

This Private Placement Memorandum describes the \$35,115,000 Virgin Islands Public Finance Authority Revenue Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2012C (Capital Projects/Tax-Exempt) (the “Series 2012C Bonds”) and incorporates by reference the Private Placement Memorandum of the Virgin Islands Public Finance Authority dated November 9, 2012, related to the Virgin Islands Public Finance Authority Revenue Refunding Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2012A (Working Capital Refinancing/Tax-Exempt) and the Virgin Islands Public Finance Authority Revenue Refunding Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2012B (Broadband Project Refinancing/Federally Taxable) (the “Series 2012A-B Bonds PPM”). The Series 2012A-B Bonds PPM is attached hereto as APPENDIX C.

This Private Placement Memorandum is to be read in conjunction with the Series 2012A-B Bonds PPM to form the disclosure document for the offer and sale of the Series 2012C Bonds, subject to updates to certain sections and tables from the Series 2012A-B Bonds PPM (see “UPDATES TO THE SERIES 2012A-B BONDS PPM” herein). All references in the Series 2012A-B Bonds PPM to the Series 2012 Bonds, including without limitation the section entitled “PLAN OF DISTRIBUTION” (as set forth on pages 4-6 of the Series 2012A-B Bonds PPM), shall be deemed, for purposes of this Private Placement Memorandum, to also include the Series 2012C Bonds, except as otherwise indicated herein. Capitalized terms used in this Private Placement Memorandum, to the extent not otherwise defined herein, shall have the meanings provided in the Series 2012A-B Bonds PPM.



\$35,115,000
VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
Revenue Bonds
(Virgin Islands Gross Receipts Taxes Loan Note),
Series 2012C
(Capital Projects/Tax-Exempt)



Dated: Date of Delivery

Due: October 1, as shown on the inside cover page

The Series 2012C Bonds are being issued pursuant to (i) the Virgin Islands Revised Organic Act, 48 U.S.C. 1574, et seq. (West 1987), the laws of the Virgin Islands including Title 29, Chapter 15 of the Virgin Islands Code, 2012 V.I. Act 7453, 2012 V.I. Act 7454, and other applicable law, as the same may be amended from time to time, (ii) Resolution No. 12-015, adopted by the Authority on December 13, 2012, and (iii) the Original Indenture, as previously amended and supplemented, and as further supplemented by the Fourteenth Supplemental Indenture of Trust, dated as of December 1, 2012 (the “Fourteenth Supplemental Indenture,” collectively, the “Indenture”), each by and between the Authority and the Trustee. The Series 2012C Bonds will be secured by a pledge of the Trust Estate, which includes certain funds established under the Indenture and the general obligation Series 2012C Gross Receipts Taxes Loan Note (the “Series 2012C Loan Note”) issued to the Authority by the Government pursuant to the Loan Agreement, dated as of December 1, 2012, by and among the Authority, the Trustee and the Government (the “Series 2012C Loan Agreement”). The Series 2012C Bonds are being issued by the Authority to (i) finance all or a portion of the costs of certain capital projects, (ii) fund capitalized interest on a portion of the Series 2012C Bonds and (iii) pay the costs and expenses of issuing and delivering the Series 2012C Bonds.

The Series 2012C Bonds are offered subject to prior sale, when, as and if issued by the Authority and accepted by the Co-Placement Agents, subject to the approval of legality by Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed upon for the Authority by its counsel, Birch, deJongh & Hindels PLLC, St. Thomas, Virgin Islands. Certain legal matters will be passed upon for the Government by the Office of the Attorney General of the Government. Hawkins Delafield & Wood LLP, Disclosure Counsel to the Authority, will deliver an opinion regarding certain matters to the Authority, the Government and the Co-Placement Agents. Certain legal matters will be passed upon for the Co-Placement Agents by their counsel, Orrick, Herrington & Sutcliffe LLP, Washington, D.C. It is expected that the Series 2012C Bonds will be available for delivery through the facilities of DTC in New York, New York on or about December 19, 2012.

Jefferies

Bostonia Global Securities LLC

Serving as Co-Placement Agents

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, AND PRICES

\$35,115,000
VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
Revenue Bonds
(Virgin Islands Gross Receipts Taxes Loan Note),
Series 2012C
(Capital Projects/Tax-Exempt)

\$6,985,000 3.00% Term Bonds due October 1, 2017, yield 2.48%, price 102.329%, CUSIP[†] 927676RT5
\$13,000,000 5.00% Term Bonds due October 1, 2030, yield 3.93%^{*}, price 108.615%^{*}, CUSIP[†] 927676RU2
\$15,130,000 5.00% Term Bonds due October 1, 2042, yield 4.45%^{*}, price 104.317%^{*}, CUSIP[†] 927676RV0

^{*} Yield and price to the first par call date of October 1, 2022.

[†] The CUSIP numbers for the Series 2012C Bonds are provided by Standard & Poor's CUSIP Service Bureau, a division of McGraw-Hill Companies, Inc., and are set forth herein for convenience of reference only. The Authority assumes no responsibility for the accuracy of such numbers, nor is any representation made as to their correctness on the Series 2012C Bonds or as indicated above.

Table of Contents

| | |
|--|----|
| INTRODUCTION | 1 |
| GENERAL DESCRIPTION OF THE BONDS..... | 1 |
| Authorization | 1 |
| Purpose of the Issue | 2 |
| THE SERIES 2012C BONDS | 2 |
| Redemption..... | 2 |
| SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012C BONDS | 4 |
| SOURCES AND USES OF FUNDS | 4 |
| DEBT SERVICE REQUIREMENTS..... | 5 |
| LEGAL OPINIONS..... | 6 |
| CONTINUING DISCLOSURE..... | 6 |
| PLACEMENT AGREEMENT | 6 |
| UPDATES TO THE SERIES 2012A-B BONDS PPM..... | 7 |
| MISCELLANEOUS | 10 |

APPENDICES

| | |
|--|-----|
| APPENDIX A: Glossary of Certain Defined Terms and Summaries of Certain Provisions of the Fourteenth Supplemental Indenture and the Series 2012C Loan Agreement | A-1 |
| APPENDIX B: Form of Opinion of Bond Counsel | B-1 |
| APPENDIX C: The Series 2012A-B Bonds PPM | C-1 |

[THIS PAGE INTENTIONALLY LEFT BLANK]

PRIVATE PLACEMENT MEMORANDUM

\$35,115,000
VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
Revenue Bonds
(Virgin Islands Gross Receipts Taxes Loan Note),
Series 2012C
(Capital Projects/Tax-Exempt)

INTRODUCTION

The Authority has prepared this Private Placement Memorandum in connection with the sale of the Series 2012C Bonds. This Private Placement Memorandum is dated as of the date set forth on the cover page. The Series 2012C Bonds may not be suitable for all investors. Prospective purchasers of the Series 2012C Bonds should read this Private Placement Memorandum (which incorporates the Series 2012A-B Bonds PPM) in its entirety. The descriptions and summaries of the various documents referred to herein do not purport to be comprehensive or definitive, and all such descriptions or summaries are qualified in their entirety by reference to the complete documents. Copies of the referenced documents are available at the offices of the Trustee (as defined below) at 10161 Centurion Parkway, Jacksonville, Florida 32256 (904-645-1912), and at the offices of the Authority at 32-33 Kongens Gade, Charlotte Amalie, St. Thomas, United States Virgin Islands 00802 (340-714-1635); Attention: Executive Director.

GENERAL DESCRIPTION OF THE BONDS

Authorization

The Series 2012 Bonds are being issued pursuant to (i) the Virgin Islands Revised Organic Act, 48 U.S.C. 1574, et seq. (West 1987), the laws of the Virgin Islands including Title 29, Chapter 15 of the Virgin Islands Code, 2012 V.I. Act 7453, 2012 V.I. Act 7454, and other applicable law, as the same may be amended from time to time, (ii) Resolution No. 12-015, adopted by the Authority on December 13, 2012 (the "Resolution"), and (iii) the Original Indenture, as previously amended and supplemented, and as further supplemented by the Fourteenth Supplemental Indenture of Trust, dated as of December 1, 2012 (the "Fourteenth Supplemental Indenture," collectively, the "Indenture"), each by and between the Authority and the Trustee.

The Series 2012C Bonds will be secured by a pledge of the Trust Estate, which includes certain funds established under the Indenture and the general obligation Series 2012C Gross Receipts Taxes Loan Note (the "Series 2012C Loan Note") issued to the Authority by the Government pursuant to the Loan Agreement, dated as of December 1, 2012, by and among the Authority, the Trustee and the Government (the "Series 2012C Loan Agreement").

Purpose of the Issue

The Series 2012C Bonds are being issued by the Authority to (i) finance all or a portion of the costs of certain capital projects, as authorized by the Legislature in 2012 V.I. Act 7453 and 2012 V.I. Act 7454 and approved by the Government and the Authority in the Resolution, (ii) fund capitalized interest on a portion of the Series 2012C Bonds and (iii) pay the costs and expenses of issuing and delivering the Series 2012C Bonds.

THE SERIES 2012C BONDS

For purposes of the Series 2012C Bonds, the information in the Series 2012A-B Bonds PPM under the heading “THE SERIES 2012 BONDS – Redemption – *Optional Redemption*” and “– *Mandatory Sinking Fund Redemption*” is supplemented by the following paragraphs.

Redemption

Optional Redemption

The Series 2012C Bonds maturing on October 1, 2030 and October 1, 2042, are subject to optional redemption by the Authority on or after October 1, 2022, in whole or in part at any time, from such maturities as directed by the Authority, from any moneys that may be available for such purpose, at a Redemption Price of 100% of the principal amount thereof plus interest accrued to the redemption date.

Mandatory Sinking Fund Redemption

The Series 2012C Bonds maturing on October 1, 2017, are required to be redeemed prior to maturity on October 1, in the years and amounts upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date, as follows:

| <u>Year</u> <u>(October 1)</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| 2014 | \$1,670,000 |
| 2015 | \$1,720,000 |
| 2016 | \$1,775,000 |
| 2017 [†] | \$1,820,000 |

[†]Final maturity.

The Series 2012C Bonds maturing on October 1, 2030, are required to be redeemed prior to maturity on October 1, in the years and amounts upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date, as follows:

| <u>Year</u> <u>(October 1)</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| 2018 | \$1,600,000 |
| 2019 | \$1,685,000 |
| 2020 | \$1,770,000 |
| 2021 | \$1,860,000 |
| 2022 | \$1,955,000 |
| 2023 | \$430,000 |
| 2024 | \$455,000 |
| 2025 | \$475,000 |
| 2026 | \$500,000 |
| 2027 | \$525,000 |
| 2028 | \$555,000 |
| 2029 | \$580,000 |
| 2030 [†] | \$610,000 |

[†]Final maturity.

The Series 2012C Bonds maturing on October 1, 2042, are required to be redeemed prior to maturity on October 1, in the years and amounts upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date, as follows:

| <u>Year</u> <u>(October 1)</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| 2031 | \$945,000 |
| 2032 | \$990,000 |
| 2033 | \$1,045,000 |
| 2034 | \$1,095,000 |
| 2035 | \$1,150,000 |
| 2036 | \$1,210,000 |
| 2037 | \$1,275,000 |
| 2038 | \$1,340,000 |
| 2039 | \$1,410,000 |
| 2040 | \$1,480,000 |
| 2041 | \$1,555,000 |
| 2042 [†] | \$1,635,000 |

[†]Final maturity.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012C BONDS

The security and sources of payment for the Series 2012C Bonds are the same as that described for the Series 2012A Bonds and Series 2012B Bonds in the Series 2012A-B Bonds PPM under the heading “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS,” provided that (i) the definition of “Series 2012 Loan Notes” should be read to also include a Series 2012C Loan Note, and (ii) there is a separate Series 2012C Loan Agreement.

The terms of the Series 2012C Loan Agreement are substantially identical to the terms of the Series 2012 Loan Agreement, which is described and summarized in the Series 2012A-B Bonds PPM. The key terms of the Series 2012C Loan Agreement that differ from the Series 2012 Loan Agreement are described in this Private Placement Memorandum and the Series 2012C Loan Agreement is summarized in APPENDIX A hereto.

SOURCES AND USES OF FUNDS

The sources and uses of the proceeds of the Series 2012C Bonds are set forth below:

SOURCES OF FUNDS

| | |
|------------------------|-------------------------------|
| Par Amount | \$35,115,000.00 |
| Original Issue Premium | <u>1,935,792.75</u> |
| Total Sources | <u>\$37,050,792.75</u> |

USES OF FUNDS

| | |
|---|-------------------------------|
| Deposit to the Series 2012C Project Subaccount | \$35,783,534.00 |
| Deposit to the Series 2012C Capitalized Interest Subaccount | 383,833.33 |
| Costs of Issuance ⁽¹⁾ | <u>883,425.42</u> |
| Total Uses | <u>\$37,050,792.75</u> |

1. The Costs of Issuance of the Series 2012C Bonds include legal fees, Trustee fees, financial advisor fees, Co-Placement Agents' Fee, and other costs incurred in connection with the issuance of the Series 2012C Bonds.

