuing Disclosure Certificate". These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule"). The Authority has not failed to provide annual financial information or notices of material events pursuant to the requirements of the Rule.

### **UNDERWRITING**

The Series 2002 Bonds are being purchased by UBS PaineWebber Inc. (the "Underwriter"). The aggregate purchase price payable by the Underwriter for the Series 2002 Bonds is \$21,912,045.05. The Underwriter is obligated to purchase all of the Series 2002 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract by and between the Authority and the Underwriter, the approval of certain legal matters by counsel and certain other conditions. The Underwriter will receive an underwriting discount of \$449,225.00 in connection with the underwriting of the Series 2002 Bonds.

The initial public offering price and other terms respecting the offering and sale of the Series 2002 Bonds may be changed from time to time by the Underwriter after the Series 2002 Bonds are released for sale, and the Series 2002 Bonds may be offered and sold at prices other than the initial offering price, including sales to certain dealers (including dealers who may sell the Series 2002 Bonds into investment accounts, some of which may be managed by the Underwriter) and certain dealer banks and banks acting as agents.

### **MISCELLANEOUS**

Any statement in this Official Statement involving matters of estimates or opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the owners or holders of, or of interests in, any of the Series 2002 Bonds.

Financial and statistical information has been provided by the Authority and the Government, certain of its agencies and instrumentalities and other sources deemed reliable by the Authority and the Government. The Underwriter is not responsible for any of such information nor have the Underwriters independently verified such information.

The execution and delivery of this Official Statement has been duly authorized by the Authority.

### **VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**

By: /s/ THE HONORABLE CHARLES W. TURNBULL, GOVERNOR  
Chairman of the Board

## GLOSSARY OF TERMS

Certain terms used, but not defined in this Official Statement shall have the meanings set forth below unless the context clearly requires otherwise. Any capitalized term used in this Official Statement regarding the Indenture, the First Supplemental Indenture and the Loan Agreement and not defined herein shall have the meaning given such term by the Indenture, the First Supplemental Indenture and the Loan Agreement.

**Act** means, collectively, the Virgin Islands Revised Organic Act, 48 U.S.C. 1574-1574c (West 1987), as amended, and Title 29 of the Virgin Islands Code, 2000 V.I. Act 6359, as amended by 2000 V.I. Act No. 6361, and other applicable law, as the same may be amended from time to time.

**Act of Bankruptcy** means (i) the entity under consideration shall have applied for or consented to the appointment of a custodian, receiver, trustee or liquidator of all or substantially all of its assets; (ii) a custodian shall have been appointed with or without consent of such entity; (iii) such entity has made a general assignment for the benefit of creditors, or has filed a voluntary petition in bankruptcy, or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any insolvency law; (iv) such entity has filed an answer admitting the material allegations of a petition in any bankruptcy, reorganization or insolvency proceeding, or taken any action for the purpose of effecting any of the foregoing; (v) a petition in bankruptcy shall have been filed against such entity and shall not have been dismissed for a period of 60 consecutive days; (vi) an order for relief has been entered under the Bankruptcy Code with respect to such entity; (vii) an order, judgment or decree shall have been entered, without the application, approval or consent of such entity by any court of competent jurisdiction approving a petition seeking reorganization of such entity or appointing a receiver, trustee, custodian or liquidator of such entity or substantially all of its assets, and such order, judgment or decree shall have continued unstayed and in effect for any period of 60 consecutive days; or (viii) such entity shall have suspended the transaction of its usual business.

**Accreted Value** means with respect to any Bond that is a Capital Appreciation Bond, for each authorized denomination, an amount equal to the principal amount of such Capital Appreciation Bond (determined on the basis of the initial offering price for such denomination at the delivery date thereof) plus the amount of earnings which would be produced on the investment of such principal amount, assuming compounding (as set forth in the applicable Supplemental Indenture) beginning on the dated date of such Capital Appreciation Bond and ending at the maturity date thereof, at a yield which, if calculated until maturity, will produce an amount equal to such denomination at maturity. As of any Valuation Date, the Accreted Value of any Capital Appreciation Bond means the amount set forth for such date in the applicable Supplemental Indenture authorizing such Bond and as of any date other than a Valuation Date, the sum of (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, using for such calculation 30 day months and a 360 day year and (2) the difference between the Accreted Values for such Valuation Dates.

**Administrative Fee** means the amount to be transferred to the Authority upon the delivery of the Bonds or annually from the Expense Account for the Authority to pay the Authority's expenses in accordance with the applicable Memorandum of Agreement.

**Annual Debt Service** means, as of any date of calculation with respect to a specified Bond Year, Debt Service payable for the Bonds in the respective Bond Year.

**Appreciated Value** means with respect to any Bond that is a Deferred Interest Bond until the Interest Commencement Date thereon, for each authorized denomination, an amount equal to the principal amount of such Deferred Interest Bond (determined on the basis of the initial offering price for such denomination at the Interest Commencement Date thereof) plus the amount, of earnings which would be produced on the investment of such principal amount, assuming compounding (as set forth in the applicable Supplemental Indenture) beginning on the dated date of such Deferred Interest Bond and ending on the Interest Commencement Date, at a yield which, if produced until the Interest Commencement Date, will produce an amount equal to such denomination at the Interest Commencement Date. As of any Valuation Date, the Appreciated Value of any Bond that is a Deferred Interest Bond means the amount set forth for such date in the Supplemental Indenture authorizing such Deferred Interest Bond and as of any date other than a Valuation Date accruing for that period or due and payable on that date, the sum of (i) the Appreciated Value on the preceding Valuation Date and (ii) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Appreciated Values for such Valuation Dates.

**Approved Project** means any transportation project approved by the Legislature of the Virgin Islands and the Federal Highway Administration as part of the Territorial Transportation Improvement Program and otherwise eligible for federal funding for debt service reimbursement and by resolution of the Authority to be financed with the proceeds of Authority bonds and authorized to be financed pursuant to a Supplemental Indenture.

**Authority** means the Virgin Islands Public Finance Authority, a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government of the Virgin Islands, or, if said Authority shall be abolished, any authority, board, body or officer succeeding to the principal functions thereof.

**Authorized Officer** means the Executive Director or Chairman of the Authority, the Department of Public Works or the Port Authority as appropriate or any other person authorized by the Authority, the Department of Public Works or the Port Authority as appropriate to perform an act or sign a document on behalf of the Authority, the Department of Public Works or the Port Authority as appropriate for purposes of the Indenture or a Supplemental Indenture as set forth in a Supplemental Indenture or a certificate of the Authority, the Department of Public Works or the Port Authority as appropriate which has been delivered to the Trustee.

**Board** means the Board of Directors of the Authority.

**Bond or Bonds** means any bond or bonds, as the case may be, issued pursuant to the Indenture or any Supplemental Indenture, and may include notes, commercial paper, or other obligations and shall include Bonds.

**Bond Counsel** means an attorney or firm of attorneys of nationally recognized expertise in matters relating to the issuance of obligations by states and local governments and political subdivisions thereof.

**Bond Register** means the register maintained by the Bond Registrar pursuant to the Indenture.



**Bond Registrar** means the Trustee, any successor trustee or other entity appointed as Bond Registrar pursuant to the Indenture.

**Bond Related Costs** means (i) all costs, fees and expenses of the Authority incurred or reasonably related to any Liquidity Facility, Credit Facility, any remarketing or other secondary market transactions and any Qualified Swap Agreement (whether requiring the Authority to pay fixed or variable amounts and excluding breakage fees on or termination payments under such Qualified Swap Agreements) that the Authority has determined was entered into for the purposes of providing substitute interest payments for a particular Series or maturity of Bonds, (ii) initial and acceptance fees of any Fiduciary together with any fees of Bond Counsel, attorneys, feasibility consultants, engineers, financial advisors, remarketing agents, rebate consultants, accountants and other advisors retained by the Authority in connection with a Series of Bonds, (iii) the fee of the Authority, and (iv) any other fees, charges and expenses that may be lawfully incurred by the Authority relating to Bonds, including, without limitation, any Rebate Amount, obligation of the Authority to a Credit Provider for a Series of Bonds to repay or reimburse any amounts paid by such Credit Provider due to payment under such Credit Facility and any interest on such repayment obligation.

**Bond Related Charges** means for any applicable time period or date, principal of, premium, if any, and interest payments due on any of the Bonds accruing for that period or due and payable on that date and Bond Related Costs. In determining Bond Related Charges accruing for any period or due and payable on any date, Mandatory Sinking Fund Requirements accruing for that period or due on that date shall be included together with any amount required to be paid for the replenishment of any Debt Service Reserve Account or Series Projects Account pursuant the Indenture.

**Bond Year** means for each Series of Bonds a period of twelve (12) consecutive months beginning on October 1 in any calendar year and ending on September 30 of the succeeding calendar year, provided that for purposes of Section 148 of the Code the Authority may elect a different Bond Year for any Series of Bonds.

**Borrower** means the Government of the United States Virgin Islands.

**Business Day** means any day that is not a Saturday, Sunday or legal holiday in the United States Virgin Islands or a day on which the Trustee or banking institutions organized under the laws of the United States Virgin Islands are legally authorized to close.

**Capitalized Interest** means that portion of the proceeds of any Series of Bonds together with any available earnings thereon that are intended to be used to pay interest due or to become due on such Bonds.

**Capitalized Interest Account** means the Account by that name in the Debt Service Fund established pursuant to the Indenture and the applicable Supplemental Indenture.

**Certified Interest Rate** means a rate estimated and certified by the financial advisor to the Authority, underwriter or similar agent as the rate that would be borne by a Variable Rate Bond if on the date of such certification such Bond was issued as a Bond bearing interest at a fixed rate to its stated maturity.

**Code** means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a Code section herein shall be deemed to include the Treasury Regulations proposed or in effect thereunder and applicable to the Bonds.

**Construction Fund** means the Fund of that name established pursuant to the Indenture.

**Completion Certificate** means, with respect to the Approved Projects, a certificate executed by the Authority and delivered to the Trustee in accordance with the Indenture.

**Corporate Trust Office** means the principal corporate trust office of the Trustee in which the corporate trust business of the Trustee shall, at any particular time, be principally administered, which office is, at the date as of which the Indenture is dated, located at The Bank of New York Trust Company of Florida, N.A., The Bank of New York Plaza, 10161 Centurion Parkway, Jacksonville, Florida 32256, except that, with respect to presentation of Bonds for payment or registration of transfer and exchange and the location of the Bond Register, such term means the office or agency of the Bond Registrar in said city at which at any particular time its corporate agency business shall be conducted, which is, at the date as of which the Indenture is dated, is the same address as the corporate trust office as indicated above.

**Costs of Issuance** means the items of expense payable or reimbursable directly or indirectly by the Authority and related to the authorization, sale and issuance of Bonds which items of expense shall include without limiting the generality of the foregoing: travel expenses; printing costs; costs of reproducing documents; computer fees and expenses; filing and recording fees; initial fees and charges of the Trustee and its counsel; initial fees and charges of Credit Providers or other parties (including specifically providers of bond insurance policies and surety policies) pursuant to remarketing, indexing or similar agreements; discounts; legal fees and charges; auditing fees and expense; financial advisor's fees and charges; costs of credit ratings; insurance premiums; fees and charges for execution, transportation and safekeeping of Bonds; and other administrative or other costs of issuing, carrying and repaying such Bonds and investing the proceeds thereof.

**Costs of Issuance Fund** means the Fund of that name established pursuant to the Indenture.

**Counsel's Opinion** means an opinion signed by Bond Counsel (who may be counsel to the Authority) selected by the Authority and reasonably satisfactory to the Trustee.

**Credit Account** means an account by that name in the Debt Service Fund established pursuant to the Indenture.

**Credit Agreement** means any reimbursement agreement or similar instrument between the Authority (and, if so drafted, the Trustee) and a Credit Provider with respect to a Credit Facility.

**Credit Facility** means a letter of credit, surety bond, liquidity facility, insurance policy or comparable instrument furnished by a Credit Provider which is rated in one of the three highest Rating Categories by the Rating Agency rating the Bonds with respect to all or a specific portion of one or more Series of Bonds to satisfy in whole or in part the Authority's obligation to maintain a Debt Service Reserve Requirement with respect thereto or to secure (a) the payment of Debt Service (which may include the premium due on payment of a Bond) on Bonds of a specified Series, or a specific portion thereof, (b) the payment of the purchase price (which may include accrued interest to the date of purchase) of Bonds of a specified Series, or a specific portion thereof, on the applicable purchase dates or tender dates, or (c) both the payment of Debt Service and the payment of the purchase price on a specified Series of Bonds, or a specific portion thereof.

**Credit Provider** means the bank, insurance company, financial institution or other entity providing a Credit Facility or Liquidity Facility pursuant to a Credit Agreement.

**Current Interest Bonds** mean all Bonds which are not (a) Capital Appreciation Bonds or (b) prior to the Interest Commencement Date, Deferred Interest Bonds.

**Debt Service** for any period means, as of any date of calculation and with respect to any Series of Bonds then Outstanding, the Bond Related Charges on such Series of Bonds;

(i) For purposes of this definition, unless provided to the contrary in the applicable Supplemental Indenture authorizing the issuance of Capital Appreciation Bonds and Deferred Interest Bonds, the scheduled principal and interest portions of the Accreted Value of Capital Appreciation Bonds and the Appreciated Value of Deferred Interest Bonds becoming due at maturity or by virtue of Mandatory Sinking Fund Requirements shall be included in the calculations of accrued and unpaid and accruing interest or principal payments in the year in which such payments are required to be made.

(ii) When calculating interest payable during which period for any Series of Variable Rate Bonds or repayment obligations pursuant to a Credit Facility bearing interest at a variable rate which cannot be ascertained for any particular Fiscal Year, it shall be assumed that such Series of Variable Rate Bonds or related Credit Facility will bear interest at such market rate of interest applicable to such Series of Variable Rate Bonds or related repayment obligations as shall be established for this purpose in the opinion of the Authority's financial advisor, underwriter or similar agent (which market rate of interest may be based upon a recognized comparable market index, an average of interest rates for prior years or otherwise, so long as such estimates are based upon then current market conditions);

(iii) When calculating interest payable during such Fiscal Year for any Series of Variable Rate Bonds which are issued with a floating rate and with respect to which a Qualified Swap Agreement is in effect in which the Authority has agreed to pay a fixed interest rate, such Series of Variable Rate Bonds shall be deemed to bear interest at the effective fixed annual rate thereon as a result of such Qualified Swap Agreement; provided that such effective fixed annual rate may be utilized only if such Qualified Swap Agreement does not result in a reduction or withdrawal of any rating then in effect with respect to the Series of Bonds and so long as such Qualified Swap Agreement is contracted to remain in full force and effect;

(iv) When calculating interest payable during such Fiscal Year for any Series of Bonds which are issued with a fixed interest rate and with respect to which a Qualified Swap Agreement is in full force and effect in which the Authority has agreed to pay a floating amount, Debt Service shall include the interest payable on such Series of Bonds, less fixed amounts to be received by the Authority under such Qualified Swap plus the amount of the floating payments (estimated in a manner similar to that described in (iii) above, unless another method of estimation is more appropriate, in the opinion of the Authority's financial advisor, underwriter or similar agent, for such floating payments) to be made by the Authority under the Qualified Swap Agreement; provided that the above described calculation of Debt Service may be utilized only if such Qualified Swap Agreement does not result in a reduction or withdrawal of any rating then in effect with respect to the Series of Bonds and so long as such Qualified Swap Agreement is contracted to remain in full force and effect.

**Debt Service Fund** means the fund by the name established pursuant to the Indenture.

**Debt Service Reserve Fund** means the fund by that name established pursuant to the Indenture.

**Debt Service Reserve Fund Credit Facility** means a Credit Facility provided to satisfy all or any portion of a Series Debt Service Reserve Requirement.

**Debt Service Reserve Fund Credit Provider** means the Credit Provider of a Debt Service Reserve Fund Credit Facility.

**Debt Service Reserve Requirement** means, as of any date of calculation, the Debt Service Reserve Requirement established pursuant to a Supplemental Indenture with respect to such Series of Bonds. The Debt Service Reserve Requirement may be calculated individually for each Series of Bonds or in the aggregate if more than one Series of Bonds are issued at the same time, to be secured on a parity basis by such Debt Service Reserve Account, and as set forth in the applicable Supplemental Indenture. The Debt Service Reserve Requirement may be satisfied by cash, Permitted Investments or a Debt Service Reserve Fund Credit Facility, or any combination thereof.

**Defeasance Securities** means

(i) direct and general obligations of, or obligations which as to principal and interest are unconditionally guaranteed as to full and timely payment by, the United States of America, to the payment of which the full faith and credit of the United States of America is irrevocably and unconditionally pledged. The obligations described in this paragraph are hereinafter called "*United States Government Obligations*;" and

(ii) pre-refunded municipal obligations meeting the following conditions:

(a) the municipal obligations (1) are not subject to redemption prior to maturity or (2) the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer of such municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(b) the municipal obligations are secured by cash or non-callable United States Government Obligations that may be applied only to interest, principal and premium payments of such municipal obligations;

(c) the principal of and interest on such United States Government Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations;

(d) the cash and United States Government Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; and

(e) the United States Government Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent.

**Deferred Interest Bonds** means any Bonds as to which accruing interest is not paid prior to the Interest Commencement Date specified in the Supplemental Indenture authorizing such Bonds.

**Department of Finance** means the United States Virgin Islands Department of Finance established pursuant to Title 3, Chapter 11 of the Virgin Islands Code, as amended and supplemented.

**Department of Public Works** means the United States Virgin Islands Department of Public Works established pursuant to Title 3, Chapter 9 of the Virgin Islands Code, as amended and supplemented.

**Depository or DTC** means The Depository Trust Company, New York, New York, and its successors and assigns.

**Expense Account** means the Account by that name established pursuant to the Indenture.

**Federal Fiscal Year** means October 1 through the following September 30 of each year.

**Federal Highway Reimbursements Revenues** means funds received or to be received by the Government of the Virgin Islands from the federal government of the United States as federal highway assistance funding allocated to the United States Virgin Islands, including those available under the Federal Legislation and other federal programs.

**Federal Legislation** means Title 23 of the United States Code, as amended, including Sections 122, 133 and 215 and the National Highway System Designation Act of 1995 and the Transportation Efficiency Act for the 21st Century and any successor provisions thereto.

**Fiduciary or Fiduciaries** means any bank or other organization acting in a fiduciary capacity with respect to any Bonds whether as Trustee, Paying Agent, Bond Registrar, tender agent, escrow agent or any or all of them, as may be appropriate.

**Final Completion** means the date upon which the Approved Projects have been finally completed.

**Fiscal Year** means the Authority's fiscal year, which is presently October 1 to the following September 30.

**Fitch** means Fitch, Inc., or any successor thereof which qualifies as a Rating Agency under the Indenture.

**Fixed Interest Rate Bond** means (i) a Bond, the interest rate on which is established (with no right to vary) at the time of calculation at a single numerical rate for the remaining term of such Bond, or (ii) all of those Bonds of a specific maturity described in clauses (2)(A) and (B) of paragraph (a) of the definition of Debt Service herein.

**Funds and Accounts** means those funds and accounts specified in the Indenture.

**Indenture** means the Indenture of Trust between the Authority and the Trustee and, as to each Series of Bonds, the Supplemental Indenture pertaining thereto, as the Indenture or any Supplemental Indenture may from time to time be amended or supplemented in accordance with the terms hereof.

**Independent Counsel** means an attorney, or firm thereof, admitted to practice law before the highest court of any state in the United States of America, the United States Virgin Islands or the District of Columbia and not an employee on a full-time basis of either the Authority or the Trustee (but who or which may be regularly retained by any one or more of them).

**Interest Commencement Date** means, with respect to any particular Deferred Interest Bonds, the date specified in the applicable Supplemental Indenture authorizing such Deferred Interest Bonds (which date must be prior to the maturity date for such Deferred Interest Bonds), after which interest accruing on such Deferred Interest Bonds shall be payable with the first such payment date being the applicable Interest Payment Date immediately succeeding such Interest Commencement Date.

**Interest Payment Date** means each date specified in a Supplemental Indenture as a date for the payment of interest to Owners of Bonds of a specific Series.

**Interest Payment Period** with respect to any Bond or Series of Bonds, means, if prior to the first Interest Payment Date, the period from but not including the date specified in each Supplemental Indenture as the date for commencement of accrual of interest for such Bond or Series and after the first regularly scheduled Interest Payment Date means the period from but not including a regularly scheduled Interest Payment Date, in each case to and including the next regularly scheduled Interest Payment Date, provided that any Supplemental Indenture may adjust this definition with respect to any Bond or Series of Bonds authorized to be issued thereunder in order to provide for the proper computation of or the timely transfer of amounts payable with respect to interest borne by such Bond or Series of Bonds on any Interest Payment Date.

**Issue Date** means, for the Bonds of a particular Series, the date on which the Bonds of such Series are delivered against payment therefor.

**Letter of Representations** means the DTC Letter of Representations from the Authority to the Depository in substantially the form set forth in Appendix A to the Indenture, or in such other form as may be acceptable to the Authority and the Depository.

**Liquidity Facility** means any agreement with a Credit Provider under or pursuant to which it agrees to purchase Optional Tender Bonds provided that the debt obligations of such Credit Provider are rated in one of the two highest Rating Categories by a Rating Agency.

**Loan Agreement or Loan Agreements** means a loan agreement or loan agreements by and among the Authority, the Borrower and the Trustee, entered into in connection with the issuance of one or more Series of Bonds pursuant to a Supplemental Indenture hereto, as the same may from time to time be amended or supplemented in accordance with the terms thereof.

**Loan Note or Loan Notes** means, with respect to each Series of Bonds, the special limited obligation note in the aggregate principal amount of each of the respective Series of Bonds issued by the Authority for the benefit of the Borrower, each note signed by the Borrower and delivered to the Authority and the Trustee, and collectively, all such Loan Notes.

**Mandatory Sinking Fund Requirements** means the principal amount of Term Bonds which are required to be redeemed by mandatory sinking fund redemption, in the principal amounts at the prices and on the dates as set forth in the applicable Supplemental Indenture.

**Mandatory Tender Date** means a date on which a Series of Bonds, or specific Bonds included in such Series, are required to be purchased by, or on behalf of, the Authority as provided herein or in the Supplemental Indenture authorizing such Series of Bonds.

**Memorandum of Agreement** means an agreement among the Government, the United States Federal Highway Administration, the Department of Public Works and such other necessary parties concerning the administration of Approved Projects and the payment of Debt Service on one or more Series of Bonds, as the same may be amended or substituted from time to time.

**Moody's** means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns.

**Officer's Certificate** means a certificate signed by an Authorized Officer.

**Optional Tender Bonds** means any Bonds which by their terms may be tendered by and at the option of, or required to be tendered by, the Owner thereof for payment or purchase by the Authority or another party prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the Owner thereof, provided, however, a Supplemental Indenture may expressly provide that specific Bonds are not "Optional Tender Bonds" if, in the reasonable judgment of the Authority, the tender requirements of such Bonds are not of the character intended to be included within this definition.

**Outstanding Bonds , Bonds Outstanding and Bonds then Outstanding** means as of the date of determination, all Bonds theretofore issued and delivered under the Indenture as from time to time supplemented except:

(i) Bonds theretofore canceled by the Trustee or Paying Agent or delivered to the Trustee or Paying Agent canceled or for cancellation;

(ii) Bonds for which payment or redemption moneys or securities (as provided in the Indenture) shall have been theretofore deposited with the Trustee or Paying Agent in trust for the Owners of such Bonds; provided, however, that if such Bonds are to be redeemed, notice of such redemption shall have been duly given pursuant to the Indenture or irrevocable action shall have been taken to call such Bonds for redemption at their stated redemption date;

(iii) Bonds paid pursuant to the Indenture and Bonds in exchange for or in lieu of which other Bonds shall have been issued and delivered pursuant to the Indenture; and

(iv) Optional Tender Bonds deemed tendered in accordance with the provisions of the Supplemental Indenture authorizing such Bonds on the applicable tender, adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payments as provided therein (but not if held for reoffering).

In determining requisite percentages of the Owners of aggregate principal amount of Bonds Outstanding for the purposes of direction, consent, approval or waiver under the terms and provision of the Indenture and any Supplemental Indenture: (1) the aggregate "principal amount" of any Bonds that are Capital Appreciation Bonds shall be determined by their Accreted Value as of the date of such determination, and (2) the aggregate "principal amount" of any Bonds that are Deferred Interest Bonds shall be determined by their Appreciated Value as of the date of such determination and provided, however, that in determining whether the Owners of the requisite principal amount of Outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver, Bonds owned by the Authority shall be disregarded and deemed not to be Outstanding Bonds, except that in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, or waiver, only Bonds which a responsible officer of the Trustee actually knows to be so owned shall be disregarded.

Each Supplemental Indenture may further specify the conditions under which a Credit Provider will be deemed the Owner of Outstanding Bonds for purposes of consents thereto.

**Owner or Bondowner**, or any similar term, means any Person who shall be the registered owner of any Bond or Bonds.

**Paying Agent** means any commercial bank or trust company organized under the laws of the United States Virgin Islands, any state of the United States, or the United States of America, or any

national banking association designated as paying agent for the Bonds, and its successor or successors hereafter appointed in the manner provided in the Indenture or a Supplemental Indenture.

**Payment Date** means an Interest Payment Date or Principal Payment Date.

**Permitted Investments** means any of the following securities, if and to the extent the same are at the time legal for the investment of funds held under the Indenture:

(i) direct obligations of the United States or obligations guaranteed as to principal and interest by the United States;

(ii) general obligations of any state, territory, possession or commonwealth of the United States with a rating at the time of purchase in either of the two highest Rating Categories as designated by any Rating Agency;

(iii) prerefunded obligations of any state, territory, possession or Commonwealth of the United States or political subdivision thereof secured by cash or obligations listed in subsection (i) above, with a rating at the time of purchase in one of the two highest Rating Categories as designated by any Rating Agency then rating the Bonds;

(iv) obligations of the Government of the United States Virgin Islands, or obligations guaranteed as to both principal and interest, by the Government of the United States Virgin Islands with a rating at the time of purchase in one of the two highest Rating Categories as designated by the Rating Agency;

(v) obligations issued, or the principal of and interest on which are unconditionally guaranteed, by any agency or instrumentality of or a corporation wholly owned by the United States with a rating at the time of purchase in one of the two highest Rating Categories as designated by any Rating Agency;

(vi) repurchase agreements with banks, savings and loan associations or trust companies organized under the laws of the United States Virgin Islands, the United States, or any state, territory, possession or commonwealth of the United States, provided, however, that any such bank, savings and loan association or trust company shall have a combined capital and surplus at least equal to \$200,000,000 and, further provided that (1) such agreements are fully secured by obligations set forth in (i), (ii), and (iii) above; (2) such collateral is not subject to liens or claims of third parties; (3) such collateral has a market value as determined by such bank, savings and loan association or trust company which is a party to such repurchase agreement, at least equal to (102%) of the amount invested and is held by the Trustee or its agent or, in the case of uncertificated securities, are registered in the name of the Trustee as pledgee; (4) the Trustee has a valid security interest in such collateral and (5) such agreement shall provide that the failure to maintain such collateral at the level required by clause (3) for a period of 10 days will require the Trustee or its agents to liquidate the investments; and (6) shall be rated in one of the two highest Rating Categories as designated by any Rating Agency then rating the Bonds;

(vii) investment agreements, guaranteed investment contracts or similar funding agreements issued by insurance companies or other financial institutions; provided that (1) such agreements are fully secured by obligations set forth in (i), (ii) and (iii) above; (2) such collateral is not subject to liens or claims of third parties; (3) such collateral has a market value, as determined by such insurance company or financial institution which is a party to such investment agreement, at least equal to (102%) of the amount invested and is held by the Trustee



or its agent or, in the case of uncertificated securities, are registered in the name of the Trustee as pledgee; (4) the Trustee has a valid security interest in such collateral, (5) such agreement shall provide that the failure to maintain such collateral at the level required by clause (3) for a period of 10 days will require the Trustee or its agents to liquidate the investments; and (6) such insurance company or financial institution is rated in one of the two highest Rating Categories designated by any Rating Agency then rating the Bonds;

(viii) U.S. dollar denominated bankers' acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase in the highest short-term rating category by a national rating agency and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(ix) Certificates of deposit with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase in the two highest short-term rating categories by any Rating Agency then rating the Bonds and maturing no more than 360 days after the date of purchase. Certificates of deposit will be placed directly with depository institutions and secured by obligations set forth in (i), (ii) and (iii) above; (2) such collateral is not subject to liens of claims of third parties; (3) such collateral has a market value, as determined by such domestic commercial bank or depository bank which holds such certificate of deposit; at least equal to (102%) of the amount invested and is held by the Trustee or its agent or, in the case of uncertificated securities, are registered in the name of the Trustee as pledgee; (4) the Trustee has a valid security interest in such collateral and (5) such agreement shall provide that the failure to maintain such collateral at the level required by clause (3) for a period of 10 days will require the Trustee or its agents to liquidate the investments;

(x) Investments in a money market fund rated in the two highest rating categories by any Rating Agency then rating the Bonds including money market funds sponsored by the Authority;

(xi) Commercial Paper issued by U.S. Corporations which is rated at the time of purchase in the two highest short-term rating category by any Rating Agency then rating the Bonds and which matures not more than 270 days after the date of purchase.

Any such Permitted Investment may be purchased or sold by, from or through the Authority or the Trustee. The Authority will not direct the Trustee to hold investments described in (vi), (vii) and (viii) unless arrangements satisfactory to the Trustee are in place to verify and monitor compliance with such provisions.

**Person** means an individual, a corporation, a partnership, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof, or any other legal entity or groups of legal entities.

**Pledge Agreement** means a Pledge Agreement entered into with respect to a specific Series of Bonds or specific Bonds within a Series of Variable Rate Bonds and related to the Credit Facility for such Bonds.

**Pledged Revenue Fund** means the Federal Transportation and Highway Grant Escrow Account established pursuant to the Indenture.

**Port Authority** means the Virgin Islands Port Authority, a body corporate and politic constituting a public corporation and autonomous instrumentality of the Government of the Virgin Islands established pursuant to Chapter 10 of Title 29 of the Virgin Islands Code, as amended and supplemented.

**Principal Account** means the account by that name in the Debt Service Fund established pursuant to the Indenture.

**Principal Installment** means, as of any date of calculation and with respect to the Bonds, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds due on a certain future date, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for the Bonds.

**Principal Payment Date** means any date on which a Principal Installment is scheduled to become due on Bonds whether by scheduled maturity or Mandatory Sinking Fund Requirements or otherwise.

**Proportionate Basis** means, when used with respect to the redemption of Bonds of a specific Series, that the aggregate principal amount of such Bonds of each maturity of such Series to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the principal amount of Bonds of that Series to be redeemed bears to the principal amount of all Bonds of that Series then Outstanding; provided that if the amount available for redemption of Bonds of any maturity is insufficient to redeem a multiple of the minimum authorized denomination of such maturity, such amount shall be applied to the redemption of the highest possible integral multiple of the minimum authorized denomination of such maturity. For purposes of the foregoing, Term Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Fund Requirements set forth in the applicable Supplemental Indenture. Any Bonds purchased with moneys which would otherwise be applied to redemption on a Proportionate Basis on the next succeeding Payment Date shall be taken into account in determining Proportionate Basis with respect to such redemption. When used with respect to the purchase of Bonds, Proportionate Basis shall have the same meaning as set forth above, substituting "purchase" for "redemption," and "purchased" for "redeemed."

**Purchase Date** means the date on which any Outstanding Bonds are purchased pursuant to the Indenture or any applicable Supplemental Indenture.

**Qualified Swap Agreement** means an agreement between the Authority and a Swap Provider (i) which agreement is either approved by, or following review of such agreement the rating upon all affected Bonds is confirmed by, each Rating Agency then rating the Swap Provider, and (ii) under which the Authority agrees to pay the Swap Provider an amount calculated at an agreed-upon rate or index based upon a notional amount and the Swap Provider agrees to pay the Authority for a specific period of time an amount calculated at an agreed-upon rate or index based upon such notional amount, where the Swap Provider, or the Person who guarantees the obligation of the Swap Provider to make its payments to the Authority, has unsecured obligations rated, as of the date the swap agreement is entered into, in one of the two highest applicable Rating Categories by each Rating Agency then rating such Swap Provider or other Person who guarantees such obligation.

**Rating Agency** means Moody's, S&P and Fitch or any other nationally-recognized securities rating agency designated by the Authority by written notice to the Trustee.

**Rating Category** means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

**Rebate Amount** means the amount to be deposited to the Rebate Fund pursuant to the applicable Tax Regulatory Agreement.

**Rebate Requirement** means the amount required to be paid to the United States Treasury pursuant to Section 148(f) of the Code.

**Rebate Fund** means the Rebate Fund established and maintained pursuant to the Indenture and the applicable Supplemental Indenture.

**Record Date** means with respect to an Interest Payment Date, unless otherwise provided by any Supplemental Indenture, the fifteenth day (or if such day shall not be a Business Day, the preceding Business Day) next preceding such Interest Payment Date.

**Redemption Account** means the account by that name in the Debt Service Fund established pursuant to the Indenture.

**Redemption Price** means with respect to any Bond, the principal amount of such Bond plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond, the Indenture or the applicable Supplemental Indenture.

**Related Agreements or Related Documents** means any Credit Facility, Credit Agreement or Pledge Agreement related to a Series of Bonds or a specific portion thereof, including security agreements or instruments heretofore or hereafter made for the benefit and with the consent of the Trustee or a Credit Provider as creditor to secure payment of any Series or Bonds or a specific portion thereof or any amount due to a Credit Provider; but excluding the Indenture and all Supplemental Indentures; provided, that the term "Related Agreements" or "Related Documents," when used in relation to a specific Series of Bonds or a specific portion thereof, shall include only such Related Agreements or Related Documents as have been entered into for such Series of Bonds or a specific portion thereof, and shall not include documents, agreements or other items entered into only for the purposes of a different Series of Bonds or a specific portion thereof.

**Remarketing Agent** means the firm appointed as Remarketing Agent for a specific Series of Optional Tender Bonds.

**Remarketing Agreement** means the Remarketing Agreement for a Series of Bonds or a specific portion thereof, including any amendments and supplements thereto, between the Remarketing Agent and the Authority.

**Revenues** means (i) any proceeds and collections from any Loan Notes deposited in the Pledged Revenue Fund, including any investment earnings earned thereon, and (ii) any proceeds which arise with respect to any disposition of the Trust Estate.

**S&P** means Standard & Poor's, a division of its McGraw-Hill Companies, Inc., its successors and assigns.

**Series** means all Bonds, delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

**Series 2002 Arbitrage Rebate Account** shall mean the Arbitrage Rebate Fund established in the Rebate Fund pursuant to the First Supplemental Indenture.

**Series 2002 Bond Insurer** or **Bond Insurer** means Financial Security Assurance Inc., a New York stock insurance company or any successor thereto or assignee thereof.

**Series 2002 Bond Insurance Policy** means an insurance policy issued by the Series 2002 Bond Insurer guaranteeing the scheduled payment of principal and interest on the Series 2002 Bonds.

**Series 2002 Cost of Issuance Account** shall mean the Series 2002 Cost of Issuance Account of the Cost of Issuance Fund established pursuant to the First Supplemental Indenture.

**Series 2002 Debt Service Reserve Account** shall mean the Series 2002 Debt Service Reserve Account of the Debt Service Reserve Fund established pursuant to the First Supplemental Indenture.

**Series 2002 Debt Service Reserve Requirement** shall mean an amount equal to the least of (a) the maximum annual Debt Service due on the Series 2002 Bonds in the current or any future Fiscal Year, (b) 10% of the original stated principal amount of the Series 2002 Bonds (or 10% of the issue price of the Series 2002 Bonds if required by the Code) or (c) 125% of the average annual Debt Service on the Series 2002 Bonds in the current and each future Fiscal Year.

**Series 2002 Interest Account** shall mean the Series 2002 Interest Account established in the Debt Service Fund pursuant to the First Supplemental Indenture.

**Series 2002 Principal Account** shall mean the Series 2002 Principal Account established pursuant to the First Supplemental Indenture.

**Series 2002 Projects Account** shall mean the Series 2002 Projects Account of the Construction Fund established pursuant to the First Supplemental Indenture.

**Sinking Fund Installment** means with respect to any Series of Bonds an amount so designated which is established pursuant to the Supplemental Indenture authorizing such Series of Bonds.

**SLGS** means United States Treasury Obligations, State and Local Government Series, as provided for in the United States Treasury Regulations 31 CFR 344.

**Special Record Date** means if the Authority shall be in default in payment of principal or interest due, a special Record Date for the payment of such defaulted principal or interest established by notice mailed by the Trustee on behalf of the Authority; notice of such Special Record Date shall be mailed not less than 10 days preceding such Special Record Date, to the owner at the close of business on the fifth Business Day preceding the date of mailing.

**Supplemental Indenture** means any indenture amending or supplementing the Indenture in accordance with the terms thereof.

**Swap Provider** means the counter party with whom the Authority enters into a Qualified Swap Agreement.

**Tax Covenants** means the covenants of the Authority expressed in or incorporated by reference in the Indenture, or in the corresponding section of a Supplemental Indenture providing for assurance of the preservation of the tax-exempt status of the interest on a Series of Tax-Exempt Bonds.

**Tax-Exempt Bonds** means Bonds issued pursuant to the Indenture for which the Authority receives, on the date of the closing therefor, an opinion of Bond Counsel to the effect that interest on such

Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Code.

**Tax Opinion** means, with respect to any action requiring such an opinion hereunder, a Counsel's Opinion to the effect that such action, of itself, will not adversely affect the exclusion of interest on any Series of Tax-Exempt Bonds from gross income for federal income tax purposes.

**Tax Regulatory Agreement** means that agreement between the Authority and the Trustee with respect to each Series of Tax-Exempt Bonds, relating to the requirements of Sections 148 and 103 of the Code for exemption of interest on the Tax-Exempt Bonds from federal income tax.

**Taxable Bonds** means any Bonds which are not Tax-Exempt Bonds on the date of original issue thereof.

**Transfer Date** shall mean the third Business Day preceding the next Payment Date.

**Treasury Regulations** means all final, temporary or proposed Income Tax Regulations issued or amended with respect to the Code by the Treasury or Internal Revenue Service and applicable to the Bonds. Any reference to a section of the Treasury Regulations shall also refer to any successor provision to such section hereafter promulgated by the Internal Revenue Service pursuant to the Code and applicable to the Bonds.

**Trust Estate** shall mean collectively the following:

(b) all rights and interests of the Authority in, under and to the Revenues, the Loan Agreements, including, but not limited to, the Loan Notes and the present and continuing rights (i) to make claim for, collect or cause to be collected, receive or cause to be received, all revenues, receipts and other sums of money payable or received thereunder, (ii) to bring actions and proceedings thereunder or for the enforcement thereof, and (iii) to do any and all things the Authority is or may become entitled to do under the Loan Agreements; provided that the assignment made by this clause shall not include any assignment or obligation of the Authority under the Loan Agreements or any right of the Authority thereunder to grant approvals, consents or waivers, to receive notices or for indemnification or reimbursement of costs and expenses;

(c) amounts on deposit from time to time in the Funds and Accounts created pursuant to the Indenture, including the earnings thereon, subject to the provisions of the Indenture and any Supplemental Indenture permitting or restricting the application thereof for the purposes and on the terms and conditions set forth herein and therein, provided that amounts on deposit in any Series Interest Account, Series Principal Account and any Series Redemption Account of the Debt Service Fund, in any Series Debt Service Reserve Account of the Debt Service Reserve Fund, any Series Projects Account of the Construction Fund and any Series Costs of Issuance Account of the Costs of Issuance Fund shall be held for the sole and exclusive benefit of the Owners of the respective Series of Bonds issued pursuant to the respective Supplemental Indenture creating such Accounts, except as otherwise provided in the respective Supplemental Indenture; and

(d) any and all other property or security interest therein, of every name and nature from time to time hereafter by delivery or by writing of any kind granted, bargained, sold, conveyed, transferred, mortgaged, pledged and assigned as and for additional security hereunder, by the Authority or by anyone on its behalf pursuant to the Indenture or with its consent, to 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.

**Trustee** means The Bank of New York Trust Company of Florida, N.A., national banking association with trust powers duly organized and existing under the laws of the United States of America, designated as trustee under the Indenture, and its successor or successors hereafter appointed in the manner provided in the Indenture.

**2002 Memorandum of Agreement** shall mean the Memorandum of Agreement dated as of October 25, 2002 among the Authority, the United States Federal Highway Administration, the Department of Public Works and the Port Authority concerning the administration of the 2002 Approved Projects and the payment of Debt Service on the Series 2002 Bonds.

**2002 Approved Projects** shall mean the projects authorized to be financed with proceeds of the Series 2002 Bonds and described in this Official Statement.

**Valuation Date** means with respect to any Bonds that are Capital Appreciation Bonds or Deferred Interest Bonds, the date or dates set forth as such in the Supplemental Indenture authorizing such Bonds on which specific Accreted Values or Appreciated Values, respectively, are assigned to such Bonds.

**Variable Interest Rate** means a variable interest rate or rates to be borne by a Series of Bonds or other obligations or by any Bond within a Series of Bonds. The method of computing such variable interest rate shall be specified in the Supplemental Indenture authorizing such Bonds or Related Agreements approved thereby.

**Variable Rate Bonds** means any Bond that bears interest at a rate which is not established at the time of calculation at a single numerical rate for the remaining term of such bond.

**Written Order** means a written direction of the Authority to the Trustee signed by an Authorized Officer.

**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

*The following is a summary of certain provisions of the Trust Indenture. Such summary does not purport to be complete or definitive and reference is made to the Trust Indenture for a full and complete statement of the terms and provisions and for the definition of capitalized terms used in this summary and not otherwise defined under "APPENDIX A - GLOSSARY OF TERMS".*

**Security for the Bonds**

The Bonds shall be special, limited obligations of the Authority payable as to the principal or Redemption Price of, and interest thereon, in accordance with their terms and the terms and provisions of the Indenture solely from, and secured by a lien on and security interest in, the Trust Estate, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Authority has no taxing power and its debts are not debts of the United States Virgin Islands or any political subdivision of the United States Virgin Islands. No holder of the Bonds shall have the right to compel any exercise of the taxing power of the United States Virgin Islands to pay the principal or Redemption Price of or interest on the Bonds.

**General Provisions for the Issuance of the Bonds**

The Indenture authorizes Bonds of the Authority to be issued and designated as "Revenue Bonds (Federal Highway Reimbursement Anticipation Loan Note)" or "Revenue and Refunding Bonds (Federal Highway Reimbursement Anticipation Loan Note)," as applicable. The aggregate principal amount of the Bonds under the Indenture and Supplemental Indenture is not limited except as provided in the Indenture, the Supplemental Indenture, the Act, or as may be limited by law.