DEBT SERVICE REQUIREMENTS

The table below sets forth the debt service on all Outstanding Bonds, including the Series 2012C Bonds. Amounts in the table below may not total due to rounding.

| Fiscal Year (September 30) | Outstanding Debt Service | Debt Service on the Series 2012C Bonds | | | Total Debt Service |
|-------------------------------|-------------------------------|--|----------------------------|----------------------------|-------------------------------|
| | | Principal | Interest | Total | |
| 2013 | \$42,400,484 | - | \$457,881 | \$457,881 | \$42,858,365 |
| 2014 | 49,156,187 | - | 1,616,050 | 1,616,050 | 50,772,237 |
| 2015 | 49,807,231 | \$1,670,000 | 1,591,000 | 3,261,000 | 53,068,231 |
| 2016 | 50,392,850 | 1,720,000 | 1,540,150 | 3,260,150 | 53,653,000 |
| 2017 | 50,393,406 | 1,775,000 | 1,487,725 | 3,262,725 | 53,656,131 |
| 2018 | 50,394,144 | 1,820,000 | 1,433,800 | 3,253,800 | 53,647,944 |
| 2019 | 50,394,062 | 1,600,000 | 1,366,500 | 2,966,500 | 53,360,562 |
| 2020 | 50,399,525 | 1,685,000 | 1,284,375 | 2,969,375 | 53,368,900 |
| 2021 | 50,395,431 | 1,770,000 | 1,198,000 | 2,968,000 | 53,363,431 |
| 2022 | 50,393,006 | 1,860,000 | 1,107,250 | 2,967,250 | 53,360,256 |
| 2023 | 50,398,763 | 1,955,000 | 1,011,875 | 2,966,875 | 53,365,638 |
| 2024 | 55,307,656 | 430,000 | 952,250 | 1,382,250 | 56,689,906 |
| 2025 | 55,310,706 | 455,000 | 930,125 | 1,385,125 | 56,695,831 |
| 2026 | 55,310,300 | 475,000 | 906,875 | 1,381,875 | 56,692,175 |
| 2027 | 55,307,044 | 500,000 | 882,500 | 1,382,500 | 56,689,544 |
| 2028 | 55,306,163 | 525,000 | 856,875 | 1,381,875 | 56,688,038 |
| 2029 | 55,306,563 | 555,000 | 829,875 | 1,384,875 | 56,691,438 |
| 2030 | 55,307,094 | 580,000 | 801,500 | 1,381,500 | 56,688,594 |
| 2031 | 55,304,250 | 610,000 | 771,750 | 1,381,750 | 56,686,000 |
| 2032 | 55,308,625 | 945,000 | 732,875 | 1,677,875 | 56,986,500 |
| 2033 | 55,303,875 | 990,000 | 684,500 | 1,674,500 | 56,978,375 |
| 2034 | 37,612,375 | 1,045,000 | 633,625 | 1,678,625 | 39,291,000 |
| 2035 | - | 1,095,000 | 580,125 | 1,675,125 | 1,675,125 |
| 2036 | - | 1,150,000 | 524,000 | 1,674,000 | 1,674,000 |
| 2037 | - | 1,210,000 | 465,000 | 1,675,000 | 1,675,000 |
| 2038 | - | 1,275,000 | 402,875 | 1,677,875 | 1,677,875 |
| 2039 | - | 1,340,000 | 337,500 | 1,677,500 | 1,677,500 |
| 2040 | - | 1,410,000 | 268,750 | 1,678,750 | 1,678,750 |
| 2041 | - | 1,480,000 | 196,500 | 1,676,500 | 1,676,500 |
| 2042 | - | 1,555,000 | 120,625 | 1,675,625 | 1,675,625 |
| 2043 | - | 1,635,000 | 40,875 | 1,675,875 | 1,675,875 |
| Total | <u>\$1,135,209,741</u> | <u>\$35,115,000</u> | <u>\$26,013,606</u> | <u>\$61,128,606</u> | <u>\$1,196,338,346</u> |

LEGAL OPINIONS

The validity of the Series 2012C Bonds and certain other legal matters are subject to the approving opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority. The proposed form of Bond Counsel opinion is set forth as APPENDIX B hereto.

Certain legal matters will be passed on for the Authority by its counsel, Birch, deJongh & Hindels PLLC, St. Thomas, Virgin Islands. Certain legal matters will be passed upon for the Government by the Office of the Attorney General of the Government. Hawkins Delafield & Wood LLP, Disclosure Counsel to the Authority, will deliver an opinion regarding certain matters to the Authority, the Government and the Co-Placement Agents. Certain legal matters will be passed upon for the Co-Placement Agents by their counsel, Orrick Herrington & Sutcliffe LLP, Washington, D.C.

CONTINUING DISCLOSURE

The Authority has entered into a continuing disclosure agreement for the Series 2012 Bonds that meets the requirements of Rule 15c2-12. See APPENDIX F in the Series 2012A-B Bonds PPM. Exhibit A to such continuing disclosure agreement will be amended to include the Series 2012C Bonds and the necessary amendatory documents will be delivered in accordance with the Placement Agreement (as defined below).

PLACEMENT AGREEMENT

The Authority and the Co-Placement Agents identified on the cover of this Private Placement Memorandum have entered into a placement agreement, dated as of December 17, 2012 (the "Placement Agreement"). Subject to the terms and conditions set forth therein, the Co-Placement Agents have agreed to solicit offers to purchase the Series 2012C Bonds from certain institutional investors.

Pursuant to the Placement Agreement, the Co-Placement Agents have agreed to pay to the Authority the aggregate purchase price of the Series 2012C Bonds of \$36,776,063.24 (representing the \$35,115,000.00 par amount of the Series 2012C Bonds, plus original issue premium of \$1,935,792.75, less the Co-Placement Agents' Fee of \$210,690.00, and less expenses of the Co-Placement Agents in the amount of \$64,039.51).

The obligation of the Co-Placement Agents to pay for and accept delivery of any Series 2012C Bonds is subject to, among other things, the sale of those Series 2012C Bonds to institutional investors, the receipt of certain legal opinions and the satisfaction of other conditions set forth in the Placement Agreement. The Placement Agreement also provides that the Authority, under certain circumstances, will indemnify the Co-Placement Agents and that the Co-Placement Agents, under certain circumstances, will indemnify the Authority against certain civil liabilities under Federal or state securities laws.

UPDATES TO THE SERIES 2012A-B BONDS PPM

Certain information, sections and tables from the Series 2012A-B Bonds PPM are updated as follows (for purposes of the incorporation by reference into this Private Placement Memorandum):

FY 2010 Financial Statements

As of the date of the Series 2012A-B Bonds PPM, the Government's most recent audited financial statements were for the fiscal year ended September 30, 2009. On November 30, 2012, the Government filed with EMMA its audited financial statements for the fiscal year ended September 30, 2010 (the "FY 2010 Financial Statements"). As a result, references to unaudited financial information for fiscal year 2010 in the Series 2012A-B Bonds PPM, including but not limited to such references in the sections entitled "GROSS RECEIPTS TAXES" and APPENDIX D – "INFORMATION REGARDING THE UNITED STATES VIRGIN ISLANDS – Financial Position of the Government" should be disregarded. Prospective investors should refer to the FY 2010 Financial Statements for audited financial information for such fiscal year. The FY 2010 Financial Statements are available from (i) the Government or (ii) EMMA in electronic format, at www.emma.msrb.org.

When reviewing the FY 2010 Financial Statements, prospective investors should note that the auditors (i) referenced certain exceptions in their audit letter, which are explained in more detail in the Notes to the FY 2010 Financial Statements, and (ii) in a separate report on internal controls, which is appended to the FY 2010 Financial Statements, noted certain material weaknesses. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Ratings. The FY 2010 Financial Statements include a paragraph that incorrectly refers to certain bonds of the Government, including the Series 2012A Bonds and Series 2012B Bonds, as having "insured" ratings of "BBB" and "BBB+" from Fitch Ratings and Standard & Poor's, respectively (see page 16 of the FY 2010 Financial Statements). The ratings as stated are correct. However, it should be noted that such bonds are not insured.

Fiscal Year 2010 Audit. The following paragraph, which presents audited financial results prepared on an accrual basis, replaces in its entirety the paragraph entitled "Fiscal Year 2010" on page D-26 of the Series 2012A-B Bonds PPM. Please note that the paragraph that is being replaced presented unaudited financial results prepared on a cash basis.

- For fiscal year 2010, the Government reported an audited shortfall of revenues over expenditures of approximately \$1.04 billion. After taking into account transfers from other funds and other financing sources, including bond and loan proceeds, the Government reported an audited shortfall of revenues over expenditures of approximately \$13.5 million. The Government ended fiscal year 2010 with a net deficit of approximately \$944.0 million on its balance sheet.

Statement of Revenues, Expenditures, and Changes in Fund Balances. The following statement of revenues, expenditures, and changes in fund balances replaces in its entirety Table D-21 in the Series 2012A-B Bonds PPM.

**Table D-21. Government of the United States Virgin Islands
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds**

**Year Ended September 30, 2010
(\$ In thousands)**

| | General | PFA Debt Service | PFA Capital Projects | Other Governmental | Total Governmental |
|--|----------------|---------------------------------|-------------------------------------|-------------------------------|-------------------------------|
| Revenues: | | | | | |
| Taxes | \$ 429,439 | \$ 172,153 | \$ 4,341 | \$ 22,262 | \$ 691,195 |
| Federal grants and contributions | 72,770 | - | 1,896 | 250,453 | 325,119 |
| Charges for services | 24,287 | - | - | 21,224 | 45,511 |
| Tobacco settlement rights | - | - | - | 2,258 | 2,258 |
| Interest and other | 1,483 | 6,980 | 916 | 27,146 | 36,525 |
| Total revenues | 590,979 | 179,133 | 7,153 | 323,343 | 1,100,608 |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 434,464 | - | 107,686 | 71,402 | 613,552 |
| Public safety | 64,159 | - | - | 5,689 | 69,848 |
| Health | 122,841 | - | - | 36,590 | 159,431 |
| Public housing and welfare | 59,655 | - | - | 79,778 | 139,433 |
| Education | 222,395 | - | - | 49,205 | 271,600 |
| Transportation and communication | 27,031 | - | - | 27,717 | 54,748 |
| Culture and recreation | 8,995 | - | - | 121 | 9,116 |
| Capital outlays | 22,114 | - | 39,009 | 49,930 | 111,053 |
| Debt service: | | | | | |
| Principal | 200,000 | 410,075 | 3,264 | 2,015 | 615,354 |
| Interest | 6,958 | 69,145 | 769 | 917 | 77,789 |
| Cost of issuance of bonds and loans | - | 15,980 | - | - | 15,980 |
| Total expenditures | 1,168,612 | 495,200 | 150,728 | 323,364 | 2,137,904 |
| Excess (deficiency) of revenue over (under) expenditures | (577,633) | (316,067) | (143,575) | (21) | (1,037,296) |
| Other financing sources (uses): | | | | | |
| Bonds issued | 350,000 | 426,069 | 121,011 | - | 897,080 |
| Loans issued | 106,400 | 675 | 3,325 | - | 110,400 |
| Bond premium | - | 18,333 | - | - | 18,333 |
| Bond discounts and issuance costs | - | (2,734) | - | - | (2,734) |
| Transfers from other funds | 92,848 | - | 61 | 8,488 | 101,397 |
| Transfers to other funds | (6,763) | (81,381) | (54) | (12,500) | (100,698) |
| Total other financing sources (uses), net | 542,485 | 360,962 | 124,343 | (4,012) | 1,023,778 |
| Net change in fund balances | (35,148) | 44,895 | (19,232) | (4,033) | (13,518) |
| Fund balance at beginning of year | (55,358) | 184,263 | 207,396 | 78,967 | 415,268 |
| Fund balance at end of year | \$ (90,506) | \$ 229,158 | \$ 188,164 | \$ 74,934 | \$ 401,750 |

Outstanding Indebtedness of the Authority and the Government

The table of Outstanding Indebtedness of the Authority and the Government in the Series 2012A-B Bonds PPM does not include the issuance of the Series 2012A Bonds, in the principal amount of \$197,065,000, and Series 2012B Bonds, in the principal amount of \$31,740,000. See “VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY – Outstanding Indebtedness of the Authority and the Government” in the Series 2012A-B Bonds PPM. As described in the Series 2012A-B Bonds PPM, the proceeds of the Series 2012A Bonds and Series 2012B Bonds were to be used in part to refund or refinance the Series 1999A Bonds, the Series 2010A Notes, and the Series 2011A Notes, as applicable. As of the date hereof, such bonds and notes have been refunded or refinanced.

Gross Receipts Taxes Tables

Based on the information in the AUP Report (dated November 13, 2012) for the fourth quarter of fiscal year 2012, certain data relating to fiscal year 2012 included in Tables 2, 3, and 4 of the Series 2012A-B Bonds PPM (as set forth on pages 29, 30, and 31 thereof) are revised as follows:

| <u>Table</u> | <u>Original Number</u> | <u>Revised Number</u> |
|--------------|------------------------|-----------------------|
| 2 | \$149,771 | \$146,910 |
| 2 | 22.6% | 22.2% |
| 3 | \$153,456 | \$150,522 |
| 3 | \$149,771 | \$146,910 |
| 4 | \$149,521 | \$146,660 |
| 4 | 3.65x | 3.58x |

Internal Revenue Service Audit

The last sentence in the first paragraph under the heading “INTERNAL REVENUE SERVICE AUDIT” in the Series 2012A-B Bonds PPM (“As of the date hereof, the audit is ongoing.”), is replaced in its entirety with the following sentences:

The IRS has tentatively concluded that a portion of the 2006 Bonds that refunded the Series 1999A Bonds should not have been issued, on the basis that the Government had “available amounts” that could have been used to defease certain of the Series 1999A Bonds that were refunded. Discussions among the Authority, the Government and the IRS regarding this matter are ongoing as of the date hereof.

Ratings for the Series 2012C Bonds

Standard & Poor’s Ratings Service and Fitch Ratings Inc. have assigned the Series 2012C Bonds ratings of “BBB+” (with a stable outlook) and “BBB” (with a negative outlook), respectively.

MISCELLANEOUS

In this Private Placement Memorandum and the Series 2012A-B Bonds PPM, any summaries or descriptions of provisions in any transaction-related documents and all references to other materials not purported to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is hereby made to the complete documents relating to such matters for further information, copies of which may be obtained from the principal corporate trust office of the Trustee.

This Private Placement Memorandum is submitted in connection with the sale of the Series 2012C Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. The execution and delivery of this Private Placement Memorandum has been duly authorized by the Authority.

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

By: /s/ John P. deJongh, Jr.
The Honorable John P. deJongh, Jr.
Chairman

APPENDIX A

GLOSSARY OF CERTAIN DEFINED TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE FOURTEENTH SUPPLEMENTAL INDENTURE AND THE SERIES 2012C LOAN AGREEMENT

GLOSSARY OF CERTAIN DEFINED TERMS

Certain terms used in the Fourteenth Supplemental Indenture and the Series 2012C Loan Agreement are defined below unless otherwise defined herein or the context clearly indicates otherwise. When and if such terms are used in this Private Placement Memorandum they shall have the meanings set forth below. Any capitalized term used in this Private Placement Memorandum regarding the Series 2012C Loan Agreement and not defined herein shall have the meaning defined in the Series 2012A-B Bonds PPM.

Act means, collectively, the Virgin Islands Revised Organic Act, 48 U.S.C. 1574, et seq. (West 1987), the laws of the Virgin Islands including Title 29, Chapter 15 of the Virgin Islands Code, 2012 V.I. Act 7453, 2012 V.I. Act 7454, and other applicable law, as the same may be amended from time to time.

Arbitrage and Use of Proceeds Certificate shall mean the Arbitrage and Use of Proceeds Certificate dated December 19, 2012, of the Authority and the Government, relating to the requirements of Sections 148 and 103 of the Code relating to exemption of interest on the Series 2012C Bonds from Federal income tax.

Continuing Disclosure Agreement shall mean the Continuing Disclosure Agreement, dated as of November 1, 2012, between the Authority and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent, acknowledged and accepted by the Government.

Fourteenth Supplemental Indenture means the Fourteenth Supplemental Indenture of Trust, dated as of December 1, 2012, between the Authority and the Trustee, which supplements and amends the Indenture.

Indenture means the Original Indenture, as supplemented by Supplemental Indentures, including the Fourteenth Supplemental Indenture of Trust, each by and between the Authority and the Trustee and each of which may from time to time be amended or supplemented in accordance with the terms thereof.

Series 2012C Bonds shall mean the Virgin Islands Public Finance Authority Revenue Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2012C (Capital Refinancing/Tax-Exempt) in the principal amount of \$35,115,000.

Series 2012C Capitalized Interest Subaccount shall mean the Series 2012C Capitalized Interest Subaccount of the Debt Service Account established pursuant to the Fourteenth Supplemental Indenture.

Series 2012C Capital Projects shall mean the projects described in the Fourteenth Supplemental Indenture.

Series 2012C Cost of Issuance Subaccount shall mean the Series 2012C Cost of Issuance Subaccount of the Cost of Issuance Account established pursuant to the Fourteenth Supplemental Indenture.

Series 2012C Expense Subaccount shall mean the Series 2012C Expense Subaccount of the Debt Service Account established pursuant to the Fourteenth Supplemental Indenture.

Series 2012C Interest Subaccount shall mean the Series 2012C Interest Subaccount of the Debt Service Account established pursuant to the Fourteenth Supplemental Indenture.

Series 2012C Loan Agreement shall mean the Loan Agreement, dated as of December 1, 2012, by and among the Government, the Authority and the Trustee, entered into in connection with the issuance of the Series 2012C Bonds.

Series 2012C Loan Note shall mean the Government's \$35,115,000 principal amount 2012C Gross Receipts Taxes Loan Note, executed and delivered to the Authority pursuant to the Series 2012C Loan Agreement.

Series 2012C Principal Subaccount shall mean the Series 2012C Principal Subaccount of the Debt Service Account established pursuant to the Fourteenth Supplemental Indenture.

Series 2012C Project Subaccount shall mean the Series 2012C Project Subaccount of the Project Account established pursuant to the Fourteenth Supplemental Indenture.

Series 2012C Rebate Subaccount shall mean the Series 2012C Rebate Subaccount established pursuant to the Fourteenth Supplemental Indenture.

Series 2012C Redemption Subaccount shall mean the Series 2012C Redemption Subaccount of the Debt Service Account established pursuant to the Fourteenth Supplemental Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE FOURTEENTH SUPPLEMENTAL INDENTURE

The following is a summary of certain provisions of the Fourteenth Supplemental Indenture. Such summary does not purport to be complete or definitive and reference is made to the Fourteenth 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 “– GLOSSARY OF CERTAIN DEFINED TERMS.”

Authorization and Details of Series 2012C Bonds. The Fourteenth Supplemental Indenture authorizes the issuance of the Series 2012C Bonds, the proceeds of which shall be used to (i) finance all or a portion of the Series 2012C Capital Projects, (ii) fund capitalized interest on a portion of the Series 2012C Bonds, and (iii) pay certain costs incidental to the issuance of the Series 2012C Bonds.

Bonds Equally and Ratably Secured. Except as provided in the Fourteenth Supplemental Indenture, the Series 2012C Bonds shall in all respects be equally and ratably secured.

Details of the Series 2012C Bonds. The Series 2012C Bonds shall be dated the date of delivery, shall be issuable as fully registered bonds in the denomination of \$100,000 and integral multiples of \$5,000 in excess thereof, and shall bear interest paid semiannually on each April 1 and October 1 in the years and amounts specified in the Fourteenth Supplemental Indenture.

Securities Depository Provisions. Initially, one certificate for each respective Series and the Series 2012C Bonds will be issued and registered to the Securities Depository, or its nominee, in a book-entry system.

Optional Redemption. As directed by the Authorized Representative of the Authority, the Series 2012C Bonds are subject to redemption upon payment of the Redemption Prices as specified in the Fourteenth Supplemental Indenture. If less than all of the Series 2012C Bonds of any Series are called for redemption, they shall be called in such order of maturity as the Authority may determine. The portion of any Bond to be redeemed shall be in the principal amount of \$100,000 and integral multiples of \$5,000 in excess thereof. Notice of redemption shall be given in the manner set forth in the Indenture.

Funds and Accounts. There shall be established within the Debt Service Account, the Series 2012C Interest Subaccount, the Series 2012C Principal Subaccount, the Series 2012C Capitalized Interest Subaccount, and the Series 2012C Redemption Subaccount. Moneys in such subaccounts shall be used in accordance with the Indenture.

There shall be established within the Project Account the Series 2012C Project Subaccount. Moneys in the Series 2012C Project Subaccount shall be used in accordance with the provisions of the Indenture.

There shall be established within the Cost of Issuance Account the Series 2012C Cost of Issuance Subaccount. Moneys in the Series 2012C Cost of Issuance Subaccount shall be used in accordance with the provisions of the Indenture.

There shall be established within the Expense Account the Series 2012C Expense Subaccount. Moneys in the Series 2012C Expense Subaccount shall be used in accordance with the provisions of the Indenture.

Security for Series 2012C Bonds. The Series 2012C Bonds shall be equally and ratably secured under the Indenture with any other Bonds issued pursuant to the Indenture, without preference, priority or distinction of any Bonds over any other Bonds, as provided in the Indenture.

Rebate Account. There shall be established within the Rebate Account, the Series 2012C Rebate Subaccount to be held by the Trustee. Moneys deposited in the Series 2012C Rebate Subaccounts shall be applied in accordance with the Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2012C LOAN AGREEMENT

The following is a summary of certain provisions of the Series 2012C Loan Agreement. Such summary does not purport to be complete or definitive, and reference is made to the Series 2012C 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 “– GLOSSARY OF CERTAIN DEFINED TERMS.”

Repayment of the Loan. The Government promises to repay the Loan and observe the terms and provisions of the Series 2012C Loan Agreement. The Loan shall be evidenced by the Government's Series 2012C Loan Note in the principal amount of \$35,115,000. The Government shall repay the Series 2012C Loan Note in installments of principal not later than the second Business Day preceding October 1 in each year in amounts equal to the amounts due for principal or Redemption Price of, and interest on, the Series 2012C Bonds. The Series 2012C Loan Note will accrue interest at rates equal to the rates of interest accruing on the Bonds, payable semiannually not later than the second Business Day preceding each April 1 and October 1, commencing April 1, 2013 and ending on the second Business Day preceding the final maturity thereof. Interest on the Series 2012C Loan Note shall be computed on the basis of a 360-day year composed of twelve (12) thirty (30) day months.

Affirmative Covenants of the Government. The Government covenants and agrees that so long as the Series 2012C Loan Note shall remain outstanding and the principal thereof, interest thereon, and all other amounts payable thereunder shall be unpaid or unprovided for, the Government shall, unless the Authority and the Trustee shall otherwise consent in writing:

(a) Observe and comply with the terms and conditions of and perform all of its obligations under the Series 2012C Loan Agreement, under the Series 2012C Loan Note, the Special Escrow Agreement and the Collecting Agent Agreement, and pay all amounts payable by it thereunder according to the respective terms thereof.

(b) Promptly notify the Authority and the Trustee in writing of the occurrence of (i) any Event of Default under the Series 2012C Loan Agreement and (ii) any default under documents governing any debt of the Government.

(c) In furtherance of the pledge of Gross Receipts Taxes set forth in the Series 2012C Loan Agreement, to ensure (1) the receipt of and the maximization of Gross Receipts Taxes and, if applicable, the Substitute Revenues, and (2) the deposit of all Gross Receipts Taxes, and, if applicable, the Substitute Revenues, in the Special Escrow Account of the Government maintained by the Collecting Agent, as agent for the Special Escrow Agent, pursuant to the Special Escrow Agreement and the Collecting Agent Agreement, or such other place as the Government, with the consent of the Authority and the Trustee, may designate in writing.

(d) Observe and comply with the terms and conditions of and perform all of its obligations under the Special Escrow Agreement and the Collecting Agent Agreement.

(e) At all times while the Series 2012C Loan Note is outstanding, to the extent permitted by law, defend, preserve and protect the pledge of the Gross Receipts Taxes and, if applicable, the Substitute Revenues, under the Series 2012C Loan Agreement and the security interest under the Special Escrow Agreement in all amounts on deposit or required to be deposited in the Special Escrow Account and all rights of the holders of the Series 2012C Loan Note against all claims and demands of all third parties.

(f) Consent to the assignment, pursuant to the Indenture, of all right, title and interest of the Authority herein, 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.

(g) Provide to the Authority and the Trustee within 180 calendar days of the end of each Fiscal Year a financial report summarizing annual receipts of Gross Receipts Taxes and, if applicable the Substitute Revenues.

(h) In the event that the Government discontinues the imposition of the Gross Receipts Taxes and the Government substitutes another stream of revenues in lieu thereof (the “Substitute Revenues”), the Government shall pledge such Substitute Revenues to repayment of the Series 2012C Loan Note.

APPENDIX B

FORM OF OPINION OF BOND COUNSEL

December 19, 2012

Virgin Islands Public Finance Authority
St. Thomas, Virgin Islands

The Bank of New York Mellon Trust Company, N.A.
Jacksonville, Florida

Ladies and Gentlemen:

We have examined a Record of Proceedings relating to the issuance of \$35,115,000 Revenue Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2012C (Capital Projects/Tax-Exempt) (the "Series 2012C Bonds") of the United States Virgin Islands Public Finance Authority (herein called the "Authority"), a body corporate and politic, constituting a public corporation and autonomous governmental instrumentality of the Government of the United States Virgin Islands (the "Government"), organized and existing under and pursuant to the Revised Organic Act of 1954, as amended (48 U.S.C. Section 1574 et seq.) (the "Revised Organic Act"), and the Virgin Islands Public Finance Authority Act (Title 29, Chapter 15, of the Virgin Islands Code), as amended, 2012 V.I. Act 7453 and 2012 V.I. Act 7454 (collectively, the "Act"), and Resolution No. 12-015, dated December 13, 2012 (the "Bond Resolution").

The Series 2012C Bonds are issued under and pursuant to the Revised Organic Act, the Act, the Bond Resolution, an Indenture of Trust, dated as of November 1, 1999 (the "Indenture of Trust"), as previously supplemented and amended, including as supplemented by the Fourteenth Supplemental Indenture of Trust, dated as of December 1, 2012 (the "Fourteenth Supplemental Indenture" and, together with the Indenture of Trust, the "Indenture"), each by and between the Authority and The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida, as successor trustee (the "Trustee"). All terms not otherwise defined herein shall have the meanings set forth in the Indenture.

The Series 2012C Bonds shall be secured by the Indenture, which pledges and assigns to the Trustee a lien on and a security interest in the Trust Estate, subject to the provisions of the Indenture.

The proceeds of the Series 2012C Bonds are being loaned by the Authority to the Government pursuant to a Loan Agreement, dated as of December 1, 2012, by and among the Authority, the Government and the Trustee (the "Series 2012C Loan Agreement"), against delivery by the Government of its \$35,115,000 principal amount Series 2012C Gross Receipts Taxes Loan Note (the "Series 2012C Loan Note").

The Series 2012C Bonds shall be dated, shall mature, shall be subject to redemption prior to maturity and shall have such other terms as set forth in the Indenture.

The proceeds of the Series 2012C Bonds will be used to (i) finance all or a portion of the costs of certain capital projects, (ii) fund capitalized interest on a portion of the Series 2012C Bonds, (iii) pay certain costs of issuing the Series 2012C Bonds.

Pursuant to the Indenture, the Authority is authorized to issue Additional Bonds from time to time upon the terms and conditions set forth therein.

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2012C Bonds in order that interest on the Series 2012C Bonds will be and remain excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of gross proceeds of the Series 2012C Bonds, yield and other restrictions on investments of gross proceeds, and the Arbitrage Rebate Requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2012C Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2012C Bonds from gross income under Section 103 of the Code. In rendering the opinion in paragraph four hereof, we have assumed that the Authority and the Government will comply with the provisions and procedures set forth in the Arbitrage and Use of Proceeds Certificate.