The Bonds of each Series shall be executed by the Authority for issuance under the Indenture and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to the Authority or upon its order, but only upon or after the receipt by the Trustee of: (a) a certificate of the Authority that no Event of Default has occurred and shall continue to exist immediately following the date of the Bonds to be issued and the issuance of such Bonds will not cause an Event of Default to occur; (b) a certificate of the Authority that the conditions precedent to the issuance of a Series of Bonds have been met; (c) a certified copy of the resolution authorizing the issuance of the Bonds and the applicable Supplemental Indenture, as executed by the parties thereto; (d) a Counsel's Opinion to the effect that the Bonds are valid and binding special, limited obligations of the Authority, payable solely from the sources provided therefor in the Indenture, enforceable in accordance with their terms and the terms of the Indenture and entitled to the benefits of the Act, and such Bonds have been duly and validly authorized and issued in accordance with the Act and the Indenture and the Indenture creates the valid pledge that it purports to create of the Trust Estate, subject to the provisions of the Indenture permitting the application of the Trust Estate for the purposes and on the terms and conditions set forth in the Indenture; provided, that such Counsel's Opinion may take exception as to the effect of, or for restrictions or limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditor's rights generally and judicial discretion and may state that no opinion is being rendered as to the availability of any particular remedy; (e) a Written Order as to the delivery of such Bonds; (f) the amount, if any, necessary for deposit in the Debt Service Reserve Fund so that the amount therein shall equal the Debt Service Reserve Requirement; (g) the Loan Note or Notes related to such Series of Bonds; (h) a duly executed original of the Loan Agreement relating to such

Series of Bonds; (i) any Credit Facility, Credit Agreement and other Related Documents and Related Agreements relating to the specific Series of Bonds or a specific portion thereof; (j) with respect to any Tax-Exempt Bonds, the Tax Regulatory Agreement and any amendments or supplements thereto; (k) an Authority certificate that the requirements of the Indenture have been fulfilled; (l) unless the Bonds to be issued are refunding Bonds, evidence that the projects to be financed with the proceeds of the Bonds are Approved Projects; (m) a Memorandum of Agreement concerning the administration of the Approved Projects to be financed with the proceeds of the Bonds and the payment of Debt Service on the Bonds to be issued; (n) a certificate of the Authority that the average amount of annual Federal Highway Reimbursement Revenues allocated to the United States Virgin Islands during the most recent three Federal Fiscal Years was not less than 300% of the maximum Annual Debt Service for the Outstanding Bonds and any proposed Bonds to be issued for the then current or any subsequent Bond Year, and (o) such further documents, moneys, securities and evidences of deposit of funds with the Trustee as are required by the provisions of the Indenture or any Supplemental Indenture. In addition, as long as the Series 2002 Bonds are Outstanding, any issuance of a Series of Bonds which is *pari passu* with the Series 2002 Bonds shall require the consent of the Bond Insurer.

A Supplemental Indenture may provide that a Series of Bonds be issued as Variable Rate Bonds. If and as further provided in the Supplemental Indenture authorizing the issuance of a Series of Variable Rate Bonds, the Authority shall appoint a Remarketing Agent to remarket the Variable Rate Bonds such Bonds from time to time, and to perform such other duties as the Authority or the Trustee shall deem necessary or advisable, which duties may include determinations from time to time of the rate of interest to be borne by such Series of Variable Rate Bonds. The provisions of the Indenture, as from time to time supplemented, pertinent to Variable Rate Bonds shall apply only for so long as such Bonds bear interest subject to redetermination as provided therein and in the applicable Supplemental Indenture. From and after the date on which such Bonds become obligations which bear interest at a single numerical rate for their remaining term, such Bonds shall be deemed Fixed Interest Rate Bonds subject only to the provisions hereof applicable to Fixed Interest Rate Bonds.

A Supplemental Indenture may provide that a Series of Bonds, or any portion thereof, may be issued as Capital Appreciation Bonds or Deferred Interest Bonds. The Supplemental Indenture authorizing the issuance of Capital Appreciation Bonds shall specify the Accreted Value thereof as of specified dates from the date of issue to maturity. The Supplemental Indenture authorizing the issuance of Deferred Interest Bonds shall further specify the Interest Commencement Date and the Appreciated Value of such Deferred Interest Bonds as of specified dates from date of issue to the Interest Commencement Date. Unless provided to the contrary in the Supplemental Indenture authorizing the issuance of Deferred Interest Bonds, on and after the Interest Commencement Date any such Deferred Interest Bonds shall be treated as Fixed Interest Rate Bonds as well as Current Interest Bonds.

Nothing in the Indenture or any Supplement Indenture shall be construed to limit the right of the Authority to obtain a Credit Facility for the benefit of the Owners of all or any portion of any Series of Bonds issued hereunder. The terms and conditions for each such Credit Facility shall be set forth in the applicable Supplemental Indenture and in the related Credit Agreement. Each Credit Facility shall be held by the Trustee for the sole and exclusive benefit of the Owners of the Series of Bonds (or specific Bonds within such Series) secured by such Credit Facility, and such Credit Facility shall not be an asset available for the benefit of the Owners of any other Bonds.

### **Other Revenue Obligations**

Except as otherwise set forth in the Indenture, all of the Bonds issued under a Supplemental Indenture shall collectively be a charge and lien upon the Trust Estate and such charge and lien shall be



prior to any other charge and lien upon the Trust Estate. In addition to the Bonds, and subject to the provisions of the Indenture, the Authority may authorize and issue any indebtedness that is secured by the pledge of the Trust Estate that is junior and subordinate to the pledge given to the holders of the Bonds, including the Series 2002 Bonds. The issuance of such indebtedness shall comply with all conditions to the issuance of the Bonds..

### **Funds and Accounts; Deposit of and Use of Moneys**

The proceeds of each Series of Bonds, the Loan Notes, Trust Estate and other sums pledged and assigned by the Indenture to the Trustee for the benefit of Bondholders are to be deposited in the Funds and Accounts established by the Indenture and shall not be subject to any lien or attachment by any creditor of the Authority or any Credit Provider or other person other than the lien of the Indenture. The Funds and Accounts created with respect to each series of Bonds under the Indenture shall be held and administered as trust funds under and pursuant to the terms of the Indenture and may include the following: (a) the Pledged Revenue Fund, (b) the Debt Service Fund with such separate Accounts as provided in the Indenture or Supplemental Indenture, including, any of the following accounts therein: (i) Interest Account; (ii) Principal Account; (iii) Redemption Account; (iv) Credit Account with respect to each Credit Facility which is not a Debt Service Reserve Fund Credit Facility; (v) Expense Account; (vi) Purchase Account; (vii) Capitalized Interest Account; and (viii) any other Account established by the applicable Supplemental Indenture; (c) the Debt Service Reserve Fund, with such separate Series Debt Service Reserve Accounts and Credit Accounts therein as in any Supplemental Indenture; (d) the Construction Fund, with such separate Accounts therein as the Authority shall determine in any Supplemental Indenture; (e) the Costs of Issuance Fund and Accounts therein as the Authority shall determine in any Supplemental Indenture; and (f) a Rebate Fund, and such Accounts therein as the Authority shall determine in any Supplemental Indenture.

**Construction Fund.** There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of the Indenture and each Supplemental Indenture. There also may be paid into the respective Accounts in the Construction Fund, at the option of the Authority, any moneys received by the Authority from any source unless otherwise required to be applied by the Indenture or any Supplemental Indenture. Separate, segregated Accounts may be created within the Construction Fund and held by the Authority, the Trustee, any tender agent, or other entity in the manner provided in any Supplemental Indenture authorizing such Accounts. Money held in such Accounts shall be held separately from other moneys in the Construction Fund and shall be disposed of only in the manner provided in the Supplemental Indentures authorizing such Accounts. Amounts in the Construction Fund shall be used to pay costs of the Approved Projects as set forth in the applicable Supplemental Indenture. Amounts in the Construction Fund may be transferred to a Debt Service Fund and applied to the payment of interest on or principal or Redemption Price of the Bonds when due, to the extent that other funds held for those purposes are insufficient. Notwithstanding anything elsewhere in the Indenture or any Supplemental Indenture to the contrary, Rebate Amounts attributable to Tax-Exempt Bonds and on deposit in the Construction Fund shall be transferred to the Rebate Fund in accordance with the Tax Regulatory Agreement with respect to such Tax-Exempt Bonds. Any excess funds which remain in the Construction Fund following Final Completion and the receipt by the Trustee of a duly executed Completion Certificate shall be deposited into the Principal Account of the Debt Service Fund for the applicable Series of Bonds to pay the Debt Service on the applicable Series of Bonds.

**Pledged Revenue Fund.** The Trustees shall deposit to the Pledged Revenue Fund all Federal Highway Reimbursement Revenues received as payments under the Loan Notes, the amounts required by the Indenture, and such other revenues as may be received by the Trustee which are designated for deposit to the Pledged Revenue Fund under a Supplemental Indenture. All amounts in the Pledged Revenue Fund

shall be transferred, not later than on each Transfer Date, to Funds and Accounts created under the Indenture, so long as any Bonds remain Outstanding under the Indenture, in the following amounts and in the following order of priority:

(i) (1) on each Transfer Date preceding an Interest Payment Date, to each Interest Account in the Debt Service Fund, an amount that, when added to any amounts on deposit in such Accounts, will equal 100% of that portion of the Debt Service which constitutes all of the interest accruing or to accrue for the subsequent Interest Payment Period for such Bonds (such transfers to be subject to the credits provided for below in clause 2 of this paragraph (i)) below;

(2) subject in each case to any credit with respect to any amounts on deposit in the Capitalized Interest Account to be used for Capitalized Interest and any earnings thereon to the extent required to be used and available for payment of interest on specific Bonds as contemplated in any applicable Supplemental Indenture and, in connection with paragraph (1) above, (A) any net payment which the Authority is required to make with respect to any Qualified Swap Agreement shall be treated in the same manner and shall have the same claim upon the Trust Estate as interest on the Series of Bonds to which such Qualified Swap Agreement shall relate and (B) as of each Interest Payment Date to the extent that the actual interest payable with respect to such Bonds for any Interest Payment Period is less than the amount deposited into the Interest Account, then the excess amount so deposited shall be applied as a credit to reduce the amount otherwise required to be deposited in the next succeeding month or months pursuant to paragraph (i)(1) above; and then

(ii) on each Transfer Date preceding a Principal Payment Date, to each Principal Account in the Debt Service Fund, an amount that, when added to any amounts on deposit in such Accounts will equal 100% of the Principal Installment due on the next succeeding Principal Payment Date on the Series of Bonds payable from such Principal Accounts; and then

(iii) to each Credit Account in the Debt Service Fund an amount sufficient to pay all principal or interest then owing to a Credit Provider under the applicable Supplemental Indenture and Credit Agreement by reason of any drawing of amounts under the related Credit Facility for the payment of principal of or interest or premium on any Bonds, provided that the amount transferred pursuant to this paragraph (iii) shall in no event be greater than the amount specified in the applicable Supplemental Indenture; and then

(iv) on each Transfer Date prior to a redemption date, to the applicable Redemption Account of the Debt Service Fund, the amount of Revenues required to redeem Bonds subject to redemption pursuant to the related Supplemental Indenture; and then

(v) to each Rebate Account of the Rebate Fund, the amount required to comply with the Indenture for Bonds and such amounts shall be applied as provided in the Indenture; and then

(vi) to the applicable Account of the Construction Fund, an amount sufficient to replenish amounts transferred therefrom for Debt Service pursuant to the Indenture; and then

(vii) to the Debt Service Reserve Fund and ratably to each Account therein (if applicable), the amount of any transfer required by the provisions of the Indenture to restore any deficiency in the Debt Service Reserve Fund (or to pay any amounts then owing to a Credit Provider pursuant to a Credit Agreement relating to a Debt Service Reserve Fund Credit Facility as required pursuant to the applicable Supplemental Indenture); and then

(viii) to each Expense Account, any amounts then due and owing to the Trustee, any Paying Agent, Remarketing Agent, Bond Registrar, Credit Provider or other Fiduciary which are Bond Related Charges for Bonds relating to the administration (including remarketing), which otherwise have not been provided for in paragraphs (i), (ii), (iii) or (iv) above; and then

(ix) the excess, if any, to shall remain in the Pledged Revenue Fund to be applied in accordance with the Indenture on the next Transfer Date.

Solely for the purpose of administering these payments, any interest which is payable on Capital Appreciation Bonds or, prior to the Interest Commencement Date, on Deferred Interest Bonds, shall be deemed to be "due" in the Bond Year in which payment is scheduled to be made thereon and, for such purposes, such amounts shall be deemed to be "principal" under paragraphs (a)(ii) and (iv) above, rather than "interest" under paragraphs (a)(i) and (iv) above.

***Debt Service Fund.*** There shall be deposited into the Debt Service Fund all amounts required to be remitted, transferred or otherwise deposited therein as provided in the Indenture together with such additional amounts to be deposited into various specified Accounts within the Debt Service Fund described in the Indenture and listed below.

(a) **Interest Account.** There shall be deposited in each Interest Account, upon issuance of each Series of Bonds, the amount of accrued interest received from the sale of such Bonds and there shall be deposited thereafter all other amounts required by the Indenture. If on any Interest Payment Date there are not sufficient amounts on deposit in the Interest Account to pay the total amount of interest coming due on the Bonds on such Interest Payment Date, the Trustee shall transfer to the Interest Account from respectively, the Pledged Revenue Fund, such Series Redemption Account, such Series Project Account in the Construction Fund, the Series Account of the Debt Service Reserve Fund, such Series Principal Account, such Series Interest Account in the order so listed, an amount equal to the deficiency. On each Interest Payment Date the Trustee shall withdraw from the Interest Account an amount sufficient to pay the interest coming due on the Bonds on such Interest Payment Date and shall use such amounts to pay, or make provision with the Paying Agent for the payment of interest on the Bonds on such Interest Payment Date.

(b) **Principal Account.** There shall be transferred to the Principal Account, on the third Business Day preceding each Principal Payment Date, the amounts required to be transferred from the Pledged Revenue Fund pursuant to the Indenture. If on any Principal Payment Date there are not sufficient amounts on deposit in the Principal Account to pay the total amount of principal coming due on the Bonds on such Principal Payment Date, the Trustee shall forthwith transfer to the Principal Account from, respectively, the Pledged Revenue Fund, such Series Redemption Account, such Series Project Account in the Construction Fund, the Series Account of the Debt Service Reserve Fund, the Principal Account or the Interest Account, in the order so listed, an amount equal to the deficiency. On or before each Principal Payment Date for the Bonds, the Trustee shall withdraw from the Principal Account an amount sufficient to pay the scheduled Principal Payment Date for Bonds, the Trustee shall withdraw from the Principal Account an amount sufficient to pay the scheduled principal coming due on the Bonds on such Principal Payment Date, and shall use such amounts to pay, or make provision with the Paying Agents for the payment of, principal of the Bonds on such Principal Payment Date, whether by reason of stated maturity or by reason of Mandatory Sinking Account Requirements applicable to any Term Bonds.

In the event the amount then on deposit in the Interest Accounts or the Principal Accounts on an Interest Payment Date or Principal Payment Date is not sufficient to pay to the Owners of such Series of Bonds the full amount of interest on and principal of all Outstanding Series of Bonds then due and such

deficiency cannot be cured as provided under "Deficiencies in the Interest Accounts or Principal Accounts" below, the Trustee shall nonetheless pay out all moneys on deposit in the Interest Accounts and Principal Accounts to the persons entitled thereto, pro rata according to the amount owed to each (subject in all events to any provisions to the contrary as to Credit Facilities or other amounts which a Supplemental Indenture may pledge or otherwise provide for under procedures by which specific Accounts thereunder are for the specific benefit of a Series of Bonds or specific Bonds within a Series).

(c) Redemption Account. Any amounts to be used to prepay Bonds by the Authority shall be deposited in the Redemption Account related to such Series of Bonds to be redeemed and applied as provided by the Supplemental Indenture or, if no provision is made by the applicable Supplemental Indenture such amounts at the direction of the Authority shall be applied to purchase Bonds to be surrendered to the Trustee as a credit against Debt Service Requirements when due or to pay the principal of and premium, if any, of the Bonds then subject to and called for redemption. Any funds transferred to the Redemption Account from an Account in the Construction Fund as excess proceeds shall be applied only to redeem Bonds of the Series from which such Construction Fund proceeds were derived, if any such Bonds are Outstanding. Other funds transferred to the Redemption Account shall be applied to redeem Bonds then subject to redemption as provided in the applicable Supplemental Indenture or if the Supplemental Indenture does not specifically so provide, as the Authority shall direct in writing.

(d) Credit Account. To the extent so provided in the applicable Supplemental Indenture the Trustee shall create a separate Credit Account within the Debt Service Fund for each Series of Bonds (or specific Bonds within a Series) secured by a Credit Facility which is not a Debt Service Reserve Fund Credit Facility. In addition, for any Credit Facility which constitutes a bond insurance policy or similar instrument pursuant to which the Credit Provider is entitled to subrogation rights as to amounts paid to Bond Owners secured thereby, the Supplemental Indenture relating thereto may provide for payment directly to such Credit Provider of available amounts in the Principal and Interest Accounts by reason of such subrogation rather than establishing a Credit Account and requiring a transfer of such amounts thereto prior to payment of such amounts to such a Credit Provider.

(e) Expense Account. The Trustee shall transfer from the Pledged Revenue Fund to the respective Expense Accounts for each Series of Bonds the amounts directed by the Indenture for the payment of amounts due and owing to the Trustee, any Paying Agent, Remarketing Agent, Bond Registrar, Credit Provider or other Fiduciary which are Bond Service Charges and have not otherwise been provided for.

(f) Purchase Account. Amounts in the Purchase Account shall be used as directed in the applicable Supplemental Indenture to purchase the related Series of Bonds.

(g) Credit Account. To the extent so provided in the applicable Supplemental Indenture the Trustee shall create a separate Credit Account within the Debt Service Fund for each Series of Bonds (or specific Bonds within a Series) secured by a Credit Facility which is not a Debt Service Reserve Fund Credit Facility. In addition, for any Credit Facility which constitutes a bond insurance policy or similar instrument pursuant to which the Credit Provider is entitled to subrogation rights as to amounts paid to Bond Owners secured thereby, the Supplemental Indenture relating thereto may provide for payment directly to such Credit Provider of available amounts in the Principal and Interest Accounts by reason of such subrogation rather than establishing a Credit Account and requiring a transfer of such amounts thereto prior to payment of such amounts to such a Credit Provider. All amounts drawn under a Credit Facility for which a Credit Account is established pursuant to the Indenture to pay the principal or Redemption Price of, purchase price of, premium, if any, and interest on, any Series of Bonds or a specific portion thereof, shall be deposited in the related Principal Account, Interest Account, Purchase

Account or other Account created under the related Supplemental Indenture and the Trustee shall apply such amounts to the purpose for which they were drawn, as further provided in the related Supplemental Indenture, Credit Agreements, Related Agreements or Related Documents. Promptly upon such deposit and application, the Trustee shall transfer from the appropriate Account to the applicable Credit Account all moneys provided under a Credit Facility, or other amounts which become available by reason of the application of such Credit Facility proceeds as provided in the Supplemental Indenture, all of which amounts shall not exceed the amounts drawn on the Credit Facility and deposited pursuant to the first sentence of this paragraph plus interest thereon at a rate which is set forth in the applicable Supplemental Indenture. The Trustee shall remit such amounts from the applicable Credit Account to the applicable Credit Provider as shall be provided in the related Supplemental Indenture or Credit Agreement. The proceeds of any Credit Facility (other than a Debt Service Reserve Fund Credit Facility) issued in connection with and for the benefit of any Series of Bonds (or specific Bonds within a Series) shall be deposited as provided in this paragraph and the Supplemental Indenture for the related Series of Bonds (or specific Bonds within a Series) and shall be transferred and/or applied solely for the benefit of the Bondowners of the Series of Bonds (or specific Bonds within a Series) to which the Credit Facility relates; and accordingly, the Owners of the Bonds of any other Series shall not be entitled to the benefit of, or receive, the proceeds of a Credit Facility which does not secure the Bonds held by Owners.

(h) Capitalized Interest Account. Except as provided in a Supplemental Indenture with respect to a Series of Bonds, to the extent available therein, on each date Revenues are transferred pursuant to the Indenture, the Trustee shall transfer from the Capitalized Interest Account to any related Interest Account, the amount of interest required to be transferred pursuant to a Supplemental Indenture relating to such Series of Bonds. Each transfer shall be made on or immediately prior to the day on which the Trustee transfers or otherwise remits Revenues as provided in the Indenture and shall be credited against the transfer then due from the Pledged Revenue Fund. Investment income on amounts held in the Capitalized Interest Account (net of investment losses and amounts required to be transferred to the Rebate Account) shall be credited to the Capitalized Interest Account.

***Debt Service Reserve Fund.*** An initial deposit to the credit of the Series Debt Service Reserve Account of the Debt Service Reserve Fund is to be made by the Trustee from the proceeds of each Series of Bonds in an amount equal to the Debt Service Reserve Requirement (if any) for that Series established in the Supplemental Indenture or, in lieu thereof, the Authority may cause a Debt Service Reserve Fund Credit Facility to be delivered to the Trustee for such purpose. Each Series Account of the Debt Service Reserve Fund shall secure only the Series of Bonds issued pursuant to the Supplemental Indenture creating such Series Account, unless otherwise provided in the applicable Supplemental Indenture. Thereafter each Series Account of the Debt Service Reserve Fund shall be maintained at the Debt Service Reserve Requirement for the related Series by transfers to the applicable Account of the Debt Service Reserve Fund from the Pledged Revenue Fund as provided in the Indenture; provided, however, (i) in the event the amount on deposit in a Series Account of the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement for the related Series because of a transfer required by the Indenture, then the Authority shall be required to restore the deficiency caused thereby by transfers of Revenues pursuant to the Indenture so as to remedy such deficiency and pay in full all amounts owed under or in connection with a Debt Service Reserve Fund Credit Facility, any related Credit Agreement and any Related Agreements and (ii) in the event the amount on deposit in the Series Account of the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement for the related Series because of any valuation of the investment securities as determined pursuant to the Indenture the Authority shall be required to restore the deficiency caused thereby by transfers of Revenues pursuant to the Indenture annually no later than 12 months following a determination that such deficiency exists. If on any Interest Payment Date there are not sufficient amounts on deposit in the Interest Account to pay the total amount of interest coming due on any Bonds on such Interest Payment Date or if on any Principal Payment Date

there are not sufficient amounts on deposit in the Principal Account to pay the total amount of principal coming due on any Bonds on such Principal Payment Date, and after making the transfers required to be made from other Accounts as provided in the Indenture and prior to a transfer from the Debt Service Reserve Fund, the Trustee shall transfer sums on deposit in the Debt Service Reserve Fund, as provided in the Indenture to the Interest Account or Principal Account, as the case may be, in an amount sufficient to make up any such deficiency.

***Costs of Issuance Fund.*** The Trustee may establish within the Costs of Issuance Fund a separate, segregated account for the benefit of one or more Series of Bonds as provided in the Supplemental Indenture creating such Series of Bonds. There shall be deposited in the Costs of Issuance Fund, from the proceeds of each Series of Bonds, the amount specified pursuant to the Supplemental Indenture creating such account.

***Rebate Fund.*** Moneys deposited and held in the Rebate Account shall not be subject to the lien or pledge of the Indenture. If, at the time of any calculation, the amount on deposit in the Rebate Fund attributable to a specific Series of Tax-Exempt Bonds exceeds the Rebate Amount for such Series of Tax-Exempt Bonds, the Trustee shall transfer the excess to the Pledged Revenue Fund. If the Trustee does not have on deposit in the Rebate Fund sufficient amounts to make the payments required by the Indenture, the Trustee shall direct the Authority to remit to the Trustee, in immediately available funds, within five Business Days, the amount of the deficiency. Investment earnings on amounts held in the Rebate Fund shall be credited to the Rebate Fund upon receipt.

***Deficiencies in the Interest Accounts or Principal Accounts.*** Except as otherwise provided in the respective Supplemental Indenture authorizing the issuance of a Series of Bonds hereunder, in the event, on an Interest Payment Date or Principal Payment Date, the amount then on deposit in the Interest Account or the Principal Account applicable to a Series of Bonds, is not sufficient to pay to the Owners of such Series of Bonds the full amount of interest on or principal of such Series of Bonds then due, the Trustee shall promptly notify the Authority of such fact and thereafter, the Trustee shall draw in the following order, and transfer to the Interest Account or Principal Account, as appropriate, an amount equal to the deficiency: (i) the Pledged Revenue Fund; (ii) such Series Redemption Account (other than amounts held therein to pay and redeem Bonds for which notice of redemption has theretofore been given, and amounts held therein to defease Outstanding Bonds); (iii) such Series Project Account in the Construction Fund (to the extent held by the Trustee and such application is permitted by the Supplemental Indenture governing the same); (iv) the Series Account of the Debt Service Reserve Fund if the payment is for principal of or interest on the related Series of Bonds; and (v) such Series Principal Account (for deficiencies in the Interest Account).

## **Investments**

So long as there are Bonds Outstanding and no Event of Default has occurred or is continuing, an Authorized Officer may direct the investment of moneys on deposit to the credit of the Construction Fund, Pledged Revenue Fund, the Debt Service Fund and the Debt Service Reserve Account in Permitted Investments. Interest earnings on all Funds and Accounts shall be transferred to each respective Series Account in the Rebate Fund in amounts necessary to comply with the Indenture and any interest earnings remaining in such Funds and Accounts thereafter shall be retained therein, provided, however, that interest earnings in the Accounts in the Debt Service Reserve Fund shall be retained therein to the extent necessary to satisfy the applicable Debt Service Reserve Requirement, and thereafter shall be transferred to the Pledged Revenue Fund, and interest earnings in the respective Series Accounts in the Construction Fund shall be transferred to the Pledged Revenue Fund.. Permitted Investments and any interest earned thereon purchased as an investment of moneys in the Pledged Revenue Fund, in the Construction Fund, in

any Debt Service Account or in the Debt Service Reserve Fund shall be deemed at all times to be a part of such Fund or Account and any profit realized from the liquidation of such investment shall be credited to such Account and any loss resulting from the liquidation of such investment shall be charged to such Account.

### **Events of Default and Remedies**

Each of the following events shall constitute an "Event of Default" pursuant to the Indenture, if (a) payment of interest on any Series of Bonds shall not be made when the same shall become due and payable; or (b) payment of the principal or Redemption Price of any Series of Bonds or of a Sinking Fund Installment shall not be made when the same shall become due and payable; or (c) the Authority shall fail to observe or perform in any material way any covenant, condition, agreement or provision contained in any Bonds or in the Indenture or any Supplemental Indenture on the part of the Authority to be performed other than those set forth in (a) and (b) above, and such failure shall continue for thirty (30) days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Authority by the Trustee, which notice may be given by the Trustee in its discretion and shall be given by the Trustee at the written request of the Owners of not less than twenty-five percent (25%) in principal amount of any Outstanding Bonds; provided, however, that if said default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Authority within the applicable period and diligently pursued until the default is corrected and an Authorized Officer of the Authority has delivered to the Trustee a certificate to that effect; or (d) an "Event of Default" as such term is defined in any Loan Agreement; or (e) the occurrence of an Act of Bankruptcy by the Authority.

Upon the happening and the continuance of any Event of Default the Trustee in its discretion may, and at the written request of the Owners of not less than twenty-five percent (25%) in principal amount of any Series of Bonds Outstanding shall: (i) by mandamus or other suit, action or proceeding at law or in equity, enforce all rights of the Owners and require the Authority to enforce all rights of the Owners of Bonds, and to require the Authority to carry out any other covenant or agreement with Owners of Bonds and to perform its duties under the Indenture, (ii) bring suit upon the Bonds; (iii) by action or suit in equity to require the Authority to account as if they were trustees of an express trust, or to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners, and (iv) as a matter of right, have a receiver or receivers appointed for the Trust Estate and of the revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer. Upon the occurrence of an Event of Default under any Related Document, the Trustee may also enforce any and all rights or obligations of the Trustee thereunder.

Anything in the Indenture to the contrary notwithstanding, subject to the limitations and restrictions as to the rights of the Owners set forth in the Indenture, upon the happening and continuance of any Event of Default, the Owners of not less than twenty-five percent (25%) in principal amount of any Series of Bonds then Outstanding shall have the right upon providing the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture. The Trustee may refuse to follow any direction that conflicts with law, the Indenture or any Supplemental Indenture or would subject the Trustee to personal liability without adequate indemnification therefor.

No Owner of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any trust under the Indenture, or any other remedy under the Indenture or on said Bonds, unless such Owner previously shall have given to the Trustee written notice

of an Event of Default and unless the Owners of not less than twenty-five percent (25%) in principal amount of any Series of Bonds then Outstanding shall have made written request of the Trustee to institute any such suit, action, proceeding or other remedy, after the right to exercise such powers or rights of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers in the Indenture granted, or to institute such action, suit or proceeding in its or their name; nor unless there also shall have been offered to the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Indenture or for any other remedy under the Indenture or Supplemental Indenture; it being understood and intended that no one or more Owners of any Series of Bonds secured by the Indenture shall have any right in any manner whatever by his or their action to affect the security of the Indenture, or to enforce any right under the Indenture or under the Bonds and that all proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of all Owners of Outstanding Bonds, subject to the provisions of the Indenture and any Supplemental Indenture.

The Trustee may waive any Event of Default under the Indenture and its consequences and shall do so upon the written request of the Owners of at least a majority in principal amount of all Outstanding Bonds, provided, however, that there shall not be waived (i) any event of default pertaining to the payment of the principal of any Bond at its maturity date or redemption date prior to maturity, or (ii) any event of default pertaining to the payment when due of the interest on any Bond, unless prior to such waiver or rescission, all arrears of principal (due otherwise than by declaration) and interest, with interest (to the extent permitted by law) at the rate per annum borne by the bonds in respect of which such event of default shall have occurred on overdue installments of interest, and all arrears of payments of principal when due, as the case may be, and all expenses of the Trustee in connection with such event of default, shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such event of default shall be discontinued or abandoned or determined adversely, then and in every such case the Authority, the Trustee and the Bondholders shall be restored to their former positions and rights under the Indenture.

All Bonds issued under and secured by the Indenture shall be equally and ratably secured by and payable from the Pledged Revenue Fund without priority of one bond over any other, except as otherwise expressly provided (i) in the Indenture with respect to Bonds of a specific Series (or specific Bonds within a Series) secured by a Credit Facility, or (ii) in a Supplemental Indenture, or (iii) with respect to moneys or assets whether or not held in the Debt Service Fund, the Debt Service Reserve Fund, the Construction Fund and the Costs of Issuance Fund pledged to secure one or more Series of Bonds (or specific Bonds within a Series) and not other Bonds. Upon the occurrence of an Event of Default, all moneys collected pursuant to action taken pursuant to the Trustee's or Bondowners' remedies under the Indenture after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee and after any other prior application of such moneys has been made as is required by law shall be deposited in such Account or Accounts described in the Indenture as the Trustee deems appropriate, and all moneys in the Pledged Revenue Fund (and at the discretion of the Trustee except when otherwise required), excluding however (1) any moneys held in trust for the payment of any Bonds or interest thereon which have matured or otherwise become payable prior to such Event of Default, (2) any moneys (such as Credit Facility proceeds) pledged exclusively to secure one or more specific Series of Bonds (or specific Bonds within a Series) shall be applied as provided as set forth in the Indenture.



Unless the principal of Bonds shall have become due and payable, all such moneys in the respective Funds and Accounts securing such obligations shall be applied consistent with the respective priorities of liens and the respective purposes for such accounts each as follows:

**FIRST:** To reimburse the Trustee for certain costs and expenses described in the Indenture and not reimbursed thereunder;

**SECOND:** To the payment of the Persons entitled thereto of all installments of interest then due on the Bonds in the order of the maturity of the installments of such interest and if the amount available shall not be sufficient to pay in full any particular installment then to the payment ratably, according to the amounts due on such installment to the persons entitled thereto without any discrimination or privilege;

**THIRD:** To the payment of the persons entitled thereto of the unpaid principal of and redemption premium, if any, on any of the Bonds which shall have become due (other than Bonds which have matured or have otherwise become payable prior to such Event of Default and moneys for payment of which are held in trust pursuant to the provisions of the Indenture) in the order of their due dates and if the amount available shall not be sufficient to pay in full the unpaid principal and redemption premium, if any, on Bonds due on any particular due date, then to the payment ratably, according to the amount of principal and premium, if any, due on such date, to the persons entitled thereto, without any discrimination or privilege; and

**FOURTH:** To the payment of interest on and the principal of the Bonds as thereafter may from time to time become due, all in accordance with the provisions of the Indenture.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this caption, such moneys shall be applied by it at such times and from time to time as the Trustee shall determine having due regard to the source of such moneys, the priority of liens securing the Bonds under the Indenture, 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 funds, it shall (1) fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue and (2) on or before such date set aside the moneys necessary to effect such application. The Trustee shall give to the Bondowners mailed notice of the deposit with it of any such moneys and of the fixing of any such date. Neither the Trustee nor any Paying Agent shall be required to make payment to the Owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation of fully paid.

Whenever all Bonds and interest thereon and all other indebtedness secured by the Indenture have been paid under the provisions of caption and all expenses and charges of the Trustee have been paid any balance remaining shall be paid to the Authority.

### **Supplemental Indentures**

For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture of the Authority may be entered into, which, without the requirement of consent of Bondowners, shall be fully effective in accordance with its terms: (a) To provide for the issuance of a Series of Bonds and to prescribe the terms and conditions pursuant to which the same may be issued, paid or redeemed; provided, however, that such Supplemental Indenture shall not conflict with the Indenture as theretofore in effect; (b) To add to the covenants and agreements of the Authority in the Indenture, other

covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect; (c) To add to the limitations and restrictions in the Indenture, other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect; (d) To confirm, as further assurances, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture, of any moneys, securities or fund, or to establish any additional funds or accounts to be held under the Indenture; (e) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Indenture; (f) To insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect; (g) To modify the Indenture or the Bonds to permit qualification under the Trust Indenture Act of 1939 or any similar Federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States; (h) To make such changes as may be necessary to obtain an investment grade rating or to maintain or upgrade any rating for all or any Series of Bonds by a Rating Agency; (i) To grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee; (j) To subject to the lien and pledge of the Indenture additional revenue, properties or collateral; (k) To evidence the appointment of a separate trustee or a co-trustee or the successor of a Trustee and/or Paying Agent under the Indenture; (l) To modify, eliminate and/or add to the provisions of the Indenture to such extent as shall be necessary to prevent any interest on Tax-Exempt Bonds from becoming taxable under the Code; or (m) To make any other change which in the judgment of Authority and Trustee is necessary or desirable and will not materially prejudice any non-consenting owner of a Bond.

Any modification or amendment of the Indenture and of the rights and obligations of the Authority and of the Owners of the Bonds thereunder, in any particular, may be made by a Supplemental Indenture, with the written consent (a) of the Owners of at least fifty-one percent (51%) in principal amount of the Bonds Outstanding at the time such consent is given, and (b) in the case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least fifty-one percent (51%) in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price, if any, thereof, or in the rate of interest thereon without the consent of the Owners of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondowners. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of the Indenture if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series.

The terms and provisions of the Indenture and the rights and obligations of the Authority and of the Owners of the Bonds hereunder may be modified or amended in any respect upon the execution and delivery and filing by the Authority of a Supplemental Indenture and the consent of the Owners of all of the Bonds then Outstanding, such consent to be given as provided in Section 9.03 except that no notice to Bondowners shall be required; provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondowners.

## **Defeasance**

The pledge and other moneys and securities pledged under the Indenture and any Supplemental Indenture and all covenants, agreements and other obligations of the Authority to the Bondowners shall cease and be satisfied if the Authority shall pay or cause to be paid, or there shall otherwise be paid: (i) to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated in the Bonds and in the Indenture and any Supplemental Indenture and (ii) to the Trustee all amounts due and owing the Trustee. Subject to the Indenture provisions, any Outstanding Bonds shall, prior to the maturity or redemption date thereof be deemed to have been paid if (x) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee irrevocable instructions and notice of redemption, (y) there shall have been set aside irrevocably in trust, in compliance with the Act, an amount which shall be sufficient to generate the principal of and the interest on which when due to provide moneys which, together with the moneys, if any, set aside in trust, in compliance with the Act, at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (z) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee in form satisfactory to its instructions to mail a notice to the Owners of such Bonds that the deposit required by (y) above has been made with the Trustee and a verification report from an independent certified public accountant confirming the sufficiency of the Defeasance Securities received by the Trustee and that said bonds are deemed to have been paid and stating such maturity or redemption date upon which moneys are expected to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds.

Anything in the Indenture to the contrary notwithstanding, any moneys held by a Paying Agent in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Paying Agent at such date, or for two years after the date of deposit of such moneys if deposited with the Paying Agent after the said date when such Bonds became due and payable, shall, at the written request of an Authorized Officer of the Authority, be repaid by the Paying Agent to the Authority, as its absolute property and free from trust, and the Paying Agent shall thereupon be released and discharged with respect thereto and the Bondowners shall look only to the Authority for payment of such Bonds; provided, however, that before being required to make any such payment to the Authority the Paying Agent shall, at the expense of the Authority, cause to be mailed to the Bondowners a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing of such notice, the balance of such moneys then unclaimed will be returned to the Authority.

## **No Recourse**

No recourse shall be had for the payment of the principal of, Redemption Price, or interest on the Bonds or for any claim based thereon or on the Indenture against any member or officer of the Authority or any person executing the Bonds and no such member, officer or person shall be liable personally on the Bonds.

## **Tax Covenants**

The Authority covenants and agrees for the benefit of the holders of the Tax-Exempt Bonds, as follows:

(i) It will not use or permit the use of any proceeds of any Tax-Exempt Bonds or any other funds of the Authority or take or omit to take any action that would cause any Tax-Exempt Bonds (i) to be "private activity bonds" that are not "qualified bonds" both within the meaning of Section 141 of the Code, or (ii) obligations which are "federally guaranteed" within the meaning of Section 149(b) of the Code.

(j) It will (i) not take any action, or fail to take any action which would adversely affect the exclusion from gross income of the interest of any Tax-Exempt Bonds under Section 103 of the Code, (ii) not use or permit the use of any proceeds of any Tax-Exempt Bonds or any other funds of the Authority, or take or omit to take any action, that would cause any Tax-Exempt Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code, and (iii) comply with all requirements of Section 148 of the Code to the extent applicable to any Tax-Exempt Bonds. In the event that at any time the Authority is of the opinion that for purposes of this Section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or any Supplemental Indenture or otherwise, the Authority shall so instruct the Trustee in writing, and shall cause the Trustee to take such action as may be necessary in accordance with such instructions.

(k) Without limiting the generality of the foregoing, the Authority agrees that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to any Tax-Exempt Bonds from time to time. This covenant shall survive payment in full or defeasance of any Series of Tax-Exempt Bonds. The Authority specifically covenants to pay or cause to be paid to the United States of America at the times and in the amounts determined under this caption the Rebate Requirement.

(l) In order to comply with the provisions of the Indenture, the Authority agrees to carry out the provisions of any Tax Regulatory Agreement with respect to each Series of Tax Exempt Bonds as such provisions may from time to time be added to, modified or eliminated. Notwithstanding any provision of caption, if the Authority shall provide to the Trustee a Counsel's Opinion to the effect that any action required under this caption is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on any Tax-Exempt Bonds pursuant to Section 103 of the Code, the Authority may rely conclusively on such opinion in complying with the provisions hereof, and the covenants hereunder shall be deemed to be modified to that extent.

(m) It shall not direct the Trustee to acquire a Permitted Investment if such acquisition would fail to satisfy the fair market value rules of Section 148 of the Code generally.

## **THE FIRST SUPPLEMENTAL INDENTURE**

*The following is a summary of certain provisions of the First Supplemental Indenture. Such summary does not purport to be complete or definitive and reference is made to the First Supplemental Indenture for a full and complete statement of the terms and provisions and for the definition of capitalized terms used in this summary and not otherwise defined under "APPENDIX A - GLOSSARY OF TERMS".*

### **Authorization and Security**

The First Supplemental Indenture authorizes the issuance and provides the details of the Series 2002 Bonds. The Series 2002 Bonds shall in all respects be equally and ratably secured under the First Supplemental Indenture, except as provided in the Indenture. In particular, the Trust Estate shall include:

(e) amounts on deposit in the Series 2002 accounts and subaccounts established under the First Supplemental Indenture in the Funds and Accounts held by, or on behalf of, the Trustee pursuant to the terms of the Indenture; provided, however, that (1) there expressly is excluded from the security interest and pledge of the Indenture any amount on deposit in the Rebate Fund, , and (2) any amounts on deposit in the Series 2002 Debt Service Reserve Account, the Series 2002 Interest Account, the Series 2002 Principal Account, the Series 2002 Projects Account and the Series 2002 Costs of Issuance Account shall be held for the sole and exclusive benefit of the Owners of the Series 2002 Bonds; and

(f) all other property of any kind pledged or assigned or in which a security interest is granted at any time as and for additional security hereunder for the Series 2002 Bonds 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 all such property at any time and to hold and apply the same subject to the terms hereof;

The Series 2002 Bonds shall be dated October 1, 2002, shall be issuable as fully registered bonds in the denomination of \$5,000, or any multiple thereof, and shall bear interest paid semiannually on each March 1 and September 1 in the years and amounts specified in the First Supplemental Indenture.

#### **Series 2002 Bonds Accounts**

There shall be established within the Construction Fund to be held by the Trustee a Series 2002 Projects Account. Within the Series 2002 Projects Account there shall be established the Enighed Pond Subaccount and the Red Hook Subaccount. The portion of the proceeds of the Series 2002 Bonds shall be deposited in the Series 2002 Projects Account and the Enighed Pond Subaccount and Red Hook Subaccount therein and used to pay the costs of the 2002 Approved Projects. Any balance remaining in the Series 2002 Project Account upon completion of the 2002 Approved Projects shall be applied in accordance with the provisions of the Indenture.

There shall be established within the Debt Service Fund a Series 2002 Interest Account, a Series 2002 Principal Account and a Series 2002 Expense Account. Moneys in such accounts shall be used in accordance with the Indenture.

There shall be established within the Debt Service Reserve Fund a Series 2002 Debt Service Reserve Account. The Series 2002 Debt Service Reserve Account shall be funded at the time of the delivery of the Series 2002 Bonds in an amount equal to the Series 2002 Debt Service Reserve Requirement in accordance with the Indenture. Moneys in the Series 2002 Debt Service Reserve Account shall be used in accordance with the provisions of the Indenture.

There shall be established a Series 2002 Costs of Issuance Account in the Costs of Issuance Fund. Portion of the proceeds of the Series 2002 Bonds shall be deposited in the Series 2002 Costs of Issuance Account and used to pay costs of issuance related to the Series 2002 Bonds. Any balance in the Costs of Issuance Account upon payment of all such costs of issuance shall be disposed of in accordance with the provisions of the Indenture.