We are of the opinion that:

1. The Authority is duly created and validly existing under the provisions of the Act and the Revised Organic Act.

2. The Indenture has been duly authorized, executed and delivered by the Authority and, assuming the due authorization, execution and delivery thereof by the Trustee, is valid and binding upon the Authority and enforceable in accordance with its terms. The Indenture creates the valid pledge which it purports to create of the Trust Estate, moneys, securities and funds held or set aside under the Indenture, subject only to the application thereof to the purposes and on the conditions permitted by the Indenture.

3. The Series 2012C Bonds are valid and binding special limited obligations of the Authority, enforceable in accordance with their terms and the terms of the Indenture and entitled to the benefits of the Indenture, the Revised Organic Act, and the Act, and the Series 2012C Bonds have been duly and validly authorized and issued in accordance with law (including the Act and the Revised Organic Act) and the Indenture.

4. Under existing statutes and court decisions, interest on the Series 2012C Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code and interest on the Series 2012C Bonds is not treated as a preference item in calculating the alternative minimum taxable income imposed on individuals and corporations under the Code, such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax. Under existing statutes, interest on the Series 2012C Bonds is exempt from any income tax imposed on individuals by the Government or any political subdivision thereof or by any state, territory or possession or by any political subdivisions thereof or by the District of Columbia pursuant to the Revised Organic Act and the Virgin Islands Code.

This opinion is issued as of the date hereof, and we assume no obligation to (i) update, revise or supplement this opinion to reflect any actions hereafter taken or not taken, or any facts or circumstances, or any changes in law or interpretations thereof, that may hereafter occur, or for any other reason whatsoever, (ii) notify you or any other person if the conditions stated in paragraph four above have not been met, or (iii) review any legal matters incident to the authorization, issuance, validity and tax exemption of the Series 2012C Bonds, or the purposes to which the proceeds thereof are to be applied, after the date hereof.

Except as stated in paragraph 3 and 4, we express no opinion regarding any other federal, state, local or foreign tax consequences with respect to the Series 2012C Bonds. We express no opinion regarding the federal, state, local or foreign tax consequences of any action hereafter taken or not taken in reliance upon an opinion of other counsel with respect to the Series 2012C Bonds.

We express no opinion as to the accuracy or sufficiency of any financial or other information which has been or will be supplied to purchasers of the Series 2012C Bonds.

This opinion letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material of any kind not specifically opined on above. It is understood that the rights of the holders of the Series 2012C Bonds under the Indenture and the enforceability thereof under the same may be subject to the exercise of judicial discretion, the sovereign police powers of the Government and the constitutional powers of the United States of America, and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights or remedies and are subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined the Series 2012C Bonds as executed, and, in our opinion, the form of said Series 2012C Bonds and their execution is regular and proper.

Very truly yours,

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

The Series 2012A-B Bonds PPM

[THIS PAGE INTENTIONALLY LEFT BLANK]

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Virgin Islands Public Finance Authority (the “Authority”), under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2012A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Series 2012A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; interest on the Series 2012A Bonds, however, is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, interest on the Series 2012B Bonds is included in gross income for Federal income tax purposes under the Code. In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes, interest on the Series 2012 Bonds is exempt from personal income taxes imposed by the United States Virgin Islands (the “Virgin Islands”) or any political subdivision thereof, and by any state, other territory, or possession of the United States or any political subdivision thereof, or by the District of Columbia. See “TAX MATTERS.”



\$228,805,000

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY



\$197,065,000

Revenue Refunding Bonds

(Virgin Islands Gross Receipts Taxes Loan Note),
Series 2012A

(Working Capital Refinancing/Tax-Exempt)

\$31,740,000

Revenue Refunding Bonds

(Virgin Islands Gross Receipts Taxes Loan Note),
Series 2012B

(Broadband Project Refinancing/Federally Taxable)

Dated: Date of Delivery

Due: October 1, as shown on the inside cover page

The Virgin Islands Public Finance Authority Revenue Refunding Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2012A (Working Capital Refinancing/Tax-Exempt) (the “Series 2012A Bonds”) and the Virgin Islands Public Finance Authority Revenue Refunding Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2012B (Broadband Project Refinancing/Federally Taxable) (the “Series 2012B Bonds,” and together with the Series 2012A Bonds, the “Series 2012 Bonds”) are being issued pursuant to (i) the Act (as defined herein), (ii) Resolution No. 12-009, adopted by the Virgin Islands Public Finance Authority (the “Authority”) on August 14, 2012, and Resolution No. 12-013, adopted by the Authority on October 30, 2012, and (iii) the Indenture of Trust, dated as of November 1, 1999 (the “Original Indenture”), as previously amended and supplemented, and as further supplemented by the Thirteenth Supplemental Indenture of Trust, dated as of November 1, 2012 (the “Thirteenth Supplemental Indenture,” collectively, the “Indenture”), each by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The Trustee is located in Jacksonville, Florida, and will also act as Registrar and Paying Agent with respect to the Series 2012 Bonds.

The Series 2012 Bonds will be secured by a pledge of the Trust Estate, which includes certain funds established under the Indenture and the general obligation Series 2012 Loan Notes (as defined herein) issued by the Government of the United States Virgin Islands (the “Government”) pursuant to the Loan Agreement, dated as of November 1, 2012, by and among the Authority, the Trustee and the Government (the “Series 2012 Loan Agreement”).

The Series 2012 Bonds will bear interest at a fixed rate, as described on the inside cover, and are issuable in minimum denominations of \$100,000 and integral multiples of \$5,000 in excess thereof and will be issued initially as a single registered bond for each maturity registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. Beneficial ownership interests in the Series 2012 Bonds will be available for purchase in book-entry-only form. Purchasers of the Series 2012 Bonds will not receive physical delivery of the Series 2012 Bond certificates, as further described herein. Principal of, redemption price, if applicable, of, and interest on the Series 2012 Bonds will be paid by the Paying Agent to DTC, and DTC will remit payment to DTC Participants, with such payments to be subsequently disbursed to the beneficial owners of the Series 2012 Bonds, as further described herein.

The Series 2012A Bonds are being issued by the Authority to (i) refund the outstanding Series 1999A Bonds (as defined herein), (ii) refund the outstanding Series 2010A Notes (as defined herein), (iii) pay the costs and expenses of issuing and delivering the Series 2012A Bonds and (iv) fund the Debt Service Reserve Account in the amount necessary to meet the Debt Service Reserve Requirement related to the Series 2012A Bonds.

The Series 2012B Bonds are being issued by the Authority to (i) refinance the Series 2011A Note (as defined herein), which initially financed the Broadband Project (as defined herein), (ii) pay the costs and expenses of issuing and delivering the Series 2012B Bonds and (iii) fund the Debt Service Reserve Account in an amount necessary to meet the Debt Service Reserve Requirement related to the Series 2012B Bonds.

The Series 2012 Bonds are special limited obligations of the Authority payable from and secured by a pledge of the Trust Estate (as defined herein). The Series 2012 Loan Notes are general obligations of the Government and are secured by a pledge of Gross Receipts Taxes (as defined herein) imposed and collected under the Virgin Islands Code, which pledge shall be subject to the Required Annual Moderate Income Housing Fund Deposit (as defined herein). The Series 2012 Loan Notes are also secured by the full faith and credit and taxing power of the Government. Nonetheless, Bondholders should rely exclusively on the pledge of the Gross Receipts Taxes for repayment of the Series 2012 Bonds. The Series 2012 Bonds shall under no circumstances constitute a general obligation of the Authority or the United States of America nor shall the Series 2012 Bonds be evidence of a debt of the United States of America nor shall the United States of America be liable thereon. The Authority has no taxing power.

The Series 2012 Bonds are being offered to purchasers through a private placement. Each purchaser, by placing an order for the purchase of the Series 2012 Bonds, will be deemed to have acknowledged that the Co-Placement Agents (as defined herein and identified below) and the Authority are relying on the representations and warranties made by purchasers of the Series 2012 Bonds so that the offering may qualify for the private placement exemption set forth in Section (d)(1) of Rule 15c2-12 (as defined herein). Each purchaser will be deemed to have made to the Co-Placement Agents and the Authority the representations and warranties set forth herein under the caption “PLAN OF DISTRIBUTION – Purchaser Representations” and the sale of the Series 2012 Bonds to each purchaser is made in reliance on such representations and warranties.

The purchase and ownership of the Series 2012 Bonds involve certain investment risks. The information contained on the cover of this Private Placement Memorandum is a summary only. Prospective purchasers of the Series 2012 Bonds are advised to read this Private Placement Memorandum in its entirety.

The Series 2012 Bonds are offered subject to prior sale, when, as and if issued by the Authority and accepted by the Co-Placement Agents, subject to the approval of legality by Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed upon for the Authority by its counsel, Birch, deJongh & Hindels PLLC, St. Thomas, Virgin Islands. Certain legal matters will be passed upon for the Government by the Office of the Attorney General of the Government. Hawkins Delafield & Wood LLP, Disclosure Counsel to the Authority, will deliver an opinion regarding certain matters to the Authority, the Government and the Co-Placement Agents. Certain legal matters will be passed upon for the Co-Placement Agents by their counsel, Orrick, Herrington & Sutcliffe LLP, Washington, D.C. It is expected that the Series 2012 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about November 20, 2012.

Jefferies

Bostonia Global Securities LLC

Serving as Co-Placement Agents

Dated: November 9, 2012

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, AND PRICES

**\$197,065,000 Revenue Refunding Bonds (Virgin Islands Gross Receipts Taxes Loan Note),
Series 2012A (Working Capital Refinancing/Tax-Exempt)**

\$52,310,000 2.25% Term Bonds due October 1, 2017, yield 2.30%, price 99.769%, CUSIP[†] 927676RM0

\$27,585,000 4.00% Term Bonds due October 1, 2022, yield 3.25%, price 106.282%, CUSIP[†] 927676RN8

\$117,170,000 5.00% Term Bonds due October 1, 2032, yield 3.875%^{*}, price 109.145%^{*}, CUSIP[†] 927676RP3

* Yield and price to the first par call date of October 1, 2022.

**\$31,740,000 Revenue Refunding Bonds (Virgin Islands Gross Receipts Taxes Loan Note),
Series 2012B (Broadband Project Refinancing/Federally Taxable)**

\$31,740,000 5.25% Term Bonds due October 1, 2027, yield 5.30%, price 99.483%, CUSIP[†] 927676RQ1

[†] The CUSIP numbers for the Series 2012 Bonds are provided by Standard & Poor's CUSIP Service Bureau, a division of McGraw-Hill Companies, Inc., and are set forth herein for convenience of reference only. The Authority assumes no responsibility for the accuracy of such numbers, nor is any representation made as to their correctness on the Series 2012 Bonds or as indicated above.

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

32-33 Kongens Gade
Charlotte Amalie
St. Thomas, United States Virgin Islands 00802
www.USVIPFA.com
Angel E. Dawson, Jr., Acting Director of Finance and Administration

BOARD OF DIRECTORS

The Honorable John P. deJongh, Jr., Governor – Chairman (*ex-officio*)
Angel E. Dawson, Jr., Commissioner of Finance – Executive Director (*ex-officio*)
Debra E. Gottlieb, Director of the Office of Management and Budget – Secretary (*ex-officio*)
Roy D. Jackson – St. Thomas Representative*
Pablo O’Neill – St. Croix Representative
Keith C. O’Neale, Jr. – St. Croix Representative

TRUSTEE, BOND REGISTRAR, PAYING AGENT AND SPECIAL ESCROW AGENT

The Bank of New York Mellon Trust Company, N.A.
Jacksonville, Florida

BOND COUNSEL AND DISCLOSURE COUNSEL

Hawkins Delafield & Wood LLP

FINANCIAL ADVISOR

Fiscal Strategies Group
Berkeley, California

* Mr. Jackson’s term has expired. He serves on the Board of Directors until a successor is appointed. As of the date hereof, no successor has been appointed.

[THIS PAGE INTENTIONALLY LEFT BLANK]

This Private Placement Memorandum is furnished in connection with the sale of securities as referred to herein 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 Private Placement Memorandum, including the Appendices attached hereto, does not imply that there has been no change in the affairs of the Authority, the Government or the other matters described herein since the date hereof or that the information herein is correct as of any time subsequent to its date.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Government or the Co-Placement Agents to give any information or to make representations other than as contained in this Private Placement Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the Government or the Co-Placement Agents. This Private Placement Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2012 Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information contained in this Private Placement Memorandum has been obtained from the Authority, the Government and other sources which are believed to be reliable, based primarily on a review of such information and discussions with representatives of the Government and the Authority. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Private Placement Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Government since the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party.

The order and placement of materials in this Private Placement Memorandum, including the appendices, are not to be deemed a determination of relevance, materiality or importance, and this Private Placement Memorandum, including the appendices, must be considered in its entirety. The captions and headings in this Private Placement Memorandum are for convenience only and in no way define, limit or describe the scope or intent, or affect the meaning or construction, of any provisions or sections of this Private Placement Memorandum. The offering of the Series 2012 Bonds is made only by means of this entire Private Placement Memorandum.

The statements contained in this Private Placement Memorandum and appendices hereto and in any other information provided by the Authority, the Government and other parties to the transactions described herein that are not purely historical are forward-looking statements. Such forward-looking statements can be identified, in some cases, by terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “illustrate,” “example,” and “continue,” or the singular, plural, negative or other derivations of these or other comparable terms. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Private Placement Memorandum are based on information available to such parties on the date hereof, and the Authority, the Government, and the Co-Placement Agents assume no obligation to update any such forward-looking statements. The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including, but not limited to, risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in various important factors. Accordingly, actual results may vary from the projections, forecasts and estimates contained in this Private Placement Memorandum and such variations may be material, which could affect the ability to fulfill some or all of the obligations under the Series 2012 Bonds.