There shall be established within the Debt Service Fund the Series 2002 Interest Account and the Series 2002 Principal Account.

### **Bond Insurer Provisions**

In addition to the conditions for the issuance of additional Series of Bonds, as long as the Series 2002 Bonds are Outstanding and are insured by the Series 2002 Bond Insurer (a) issuance of any Series of Bonds which is on parity with the Series 2002 Bonds shall be subject to the consent of the Series 2002 Bond Insurer, and (b) the Bond Insurer shall be deemed to be the sole holder of the Series 2002 Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Series 2002 Bonds insured by it are entitled to take pursuant to the Indenture.

## SUMMARY OF CERTAIN PROVISIONS OF THE 2002 LOAN AGREEMENT AND THE 2002 LOAN NOTE

*The following is a summary of certain provisions of the 2002 Loan Agreement. Such summary does not purport to be complete or definitive, and reference is made to the 2002 Loan Agreement for a full and complete statement of its terms and provisions and for the definition of capitalized terms used in this summary and not otherwise defined under "APPENDIX A - GLOSSARY OF TERMS."*

### The Loan

The Authority, on the terms and conditions set forth in the 2002 Loan Agreement shall issue, sell and deliver the Series 2002 Bonds to the Underwriters and make a Loan of the proceeds of the Bonds to the Government.

### The 2002 Loan Note

The 2002 Loan Agreement shall be evidenced by the 2002 Federal Highway Reimbursement Revenue 2002 Loan Note in the principal amount of \$20,845,000 (the "2002 Loan Note") of the Government and delivered to the Authority on date of delivery of the Series 2002 Bonds.

The Government shall repay to the Authority the 2002 Loan Note in the following installments upon receipt of the Federal Highway Reimbursement Revenues and not later than the third Business Day preceding September 1 in each of the following years; provided that interest on each such installment shall accrue to each such September 1 and provided that the final principal installment of the 2002 Loan Note shall mature on the third Business Day preceding September 1, 2009:

Due on the Third Business Day Preceding (September 1)	<u>Amount</u>	Interest <u>Rate</u>
2003	\$2,200,000	2.50%
2004	2,805,000	3.50
2005	2,900,000	3.50
2006	3,000,000	5.00
2007	3,155,000	5.00
2008	3,310,000	5.00
2009	3,475,000	5.00

In addition, the Government shall pay to the Authority all Bond Related Charges when due but after the receipt of the Federal Highway Reimbursement Revenues for that purpose.

The 2002 Loan Note shall bear interest at the rates set forth above from the date of issuance, to the final maturity thereof, payable semiannually upon receipt of the Federal Highway Reimbursement Revenues from the U.S. Treasury but not later than the third Business Day preceding each March 1 (accrued to such March 1) and September 1 (accrued to such September 1) from the deposits to the Trustee upon receipt, commencing on the third Business Day preceding March 1, 2003, and ending on the final maturity thereof, provided that no interest shall be payable on the Bond Related Charges.

The 2002 Loan Note shall be payable as to principal and interest in immediately available funds at the Corporate Trust Office of the Trustee on behalf of the Authority, or such other place as the Authority may designate in writing to the Government.

The 2002 Loan Note is not subject to redemption prior to maturity.

### **Application of Proceeds**

The Authority shall deposit all funds received from the proceeds of the Series 2002 Bonds into the respective Funds and Accounts in accordance with the 2002 Loan Agreement.

### **Security**

The 2002 Loan Note is a special limited obligation of the Government and is secured solely by a pledge of the Federal Highway Reimbursement Revenues. The Government pledges and assigns its interest in the Federal Highway Reimbursement Revenues to the Trustee as security for the payment of the 2002 Loan Note and consents to the deposit of the Federal Highway Reimbursement Revenues into the Pledged Revenue Fund held by the Trustee under the Indenture. The 2002 Loan Note is not a debt of the United States of America and the United States of America is not liable on the 2002 Loan Note. The Authority has no taxing power. The Federal Highway Reimbursement Revenues are derived in accordance with the Federal Legislation.

### **Special Tax Covenants of the Government**

The Government covenants and agrees that so long as the 2002 Loan Note shall remain outstanding and the principal thereof or interest thereon shall be unpaid or unprovided for, the Government shall (i) not take any action, or fail to take any action which would adversely affect the exclusion from gross income of the interest represented by the Series 2002 Bonds under Section 103 of the Code; (ii) not use or permit the use of any proceeds of the Series 2002 Bonds or take or omit to take any action that would cause the Series 2002 Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code or private activity bonds with the meaning of Section 141 of the Code; and (iii) comply with all requirements of Section 148 of the Code and Section 141 of the Code to the extent applicable to the Series 2002 Bonds.

Without limiting the generality of the foregoing, the Government agrees that there shall be paid from time to time, but only from the Trust Estate, all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Series 2002 Bonds from time to time. The covenants in this section shall survive payment in full or defeasance of the Series 2002 Bonds.

In order to comply with the provisions of this section, the Government agrees to carry out the provisions of Section 148(F) of the Code and applicable Treasury Regulations as such provisions may from time to time be added to, modified or eliminated so as to apply to the Series 2002 Bonds. The Government further agrees to employ or appoint knowledgeable persons having experience in preparing computations under Section 148 of the Code to assist the Government in complying with the covenants made in this section.



### **Affirmative Covenants of the Government**

The Government covenants and agrees that so long as the 2002 Loan Note shall remain outstanding and the principal thereof or interest thereon shall be unpaid or unprovided for, the Government shall, unless the Authority and the Trustee shall otherwise consent in writing:

Observe and comply with the terms and conditions of and perform all of its obligations under the 2002 Loan Agreement and under the 2002 Loan Note, pay all amounts payable by it under the 2002 Loan Agreement and under the 2002 Loan Note according to the terms of the 2002 Loan Agreement and the 2002 Loan Note.

Promptly notify the Authority and the Trustee in writing of the occurrence of (i) any Event of Default under the 2002 Loan Agreement and (ii) any default under documents governing any debt of the Government.

In furtherance of the pledge of Federal Highway Reimbursement Revenues set forth in the 2002 Loan Agreement, the Government shall request that the United States deliver and take all steps necessary to ensure the receipt of and the maximization of Federal Highway Reimbursement Revenues for which the Government is eligible and the deposit of such funds in the Pledged Revenue Fund of the Indenture to the extent required in the 2002 Loan Agreement and in the 2002 Loan Note.

Observe and comply with the terms and conditions of and perform all of its obligations under the Memorandum of Agreement.

At all times while the 2002 Loan Note is outstanding, to the extent permitted by law, defend, preserve and protect the pledge of the Federal Highway Reimbursement Revenues under the 2002 Loan Note and all rights of the holders of the 2002 Loan Note against all claims and demands of all third parties.

Consent to the assignment, pursuant to the Indenture, of all right, title and interest of the Authority in and under the 2002 Loan Agreement, and all amendments, modifications and renewals thereof, to the Trustee, reserving to the Authority, however, the rights providing that notices and other communications be given to the Authority.

Provide to the Authority within 180 calendar days of the end of each Fiscal Year a financial report summarizing the allocation of Federal Highway Reimbursement Revenues and the obligation amounts for such Fiscal Year and any other information required for compliance with the Indenture.

Comply with all applicable laws and regulations of the Federal Highway Administration and all other applicable federal transportation laws and regulations.

In each federal fiscal year, commencing with the Federal Fiscal Year commencing October 1, 2002, subject to federal appropriation and authorization, obligate or commit Federal Highway Reimbursement Revenues in an amount sufficient to pay Debt Service for such federal fiscal year before it obligates or commits such Federal Highway Reimbursement Revenues for other transportation projects.

In the event that the federal government discontinues the payment of Federal Highway Reimbursement Revenues to the Government and substitutes another stream of revenues in lieu thereof (the "Substitute Revenues"), the Government will use its best efforts to pledge such Substitute Revenues to repayment of the 2002 Loan Note.

### **Negative Covenants of the Government**

The Government covenants and agrees that so long as the 2002 Loan Note shall remain outstanding and the principal thereof or interest thereon shall be unpaid or unprovided for, the Government shall not:

Issue any Bonds secured by the Federal Highway Reimbursement Revenues other than in conformance with the terms of the Indenture.

Take any action, or fail to take any action that would in any way impair the rights of the holder of the 2002 Loan Note and the Owners of the Series 2002 Bonds or impair the Government's right to receive the maximum amount of Federal Highway Reimbursement Revenues to which it may be entitled.

Use Federal Aid Highway Funds for projects not authorized by federal law or regulations.

### **Affirmative Covenants of the Authority**

If the Authority shall pay or cause to be paid, or there shall otherwise be deemed to be paid to the Owners of all the Series 2002 Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated in the Series 2002 Bonds and in the Indenture, and the Trustee and Paying Agent shall pay over or deliver to the Authority all moneys or securities held by them upon defeasance pursuant to Section 10.01 of the Indenture, then the Authority shall credit ratably (or otherwise as directed in writing by the Government) against amounts due under the 2002 Loan Note any moneys and securities thereupon remaining and held under the Indenture, including amounts, if any, on deposit in the Series 2002 Debt Service Reserve Account created under the Indenture, and transfer such remaining money and securities to, at the direction of, or on behalf of the Government. The Authority shall use its best efforts to cause the Government to comply with the covenants of the Government set forth in the 2002 Loan Agreement.

### **Events of Default and Remedies**

The occurrence of any of the following events shall be an "Event of Default" under the 2002 Loan Agreement:

(a) The Government shall fail to pay when due any amount payable on the 2002 Loan Note;  
or

(b) The Government shall fail to perform or observe any term, covenant or agreement contained in the 2002 Loan Agreement on its part to be performed or observed and any such failure shall remain unremedied for 30 days after written notice thereof shall have been given to the Government by the Authority or the Trustee, provided, however, that if said default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Government within the applicable period and diligently pursued until the default is corrected; or

(c) An "Event of Default" as such term is defined in the Indenture.

(d) If an Event of Default shall happen and shall not have been remedied, then, and in every such case, past due principal and interest will continue to accrue interest under the 2002 Loan Note after such default and the holder of the 2002 Loan Note may (i) sue to collect sums due under the 2002 Loan Note, (ii) compel to the extent permitted by law, by mandamus or otherwise, the performance by the

Government of any covenant made in the 2002 Loan Agreement or the 2002 Loan Note, and (iii) examine the books and records of the Government to account for all moneys and securities constituting the Federal Highway Reimbursement Revenues.

### **Limited Obligation**

Anything to the contrary herein notwithstanding, the 2002 Loan Agreement is a limited obligation of the Government payable solely from and secured solely by a pledge of the Trust Estate. The 2002 Loan Agreement and the 2002 Loan Note shall not be deemed to constitute the general obligation of the Government. Neither the Government nor any political subdivision thereof shall be obligated to pay the Debt Service on the Series 2002 Bonds or the 2002 Loan Note other than from the Trust Estate and neither the faith and credit nor the taxing power of the Government or of any political subdivision thereof is pledged to the payment of the Debt Service on the Series 2002 Bonds or the 2002 Loan Note.

### **Continuing Obligation**

Until the date on which all amounts due and owing to the Authority from the Government pursuant to the 2002 Loan Note shall have been paid in full or otherwise provided for, the 2002 Loan Agreement is a continuing obligation of the Government and shall (i) be binding upon the Government, its successors and assigns and (ii) inure to the benefit of and be enforceable by the Authority and the Trustee and their respective successors, transferees and assigns.

### **Amendments and Supplements**

From time to time, the Governor, on behalf of the Government, and with the consent of the Authority and the Trustee, may execute a supplement to the 2002 Loan Agreement curing any ambiguity or curing, correcting or supplementing any defect or inconsistent provision contained in the 2002 Loan Agreement or making such provisions in regard to matters or questions arising in the 2002 Loan Agreement as may be necessary or desirable and as shall not materially adversely affect the interests of the holder of the 2002 Loan Note. Such supplement shall become effective upon the filing with the Government an instrument of the holder of the 2002 Loan Note approving such supplement. In addition, the Governor, with any requisite authority, may execute a supplement to the 2002 Loan Agreement at any time and from time to time modifying any provision of the 2002 Loan Agreement with the consent of the holder of the 2002 Loan Note, except as provided in the Indenture.

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## UNITED STATES VIRGIN ISLANDS

*The information provided in this Appendix D is provided for the informational purposes only, and nothing shall imply that the faith, credit or taxing power of the Territory is pledged to the payment of the principal of and interest on the Series 2002 Bonds.*

### General

Under the terms of the Revised Organic Act, the United States Virgin Islands is an unincorporated territory of the United States with separate executive, legislative and judicial branches of government. The legislative power of the United States Virgin Islands is vested in the Legislature, a unicameral, popularly elected body consisting of 15 members who serve two-year terms (the "Legislature"). The Legislature has jurisdiction over "all rightful subjects of legislation" not inconsistent with the laws of the United States made applicable to the United States Virgin Islands.

Executive power resides with a Governor and a Lieutenant Governor who are elected every four years. The Governor is responsible for execution of local laws, administration of all activities of the executive branch and appointment of department heads and other employees. The current Governor of the United States Virgin Islands is the Honorable Charles W. Turnbull and the current Lieutenant Governor is the Honorable Gerald Luz James, both of who originally assumed office in November, 1998, and whose current terms expire in November, 2002.

Judicial power is vested in the District Court of the United States Virgin Islands, which has jurisdiction of a District Court of the United States, and in the Territorial Court of the United States Virgin Islands, a court established by local law with jurisdiction over all local matters. Within the District Court there is an appellate division which reviews judgments of the Territorial Court. The United States Court of Appeals for the Third Circuit has appellate jurisdiction over the District Court and its appellate division. The judges of the District Court of the United States Virgin Islands are appointed by the President of the United States with the advice and consent of the United States Senate and have lifetime appointments. The Territorial Court judges are appointed by the Governor and confirmed by the Legislature and serve for terms of six years.

As an unincorporated territory of the United States, the United States Virgin Islands is subject to the power of Congress to make rules and regulations respecting the United States Virgin Islands, pursuant to Article IV, Section 3 of the Constitution of the United States.

Residents of the United States Virgin Islands have been citizens of the United States since 1917. However, apart from express Congressional grants of rights, such as the Bill of Rights in Section 3 of the Revised Organic Act, residency in the United States Virgin Islands does not carry with it the full range of rights which accompany citizenship in any of the states.

Residents of the United States Virgin Islands do not have the right to vote in national elections for the President and Vice President of the United States. The United States Virgin Islands has an elected, non-voting delegate to the United States House of Representatives. The delegate may vote in legislative committees and participate in floor debate but may not vote in Congress acting as a Committee of the Whole.

## Economic and Demographic Information

### *Geography, Landscape and Climate*

The United States Virgin Islands — also known as the U.S. Virgin Islands or more commonly the Virgin Islands — is located some 1,600 miles southeast of New York City, about 1,075 miles from Miami, and 60 miles east of Puerto Rico. Approximately 70 small islands, islets and cays make up the Virgin Islands. The principal islands are St. Croix, St. Thomas, St. John and Water Island. St. Croix, the largest of the four islands, has an area of 84 square miles and lies entirely in the Caribbean Sea. It is marked by undulating hills that rise gently to the north and lagoons that lie on the south coast. It has two main urban centers—Christiansted to the north and Frederiksted to the west—both lie on a broad central plain. St. Thomas, which lies approximately three miles west of St. John, is 32 square miles in area. It is distinguished by a ridge of east-west hills that rise abruptly from the sea. It is marked by numerous sandy beaches along the shoreline, including Magens Bay, considered one of the finest beaches in the Caribbean. The main urban center Charlotte Amalie, which also is the capital of the United States Virgin Islands, is surrounded by a landlocked harbor. St. John is a 20-mile square area located approximately three miles east of St. Thomas. Its topography is similar to St. Thomas with steep, rugged hills and white-sandy beaches. About two-thirds of the island is preserved as the Virgin Islands National Park. Water Island is located just a few hundred yards from the harbor in Charlotte Amalie. Water Island was transferred to the United States Virgin Islands in December 1996 from the exclusive jurisdiction of the Department of Interior. The United States Virgin Islands boasts a near-perfect climate throughout the year, with temperatures ranging between 70°F and 90°F with an average of 78°F. Humidity is low and annual rainfall averages 40 inches.

### *Population*

In 2001 the population of the United States Virgin Islands was estimated at 109,344. St. Croix has the largest population — 53,563 people. There are 51,500 people on St. Thomas and 4,280 people on St. John.

**Table 1 - United States Virgin Islands  
Population (1992-2001)**

<u>Year</u>	<u>Population</u>	<u>Percentage Increase (Decrease)</u>
1992	106,869	1.8
1993	108,705	1.7
1994	110,440	1.6
1995	109,667	(0.7)
1996	113,245	3.3
1997	114,483	1.1
1998	115,614	1.0
1999	116,770	1.0
2000	108,612	(6.9)
2001	109,344	0.7

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Source: United States Census Bureau; and the Eastern Caribbean Center, University of the Virgin Islands.

## Employment

Civilian employment grew by 6.6% percent from 1997 to 2001.

The following table presents total labor force and total employment for the United States Virgin Islands and unemployment rates for the United States Virgin Islands and the United States for the years 1997 through 2001.

**Table 2 - United States Virgin Islands  
Labor Force, Employment, Unemployment and Unemployment Rates and  
The United States Unemployment Rates (1997-2001)**

<u>Year</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment Rate United States Virgin Islands</u>	<u>Unemployment Rate United States</u>
1997	46,250	43,500	5.9	4.9
1998	46,690	43,690	6.4	4.5
1999	46,400	43,140	7.0	4.2
2000	47,280	44,050	6.9	4.0
2001	49,900	46,370	7.1	4.8

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Sources: United States Virgin Islands Bureau of Labor Studies Reports; and the U.S. Department of Labor, Bureau of Labor Statistics.

Private sector employment is fueled by tourism and related services. In 2001, services were the largest share of private sector employment accounting for 37.8 percent. Wholesale and retail trade accounted for 30 percent, while construction, mining and manufacturing accounted for 11.5 percent. Federal and local government accounted for 12,343 jobs or 27.8% of total employment in 2001 with local government accounting for 92.7 percent of all public sector jobs (See Table 3). Territorial Government employment fell slightly in 2001 to 11,438 from 12,170 in 2000. A small decline in both the Territorial Government and federal government employment caused the public sector employment to decline by 5.3%. Reduction in Territorial Government staff due to retirement and resignations accounted for the drop in the public payroll.

The following table sets forth annual wage and salary employment by sector for the years 1997 to 2001.

**Table 3 - Annual Wage and Salary Employment  
United States Virgin Islands (1997-2001)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Private sector	27,760	27,930	27,690	29,020	32,024
Construction & mining	1,880	1,530	1,690	1,950	3,697
Manufacturing	2,230	2,420	2,400	2,480	2,191
Transportation, comm. & public utilities	2,360	2,370	2,360	2,450	2,191
Wholesale & retail trade	9,440	9,110	8,820	8,950	9,602
Finance, insurance & real estate	1,870	1,880	1,940	1,950	1,931
Services	<u>9,980</u>	<u>10,620</u>	<u>10,450</u>	<u>11,240</u>	<u>12,113</u>
Non-agricultural wage & salary employment	41,500	41,690	41,140	42,050	44,367
Federal government	860	880	880	860	905
Territorial government	12,880	12,880	12,570	12,170	11,438

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Sources: Virgin Islands Bureau of Labor Statistics.

The following table sets forth selected tourism - related employment for the years 1997 to 2001.

**Table 4 - Selected Tourism-related Employment  
U. S. Virgin Islands (1997-2001)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Hotels & Other Lodging Places	3,380	3,820	3,930	3,980	4,060
Gifts Shops	2,060	2,090	1,970	2,010	2,110
Eating & Drinking Places	2,030	2,090	2,010	2,100	2,290
Transportation	<u>500</u>	<u>480</u>	<u>510</u>	<u>570</u>	<u>560</u>
Total tourism-related employment	8,000	8,480	8,420	8,660	9,020

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Sources: United States Virgin Islands Bureau of Labor Statistics.



Presented below are the ten largest private sector employers in the United States Virgin Islands.

**Table 5 - United States Virgin Islands  
Ten Largest Non-Governmental Employers (2002)**

<u>Name of Employer</u>	<u>Principal Business</u>
Hovensa	Oil Refining
Bechtel International	Maintenance
Kmart Corp.	Department Store
Frenchman's Reef Beach Hotel	Resort Hotel
Jacobs International	Maintenance
Caneel Bay, Inc.	Resort Hotel
Innovative Telephone	Utility
The Westin St. John Hotel	Resort Hotel
Ritz Carlton VI Inc.	Resort Hotel
Wyndham Sugar Bay Beach Club	Resort Hotel

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Sources: United States Virgin Islands Department of Labor, Bureau of Labor Statistics.

### **Tourism**

In 2001, 2.56 million visitors arrived in the United States Virgin Islands, an approximately 3.4% increase over the previous year. Air arrivals have rebounded within the past year, up 2.5% from 2000. A record number of 1.89 million cruise passengers arrived in the United States Virgin Islands in 2001, an increase of 6.96% over 2000. Hotel occupancy declined in 2001 to 56.6% from 58.6%. Total room nights occupied in the United States Virgin Islands decreased by 0.8% in 2001 over 2000, from 1,059.7 to 1,051.3.

**Table 6  
United States Virgin Islands  
Visitor Arrivals (1997-2001)  
(thousands)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>U.S. Virgin Islands:</b>					
Air Visitors	508.8	523.4	560.7	627.7	609.6
Cruise Passengers	<u>1,619.0</u>	<u>1,615.5</u>	<u>1,403.6</u>	<u>1,768.4</u>	<u>1,891.4</u>
Total Visitors	2,127.8	2,138.9	1,964.3	2,396.1	2,501.0
<b>St. Thomas/St. John:</b>					
Air Visitors	368.2	388.2	428.2	481.1	469.4
Cruise Passengers	<u>1,560.2</u>	<u>1,547.1</u>	<u>1,363.3</u>	<u>1,719.8</u>	<u>1,790.5</u>
Total Visitors	1,928.4	1,935.3	1,791.5	2,200.9	2,259.9
<b>St. Croix:</b>					
Air Visitors	140.8	135.2	132.4	146.6	140.2
Cruise Passengers	<u>178.0</u>	<u>154.3</u>	<u>164.6</u>	<u>232.4</u>	<u>237.4</u>
Total Visitors	318.8	289.5	297.0	379.0	377.6

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Source: United States Virgin Islands Bureau of Economic Research.

**Table 7**  
**United States Virgin Islands**  
**Hotel and Other Tourist Accommodations (1997-2001)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>St. Thomas/ St. John:</b>					
Total rooms/units	3,328	3,864	3,768	3,789	3,835
Number of hotels	31	33	30	30	30
Condominium/other units	678	742	708	735	741
Occupancy rate (percent)	55.4	53.9	57.7	60.9	59.5
<b>St. Croix:</b>					
Total rooms/units	1,162	1,065	1,079	1,208	1,213
Number of hotels	21	19	18	19	18
Condominium/other units	339	311	314	327	326
Occupancy rate (percent)	47.3	47.5	48.6	50.7	46.9
<b>U. S. Virgin Islands:</b>					
Total rooms/units	4,401	4,929	4,848	4,997	5,049
Number of hotels	52	51	48	49	48
Condominium/other units	1,018	1,053	1,022	1,063	1,067
Occupancy rate (percent)	53.3	52.5	55.7	58.6	56.6

Source: United States Virgin Islands Bureau of Economic Research.

**Table 8**  
**United States Virgin Islands'**  
**Visitor Expenditures (1997-2001)**  
**(millions of dollars)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Tourists	\$487.0	\$532.7	\$540.9	\$693.7	\$688.1
Excursionists	407.0	407.8	414.1	483.0	508.0
Day-trip by air	23.6	21.1	21.4	22.8	18.1
Cruise passengers	383.4	386.8	392.7	460.2	489.1
Total expenditures	\$894.0	\$940.5	\$954.9	\$1,176.7	\$1,196.1

Source: United States Virgin Islands Bureau of Economic Research.

### **Tax Incentives Programs**

The Government offers various tax incentives which promote industrial and economic development in the United States Virgin Islands. The most notable incentive program was created by the Legislature in October 1975. The Industrial Development Commission (the "Commission") was created to promote the growth, development and diversification of the economy of the United States Virgin Islands (the "Industrial Development Program"). Qualifying businesses—corporations, partnerships or sole proprietorships—receive various benefits if they meet certain criteria.

To qualify for tax incentives, investors must invest at least \$100,000, exclusive of inventory, in an eligible business and employ at least ten United States Virgin Islands residents full-time. A beneficiary receives a substantial reduction in, or an exemption from, all taxes imposed on businesses.

Most importantly, the industrial development legislation permits a 90% income tax reduction, resulting in a maximum tax rate of less than four percent on income for approved operations. Tax benefits also extend to passive income from certain qualifying investments, such as the United States Virgin Islands government obligations. The 90% reduction extends to dividends received by a beneficiary's Virgin Islands resident shareholders. Currently, over 90 enterprises are operating with incentive benefits granted pursuant to the Industrial Development Program, and on-going applicants are awaiting final certification to the Commission. Investors receiving tax benefits under this program include hotels and other tourism-related businesses, goods-producing enterprises, and businesses serving customers outside the Territory.

## **Transportation**

The United States Virgin Islands are accessible by air from around the world. The Cyril E. King Airport Terminal on St. Thomas was completed and opened in October 1990. The expansion of the runway to 7,000 feet was completed and opened in December 1992.

The Henry E. Rohlsen Airport Terminal on St. Croix has undergone major renovation and expansion. The terminal's square footage has doubled its previous size to 181,000 square feet.

The island of St. John can be reached by seaplane and ferry boat. Inter-island ferry service provides, several times daily, passenger service between St. Thomas and the nearby British Virgin Islands. The United States Virgin Islands internal transportation needs are served by a large number of taxis, taxivans, open-air buses, the public transit system (VITRAN) and rental cars.

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**FORM OF PROPOSED OPINION OF BOND COUNSEL**

Upon delivery of the Bonds, Bond Counsel proposes to issue its approving opinion in substantially the following form:

November \_\_, 2002

The Bank of New York Trust Company of Florida, N.A.  
The Bank of New York Plaza  
10161 Centurion Parkway  
Jacksonville, Florida 32256

Ladies and Gentlemen:

We have examined the applicable law and certified copies of proceedings and documents relating to the issuance and sale by the United States Virgin Islands Public Finance Authority (the "Authority"), of its \$20,845,000 Revenue Bonds (Federal Highway Reimbursement Anticipation Loan Note) Series 2002 (the "Series 2002 Bonds"). Reference is made to the form of the Series 2002 Bonds for information concerning their details, including payment provisions, their purpose and the proceedings pursuant to which they are issued.

The Series 2002 Bonds are issued under and are equally and ratably secured by an Indenture of Trust dated as of October 1, 2002, as supplemented by a First Supplemental Indenture of Trust dated as of October 1, 2002 (collectively, the "Indenture"), each between the Authority and The Bank of New York Trust Company of Florida, N.A., as Trustee (the "Trustee") which assigns and pledges a security interest to the Trustee, as security for the Series 2002 Bonds issued pursuant to the Indenture (a) the 2002 Loan Note (the "2002 Loan Note") in the aggregate principal amount of \$20,845,000 of the United States Virgin Islands (the "Government"), (b) the rights under the Loan Agreement dated as of October 1, 2002 between the Authority and the Government (the "2002 Loan Agreement"), (c) the Funds and Accounts (except the Rebate Fund) held by the Trustee pursuant to the Indenture and (d) the Revenues. Terms used but not defined herein are defined in the form of the Series 2002 Bonds and in the Indenture.

We have examined and relied on the record of proceedings of the Authority and the Government in connection with the authorization and issuance of the Series 2002 Bonds and have made such investigation of law and such further reviews, inquiry or examination as we deemed necessary or desirable in rendering the opinions set forth herein. The Authority and the Government have covenanted to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code") regarding, among other matters, the use, expenditure and investment of the proceeds of the Series 2002 Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Series 2002 Bonds, all as set forth in the proceedings and documents relating to the issuance of the Series 2002 Bonds (the "Covenants").

Based on the foregoing, we are of the opinion that:

1. The Authority is duly created and validly existing under provisions of the Act.
2. The Series 2002 Bonds have been duly authorized and issued in accordance with the Act, and constitute valid and binding limited obligations of the Authority payable solely from the Trust Estate. The Series 2002 Bonds are special obligations of the Authority. The Series 2002 Bonds shall be without recourse to the Authority. The Series 2002 Bonds shall not be general obligations of the Virgin Islands, shall not be a pledge of or involve the faith and credit or the taxing power of the Virgin Islands and shall not constitute a debt of the Virgin Islands. The Authority has no taxing power.
3. The Indenture has been duly authorized, executed and delivered by the Authority and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a legally binding agreement of the Authority, pledges the Trust Estate created by the Indenture, to the Trustee as security for payment of the principal of and premium, if any, and interest on the Series 2002 Bonds and is enforceable against the Authority in accordance with its terms.
4. The First Supplemental Indenture is authorized and permitted by the Indenture and complies with its terms, has been duly authorized, executed and delivered by the Authority, constitutes a valid and binding agreement of the Authority, and is enforceable against the Authority in accordance with its terms.
5. Under existing law, interest on the Series 2002 Bonds (a) is not included in gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes) subject to the alternative minimum income tax, such interest is taken into account in determining adjusted current earnings for purposes of computing tax. Failure by the Authority and the Government to comply with the Covenants could cause interest on the Series 2002 Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue. We express no opinion regarding other federal tax consequences of the ownership of or receipt or accrual of interest on the Bonds.
6. Under existing law, interest on the Series 2002 Bonds is exempt from personal income taxes imposed by the United States Virgin Islands, any state, other territory or possession on the United States or any political subdivision thereof, or by the District of Columbia.

Except as stated in the preceding paragraphs, we express no opinion as to any other federal or state tax consequences of the ownership or disposition of the Series 2002 Bonds.

We have examined an executed Series 2002 Bond, and, in our opinion, the form of said bond and its execution are regular and proper. However, we have not verified, and express no opinion as to the accuracy of, any "CUSIP" identification number which may be printed on any of the Series 2002 Bonds.

The above opinions are qualified to the extent that the enforceability of rights and remedies may be limited by bankruptcy, insolvency, moratorium and other laws and equitable principles affecting creditors' rights.

Very truly yours,

## FORM OF THE CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated November 13, 2002 (the "Certificate"), by the Virgin Islands Public Finance Authority (the "Issuer"), issued pursuant to the Indenture of Trust, dated October 1, 2002 (the "Trust Indenture") by and between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"), as supplemented by the First Supplemental Indenture of Trust (the "First Supplemental Indenture"), dated as of October 1, 2002 (the Trust Indenture, as supplemented by the First Supplemental Indenture, the "Indenture") by and between the Issuer and the Trustee, is executed and delivered in connection with the issuance of \$20,845,000 principal amount of Virgin Islands Public Finance Authority Revenue Bonds (Federal Highway Reimbursement Anticipation Loan Note) Series 2002, dated October 1, 2002 (the "Bonds").

Capitalized terms used in this Certificate which are not otherwise defined in Article IV of this Certificate shall have the respective meanings given to them in the Indenture. Pursuant to Section \_\_ of the First Supplemental Indenture, the parties agree as follows:

### ARTICLE I

#### The Undertaking

SECTION 1.1. Purpose. This Certificate shall constitute a written undertaking for the benefit of the holders of the Bonds, and is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

SECTION 1.2. Annual Financial Information. (a) The Issuer shall provide Annual Financial Information with respect to each Fiscal Year of the Issuer, commencing with its Fiscal Year ending September 30, 2002, by no later than March 31, 2003 and each March 31 thereafter to (i) each NRMSIR; and (ii) the SID.

(b) The Issuer shall provide, in a timely manner, notice of any failure of the Issuer to provide the Annual Financial Information by the dates specified in subsection (a) above, in each case to (i) either the MSRB or each NRMSIR; and (ii) the SID.

SECTION 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the Issuer shall provide Audited Financial Statements, when and if available, to (i) each NRMSIR; and (ii) the SID.

SECTION 1.4. Material Event Notices. (a) If a Material Event occurs, the Issuer shall provide, in a timely manner, a Material Event Notice to (i) either the MSRB or each NRMSIR; (ii) the SID; and (iii) the Trustee.

(b) Upon any legal defeasance of Bonds, the Issuer shall provide notice of such defeasance to (i) each NMRSIR or the MSRB; and (ii) the SID, which notice shall state whether the Bonds have been defeased to maturity or to redemption and the timing of such maturity or redemption.

(c) The Trustee shall promptly advise the Issuer whenever, in the course of performing its duties as Trustee under the Indenture, the Trustee has actual notice of an occurrence which,

if material, would require the Issuer to provide a Material Event Notice hereunder; provided, however, that the failure of the Trustee so to advise the Issuer shall not constitute a breach by the Trustee of any of its duties and responsibilities under this Certificate or the Indenture.

SECTION 1.5. Additional Disclosure Obligations. The Issuer acknowledges and understands that other federal and United States Virgin Islands laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer and that, under some circumstances, compliance with this Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

SECTION 1.6. Additional Information. Nothing in this Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Financial Information or Material Event Notice, in addition to that which is required by this Certificate. If the Issuer chooses to include any information in any Annual Financial Information or Material Event Notice in addition to that which is specifically required by this Certificate, the Issuer shall have no obligation under this Certificate to update such additional information or include it in any future Annual Financial Information or Material Event Notice.

SECTION 1.7. No Previous Non-Compliance. The Issuer represents that since September 1, 1997 it have not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

## ARTICLE II

### Operating Rules

SECTION 2.1. Reference to Other Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Issuer provides Annual Financial Information by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID, or (2) filed with the SEC; or (ii) if such document is an Official Statement, available from the MSRB.

SECTION 2.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

SECTION 2.3. Material Event Notices. Each Material Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Bonds.

SECTION 2.4. Transmission of Information and Notices. Unless otherwise required by law and, in the Trustee's sole determination, subject to technical and economic feasibility, the Issuer shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the Issuer's information and notices.

SECTION 2.5. Fiscal Year. Annual Financial Information shall be provided at least annually notwithstanding any Fiscal Year longer than 12 calendar months. The Issuer's current Fiscal Year ends on September 30, 2003, and the Issuer shall promptly notify (i) each NRMSIR; (ii) the SID; and (iii) the Trustee of each change in its Fiscal Year.



### ARTICLE III

#### **Termination, Amendment and Enforcement**

SECTION 3.1. **Termination.** (a) The obligations of the Issuer and the Trustee under this Certificate shall terminate upon a legal defeasance pursuant to Section 10.01 of the Indenture, at redemption or payment in full of all of the Bonds.

(b) This Certificate, or any provision hereof, shall be null and void in the event that (1) the Issuer deliver to the Trustee an opinion of Counsel, addressed the Issuer and the Trustee, to the effect that those portions of the Rule which require this Certificate, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to (i) each NRMSIR; and (ii) the SID.

SECTION 3.2. **Amendment.** (a) This Certificate may be amended, by written certificate of the Issuer, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) of this Section 3.2), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Certificate as so amended would have complied with the requirements of the Rule as of the date of this Certificate, after taking into account any amendments or interpretations of the Rule up to the date of such amendment, as well as any change in circumstances, (3) the Issuer shall have delivered to the Trustee an opinion of Counsel, addressed to the Issuer and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) the Issuer shall have delivered to the Trustee an opinion of Counsel or a determination by a person, in each case unaffiliated with the Issuer (such as bond counsel) and acceptable to the Issuer, addressed to the Issuer and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Bonds; or (ii) the holders of the Bonds consent to the amendment to this Certificate pursuant to the same procedures as are required for amendments to the Indenture with consent of holders of Bonds pursuant to Section 9.03 of the Indenture as in effect on the date of this Certificate, (5) the Issuer shall have delivered copies of such opinion(s) and amendment to (i) each NRMSIR; and (ii) the SID, and (6) such amendment shall not adversely affect the Trustee.

(b) In addition to subsection (a) above, this Certificate may be amended and any provision of this Certificate may be waived, by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Certificate, which is applicable to this Certificate, (2) the Issuer shall have delivered to the Trustee an opinion of Counsel, addressed to the Issuer and the Trustee, to the effect that performance by the Issuer and the Trustee under this Certificate as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule, and (3) the Issuer shall have delivered copies of such opinion and amendment to (i) each NRMSIR; and (ii) the SID.

(c) To the extent any amendment to this Certificate results in a change in the type of financial information or operating data provided pursuant to this Certificate, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the Fiscal Year in which the change

is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. Notice of such amendment shall be provided by the Issuer to (i) either the MSRB or each NRMSIR; and (ii) the SID.

SECTION 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Certificate shall inure solely to the benefit of the holders from time to time of the Bonds, except that the beneficial owners of Bonds shall be third-party beneficiaries of this Certificate.

(b) Except as provided in this subsection (b), the provisions of this Certificate shall create no rights in any person or entity. The obligations of the Issuer to comply with the provisions of this Certificate shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Bonds, or by the Trustee on behalf of the holders of Outstanding Bonds; or (ii) in the case of challenges to the adequacy of financial statements, financial information and operating data so provided, by the Trustee on behalf of the holders of Outstanding Bonds; *provided, however*, that the Trustee shall not be required to take any enforcement action except at the direction of the holders of not less than a majority in principal amount of the Bonds at the time Outstanding (determined in accordance with the provisions of Section 10.02 of the Indenture), who shall have provided the Trustee with adequate security and indemnity satisfactory to the Trustee. The holders' and Trustee's rights to enforce the provisions of this Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Issuer's obligations under this Certificate.

(c) Any failure by the Issuer or the Trustee to perform in accordance with this Certificate shall not constitute a default or an Event of Default under the Indenture, and the rights and remedies provided by the Indenture the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Certificate shall be construed and interpreted in accordance with the laws of the District of Columbia, and any suits and actions arising out of this Certificate shall be instituted in a court of competent jurisdiction in the District of Columbia; provided, however, that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

#### **ARTICLE IV**

##### **Definitions**

SECTION 4.1. Definitions. The following terms used in this Certificate shall have the following respective meanings:

"Annual Financial Information" means, collectively:

(i) the financial information and operating data with respect to the Issuer for each Fiscal Year of the Issuer of the type contained in the Official Statement under the following captions:

- any material changes to the information provided under the caption "FEDERAL HIGHWAY REIMBURSEMENT REVENUES"

- annual updates of the Federal Highway Reimbursement Revenues table in "FEDERAL HIGHWAY REIMBURSEMENT REVENUES – Territorial Highway Program" in the Official Statement.

(ii) the information regarding amendments to this Certificate required pursuant to Sections 3.2(c) and (d) of this Certificate. Annual Financial Information shall include Audited Financial Statements, when and if available, or Unaudited Financial Statements.

The descriptions contained in Section 4.1(1)(i) hereof of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it relates have been materially changed or discontinued, a statement to that effect may be provided in lieu of such financial information and operating data.

Nothing in this Certificate shall be deemed to impose any obligation on the Issuer to prepare or cause to be prepared audited financial statements to the extent audited financial statements of the Issuer are not required to be prepared under federal or State law as in effect from time to time.

"Audited Financial Statements" means the annual financial statements, if any, of the Issuer, audited by such auditor as shall then be required or permitted by the United States Virgin Islands or the Indenture. Audited Financial Statements shall be prepared in accordance with GAAP; *provided, however*, that the Issuer may from time to time, if required by federal or the United States Virgin Islands' legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(d) shall include a reference to the specific federal or Territory law or regulation describing such accounting principles.

"Counsel" means any nationally recognized bond counsel or counsel expert in federal securities laws.

"GAAP" means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board.

"Material Event" means any of the following events with respect to the Bonds, whether relating to the Issuer or otherwise, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of Bond holders;
- (viii) Bond calls;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

"NRMSIR" means, at any time, a then-existing, nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The national repositories currently approved by the SEC are set forth at [www.sec.gov/consumer/nrmsir.htm](http://www.sec.gov/consumer/nrmsir.htm).

"Official Statement" means a "final official statement", as defined in paragraph (f)(3) of the Rule.

"Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Certificate, including any official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

"SEC" means the United States Securities and Exchange Commission.

"SID" means, at any time, a then-existing, state or information depository, if any, as operated or designated as such by or on behalf of the United States Virgin Islands for the purposes referred to in the Rule. As of the date of this Certificate, there is no SID.

"Underwriter" means UBS PaineWebber Inc., as the initial purchaser of the Bonds.

## **ARTICLE V**

### **Miscellaneous**

SECTION 5.1. Duties, Immunities and Liabilities of Trustee. Article VIII of the Indenture is hereby made applicable to this Certificate as if this Certificate were, solely for this purpose, contained in the Indenture.

IN WITNESS WHEREOF, the Authority has caused this Certificate to be executed by its duly authorized representative, as of the date first above written.

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**

By: \_\_\_\_\_  
Name: Kenneth E. Mapp  
Title: Director of Finance and Administration

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## **APPENDIX G**

### **SPECIMEN OF THE BOND INSURANCE POLICY**

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**FINANCIAL  
SECURITY  
ASSURANCE®**

## **MUNICIPAL BOND INSURANCE POLICY**

ISSUER:

BONDS:

Policy No.: -M-

Effective Date:

Premium:

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

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

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

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

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

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

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 26 OF THE NEW YORK INSURANCE LAW.