The Co-Placement Agents have reviewed the information in this Private Placement Memorandum in accordance with, and as part of, their responsibilities to investors under the Federal securities laws as applied to the facts and circumstances of this transaction, but the Co-Placement Agents do not guarantee the accuracy or completeness of such information.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS PRIVATE PLACEMENT MEMORANDUM IS BEING PROVIDED TO PROSPECTIVE PURCHASERS EITHER IN BOUND PRINTED FORM (“ORIGINAL BOUND FORMAT”) OR IN ELECTRONIC FORMAT ON THE FOLLOWING WEBSITE: [HTTP://WWW.MUNIOS.COM](http://www.munios.com). THIS PRIVATE PLACEMENT MEMORANDUM MAY BE RELIED UPON ONLY IF IT IS IN ITS ORIGINAL BOUND FORMAT OR IF IT IS PRINTED IN FULL DIRECTLY FROM SUCH WEBSITE.

TABLE OF CONTENTS

| | PAGE |
|---|------|
| INTRODUCTION | 1 |
| GENERAL DESCRIPTION OF THE BONDS | 2 |
| Authorization..... | 2 |
| Purpose of the Issue..... | 2 |
| Security and Source of Payment..... | 3 |
| Gross Receipts Taxes | 3 |
| PLAN OF DISTRIBUTION..... | 4 |
| Purchaser Representations..... | 4 |
| Other Private Placement Information | 5 |
| Elimination of Transfer and Resale Restrictions | 5 |
| VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY | 7 |
| Purposes and Powers | 7 |
| Management | 7 |
| Outstanding Indebtedness of the Authority and the Government..... | 9 |
| Future Borrowings..... | 10 |
| THE SERIES 2012 BONDS..... | 10 |
| General | 10 |
| Book-Entry-Only System | 10 |
| Redemption | 11 |
| Redemption Selection Procedures..... | 14 |
| Notice of Redemption | 15 |
| SECURITY AND SOURCES OF PAYMENT FOR THE BONDS | 15 |
| General | 15 |
| Series 2012 Bonds..... | 15 |
| Series 2012 Loan Notes..... | 16 |
| Series 2012 Loan Agreement | 17 |
| Special Escrow Agreement | 17 |
| Covenants..... | 18 |
| Flow of Funds..... | 18 |
| Debt Service Reserve Account..... | 21 |
| Additional Bonds..... | 22 |
| SOURCES AND USES OF FUNDS..... | 23 |
| Plan of Refunding and Refinancing | 24 |
| GROSS RECEIPTS TAXES | 25 |
| General | 25 |
| Exemptions from Gross Receipts Taxes..... | 26 |
| Collection of Gross Receipts Taxes | 26 |
| Special Escrow Agreement and Collecting Agent Agreement..... | 27 |
| Amnesty Programs | 28 |
| Tax Collection Initiatives | 28 |
| Historical Gross Receipts Taxes and Debt Service Coverage | 29 |

TABLE OF CONTENTS
(continued)

| | |
|--|-----|
| DEBT SERVICE REQUIREMENTS | 32 |
| CERTAIN BONDHOLDER RISKS | 33 |
| Transfer and Resale Restrictions | 33 |
| No Public Market | 33 |
| Gross Receipts Taxes | 33 |
| Financial Condition of the Government | 34 |
| Federal Oversight of Certain Government Programs | 34 |
| Seismic Risks and Other Natural Disasters | 34 |
| Federal Bankruptcy Code Currently Inapplicable | 35 |
| LITIGATION | 35 |
| INTERNAL REVENUE SERVICE AUDIT | 36 |
| TAX MATTERS | 36 |
| Tax-Exempt Series 2012 Bonds | 36 |
| Federally Taxable Series 2012 Bonds | 39 |
| FINANCIAL STATEMENTS | 41 |
| LEGAL OPINIONS | 42 |
| FINANCIAL ADVISOR | 42 |
| CONTINUING DISCLOSURE | 43 |
| Prior Continuing Disclosure Non-Compliance | 43 |
| Continuing Disclosure Agreement | 43 |
| RATINGS | 43 |
| PLACEMENT AGREEMENT | 44 |
| MISCELLANEOUS | 45 |
| APPENDICES | |
| APPENDIX A: Glossary of Certain Defined Terms | A-1 |
| APPENDIX B: Summary of Certain Provisions of the Original Indenture and the Thirteenth Supplemental Indenture | B-1 |
| APPENDIX C: Summary of Certain Provisions of the Series 2012 Loan Agreement | C-1 |
| APPENDIX D: Information Regarding the United States Virgin Islands | D-1 |
| APPENDIX E: Book-Entry-Only System | E-1 |
| APPENDIX F: Form of Continuing Disclosure Agreement | F-1 |
| APPENDIX G: Form of Opinion of Bond Counsel | G-1 |

PRIVATE PLACEMENT MEMORANDUM

\$228,805,000

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

\$197,065,000
Revenue Refunding Bonds
(Virgin Islands Gross Receipts
Taxes Loan Note),
Series 2012A
(Working Capital Refinancing/
Tax-Exempt)

\$31,740,000
Revenue Refunding Bonds
(Virgin Islands Gross Receipts
Taxes Loan Note),
Series 2012B
(Broadband Project Refinancing/
Federally Taxable)

INTRODUCTION

The Virgin Islands Public Finance Authority (the “Authority”) has prepared this Private Placement Memorandum in connection with the sale of its (i) \$197,065,000 Virgin Islands Public Finance Authority Revenue Refunding Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2012A (Working Capital Refinancing/Tax-Exempt) (the “Series 2012A Bonds”) and (ii) \$31,740,000 Virgin Islands Public Finance Authority Revenue Refunding Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2012B (Broadband Project Refinancing/Federally Taxable) (the “Series 2012B Bonds,” and together with the Series 2012A Bonds, the “Series 2012 Bonds”).

This Private Placement Memorandum consists of the cover page, inside cover page, the Table of Contents and each of the Appendices attached hereto. This Private Placement Memorandum is dated as of the date set forth on the cover page. The Series 2012 Bonds may not be suitable for all investors. Prospective purchasers of the Series 2012 Bonds should read this Private Placement Memorandum in its entirety. The descriptions and summaries of the various documents referred to herein do not purport to be comprehensive or definitive, and all such descriptions or summaries are qualified in their entirety by reference to the complete documents. Copies of the referenced documents are available at the offices of the Trustee (as defined below) at 10161 Centurion Parkway, Jacksonville, Florida 32256 (904-645-1912), and at the offices of the Authority at 32-33 Kongens Gade, Charlotte Amalie, St. Thomas, United States Virgin Islands 00802 (340-714-1635); Attention: Executive Director.

GENERAL DESCRIPTION OF THE BONDS

Authorization

The Series 2012 Bonds are being issued pursuant to (i) the Virgin Islands Revised Organic Act, 48 U.S.C. 1574, *et seq.* (West 1987) (the “Revised Organic Act”), the laws of the Virgin Islands including Title 29, Chapter 15 of the Virgin Islands Code, 1999 V.I. Act 6297, 2009 V.I. Act 7064, as amended by 2009 V.I. Act 7096, 2010 V.I. Act 7174 and 2010 V.I. Act 7198, 2011 V.I. Act 7257, 2011 V.I. Act 7248, as amended by 2012 V.I. Act 7346, and other applicable law, as the same may be amended from time to time (collectively, with the Revised Organic Act, the “Act”), (ii) Resolution No.12-009, adopted by the Authority on August 14, 2012 and Resolution No. 12-013, adopted by the Authority on October 30, 2012 (collectively, the “Resolution”), and (iii) the Indenture of Trust, dated as of November 1, 1999 (the “Original Indenture”), as previously amended and supplemented, and as further supplemented by the Thirteenth Supplemental Indenture of Trust, dated as of November 1, 2012 (the “Thirteenth Supplemental Indenture,” collectively, the “Indenture”), each by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The Trustee is located in Jacksonville, Florida, and also will act as Registrar and Paying Agent with respect to the Series 2012 Bonds.

The Series 2012A Bonds will be secured by a pledge of the Trust Estate, which includes certain funds established under the Indenture and the general obligation Series 2012A Gross Receipts Taxes Loan Note (the “Series 2012A Loan Note”). The Series 2012B Bonds will be secured by a pledge of the Trust Estate, which includes certain funds established under the Indenture and the general obligation Series 2012B Gross Receipts Taxes Loan Note (the “Series 2012B Loan Note,” and together with the Series 2012A Loan Note, the “Series 2012 Loan Notes”). The Series 2012 Loan Notes will be issued by the Government of the United States Virgin Islands (the “Government”) pursuant to the Loan Agreement, dated as of November 1, 2012, by and among the Authority, the Trustee and the Government (the “Series 2012 Loan Agreement”). The Series 2012 Loan Notes are secured by a pledge of the Gross Receipts Taxes (as defined herein) and by the full faith and credit and taxing power of the Government.

All capitalized terms not defined in this Private Placement Memorandum shall have the meanings ascribed to them in APPENDIX A – “GLOSSARY OF CERTAIN DEFINED TERMS.”

Purpose of the Issue

The Series 2012A Bonds are being issued by the Authority to (i) refund the Authority’s outstanding Revenue Bonds, Series 1999A (Virgin Islands Gross Receipts Taxes Loan Note) (the “Series 1999A Bonds”), (ii) refund the Authority’s outstanding Subordinate Lien Revenue Bond Anticipation Notes, Series 2010A (Virgin Islands Gross Receipts Taxes Loan Notes) (the “Series 2010A Notes”), (iii) pay the costs and expenses of issuing and delivering the Series 2012A Bonds and (iv) fund the Debt Service Reserve Account in the amount necessary to meet the Debt Service Reserve Requirement related to the Series 2012A Bonds. For more information on the refunding of the Series 1999A Bonds and the Series 2010A Notes, see “SOURCES AND USES OF FUNDS – Plan of Refunding and Refinancing.”

The Series 2012B Bonds are being issued by the Authority to (i) refinance the Series 2011A Virgin Islands Gross Receipts Taxes Term Loan Note - Broadband Project) (the “Series 2011A Note”), which initially financed the Broadband Project (as defined herein), (ii) pay the costs and expenses of issuing and delivering the Series 2012B Bonds and (iii) fund the Debt Service Reserve Account in an amount necessary to meet the Debt Service Reserve Requirement related to the Series 2012B Bonds. For more information on the refinancing of the Series 2011A Note, see “SOURCES AND USES OF FUNDS – Plan of Refunding and Refinancing.”

Security and Source of Payment

The Series 2012 Bonds, together with all outstanding Bonds issued under the Indenture (the “Outstanding Bonds”) and any Additional Bonds hereafter issued under the Indenture, are payable and secured by a pledge of the Trust Estate (as defined herein), including, without limitation, the Series 2012 Loan Notes. The Series 2012 Loan Notes are general obligations of the Government and are secured by a pledge of the Gross Receipts Taxes.

The Series 2012 Loan Notes are further secured by the full faith and credit and taxing power of the Government. Notwithstanding such additional security, due to the unavailability of the Government’s most recent audited financial statements for any fiscal year subsequent to the fiscal year ended September 30, 2009, Bondholders should base their investment decision exclusively on the pledge of the Gross Receipt Taxes for the repayment of the Series 2012 Bonds. In addition, as further described herein, any information with respect to Gross Receipts Taxes after the fiscal year ended September 30, 2009, is unaudited.

Gross Receipts Taxes

“Gross Receipts Taxes” are those tax revenues received by the Government from payments by individuals and entities doing business in the Virgin Islands currently at a tax rate of 5.0% on the gross receipts of such business, pursuant to Title 33 Section 43 of the Virgin Islands Code, as amended (the “Gross Receipts Tax Statute”). The Gross Receipts Tax is broad and extends to most sellers of services and goods. Pursuant to the Gross Receipts Tax Statute, “gross receipts” means “all receipts, cash or accrued, of the taxpayer for services or derived from trade, business, commerce or sales, and the value accruing from the sale of tangible personal property or services, or both, including rentals, fees and other involvements, however designated, without any deduction on account of the cost of the property sold, the cost of materials used, labor cost, royalties, taxes, interest or discount paid, and any other expenses whatsoever.” Certain businesses are exempt from the application of the Gross Receipts Tax. See “GROSS RECEIPTS TAXES” below.

In April 2011, the Gross Receipts Tax Statute was amended to increase the Gross Receipts Tax Rate from 4% to 4.5%, effective from April 2011 through June 30, 2013. In March 2012, the Legislature further amended the Gross Receipts Tax Statute to increase the Gross Receipts Tax Rate from 4.5% to 5% from March 1, 2012, until such time as the corporate income taxes collected in the Virgin Islands reaches \$185 million. Over the last five fiscal years, corporate income tax collections have not exceeded approximately \$176 million and have averaged approximately \$79 million. Upon achieving corporate income tax collections of \$185 million, the Gross Receipt Tax Rate shall be reduced to 4.5%. See “GROSS RECEIPTS TAXES – General.”

All Gross Receipts Taxes deposited in the Special Escrow Account maintained by the Collecting Agent (as defined herein) are free and clear of all prior or parity lien pledges and security interests, with the exception of the Required Annual Moderate Income Housing Fund Deposit. “Required Annual Moderate Income Housing Fund Deposit” means the first \$250,000 of Gross Receipts Taxes collected during each fiscal year, which amount is required to be deposited into the Moderate Income Housing Fund pursuant to Title 33, Section 3027(a)(3) of the Virgin Islands Code. Upon receipt of Gross Receipts Taxes, the Collecting Agent makes daily transfers of such collections to the Government until satisfaction of the Required Annual Moderate Income Housing Fund Deposit. All further amounts deposited in the Special Escrow Account are transferred daily to the Trustee for deposit in the Pledged Revenue Account as required by the Indenture. Excess Gross Receipts Taxes for each calendar month are required to be transferred to the Government for deposit into the General Fund to be used for any lawful purpose.

For more information on Gross Receipts Taxes, including the Government's historical collection of such taxes, see "GROSS RECEIPTS TAXES" below.