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

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

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

(212) 826-0100

Form 500NY (5/90)

**APPENDIX H**

**AUDITED FINANCIAL STATEMENTS OF THE VIRGIN ISLANDS PUBLIC  
FINANCE AUTHORITY FOR THE FISCAL YEARS 2000 AND 2001**

**VIRGIN ISLANDS  
PUBLIC FINANCE AUTHORITY**

**(a blended component of the Government  
of the Virgin Islands)**

**Report, Financial Statements and  
Supplementary Information  
September 30, 2001 and 2000**



PricewaterhouseCoopers LLP  
PO Box 161566  
San Juan, PR 00916-1566  
Telephone 787 754 6000  
Facsimile 787 766 1066

## Report of Independent Accountants

To the Board of Directors of the  
Virgin Islands Public Finance Authority

In our opinion, the accompanying balance sheet and the related statements of revenues, expenses and retained earnings, and of cash flows present fairly, in all material respects, the financial position of the Virgin Islands Public Finance Authority (the "Authority") (a blended component of the Government of the Virgin Islands) at September 30, 2001 and 2000 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in Exhibit I is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 4, 2002

CERTIFIED PUBLIC ACCOUNTANTS  
(OF PUERTO RICO)

License No. 216 Expires Dec. 1, 2004  
Stamp 1767046 of the P.R. Society of  
Certified Public Accountants has been  
affixed to the file copy of this report

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
(a blended component of the Government of the Virgin Islands)  
**Balance Sheet**  
**September 30, 2001 and 2000**

	2001	2000
<b>Assets</b>		
Cash and cash equivalents	\$ 11,272,625	\$ 2,598,831
Short term investments	-	5,000,000
Loans receivable from the Government of the Virgin Islands	788,414,028	805,350,062
Loan receivable from the Government Development Bank	69,285	97,934
Bonds issuance and loan origination costs	13,081,077	14,118,120
	<u>812,837,015</u>	<u>827,164,947</u>
Restricted assets:		
Cash	28,749,451	23,981,919
Investments	69,324,163	123,283,313
Pooled investments	67,777,633	83,140,453
	<u>165,851,247</u>	<u>230,405,685</u>
Assets held in trust for the government and other government agencies:		
Pooled investments	22,886,286	47,963,269
Property and equipment	31,071,560	29,533,827
Other assets	5,983,686	4,658,617
	<u>\$ 1,038,629,794</u>	<u>\$ 1,139,726,345</u>
<b>Liabilities and Equity</b>		
Liabilities:		
Accrued expenses and other liabilities	\$ 2,564,729	\$ 2,016,333
Bonds Payable:		
Bonds payable	801,590,000	819,985,000
Deferred amount on defeased bonds	(4,312,189)	(4,928,209)
Bonds payable, net	<u>797,277,811</u>	<u>815,056,791</u>
Long-term debt	21,280,870	20,347,371
Due to the Government of the Virgin Islands	44,543,274	100,472,665
Payable from assets held in trust	13,834,498	12,729,315
Payable from restricted assets	86,856,741	126,346,307
Total liabilities	<u>966,357,923</u>	<u>1,076,968,782</u>
Equity:		
Contributed capital	6,000,000	6,000,000
Retained earnings:		
Restricted	62,610,175	55,991,641
Unrestricted	3,661,696	765,922
Total equity	<u>72,271,871</u>	<u>62,757,563</u>
Total liabilities and equity	<u>\$ 1,038,629,794</u>	<u>\$ 1,139,726,345</u>

The accompanying notes are an integral part of these financial statements.

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
**(a blended component of the Government of the Virgin Islands)**  
**Statement of Revenues, Expenses and Retained Earnings**  
**Years ended September 30, 2001 and 2000**

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	2001	2000
Revenues:		
Interest income:		
Loans receivable	\$ 47,711,374	\$ 47,325,962
Investments	11,143,104	15,273,733
Other income	<u>11,220,267</u>	<u>9,506,421</u>
	<u>70,074,745</u>	<u>72,106,116</u>
Expenses:		
Interest	49,707,351	48,518,171
General and administrative	9,778,703	8,235,715
Amortization of bond issuance and loan origination costs	1,037,023	989,700
Capital expenditure grants	<u>37,360</u>	<u>5,184,284</u>
	<u>60,560,437</u>	<u>62,927,870</u>
Income before transfers to the Government of the Virgin Islands	9,514,308	9,178,246
In lieu of taxes	<u>(500,000)</u>	<u>(500,000)</u>
Net income	9,014,308	8,678,246
Dividend received (paid)	500,000	(500,000)
Retained earnings at beginning of year	<u>56,757,563</u>	<u>48,579,317</u>
Retained earnings at end of year	<u>\$ 66,271,871</u>	<u>\$ 56,757,563</u>

The accompanying notes are an integral part of these financial statements.

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
**(a blended component of the Government of the Virgin Islands)**  
**Statements of Cash Flows**  
**Years ended September 30, 2001 and 2000**

	2001	2000
Cash flows from operating activities:		
Net income	\$ 9,014,308	\$ 8,678,246
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of bond issuance costs	1,037,043	989,700
Amortization of deferred amount on defeased bonds	616,020	616,020
Depreciation and amortization	1,054,275	843,895
Loss (gain) on sale of property and equipment	-	352
Changes in operating assets and liabilities:		
Decrease in accounts and interest receivable	-	63,016
Increase in cash and other assets held in trust	(1,105,183)	(9,706,995)
Increase in other assets	(1,325,069)	(910,262)
Increase in accrued expenses and other liabilities	548,396	44,996
(Decrease) increase due to VI Government	(55,929,391)	68,271,752
Increase in payable from assets held in trust	1,105,183	9,706,995
Decrease in payable from restricted assets	(39,489,566)	(14,252,631)
Total adjustments	(93,488,292)	55,666,838
Net cash (used in) provided by operating activities	(84,473,984)	64,345,084
Cash flows from investing activities:		
Purchases of investments	(178,371,329)	(727,511,517)
Investment maturities and sales	278,875,465	664,640,074
Proceeds from sale of property and equipment	-	54,926
Net cash provided by (used in) investing activities	100,504,136	(62,816,517)
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(2,592,008)	(7,683,683)
Payment of bond issuance costs	-	(7,200,450)
Proceeds from sale of bonds	-	298,559,069
Issuance of loans receivable	-	(299,880,000)
Issuance of long-term debt	933,499	7,840,000
Principal payments on bonds and loans payable	(18,395,000)	(18,472,919)
Decrease in loan receivable	16,964,683	30,631,274
Collection (payment) of dividend	500,000	(500,000)
Net cash (used in) provided by capital and related financing activities	(2,588,826)	3,293,291
Net increase in cash and restricted cash	13,441,326	4,821,858
Cash and restricted cash at beginning of year	26,580,750	21,758,892
Cash and restricted cash at end of year	\$ 40,022,076	\$ 26,580,750

The accompanying notes are an integral part of these financial statements.



**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
**(a blended component of the Government of the Virgin Islands)**  
**Notes to Financial Statements**  
**Years ended September 30, 2001 and 2000**

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**1. Reporting Entity and Significant Accounting Policies**

*Reporting Entity*

The Virgin Islands Public Finance Authority (the "Authority") was created by the Virgin Islands Act No. 5365, "The Government Capital Improvement Act of 1988", for the purposes of aiding the Government of the Virgin Islands (the "Government") in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under the enabling legislation, the Authority is vested with, but not limited to, the following powers: (i) to have perpetual existence as a corporation, (ii) to borrow money and issue bonds, (iii) to lend the proceeds of its bonds or other money to the Government or any agency, authority or instrumentality thereof, and to private entities, (iv) to establish one or more revolving loan funds with the proceeds of bonds issued by the Authority or issued by the Government or any agency, authority or instrumentality thereof and, (v) to invest its funds and to arrange for the investment of the funds of the Government or any agency, authority or instrumentality thereof.

For financial reporting purposes the Authority is a blended component of the Government of the Virgin Islands.

The significant accounting policies used by management in the preparation of its financial statements follow:

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Basis of Presentation and Accounting*

The Authority is a governmental enterprise fund. Accordingly, the financial statements have been prepared using the accrual method of accounting.

The Authority prepares its financial statements in conformity with generally accepted accounting principles for a governmental enterprise fund which are similar to those for private business enterprises. In accordance with Government Accounting Standard No. 20 issued by the Government Accounting Standard Board (GASB), the Authority follows all Financial Accounting Standard Board pronouncements (FASB's) and certain other pronouncements issued prior to November 30, 1989 that do not conflict with GASB standards. In accordance with paragraph 7 of GASB Statement No. 20, the Authority has elected to follow all non-conflicting FASB and other pronouncements issued after November 30, 1989. Expenses are recorded when incurred and revenues are recorded when earned.

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
**(a blended component of the Government of the Virgin Islands)**  
**Notes to Financial Statements**  
**Years ended September 30, 2001 and 2000**

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The Authority accounts for refundings of debt under the provisions of GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt by Proprietary Activities*. This Statement establishes standards of accounting and financial reporting for current and advance refundings resulting in defeasance of debt reported by proprietary activities. Refundings involve the issuance of new debt whose proceeds are used to repay immediately (current refunding) or at a future time (advance refunding) previously issued debt. This Statement requires for both current and advance refundings, that the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount should be reported on the statement of condition as an addition to or deduction from the new debt.

*Activities of the Authority*

The activities of the Authority are segregated into the following:

Operating Account: The Operating Account was established for purposes of depositing funds available to the Authority for payment of administrative expenses, other operating expenses, and expenses not associated with specific bond accounts or trustee activities.

1999 Series A Revenue Bonds: Proceeds of the 1999 bonds were issued to (i) pay certain working capital obligations of the Government, (ii) pay the Government's outstanding 1999 tax and revenue anticipation note, (iii) fund the Series Debt Service Reserve Accounts and (iv) pay certain costs of issuing the Series 1999 A Bonds.

1998 Series Revenue & Refunding Bonds: Proceeds of the 1998 Bonds were used to (i) advance refund the outstanding prior debt of the Authority, (ii) repay the Revenue Anticipation Note, (iii) finance the payment of various capital projects, (iv) fund the Series Debt Service Reserve Accounts, and (v) pay certain costs of issuance of the 1998 Bonds.

Revenue Bonds Series 1992 A and 1992 B Account: The Series 1992 A and Series 1992 B bonds were issued to advance refund the previously outstanding Revenue Bonds Series 1989 A and Series 1989 B. These bonds were defeased May 1, 1998 with the proceeds of the issuance of the 1998 Series Revenue & Refunding Bonds ("1998 Series Bonds").

Government Development Revenue Bonds Series 1994 A, 1994 B and 1994 C Account: These bonds were issued to fund various capital improvements and economic development projects on the island of St. Croix. These bonds were defeased May 1, 1998 with the proceeds of the 1998 Series Bonds.

Government Construction and Revolving Loan Account: Proceeds of the Series 1989 B bonds were deposited with the Authority to make distributions to the Government and loans to agencies, instrumentalities, commissions, authorities and political subdivisions of the Government for the purpose of financing capital projects approved by the Legislature or otherwise authorized by law.

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
**(a blended component of the Government of the Virgin Islands)**  
**Notes to Financial Statements**  
**Years ended September 30, 2001 and 2000**

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Transportation Trust Fund Account: These bonds were issued to provide funding for the maintenance, improvement, repair and construction of the road and highway system in the Virgin Islands. These bonds were defeased May 1, 1998 with the proceeds of the 1998 Series Bonds.

The West Indian Company Account: Activities related to the operations of the West Indian Company ("WICO") consists primarily of servicing cruise ships owned by established shipping lines.

Depository Trust Account: Funds deposited with the Authority for investment purposes by the Government or any agency, authority or instrumentality thereof are recorded in the Depository Trust Account.

Y2K Account: Activities related to funding the various upgrades, acquisitions, and improvements to the computer information systems owned by the Government of the Virgin Islands as a result of shortcomings in many electronic data processing systems and other electronic equipment for identifying and/or processing transactions with the Year 2000.

King's Alley Management, Inc.: Activities related to Kings Alley Management, Inc., a wholly-owned subsidiary, formed on July 22, 2001 for the purpose of operating the King's Alley Hotel and King's Alley Walk, currently under foreclosure proceedings by the Authority.

*Investments*

Under GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for Most External Investments Pools" (GASB 31), the Authority reports investments at fair value in the balance sheet and changes in the fair value in the statement of income.

Investments are restricted by various bond resolutions of the Authority and the Act, generally, to direct obligations of the U.S. Government, the Virgin Islands, or any state, territory, possession or Commonwealth of the United States, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing.

*Capital Expenditure Grants*

During the 2001 fiscal year, approximately \$ 37,360 (2000 - \$ 5.2 million) was disbursed from the Transportation Trust Fund to the Government of the Virgin Islands, and various vendors for road and/or highway projects authorized by the Legislature of the U.S. Virgin Islands pursuant to Act No. 5672. These disbursements are recorded as capital expenditure grants in the accompanying Statement of Revenues and Expenses. In addition, approximately \$ 5.0 million (2000 - \$ 6.9 million) of capital expenditures were disbursed from the 1992 Revenue and 1994 Revenue Funds. During the 2001 fiscal year, approximately \$ 36.6 million (2000 - \$ 28.8 million) was disbursed from the 1998 Bond Fund. The disbursements from the 1992 Revenue and the 1994 Revenue Funds are recorded as a reduction of the Due to Government of the Virgin

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
**(a blended component of the Government of the Virgin Islands)**  
**Notes to Financial Statements**  
**Years ended September 30, 2001 and 2000**

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Islands in the accompanying balance sheet. The disbursements from the 1998 Bond Fund are recorded as a reduction in the Payable from Assets Held In Trust.

*Property and Equipment*

Property and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major improvements are capitalized as additions to property and equipment.

*Taxes*

The Authority is exempt from the payment of U.S. Virgin Islands income and property taxes.

In December 1999, the Legislature of the Virgin Islands of the United States approved a bill which amended Bill No. 22-0216 dated May 1998. The new bill requires WICO to contribute the greater of ten percent of net revenues, as defined, or \$500,000 to the General Fund of the Virgin Islands. This payment shall be made annually in lieu of taxes.

*Operating Transfers*

Operating Transfers include distributions to the Government of the Virgin Islands from excess revenues of tax collections and interest earned on other funds.

*Fair Value of Financial Instruments*

The Authority uses the following methods and assumptions in estimating its fair value disclosures:

*Investment (restricted and assets held in trust):* valued at quoted market prices when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or values obtained from independent pricing services.

*Cash and cash equivalents, and due to/from the Government of Virgin Island:* the carrying amounts reported in the balance sheet for these instruments approximate their fair values.

*Bonds payable:* Bonds were issued in November 1999, April 1999 and May 1998. These Bonds are reported at amortized cost.

*Long-term debt:* carrying value represents the debt's amortized cost.

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
**(a blended component of the Government of the Virgin Islands)**  
**Notes to Financial Statements**  
**Years ended September 30, 2001 and 2000**

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*Effect of Recent GASB Statements*

*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB Statement No. 34).*

This Statement establishes new financial reporting requirements for state and local governments. When implemented, it will create new information and will restructure much of the information that governments have presented in the past. The adoption of this statement, will not have a material effect on the Authority's financial statements.

**2. Cash, Cash Equivalents and Investments**

The Authority utilizes a cash and investment pool to manage certain investments. Although investments from different bond issuances and investments held for the Government may be combined within the pool, separate records are maintained for each account within the pool.

Earnings on pooled investments are allocated to each bond and depository account based on the percentage of each account's shares held in the pool to total shares outstanding in the pool.

*Cash and Cash Equivalents*

As of September 30, 2001, cash consists of deposits in banks and is categorized following the GASB Statement No. 3 on Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. The categories for deposits are the following:

- Category 1 - Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or its agent in the Authority's name.
- Category 3 - Uncollateralized

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
(a blended component of the Government of the Virgin Islands)  
**Notes to Financial Statements**  
**Years ended September 30, 2001 and 2000**

The carrying amount of the deposits approximates their fair value. The following presents the deposits categorized:

	Category			Bank Balance	Carrying Amount
	1	2	3		
<b>2001</b>					
Restricted	\$ 21,733,349	\$ -	\$ 6,624,339	\$ 28,357,688	\$ 28,749,451
Unrestricted	2,102,733	-	9,377,608	11,480,341	11,272,625
<b>2000</b>					
Restricted	\$ 23,981,919	-	-	23,981,919	23,981,919
Unrestricted	2,984,041	-	51,685	3,035,726	2,598,831

*Investments*

Investments include restricted investments and investments held in trust.

Pursuant to the requirements of the Indenture of Trust, certain assets of the Government are maintained in a reserve account controlled by the Authority, and may be used only for the payment of principal and interest on the 1999 Bonds Series A and the 1998 Bonds Series A, B, C, D & E.

Pursuant to the requirements of the Loan Agreement between the bank and the Government, certain assets are maintained in a reserve account controlled by the Authority for the payment of principal and interest on the long-term note obtained to finance the acquisition of the West Indian Company, and to manage construction and protect funds for the defeased bonds.

Investments in the reserve accounts at September 30, 2001 were as follows:

	1999 Bond Series	1998 Bonds Series A, B, C, D & E	Revenue Bonds Series 1994 A 1994 B and 1994 C	VIPFA Y2K Project Fund	Total
Restricted					
Debt service reserve	\$ 33,713,603	\$ 59,469,586		\$ 1,544,359	\$ 94,727,548
Project Fund	16,870,767		\$ 3,968,640	1,181,075	22,020,482
Construction Funds		20,353,766			20,353,766
	<u>\$ 50,584,370</u>	<u>\$ 79,823,352</u>	<u>\$ 3,968,640</u>	<u>\$ 2,725,434</u>	<u>\$ 137,101,796</u>

These investments may be categorized into three levels to provide an indication of risk assumed.

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
**(a blended component of the Government of the Virgin Islands)**  
**Notes to Financial Statements**  
**Years ended September 30, 2001 and 2000**

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-These categories are as follows:

- Category 1 - Includes investments that are insured, or registered, or for which the securities are held by the Authority or its agent in the Authority's name.
- Category 2 - Includes investments that are uninsured and/or unregistered for which the securities are held by the brokers' or dealers' trust department or agent, in the Authority's name.
- Category 3 - Includes investments that are uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Authority's name.

Restricted investments in the reserve accounts, all category 1, as of September 30, 2001 were as follows:

Money Market Fund	\$ 67,251,505
Federal Treasury Obligations Fund	16,870,767
Commercial Paper	34,239,731
Federal Home Loan Bank Notes	8,353,333
Federal National Mortgage Association Notes	<u>10,386,460</u>
	<u>\$ 137,101,796</u>

Investments in the reserve accounts at September 30, 2000 were as follows:

	1999 Bond Series	1998 Bonds Series A, B, C, D & E	Revenue Bonds Series 1992 A 1992 B	Revenue Bonds Series 1994 A 1994 B and 1994 C	The West Indian Company LTD	VIPFA Y2K Project Fund	Total
Restricted:							
Debt service reserve	\$ 32,620,039	\$ 57,933,767			\$ 271,006	\$ 1,468,744	\$ 92,293,556
Project Fund	41,400,019			\$ 3,023,527		3,418,169	47,841,715
Construction Funds		<u>54,960,730</u>	<u>\$ 11,327,765</u>				<u>66,288,495</u>
	<u>\$ 74,020,058</u>	<u>\$ 112,894,497</u>	<u>\$ 11,327,765</u>	<u>\$ 3,023,527</u>	<u>\$ 271,006</u>	<u>\$ 4,886,913</u>	<u>\$ 206,423,766</u>

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Restricted investments in the reserve accounts, all category 1, as of September 30, 2000 were as follows:

Money Market Fund	\$ 123,280,846
Federal Treasury Obligations Fund	1,015,753
Commercial Paper	28,148,202
Federal Home Loan Mortgage Corporation	11,327,765
Federal Home Loan Bank Notes	12,550,412
Federal National Mortgage Association Notes	29,829,782
Equity Securities	<u>271,006</u>
	<u>\$ 206,423,766</u>

**3. Loans Receivable**

The Authority loaned the proceeds of 1999 Bonds Series A to the Government. The loan, which is secured with pledged gross receipts taxes collected pursuant to Title 3, Section 43 of the Virgin Islands Code, bear the same interest rate, maturities, and repayment terms as the bonds payable (see Note 6). Loans receivable are presented net of \$ 13,175,972 in pledged gross receipts taxes (as further described in Note 6) transferred by the Government to the Authority during the fiscal year ended September 30, 2001.

The Authority loaned the proceeds of the 1998 Bonds Series A, B, C, D and E to the Government. The loans, which are secured with pledged matching fund revenues pursuant to Section 28(b) of the Revised Organic Act of the Virgin Islands, bear the same base interest rates, maturities, and repayment terms as the bonds payable (see Note 6).

The Authority loaned the proceeds of an April 1999 \$ 13.5 million project revenue bond issuance to the Government. The loan is secured by lease payments made by the Government to the Authority pursuant to a municipal lease purchase agreement dated April 13, 1999 and bears interest of 6.25% with a maturity date of January 1, 2005.

**4. Assets Held in Trust**

As of September 30, 2001 and 2000, the Authority managed the following investments for the Government and one of its agencies:

	2001	2000
Virgin Islands Government:		
Pooled investments	\$ 8,954,331	\$ 35,136,497
Virgin Islands Government Agency:		
Pooled investments	<u>13,931,955</u>	<u>12,826,772</u>
	<u>\$ 22,886,286</u>	<u>\$ 47,963,269</u>



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These restricted assets may be categorized to provide an indication of risk assumed. The risk categories are described in Note 3. All of the above investments are classified Category 1.

**5. Property and Equipment**

Property and equipment held by the Authority's subsidiary, WICO, at September 30, 2001 and 2000 follows:

	2001	2000
Land	\$ 5,037,451	\$ 5,037,451
Wharf, buildings and installations	29,874,130	19,246,921
Equipment and furnishings	1,283,488	1,058,003
Construction in process	<u>526,520</u>	<u>8,864,785</u>
	36,721,589	34,207,160
Less - accumulated depreciation	<u>(5,650,029)</u>	<u>(4,673,333)</u>
	<u>\$ 31,071,560</u>	<u>\$ 29,533,827</u>

**6. Bonds Payable**

On November 1, 1999, the Authority issued the 1999 Series A Bonds, the proceeds of which amounted to \$ 299,880,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The bonds were issued to (i) pay certain working capital obligations of the Government, (\$248,081,940) (ii) repay the Government's outstanding 1999 tax and revenue anticipation note, (20,918,060) (iii) fund the Series Debt Service Reserve Accounts (\$23,126,096) and (iv) pay certain costs of issuing the bonds (\$7,200,450).

On April 13, 1999, the Authority borrowed under a project revenue bond \$ 13.55 million, with an interest rate of 6.25%, to finance a portion of the Government's Year 2000 (Y2K) compliance effort including the costs related to transportation, installation and related hardware, software, consulting services and related expenses. The bond is payable in ten semi-annual payments of principal and interest with the first payment of interest only due January 1, 2000.

The Government is responsible for all principal and interest payments on the 1999 Project Revenue Bond. The principal and interest payments are funded by periodic lease payments.