PLAN OF DISTRIBUTION

Purchaser Representations

Each purchaser, by placing an order for the purchase of the Series 2012 Bonds, will be deemed to have made the following representations to the Co-Placement Agents (as defined below) and the Authority, and the sale of the Series 2012 Bonds to each purchaser is made in reliance thereon:

(i) Each purchaser of the Series 2012 Bonds has confirmed that the Series 2012 Bonds will be acquired for investment for such purchaser's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that such purchaser has no present intention of selling, granting any participation in, or otherwise distributing the Series 2012 Bonds. By purchasing the Series 2012 Bonds, each purchaser has further represented that such purchaser does not currently have any contract, undertaking, agreement, or arrangement with any person to sell, transfer, or grant participations to such person or to any third-party, with respect to any of the Series 2012 Bonds.

(ii) Each purchaser of the Series 2012 Bonds has confirmed its understanding that the offering of the Series 2012 Bonds is being made (a) in reliance on the private placement exemption of Rule 15c2-12 ("Rule 15c2-12") of the Securities Exchange Act of 1934 (the "Exchange Act"), (b) without registration under, and in reliance upon an exemption from, the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") and (c) only to institutional investors under applicable state "blue sky" securities laws that are Qualified Buyers. A "Qualified Buyer," for purposes of this Private Placement Memorandum, means a Qualified Institutional Buyer within the meaning of Rule 144A under the Securities Act (17 C.F.R. § 230.144A) ("Rule 144A"); provided, however, that, in the case of a family of investment companies as defined in Rule 144A that have the same investment adviser and own in the aggregate at least \$100 million in securities other than the Series 2012 Bonds, each investment company member shall be considered a Qualified Buyer; and provided further, however, that, a purchaser during the *primary offering* who, in the opinion of the Co-Placement Agents, otherwise satisfies the requirements of Section (d)(1)(i) of Rule 15c2-12 without regard to their status as "qualified institutional buyer" shall (upon consent of the Authority) also be considered a Qualified Buyer. Section (d)(1)(i) of Rule 15c2-12 provides that Rule 15c2-12 will not apply to a primary offering of municipal securities in authorized denominations of \$100,000 or more, if such securities are sold to no more than thirty-five (35) persons each of whom the Co-Placement Agents reasonably believe (1) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the prospective investment and (2) is not purchasing for more than one account or with a view to distributing the securities.

(iii) Each purchaser has also confirmed its understanding that any transfer or resale of the Series 2012 Bonds will be restricted to a Qualified Buyer until such time as the transfer and resale restrictions described herein are eliminated. See "– Elimination of Transfer and Resale Restrictions."

(iv) Each purchaser of the Series 2012 Bonds has confirmed its understanding that no public market currently exists for the Series 2012 Bonds and that the Authority makes no assurances that any such public market for the Series 2012 Bonds will exist in the future.

(v) Each purchaser of the Series 2012 Bonds has confirmed that at the time such purchaser was offered the Series 2012 Bonds, it was, and on the date it purchases the Series 2012 Bonds it is, a Qualified Buyer. Each purchaser has confirmed that it is not a broker-dealer registered under Section 15(a) of the Exchange Act or an entity engaged in the business of being a broker dealer.

(vi) Each purchaser of the Series 2012 Bonds, either alone or together with its representatives, has represented that it has such knowledge, sophistication, and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Series 2012 Bonds and has so evaluated the merits and risks of such investment. Each purchaser understands that it may be required to bear the economic risk of this investment in the Series 2012 Bonds indefinitely. Each purchaser has represented that it is able to bear such economic risk and would be able to afford a complete loss of its investment in the Series 2012 Bonds.

(vii) Each purchaser has acknowledged that the Co-Placement Agents are relying on the representations and warranties made by such purchaser to qualify for the private placement exemption set forth in Section (d)(1)(i) of Rule 15c2-12.

Other Private Placement Information

It is expected that delivery of the Series 2012 Bonds will be made only in book-entry form through the same day funds settlement system of the Depository Trust Company (“DTC”) on or about November 20, 2012. See “THE SERIES 2012 BONDS – Book-Entry-Only System.”

There can be no assurance that a secondary market for the Series 2012 Bonds will develop or, if it does develop, that it will continue or that the prices at which the Series 2012 Bonds will sell in the market after this offering will not be lower or higher than the initial offering price.

Jefferies & Company, Inc. (“Jefferies”) and Bostonia Global Securities LLC are serving as the co-placement agents for the Series 2012 Bonds (the “Co-Placement Agents”) and may be contacted at their respective principal offices as follows: (i) Jefferies & Company, Inc., 520 Madison Avenue, 8th Floor, New York, NY 10022, telephone: (212) 336-7022 and (ii) Bostonia Global Securities LLC, One Exeter Plaza, 699 Boylston Street, 7th Floor, Boston, MA 02116, telephone: (617) 437-0150.

Elimination of Transfer and Resale Restrictions

Pursuant to the Placement Agreement (as defined herein), the Authority and the Government will advise in writing Jefferies, as Co-Placement Agent, or another qualified underwriter, when they determine that they are in compliance with their existing continuing disclosure agreements under Rule 15c2-12. Upon such determination, the Authority, at its own cost and expense, will engage the services of an independent third party, mutually agreeable to the Authority and Jefferies (or another qualified underwriter) to prepare a report as to whether the Authority and the Government are in compliance with their existing continuing disclosure agreements. If the report concludes that such compliance has been achieved, the Authority will prepare a notice that the requirements of Rule 15c2-12 have been satisfied (such notice to be posted on EMMA (as defined herein)). Upon (i) the receipt of the independent third party report that the Authority and the Government are in compliance with their respective continuing disclosure agreements, (ii) the posting of the notice described above, and (iii) the posting on EMMA of this Private Placement Memorandum (as the same may be amended or supplemented) plus any more recent disclosure documents prepared by the Authority or the Government relating to securities that are payable (on a senior or subordinate basis) from Gross Receipts Taxes, the transfer and resale restrictions on the Series 2012 Bonds will cease. There can be no guarantees that the events described in this

paragraph will transpire or that the transfer and resale restrictions for the Series 2012 Bonds will be eliminated.

Since 2005, the Government has not satisfied its continuing disclosure agreements to provide audited financial statements within 270 days after the end of its fiscal year. The filings for fiscal years 2005-2011 were made, or are expected to be made, between 20 and 30 months after the end of the respective fiscal years, and the next filing relating to fiscal year 2010 is expected to be made not earlier than 26 months after the end of that fiscal year. The Government’s current aspiration is to file when due (June 30, 2014) the audited financial statements for the fiscal year ending September 30, 2013. The Government advised in July 2010 that it had “established new policies and procedures that [it] believe[s] will ensure full and timely compliance with all continuing disclosure obligations in the future.” However, although all other filing requirements have been met, the Government’s failures to file timely annual audited financial statements nevertheless continued. Accordingly, the current aspirational date of compliance by June 30, 2014, must be read in that light. The Series 2012 Bonds are subject to transfer and resale restrictions until such time as the Authority and the Government are in compliance with their continuing disclosure agreements and meet all of the requirements set forth in the preceding paragraph.

There can be no assurances that the current aspirational date of compliance will be achieved or that the transfer and resale restrictions on the Series 2012 Bonds will be eliminated. The chart below summarizes the Government’s actual and projected filings of its audited financial statements over the period covering fiscal years 2005 through 2011.

| Fiscal Year Ending Sept. 30, | Filing Deadline under applicable Continuing Disclosure Agreement (270 Days after End of Fiscal Year) | Actual / Projected Date Filed | Period after Fiscal Year Ends |
|---|---|--|--|
| 2005 | June 30, 2006 | January 18, 2008 | 28 months |
| 2006 | June 30, 2007 | March 16, 2009 | 30 months |
| 2007 | June 30, 2008 | October 15, 2009 | 25 months |
| 2008 | June 30, 2009 | September 1, 2010 | 23 months |
| 2009 | June 30, 2010 | July 25, 2011 | 22 months |
| 2010 | June 30, 2011 | November 30, 2012 | 26 months |
| 2011 | June 30, 2012 | May 31, 2013 | 20 months |

See “CONTINUING DISCLOSURE” for more information on the continuing disclosure obligations of the Authority and Government.

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

Purposes and Powers

The Authority was created by the Government Capital Improvement Act of 1988 (United States Virgin Islands Act No. 5365, as amended), as a public corporation and governmental instrumentality for the purposes of aiding the Government in the performance of its fiscal duties and effectively carrying out of 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, instrumentality, commission, authority, or political subdivision thereof or private enterprise in the Virgin Islands subject to the approval of the Legislature, (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, instrumentality, commission, authority, or political subdivision thereof, (v) to encourage economic development through the issuance of special obligations to finance a project for the benefit of private parties, which special obligations are payable out of revenue generated by the involved project and are 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, instrumentality, commission, authority, or political subdivision thereof, (vii) to make contracts and issue guarantees and to execute all instruments necessary or convenient in the exercise of any of its powers, (viii) to accept grants or loans from, and enter into contracts and agreements with, the government of the United States and any agency, instrumentality, commission, authority, or political subdivision thereof and the Government and any agency, instrumentality, commission, authority, or political subdivision thereof and to apply the proceeds of any such grants or loans for any of its corporate purposes, (ix) to make, modify and repeal bylaws, rules and regulations, (x) to acquire, sell, lease, mortgage, pledge, dispose of or encumber property or interests therein, and (xi) to sue and be sued.

Management

The powers of the Authority are exercised by a board of directors (the “Board”) consisting of seven members. The Governor of the Virgin Islands (the “Governor”), the Commissioner of Finance, and the Director of the Office of Management and Budget of the Virgin Islands (“OMB”) are members of the Board, and serve ex-officio. The remaining members are appointed by the Governor with the advice and consent of the Legislature of the Virgin Islands (the “Legislature”). Of these remaining members, two must be residents of the District of St. Thomas-St. John and two must be residents of the District of St. Croix. Such remaining members must be experienced in municipal finance and not salaried officials or employees of the government of the United States or the Government. The Governor serves as Chairman of the Board. The Commissioner of Finance serves as the Authority’s Executive Director. The Director of OMB serves as Secretary to the Authority.

The table below lists the current Board with their governmental positions or, for private sector representatives, their island of residency, and date of expiration of their current terms on the Board. The Governor of the Virgin Islands, the Commissioner of Finance and the Director of OMB serve terms that are coterminous with their terms in such offices. The Board members who represent the private sector serve four-year terms. Currently, there are two vacancies on the Board.

| Name | Government Post or Profession/Residency | Term Expiration |
|---|--|----------------------------|
| The Honorable John P. deJongh, Jr., Chairman | Governor of the Virgin Islands | Ex-officio* |
| Angel E. Dawson, Jr., Executive Director | Commissioner of Finance | Ex-officio** |
| Debra E. Gottlieb, Secretary | Director of the Office of Management and Budget | Ex-officio |
| Roy D. Jackson | St. Thomas Representative | *** |
| Pablo O'Neill | Certified Public Accountant, St. Croix | 2013 |
| Keith C. O'Neale, Jr. | Business Owner, St. Croix | 2013 |

* Term as Governor expires January 1, 2015.

** Serves at pleasure of Governor with advice and consent of the Legislature.

*** Mr. Jackson's term has expired. He serves on the Board until a successor is appointed. As of the date hereof, no successor has been appointed.

Angel E. Dawson, Jr. also serves as the Acting Director of Finance and Administration, which is the senior management position of the Authority, and is responsible for the administration and operation of the Authority. The Director of Finance and Administration is appointed by, and serves at the pleasure of, the Board.

Outstanding Indebtedness of the Authority and the Government

The table below lists the outstanding indebtedness of the Authority and the Government, including the name of the bonds or notes issued, the initial principal amount of such bonds or notes, and the principal amount of such bonds or notes outstanding as of November 1, 2012.

| Name of Bonds/Notes | Initial Principal Amount | Amount Outstanding (November 1, 2012) |
|---|--------------------------|---------------------------------------|
| Bonds and Notes Secured by Gross Receipts Taxes | | |
| Series 1999A Bonds ¹ | \$299,880,000 | \$66,770,000 |
| Revenue Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2003A | \$268,020,000 | \$241,510,000 |
| Revenue Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2006 | \$219,490,000 | \$208,875,000 |
| Subordinate Lien Revenue Bond Anticipation Notes (Virgin Islands Gross Receipts Taxes Loan Note), Series 2009A | \$8,368,000 | \$4,094,217 |
| Series 2010A Notes ⁽¹⁾ | \$250,000,000 | \$131,400,000 |
| Series 2011A Note ^{(1), (2)} | \$32,235,000 | \$29,444,548 |
| 2011 Property Tax Revenue Anticipation Note (Virgin Islands Property Tax Revenue/Subordinate Lien Gross Receipts Taxes Loan Note) ⁽³⁾ | \$13,000,000 | \$10,614,046 |
| Tax Increment Revenue Bond Anticipation Notes (Virgin Islands Tax Increment Revenue Loan Note Island Crossings Shopping Center), Series 2012 Term Loan | \$13,700,000 | \$13,700,000 |
| General Obligation Subordinate Lien Note (IGF)⁽⁴⁾ | \$45,000,000 | \$35,000,000 |
| WAPA Term Loan Guaranty⁽⁵⁾ | \$10,317,103 | \$9,924,581 |
| Bonds Secured by Matching Fund Revenues⁽⁶⁾ | | |
| Revenue Bonds (Virgin Islands Matching Fund Loan Note), Series 2004A | \$94,000,000 | \$67,435,000 |
| Revenue and Refunding Bonds (Virgin Islands Matching Fund Loan Note), Series 2009A-1 (Senior Lien/Capital Projects/Tax-Exempt) | \$86,350,000 | \$81,835,000 |
| Revenue and Refunding Bonds (Virgin Islands Matching Fund Loan Note), Series 2009B (Senior Lien/Refunding) | \$266,330,000 | \$231,765,000 |
| Revenue and Refunding Bonds (Virgin Islands Matching Fund Loan Note), Series 2009C (Subordinate Lien/Refunding) | \$97,510,000 | \$82,985,000 |
| Revenue Bonds (Virgin Islands Matching Fund Loan Note), Series 2010A (Senior Lien/Working Capital) | \$305,000,000 | \$303,010,000 |
| Revenue Bonds (Virgin Islands Matching Fund Loan Note), Series 2010B (Subordinate Lien/Working Capital) | \$94,050,000 | \$94,050,000 |
| Revenue Bonds (Virgin Islands Matching Fund Loan Note), Series 2012A (Working Capital) | \$142,640,000 | \$142,640,000 |
| Subordinated Revenue Bonds (Virgin Islands Matching Fund Loan Note – Diageo Project), Series 2009A ⁽⁷⁾ | \$250,000,000 | \$250,000,000 |
| Subordinated Revenue Bonds (Virgin Islands Matching Fund Loan Note – Cruzan Project), Series 2009A ⁽⁸⁾ | \$39,190,000 | \$37,490,000 |

1. The Series 1999A Bonds, the Series 2010A Notes and the Series 2011A Note will be refinanced with proceeds of the Series 2012A Bonds and the Series 2012B Bonds.

2. The Series 2011A Note is secured by a subordinate lien on Gross Receipts Taxes.

3. The 2011 Property Tax Revenue Anticipation Note is secured by a first priority lien on real property tax receipts and a second subordinate lien on Gross Receipt Taxes.

4. On October 12, 2010, the Authority entered into a standby credit facility with Banco Popular, issuing a draw-down note for an aggregate principal amount of up to \$45,000,000 secured by a subordinate lien on Gross Receipts Taxes, in order to provide financial liquidity for payments from the Virgin Islands Insurance Guaranty Fund. Although no amounts have been drawn down on the facility, the amount outstanding reflects the amount available to be drawn less the cash balances required under the facility. The Authority expects to negotiate the termination of this facility, as required by 2012 V.I. Act 7342.

5. This is a Government guaranty of the debt of the United States Virgin Islands Water and Power Authority (“WAPA”); not a current liability of the Authority or the Government.

6. Bonds secured by Matching Fund Revenues have a lien on Matching Fund Revenues that is superior to the lien securing bonds issued pursuant to the Subordinated Indenture of Trust, dated as of June 1, 2009, entered into with respect to the issuance of the Diageo Matching Fund Revenue Bonds (the “Diageo Subordinated Indenture”), and the Subordinated Indenture of Trust, dated as of December 1, 2009, entered into with respect to the issuance of the Cruzan Matching Fund Revenue Bonds (the “Cruzan Subordinated Indenture”).

7. The Subordinated Diageo Matching Fund Revenue Bonds are special limited obligations of the Authority payable from and secured by a pledge of only that portion of Matching Fund Revenues collected on rum produced by Diageo USVI.

8. The Subordinated Cruzan Matching Fund Revenue Bonds are special limited obligations of the Authority payable from and secured by a pledge of only that portion of Matching Fund Revenues collected on rum produced by Cruzan VIRIL, Ltd.

Future Borrowings

The Authority is seeking approval of the Legislature to finance certain capital projects (the “Capital Projects”) and issue bonds to achieve such a financing. The Legislature is scheduled to meet to consider the proposed legislation on November 19, 2012.

The Authority may choose to finance the Capital Projects with bonds that are secured by Matching Fund Revenues or Gross Receipts Taxes or some combination of both. There can be no assurances that the Authority will obtain legislative approval to, or otherwise determine to, issue any such bonds or to approve and finance any Capital Projects.

THE SERIES 2012 BONDS

General

The Series 2012 Bonds will be dated their date of delivery, and will bear interest at the rates and will mature on the dates set forth on the inside cover of this Private Placement Memorandum. Interest on the Series 2012 Bonds will be payable on April 1 and October 1, commencing on April 1, 2013. The Series 2012 Bonds are subject to redemption at the times and in the manner set forth in “– Redemption” below. Pursuant to the Indenture, the Authority has appointed the Trustee as Bond Registrar and Paying Agent for the Series 2012 Bonds. Interest on the Series 2012 Bonds will 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 registration books of the Authority maintained by the Paying Agent as Registrar, as of the Record Date (as defined below). The Series 2012 Bonds will be available in minimum denominations of \$100,000 and integral multiples of \$5,000 in excess thereof, in book-entry-only form as described below.

“Record Date” means with respect to an Interest Payment Date for the Series 2012 Bonds, 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.

Book-Entry-Only System

DTC will act as securities depository for the Series 2012 Bonds. The Series 2012 Bonds will be issued as fully-registered securities registered 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 bond certificate will be issued for each maturity of the Series 2012 Bonds, and will be deposited with DTC. For more information regarding the book-entry only system, see APPENDIX E – “Book-Entry-Only System.”

Redemption

Optional Redemption

Series 2012A Bonds. The Series 2012A Bonds maturing on October 1, 2032, are subject to optional redemption by the Authority on or after October 1, 2022, in whole or in part at any time, from such maturities as directed by the Authority, from any moneys that may be available for such purpose, at a Redemption Price of 100% of the principal amount thereof plus interest accrued to the redemption date.

Series 2012B Bonds. The Series 2012B Bonds are subject to optional redemption by the Authority prior to maturity on any Business Day, in whole or in part, as directed by the Authority, in a minimum amount of \$100,000 and integral multiples of \$5,000 in excess thereof, at a Redemption Price equal to the Make-Whole Redemption Price (as defined below).

The “Make-Whole Redemption Price” is the greater of (i) 100% of the principal amount of the Series 2012B Bonds to be redeemed; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the Series 2012B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2012B Bonds are to be redeemed, discounted to the date on which the Series 2012B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below), plus 50 basis points, plus, in each case, accrued and unpaid interest on the Series 2012B Bonds to be redeemed on the redemption date.

The “Treasury Rate” is, as of the date of publication of the notice of redemption (the “Redemption Notice Date”), the yield to maturity, as of the Redemption Notice Date, of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) (the “Statistical Release”) that has become publicly available at least two Business Days prior to the Redemption Notice Date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the Redemption Notice Date to the maturity date of the Series 2012B Bonds to be redeemed; provided, however, that if the period from the Redemption Notice Date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Mandatory Sinking Fund Redemption

Series 2012A Bonds. The Series 2012A Bonds maturing on October 1, 2017, are required to be redeemed prior to maturity on October 1, in the years and amounts upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date, as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------------|---------------|
| 2013 | \$9,030,000 |
| 2014 | 9,940,000 |
| 2015 | 10,815,000 |
| 2016 | 11,110,000 |
| 2017 [†] | 11,415,000 |

[†]Final maturity.

The Series 2012A Bonds maturing on October 1, 2022, are required to be redeemed prior to maturity on October 1, in the years and amounts upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date, as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------------|---------------|
| 2018 | \$11,835,000 |
| 2019 | 12,380,000 |
| 2020 | 800,000 |
| 2021 | 1,140,000 |
| 2022 [†] | 1,430,000 |

[†]Final maturity.

The Series 2012A Bonds maturing on October 1, 2032, are required to be redeemed prior to maturity on October 1, in the years and amounts upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date, as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------------|---------------|
| 2023 | \$6,780,000 |
| 2024 | 7,395,000 |
| 2025 | 8,040,000 |
| 2026 | 8,735,000 |
| 2027 | 9,470,000 |
| 2028 | 13,390,000 |
| 2029 | 14,305,000 |
| 2030 | 15,500,000 |
| 2031 | 16,340,000 |
| 2032 [†] | 17,215,000 |

[†]Final maturity.

Series 2012B Bonds. The Series 2012B Bonds are required to be redeemed prior to maturity on October 1, in the years and amounts upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date, as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------------|---------------|
| 2013 | \$1,430,000 |
| 2014 | 1,505,000 |
| 2015 | 1,585,000 |
| 2016 | 1,670,000 |
| 2017 | 1,765,000 |
| 2018 | 1,855,000 |
| 2019 | 1,955,000 |
| 2020 | 2,065,000 |
| 2021 | 2,175,000 |
| 2022 | 2,290,000 |
| 2023 | 2,415,000 |
| 2024 | 2,545,000 |
| 2025 | 2,680,000 |
| 2026 | 2,825,000 |
| 2027 [†] | 2,980,000 |

[†]Final maturity.

Other Redemption

Pursuant to the Series 2012 Loan Agreement and in accordance with 2009 V.I. Act 7064, as amended, the Government has covenanted, commencing October 1, 2012, to (i) annually set aside an amount equal to 4% of the gross annual Matching Fund Revenues in each fiscal year from funds deposited in the Government Account held under the Diageo Subordinated Indenture and the Government Account held under the Cruzan Subordinated Indenture, and (ii) apply that amount first toward repayment of the outstanding principal due on any outstanding working capital credit facility and next to early optional redemption or purchase of outstanding bonds issued for working capital purposes, including the Series 2012A Bonds. Such early redemption will apply only to the redemption of such indebtedness that is subject to optional redemption. On October 1, 2012, the Government applied \$2,054,300.54 to repay a portion of its outstanding Series 2010A Notes in fulfillment of such covenant.

Pursuant to the Series 2012 Loan Agreement, from October 1, 2013 through October 1, 2021, in the event the Government has any Surplus Available Revenues as of any October 1, the Government is required to either (i) purchase Non-AMT Tax-Exempt investments in the principal amount of such Cumulative Available Revenues, or (ii) within ninety (90) days thereafter, apply or cause to be applied an amount equal to the Cumulative Available Revenues as of such October 1, to redeem or purchase and retire the Series 2012A Bonds in accordance with the terms of the Arbitrage and Use of Proceeds Certificate executed with respect to such Series 2012A Bonds; provided, however, that any redemption is only required to be conducted in accordance with the optional redemption provisions of the Indenture.

For more information on the redemption provisions described in the preceding two paragraphs, see APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2012 LOAN AGREEMENT – Affirmative Covenants of the Government.”

Redemption Selection Procedures

While the Series 2012 Bonds are registered in the book-entry-only system, and so long as DTC or a successor securities depository is the sole registered owner of such Series 2012 Bonds, if less than all of the Series 2012 Bonds of a given maturity are to be redeemed prior to maturity, the Authority shall instruct DTC to provide for the pro-rata redemption following its procedures as a Pro-Rata Pass-Through Distribution of Principal or if DTC procedures do not allow for pro-rata pass-through distribution of principal, the Series 2012 Bonds to be redeemed shall be selected on a pro-rata basis; *provided* that, so long as such Series 2012 Bonds are registered in the book-entry-only system, the selection for redemption of such Series 2012 Bonds will be made in accordance with the operational arrangements of DTC then in effect. See APPENDIX E – “Book-Entry-Only System.”

It is the Authority’s intent that redemption allocations of Series 2012 Bonds made by DTC be made on a pro-rata pass-through distribution of principal basis as described above. However, the Authority cannot provide any assurance that DTC, DTC’s Participants or any other intermediary will allocate the redemption of Series 2012 Bonds on such basis, nor will the Authority be responsible for any failure of DTC, DTC’s Participants or any other intermediary to do so. If the DTC operational arrangements do not allow for the redemption of Series 2012 Bonds on a pro-rata pass-through distribution of principal basis, then the Series 2012 Bonds to be redeemed will be selected for redemption on a pro-rata basis.

In connection with any repayment of principal of the Series 2012 Bonds, including payments of scheduled mandatory sinking fund redemptions, the Bond Registrar will direct DTC to make a pass-through distribution of principal to the holders of the Series 2012 Bonds.

For purposes of calculation of the “*pro-rata pass-through distribution of principal*,” “*pro-rata*” means, for any amount of principal to be paid, the application of a fraction to such amounts where (a) the numerator of which is equal to the amount due to the respective registered owners on a payment date, and (b) the denominator of which is equal to the total original par amount of the Series 2012 Bonds of the maturity to be redeemed.

While the Series 2012 Bonds are not in book-entry-only form, if less than all of the Series 2012 Bonds of a given maturity are called for prior redemption, the particular Series 2012 Bonds or portions of Series 2012 Bonds to be redeemed will be selected on a pro-rata basis among the holders of the outstanding Series 2012 Bonds of such maturity by application of a fraction the numerator of which is the principal amount of the Series 2012 Bonds of such maturity held by the holder and the denominator of which is the principal amount of all the Series 2012 Bonds of such maturity then outstanding; *provided, however*, that if for a holder of Series 2012 Bonds of such maturity the pro-rata redemption will not result in a minimum denomination of \$100,000 or an integral multiple of \$5,000 in excess thereof (the “Uneven Amount”), then the amount to be redeemed allocable to such Uneven Amount will be as determined by the Authority by direction to the Bond Register in any commercially reasonable manner, which may include allocating such additional redemptions by rounding to the nearest denomination of \$100,000 or by lot, or both.

Whenever a Series 2012 Bond is redeemed prior to maturity or purchased and cancelled by the Authority, the principal amount of such Series 2012 Bond so redeemed or cancelled shall be credited pro-rata against the unsatisfied balance of future sinking fund installments and final maturity amount established with respect to a Series 2012 Bond.

Notice of Redemption

Notice of any redemption will be mailed by the Trustee not more than 60 nor less than 30 days prior to the date fixed for the redemption thereof, to each registered holder of the Series 2012 Bonds selected for redemption. The Authority, so long as a book-entry-only method is used for the Series 2012 Bonds, will send any such notice of redemption only to DTC.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Series 2012 Bonds are payable from and secured by a pledge of the Trust Estate, which includes certain funds and accounts established under the Indenture and the Series 2012 Loan Notes.

Series 2012 Bonds

The Series 2012 Bonds, together with all Outstanding Bonds and any Additional Bonds hereafter issued under the Indenture, are payable and secured by a pledge of the Trust Estate, including, without limitation, the Series 2012 Loan Notes.