On May 1, 1998 the Authority issued the 1998 Series A, B, C, D, and E Bonds, which proceeds amounted to \$541,820,000. These bonds are not guaranteed by the Government, however, the Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 1998 Series Bonds.

These bonds were issued for the purpose of, among others, the advance refund of previously issued bonds. The advance refunding of these bond series was made in order to obtain lower interest rates. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding

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resulted in a debt service saving of approximately \$40 million and an economic gain of approximately \$19 million.

The proceeds of the 1998 Series A and B Bonds were placed in an irrevocable trust account to provide for all future debt service payments on the Highway Revenue Bonds Series 1989, Series 1991, Series 1992, Series 1993 and Series 1994 Bonds. Approximately \$304,520,000 in funds were deposited into the Escrow Fund accounts. At September 30, 2001 and 2000, \$214,480,000 and \$224,280,000 respectively of defeased bonds were outstanding.

The 1998 Series C Bonds and the 1998 Series D Bonds were issued to pay, on behalf of the Government, the full principal balance and interest due and payable on the Revenue Anticipation Note. Approximately \$ 11,600,000 in additional working capital were financed by the balance of the 1998 Series D Bond.

The 1998 Series E Bonds were designated to fund the construction of certain capital projects.

*Prior-Years Defeased Bonds*

The proceeds of the Series 1992 Revenue bonds were placed in an irrevocable trust to provide for all future debt service payments on the Series 1989 Revenue bonds. At September 30, 2001 and 2000, \$176,885,000 and \$181,775,000 respectively, of defeased bonds were outstanding.

All assets held by irrevocable trusts for refunding of prior outstanding debt and the corresponding liabilities are not included in the Authority's financial statements.

*Pledged Funds*

The Government has pledged Gross Receipts Taxes not subject to the annual moderate income housing fund deposit, as well as any prior lien or pledge to the timely payment of the principal and interest on the 1999 Series Bonds. The Government has contracted an independent certified public accounting firm to provide quarterly verification of gross receipts deposits made to the collecting agent, in accordance with bond covenants.

The Government has pledged the Matching Fund Revenues, as described below, to the timely payment of principal and interest on the 1998 Series A, B, C, D and E Bonds. Thus, all amounts to be received by the Government from federal excise tax, mostly in rum, are deposited directly in a trust account from which the 1998 Bonds are paid in accordance with the Indenture of Trust.

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The Secretary of the United States Department of Treasury makes annually certain transfers to the Government of substantially all excise taxes imposed and collected under the internal revenue laws of the United States in any fiscal year on certain products produced in the Virgin Islands (primarily rum), and exported to the United States from the Virgin Islands. The amount required to be remitted to the Government by the Secretary of the Treasury is an amount no greater than the total amount of local revenues (primarily taxes) collected by the Government in each fiscal year. As a result, the term "matching fund revenues" is used to denote these payments.

Estimated prepayments of matching fund revenues are made to the Government prior to the beginning of each fiscal year, subject to adjustment for the amount of local revenue actually collected by the United States Department of Treasury during such year. Such adjustments are made to the estimated prepayments for a subsequent fiscal year.

A summary of bond activity (gross) during fiscal year 2001 and 2000 follows (in thousands):

Bonds payable at September 30, 2001 and 2000 are comprised of the following:

	<b>1998 Bonds</b>	<b>Y2K Project Revenue Bonds</b>	<b>Series 1999 A Revenue Bonds</b>	<b>Total</b>
Balance at 9/30/00	\$ 511,340	\$ 12,375	\$ 296,270	\$ 819,985
Bond Issuance	-	-	-	-
Principal payments	(11,845)	(2,460)	(4,090)	(18,395)
	<u>\$ 499,495</u>	<u>\$ 9,915</u>	<u>\$ 292,180</u>	<u>\$ 801,590</u>

Bonds payable at September 30, 2001 and 2000 are comprised of the following:

	<b>2001</b>	<b>2000</b>
1998 Series A, B, C, D and E Revenue & Refunding Bonds Interest at 5.50% to 7.11%	\$ 499,495,000	\$ 511,340,000
1999 Y2K Project Revenue Bonds Interest at 6.25%	9,915,000	12,375,000
1999 Series A Revenue Bonds Interest at 4.20% to 6.50%	<u>292,180,000</u>	<u>296,270,000</u>
Total Bonds payable	801,590,000	819,985,000
Less: Deferred amount on defeased bonds	<u>(4,312,189)</u>	<u>(4,928,209)</u>
	<u>\$ 797,277,811</u>	<u>\$ 815,056,791</u>

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Interest on the 1999 bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 1999 Series Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

Interest and principal on the 1999 Y2K bond is payable semi-annually on January 1 and July 1.

Interest on the 1998 bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 1998 Series bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest paid during the years ended September 30, 2001 and 2000 was as follows:

	2001	2000
1998 Revenue & Refunding Bonds	\$ 28,545,812	\$ 29,195,449
1999 Series Bonds	18,267,832	16,884,497
Y2K Bonds	<u>890,547</u>	<u>1,030,000</u>
	<u>\$ 47,704,191</u>	<u>\$ 47,109,946</u>

Maturity dates and debt service requirements as of September 30, 2001 for the Series 1999 A Revenue Bonds is as follows (in thousands):

October 1	Series 1999 A		Total
	Principal	Interest	
2002	\$ 4,305	\$ 18,053	\$ 22,358
2003	4,540	17,816	22,356
2004	4,765	17,589	22,354
2005	5,005	17,351	22,356
2006	5,285	17,070	22,355
2007-2011	31,245	80,538	111,783
2012-2016	41,990	69,789	111,779
2017-2021	57,205	54,572	111,777
2022-2026	78,220	33,564	111,784
2027-2030	<u>59,620</u>	<u>7,448</u>	<u>67,068</u>
	<u>\$ 292,180</u>	<u>\$ 333,790</u>	<u>\$ 625,970</u>

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Maturity dates and debt service requirements as of September 30, 2001 for the 1998 bonds are as follows (in thousands):

October 1	Series 1998 A		Series B		Series C		
	Principal	Interest	Principal	Interest	Principal	Interest	
2002	\$ -	\$ 15,821	\$ 2,410	\$ 171	\$ 6,575	\$ 3,879	
2003	-	15,821	-	-	9,480	3,550	
2004	-	15,821	-	-	9,990	3,076	
2005	-	15,821	-	-	10,555	2,527	
2006	-	15,821	-	-	11,150	1,946	
2007-2011	41,550	77,022	-	-	24,235	2,018	
2012-2016	66,925	59,343	-	-	-	-	
2017-2021	60,795	39,872	-	-	-	-	
2022-2025	119,805	13,067	-	-	-	-	
	<u>\$ 289,075</u>	<u>\$ 268,409</u>	<u>\$ 2,410</u>	<u>\$ 171</u>	<u>\$ 71,985</u>	<u>\$ 16,996</u>	

  

October 1	Series 1998 D		Series 1998 E		Total 1998 Bonds		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2002	\$ 3,540	\$ 1,739	\$ -	\$ 6,261	\$ 12,525	\$ 27,871	\$ 40,396
2003	3,745	1,545	-	6,261	13,225	27,177	40,402
2004	3,965	1,339	-	6,261	13,955	26,497	40,452
2005	4,210	1,101	-	6,261	14,765	25,710	40,475
2006	4,470	848	-	6,261	15,620	24,876	40,496
2007-2011	9,665	875	-	30,364	75,450	110,279	185,729
2012-2016	-	-	30,095	22,530	97,020	81,873	178,893
2017-2021	-	-	39,665	10,909	100,460	50,781	151,241
2022-2025	-	-	36,670	491	156,475	13,558	170,033
	<u>\$ 29,595</u>	<u>\$ 7,447</u>	<u>\$ 106,430</u>	<u>\$ 95,599</u>	<u>\$ 499,495</u>	<u>\$ 388,622</u>	<u>\$ 888,117</u>

Maturity dates and debt service requirements as of September 30, 2001 for the Y2K bond is as follows (in thousands):

January 1 and July 1	Principal	Interest	Total
2002	\$ 2,620	\$ 580	\$ 3,200
2003	2,785	413	3,198
2004	2,960	236	3,196
2005	1,550	48	1,598
	<u>\$ 9,915</u>	<u>\$ 1,277</u>	<u>\$ 11,192</u>

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*Other Information*

The Series 1999 A Bonds are not subject to optional redemption prior to October 1, 2010. The Series 1999 A Bonds maturing after October 1, 2010 are redeemable at the option of the Authority, at the respective redemption prices, expressed as a percentage of the principal amount redeemed as follows:

<b>1999 Series A</b>	<b>Price</b>
October 1, 2010 through September 30, 2011	101%
October 1, 2011 and thereafter	100%

The 1998 Series A and E Bonds maturing after the dates below are redeemable at the option of the Authority at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

<b>1998 Series A</b>	<b>Price</b>
October 1, 2008 through September 30, 2009	101 %
October 1, 2009 through September 30, 2010	100.5%
October 1, 2010 and thereafter	100 %

<b>1998 Series E</b>	<b>Price</b>
October 1, 2008 through September 30, 2009	101 %
October 1, 2009 through September 30, 2010	100.5%
October 1, 2010 and thereafter	100 %

1998 Series B, C and D are not redeemable at the option of the Authority.

**7. Long-Term Debt**

On July 1, 1993 the Authority borrowed under a short term note payable to a bank to finance the acquisition of WICO in the amount of \$18,000,000 with an interest rate of 5.24%. On December 21, 1993, the short-term note was refinanced with a long-term loan in the amount of \$18,150,000 with an interest rate of 5.75%. The loan is payable in 239 monthly installments of \$127,428, including interest, and a final payment comprised of the principal sum outstanding and all accrued interest unpaid to the date of the final payment. During fiscal year 2000, WICO entered into a long-term agreement, with the permission of the Authority, to borrow \$8 million from a financial institution for property, plant and equipment improvements. The debt will be restructured at the end of the construction phase. Future minimum payments of principal for the five years subsequent to September 30, 2001 and thereafter are as follows:

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2002	\$ 967,654
2003	1,028,292
2004	1,092,783
2005	1,161,375
2006	1,234,331
Thereafter	<u>15,796,435</u>
	<u>\$ 21,280,870</u>

The Authority has pledged WICO revenues to the timely payment of principal and interest of this long term debt. Interest paid during fiscal years 2001 and 2000 for this loan amounted to \$1,108,345 and \$978,455, respectively.

In June 2001, WICO paid dividends to the Authority amounting to \$ 1.5 million. Existing loan covenants on WICO's debt, restricting the payment of dividends were waived by the financial institution.

**8. Commitments**

The Authority entered into a twenty year lease for a property in St. Croix from February 15, 1996 through February 15, 2016. Future minimum lease payments for the remaining periods are as follows:

2002	\$ 45,000
2003	45,000
2004	45,000
2005	45,000
2006	48,750
Thereafter	<u>604,375</u>
	<u>\$ 833,125</u>

In August 2000, the Authority authorized a limited guaranty in the amount of \$ 5 million in favor of a private group in connection with the development of a property located near the WICO docking facility. The Authority's position is secured by all collateral granted by the Lender of the project and by a limited personal guarantee from an individual.

**9. Contingencies**

The Authority has a loan receivable amounting to approximately \$788 million from the Government (see Note 3). The principal and interest to be paid by the Government to the Authority on the loans receivable is mainly derived from excise taxes on exported rum received by the Government and gross receipts taxes, as more fully described in Note 6 under Pledged Funds. The principal and interest is subsequently passed-through for payment of the 1999 and 1998 Bonds.

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The Government maintains a program, established pursuant to law, in which it provides a subsidy to stabilize the cost of molasses to the only Virgin Islands rum producer to ensure the competitive pricing of rum produced in the Virgin Islands. The effect of the molasses payments is to maintain the competitive position of the Virgin Islands rum producer relative to the rum producers in other countries in which local molasses supplies are readily available. The molasses subsidy is administered by the Commissioner of Finance through the establishment of a legislatively mandated Molasses Subsidy Fund. In the event of a deficiency in the Molasses Subsidy Fund, the Commissioner of Finance could seek legislative appropriation of additional funds, as required, from the Legislature of the Virgin Islands. The Legislature, however, is not obligated to appropriate such amounts.

The Government is currently experiencing financial difficulties. Given the economic situation of the Government it is uncertain that such subsidy will continue in the future. In the event that the subsidy is discontinued, the rum producer could experience a decrease in its operations, and therefore result in a reduction of the federal excise taxes returned to the Government by the United States Government. As a result, the collectibility of the loans receivable from the Government may be impaired.

The Authority has undertaken legal proceedings to foreclose certain property given as collateral for a loan granted by the Authority to a third party. These proceedings are still in the early stages. Consequently, the Authority has not recorded any property in its books related to these foreclosure proceedings. However, the Authority is managing the operations related to such property under its wholly-owned subsidiary, King's Alley Management, Inc.

**10. Concentration of Risk**

All of the matching fund revenues are derived from the sale of rum produced in the Virgin Islands and subject to federal excise taxation. All the rum production in the Virgin Islands is done by a single producer.



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**Combined Balance Sheet**  
**September 30, 2001**

	Operating Account	1999 Series A Revenue Bonds	1998 Series Revenue & Refunding Series Bonds	Revenue Bonds Series 1992 A and Series 1992 B Account	Revenue Bonds Series 1994 A, Series 1994 B and Series 1994 C Account	Government Construction and Revolving Loan Account	Transportation Trust	The West Indian Company Account	Depository Trust Account	Y2K Account	King's Alley Management, Inc.
<b>Assets</b>											
Cash and cash equivalents	\$ 4,312,525										
Due from Government of the Virgin Islands		\$ 279,004,028	\$ 499,495,000							\$ 9,915,000	\$ 68,572
Loan receivable from Government Development Bank		7,432,538				\$ 69,285		526,703			
Bond discount											
Restricted assets:											
Cash		4,183,517		\$ 7,915,522	\$ 5,000,000		\$ 9,534,310				
Investments		50,584,370	18,739,793					2,116,102			
Pooled investments			81,083,559								
Assets held in trust -											
Pooled investments					3,968,840					2,725,434	
Property and equipment			8,954,331						\$ 13,931,955		
Other assets		942,236			2,687,466			31,071,560			
<b>Total assets</b>	<b>\$ 4,312,525</b>	<b>\$ 342,146,689</b>	<b>\$ 593,394,519</b>	<b>\$ 7,915,522</b>	<b>\$ 11,656,106</b>	<b>\$ 69,285</b>	<b>\$ 9,534,310</b>	<b>\$ 42,771,471</b>	<b>\$ 13,931,955</b>	<b>\$ 12,795,356</b>	<b>\$ 33,484</b>
<b>Liabilities and equity</b>											
<b>Liabilities</b>											
Accrued expenses and other liabilities	\$ 961,893										
Bonds payable		\$ 292,180,000	\$ 499,495,000							\$ 154,922	\$ 51,040
Deferred amount on defeased bonds			(4,312,189)							9,915,000	
Long-term debt											
Due to (from) other PFA funds	(260,048)			\$ 96,485		\$ 4,500	61,606	21,280,870	\$ 97,457		
Due to Government of the Virgin Islands		18,259,550	15,939,002	1,715,416	\$ 8,629,306						
Payable from assets held in trust		22,916,000	62,103,856						13,834,498		
Payable from restricted assets		333,355,550	573,225,669	1,811,901	8,629,306	4,500	61,606	22,677,744	13,931,955	1,936,885	
<b>Total liabilities</b>	<b>701,845</b>	<b>\$ 333,355,550</b>	<b>\$ 573,225,669</b>	<b>\$ 1,811,901</b>	<b>\$ 8,629,306</b>	<b>\$ 4,500</b>	<b>\$ 61,606</b>	<b>\$ 22,677,744</b>	<b>\$ 13,931,955</b>	<b>\$ 11,908,807</b>	<b>\$ 51,040</b>
<b>Equity:</b>											
Contributed capital								6,000,000			
Retained earnings:								14,093,727		888,549	51,016
Restricted	3,610,680	8,791,139	20,168,850	6,103,621	3,026,800	64,785	9,472,704				
Unrestricted											
<b>Total equity</b>	<b>3,610,680</b>	<b>8,791,139</b>	<b>20,168,850</b>	<b>6,103,621</b>	<b>3,026,800</b>	<b>64,785</b>	<b>9,472,704</b>	<b>20,093,727</b>		<b>888,549</b>	<b>51,016</b>
<b>Total liabilities and equity</b>	<b>\$ 4,312,525</b>	<b>\$ 342,146,689</b>	<b>\$ 593,394,519</b>	<b>\$ 7,915,522</b>	<b>\$ 11,656,106</b>	<b>\$ 69,285</b>	<b>\$ 9,534,310</b>	<b>\$ 42,771,471</b>	<b>\$ 13,931,955</b>	<b>\$ 12,795,356</b>	<b>\$ 102,056</b>

EXHIBIT I (Cont.)

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
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**Combined Statement of Revenues, Expenses and Retained Earnings**  
**September 30, 2001**

	Revenue Bonds								Depository Trust Account				Total	
	Operating Account	1999 Series A Revenue Bonds	1998 Series Revenue & Refunding Series Bonds	Revenue Bonds Series 1992 A and Series 1992 B Account	Revenue Bonds Series 1994 A, Series 1994 B and Series 1994 C Account	Government Construction and Revolving Loan Account	Transportation Trust	The West Indian Company Account	Y2K Account	King's Alley Management, Inc.				
<b>Revenues</b>														
Interest income:														
Loans receivable	\$ 101,977	\$ 18,267,832	\$ 28,545,812	\$ 485,543	\$ 405,901	\$ 7,183	\$ 569,002	\$ 457,864	\$ 890,547	\$ 318,863	\$ 47,711,374			
Cash and investments		3,832,268	5,146,531					10,901,404	144,018		11,143,104			
Other income											11,220,267			
	101,977	22,100,100	33,692,343	485,543	405,901	7,183	569,002	11,359,268	1,034,565	318,863	70,074,745			
<b>Expenses</b>														
Interest														
General and administrative	2,811,233	18,267,832	28,161,832	(2,379)		35,832	16,322	1,387,140	890,547	267,847	49,707,351			
Amortization of bond issuance and loan origination cost		(157,790)						6,807,638			9,778,703			
Capital expenditure grants		568,092	439,014				37,360	29,917			1,037,023			
	2,811,233	18,678,134	29,600,846	(2,379)		35,832	53,682	8,224,695	890,547	267,847	37,360			
	(2,709,256)	3,421,966	4,091,497	487,922	405,901	(28,649)	515,320	3,134,573	144,018	51,016	9,514,308			
Income (loss) before transfers to the VI Government and in lieu of taxes	3,554,014	(157,790)	(3,396,224)	-	1,000,000	-	(1,000,000)	(500,000)	-	-	(500,000)			
Transfers (to) from Funds in lieu of taxes	3,554,014	(157,790)	(3,396,224)	-	1,000,000	-	(1,000,000)	(500,000)	-	-	(500,000)			
	844,758	3,264,176	695,273	487,922	1,405,901	(28,649)	(484,680)	2,634,573	144,018	51,016	9,014,308			
Net income (loss)	2,000,000							(1,500,000)			500,000			
Dividend received (paid)														
Retained earnings at beginning of year	785,922	5,528,963	19,473,577	5,615,699	1,620,899	93,434	9,957,384	12,959,154	744,531	-	56,757,563			
Retained earnings at end of year	\$ 3,610,680	\$ 8,791,139	\$ 20,168,850	\$ 6,103,621	\$ 3,026,800	\$ 64,785	\$ 9,472,704	\$ 14,093,727	\$ 888,549	\$ 51,016	\$ 66,271,871			

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
(a blended component of the Government of the Virgin Islands)  
**Combined Statement of Cash Flows**  
**September 30, 2001**

	Revenue Bonds											
	1999 Series A Revenue Bonds		1998 Series Revenue & Refunding Series Bonds	Series 1992 A and Series 1992 B Account	Series 1994 A, Series 1994 B and Series 1994 C Account	Government Construction and Revolving Loan Account	Transportation Trust	The West Indian Company Account	Depository Trust Account	Y2K Account	King's Alley Management, Inc.	Total
Cash flow from operating activities:												
Net income (loss)	\$ 844,758	\$ 3,264,176	\$ 696,273	\$ 487,922	\$ 1,405,901	\$ (28,649)	\$ (484,680)	\$ 2,634,573	\$ -	\$ 144,018	\$ 51,016	\$ 9,014,308
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:												
Amortization of bond issuance costs		588,082	439,014					29,937				1,037,043
Amortization of deferred amount on defeased bonds			616,020					1,054,275				616,020
Depreciation and amortization												
Changes in operating assets and liabilities:												
Decrease in cash and other assets held in trust		(942,236)			(93,740)			(522,562)	(1,105,183)	266,953	(33,484)	(1,105,183)
Increase (decrease) in accrued and other liabilities	720,621	(26,453,749)	(24,020,338)	(4,598,065)	(367,048)		(490,191)	43,888		(266,953)	51,040	548,366
Decrease in due to VI Government increase in payable from assets held in trust									1,105,183			(55,929,391)
Decrease in payable from restricted assets		(200,789)	(36,983,280)							(2,305,497)		1,105,183
Total adjustments	720,621	(27,028,682)	(59,948,584)	(4,598,065)	(460,788)	-	(490,191)	605,338	-	(2,305,497)	17,556	(39,489,566)
Net cash provided by (used in) operating activities	1,565,379	(23,764,506)	(59,253,311)	(4,110,143)	945,113	(28,649)	(974,871)	3,239,911	-	(2,161,479)	68,572	(84,473,984)

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
(a blended component of the Government of the Virgin Islands)  
**Combined Statement of Cash Flows**  
**September 30, 2001**

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