The “Trust Estate” relating to the Series 2012 Bonds includes: (i) moneys deposited or required to be deposited in the Pledged Revenue Account, the Series 2012 Debt Service Account and the Series 2012 Debt Service Reserve Account pursuant to the provisions of the Indenture, including all right, title, and interest in and to the investments held in the Debt Service Account, the Debt Service Reserve Account and any Credit Facility held in a Debt Service Reserve Account pursuant to the provisions of the Indenture; (ii) the Series 2012 Loan Notes, and the proceeds and collections therefrom, including all right, title and interest of the Authority in the Revenues, including, but not limited to, the Gross Receipts Taxes; (iii) all right, title and interest of the Authority in the Series 2012 Loan Agreement; (iv) all right, title and interest of the Authority in and to the proceeds of the Series 2012 Bonds, or such other moneys required to be deposited in the Series 2012 Project Subaccount; and (v) 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 under the Indenture.

The Government is obligated under the Series 2012 Loan Notes to make payments to the Authority in amounts sufficient to pay all principal, premium, if any, and interest on the respective Series of the Series 2012 Bonds when due and to make the amount on deposit in the Debt Service Reserve Account equal to the Debt Service Reserve Requirement pursuant to the terms of the Indenture and to pay all other amounts payable by the Authority under the Series 2012 Bonds or the Indenture. The Series 2012 Bonds are being issued on a parity with and shall be entitled to the same benefit and security of the Indenture as the Outstanding Bonds and any Additional Bonds that may hereafter be issued under the Indenture. See “VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY – Outstanding Indebtedness of the Authority.”

The Series 2012 Bonds are special limited obligations of the Authority. Principal, premium, if any, and interest on the Series 2012 Bonds are payable from the proceeds of repayment of the Series 2012 Loan Notes and other amounts pledged pursuant to the Indenture as described herein.

The Series 2012 Loan Notes are secured by a pledge of the Gross Receipts Taxes subject to the Required Annual Moderate Income Housing Fund Deposit. The Series 2012 Loan Notes are also secured by a general obligation pledge of the Government. Notwithstanding such additional security, due to the unavailability of the Government's most recent audited financial statements for any fiscal year subsequent to the fiscal year ended September 30, 2009, Bondholders should base their investment decision exclusively on the pledge of the Gross Receipt Taxes for the repayment of the Series 2012 Bonds. In addition, as further described herein, any information with respect to the Gross Receipts Taxes after the fiscal year ended September 30, 2009, is unaudited. The Series 2012 Bonds do not constitute a general obligation of the Authority or the United States of America nor shall the Series 2012 Bonds be evidence of a debt of the United States of America nor shall the United State of America be liable thereon. The Authority has no taxing power.

Series 2012 Loan Notes

The Series 2012 Bonds will be secured by the Series 2012 Loan Notes issued by the Government pursuant to the Series 2012 Loan Agreement. The Government will be obligated under the Series 2012 Loan Notes (i) to make payments to the Authority in amounts sufficient to pay all principal and interest on the Series 2012 Bonds when due, (ii) to make payments in amounts necessary to replenish any deficiency in the Debt Service Reserve Account, (iii) to pay all such other amounts required in order to provide sufficient funds for the transfers from the Pledged Revenue Account to the other accounts and subaccounts established or to be established under the Indenture at the times and in the amounts set forth in the Indenture, (iv) to pay such amounts sufficient to pay premium, if any, on the Series 2012 Bonds, and (v) to pay such other amounts, if any, payable by the Authority under the Series 2012 Bonds or pursuant to the terms of the Indenture.

The Series 2012 Loan Notes are secured by a pledge of the Gross Receipts Taxes over the term of the Series 2012 Loan Notes, as well as a general obligation pledge of the Government secured by the full faith and credit and taxing power of the Government. Pursuant to the Series 2012 Loan Agreement, the Government consents to (i) the deposit of the Gross Receipts Taxes into the Special Escrow Account (as defined below), as provided for in the Special Escrow Agreement and the Collecting Agent Agreement, and (ii) the Authority's pledge and assignment of the Series 2012 Loan Agreement and the Series 2012 Loan Notes to the Trustee for the benefit of the holders of the Series 2012 Bonds. Pursuant to the Series 2012 Loan Agreement, in order to provide for the timely payment of principal of, interest on, and the redemption price, if applicable, of the Series 2012 Bonds, the Special Escrow Agent will make, or cause the Collecting Agent to make on its behalf, transfers to the Trustee of Gross Receipts Taxes for deposit into the Pledged Revenue Account, at the times and in the amounts specified in the Special Escrow Agreement.

Series 2012 Loan Agreement

Under the Series 2012 Loan Agreement, the Authority will lend to the Government the sum of \$228,805,000, and the Government's obligation to repay such loan will be evidenced by the Series 2012 Loan Notes. The Government is obligated to repay the Series 2012 Loan Notes in annual installments corresponding with the principal maturity schedules for the Series 2012 Bonds.

The Series 2012 Loan Notes, at the option of the Government, may be redeemed, in whole or in part, prior to their maturity at the times, in the manner, and in the same maturities as an optional redemption of the Series 2012 Bonds and at a redemption price equal to the principal amount of, plus accrued interest thereon and any premium required to the redemption date to provide for the payment of the respective Series 2012 Bonds pursuant to the terms of the Indenture.

In addition, in the event the Series 2012 Bonds are subject to mandatory redemption in whole or in part or in the event the Series 2012 Bonds are tendered by the holders thereof for purchase and are purchased by the Authority for retirement or cancellation then, upon payment of the redemption price or purchase price of such Series 2012 Bonds, the Government will be deemed to have made a prepayment on the Series 2012 Loan Notes, in accordance with the Series 2012 Loan Agreement, in a principal amount equal to the aggregate principal amount of the Series 2012 Bonds so redeemed or purchased. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2012 LOAN AGREEMENT."

Special Escrow Agreement

The Government has entered into an agreement with the Authority and The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida, as the special escrow agent (the "Special Escrow Agent"), dated as of November 1, 1999, as amended and supplemented (collectively, the "Special Escrow Agreement"), providing for the deposit of Gross Receipts Tax collections by the Government in the Special Escrow Account maintained by FirstBank Puerto Rico, as successor to Banco Popular de Puerto Rico, as the collecting agent (the "Collecting Agent"), as agent of the Special Escrow Agent pursuant to a Collecting Agent Agreement, dated as of November 1, 1999, as amended (the "Collecting Agent Agreement"), among the Collecting Agent, the Special Escrow Agent and the Government. For more information on the Special Escrow Agreement, the Collecting Agreement and the process for collecting the Gross Receipts Taxes, see "GROSS RECEIPTS TAXES – Special Escrow Agreement and Collecting Agent" below.

The Special Escrow Agreement provides for the daily deposit of all Gross Receipts Taxes collected on the preceding Business Day by or on behalf of the Government, including all penalties and interest thereon and, to the extent pledged by the Government in accordance with the Series 2012 Loan Agreement, any Substitute Revenues, into the Special Escrow Account maintained by the Collecting Agent.

Covenants

So long as the Series 2012 Loan Notes remain outstanding, the Government has covenanted in the Series 2012 Loan Agreement, among other things, to take all actions necessary to defend, preserve and protect the pledge of Gross Receipts Taxes, to the extent permitted by law, and take all steps necessary to ensure the receipt of and the maximization of the Gross Receipts Taxes to be received. The Government has further covenanted not to take any action or fail to take any actions that will limit, restrict, or in any way impair the collection, transfer, deposit, or disbursement of the Gross Receipts Taxes in accordance with the terms of the Series 2012 Loan Agreement, the Special Escrow Agreement, and the Collecting Agent Agreement. Furthermore, the Government has covenanted not to take any actions that would, directly or indirectly, result in (i) the repeal, rescission or termination of the effectiveness of the Gross Receipts Tax Statute, (ii) a reduction in the rate or rates at which the Gross Receipts Taxes are imposed or levied, or (iii) a restriction or reduction in the application of the Gross Receipts Taxes, provided, however, that such covenants will not restrict the Government's right to provide exemptions to any eligible business that applies for new or renewal benefits pursuant to Title 29, Chapters 12 and 13 of the Virgin Islands Code, pertaining to the industrial development program or any similar incentive program determined by the Government to be in the best economic interest of the Government, so long as the grant of any such exemptions do not cause the aggregate Gross Receipts Taxes estimated to be collected thereafter in any fiscal year of the Government to be less than 150% of the maximum Adjusted Debt Service Requirement on Outstanding Bonds and all outstanding parity indebtedness, for the current and any subsequent Bond Year, such determination to be made only as of the date of the grant of any such exemptions.

In the event that the Government discontinues the imposition of the Gross Receipts Taxes, the Government will pledge substitute revenues to repayment of the Series 2012 Loan Notes (the "Substitute Revenues"). The Authority also has covenanted in the Series 2012 Loan Agreement and the Indenture to use its best efforts to cause the Government to maintain and abide by its covenants contained in the Act, the Series 2012 Loan Agreement and the Special Escrow Agreement (i) not to limit, restrict or in any way impair the imposition, collection, transfer or disbursement of the Gross Receipts Taxes, subject to any permitted tax exemptions, until the principal of, premium, if any, and interest on the Series 2012 Bonds have been fully paid or discharged and (ii) to the extent required by the Series 2012 Loan Agreement, to use its best efforts to pledge Substitute Revenues to repayment of the Series 2012 Loan Notes.

In the Indenture, the Authority has covenanted that it will not consent to and will not direct the Trustee to consent to any amendment or modification of the covenants of the Government as set forth in the Series 2012 Loan Agreement or the Special Escrow Agreement. The Authority also has covenanted in the Indenture to at all times, and to the extent permitted by law, defend, preserve and protect the pledge of the Trust Estate and all rights of the Bondholders under the Indenture against all claims and demands of all third parties.

Flow of Funds

The Indenture provides that all Revenues received by the Trustee for the benefit of the Bondholders and any such other revenues as may be received by the Trustee and designated for deposit to the Pledged Revenue Account shall be deposited, upon receipt by the Trustee, to the credit of the Pledged Revenue Account, which is an account held by the Trustee. All amounts in the Pledged Revenue Account shall be transferred daily on or before 5:00 p.m. on each Business Day during each calendar month to Accounts and Subaccounts created pursuant to the Indenture, so long as any Bonds remain Outstanding, in the following amounts and in the following order of priority:

- (a) to each Interest Subaccount and to any net payment sub-subaccount thereof with respect to any Qualified Swap Agreement in accordance with the Indenture and the applicable Supplemental Indenture, until the aggregate amount on deposit in all existing Interest Subaccounts is equal to the sum of all Required Interest Subaccount Balances (as defined in the Indenture). The Required Interest Subaccount Balance in effect during each calendar month for each Interest Subaccount shall be the greater of (i) the amount determined by multiplying (A) the portion of the Adjusted Debt Service Requirement for the applicable Series of Bonds which constitutes all of the interest accruing or to accrue on such Series of Bonds during the Interest Payment Period ending on the next Interest Payment Date by (B) a fraction, the numerator of which is equal to one (1) plus the number of whole calendar months that have elapsed since the immediately preceding Interest Payment Date (or, in the case of the period prior to the first Interest Payment Date, one (1) plus the number of whole calendar months that have elapsed since the date interest on such Series of Bonds commenced to accrue) and the denominator of which is the number of whole calendar months in such Interest Payment Period, or (ii) the amount specified in the applicable Supplemental Indenture;
- (b) to each Principal Subaccount, beginning in the first calendar month specified in the applicable Supplemental Indenture (the “Principal Amortization Start Month”), until the aggregate amount on deposit in all existing Principal Subaccounts is equal to the sum of all Required Principal Subaccount Balances (as defined in the Indenture). The Required Principal Subaccount Balance in effect during each calendar month for each Principal Subaccount shall be the greater of (i) the amount determined by multiplying (A) the principal (including Sinking Fund Installments) on the applicable Series of Bonds due on the next succeeding Principal Payment Date by (B) a fraction, the numerator of which is equal to one (1) plus the number of whole calendar months that have elapsed since the immediately preceding Principal Payment Date (or, in the case of the period prior to the first Principal Payment Date, one (1) plus the number of whole calendar months that have elapsed since the first day of the Principal Amortization Start Month), and the denominator of which is the number of whole calendar months between the immediately preceding Principal Payment Date (or, in the case of the period prior to the first Principal Payment Date, the first day of the Principal Amortization Start Month), and the next succeeding Principal Payment Date, or (ii) the amount specified in the applicable Supplemental Indenture;
- (c) to each Credit Subaccount, an amount sufficient to pay any 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 shall in no event be greater than the sum of (i) amounts received under the related Credit Facility for payment of amounts to or for the benefit of Owners of Bonds secured by such Credit Facility and (ii) interest thereon at the rate specified in the Credit Agreement; provided, that the amounts of the transfers shall be reduced to the extent of moneys previously transferred or required to be transferred to said Accounts under other provisions of the Indenture or a Supplemental Indenture;

- (d) to the Debt Service Reserve Account, the amount of any transfer required by the Indenture to restore any deficiency in the Debt Service Reserve Account (or to pay any amounts then owing to a Credit Provider pursuant to a Credit Agreement relating to a Debt Service Reserve Account Credit Facility);
- (e) to each Redemption Subaccount, the amount of Revenues required to redeem Bonds pursuant to the related Supplemental Indenture;
- (f) to each Expense Subaccount, any amounts then due and owing to the Trustee, any Paying Agent, Remarketing Agent, Bond Registrar, Credit Provider, the Special Escrow Agent, the Collecting Agent, or other Fiduciary which are Bond Service Charges or Bond Related Costs for Bonds relating to the administration (including remarketing) and the Authority's Annual Administrative Fee, which otherwise have not been provided for above;
- (g) to each Subaccount of the Rebate Account, the amount required to comply with the Indenture as attributable to a specific Series of Bonds;
- (h) to any Swap Provider under any Qualified Swap Agreement, the amounts required to meet the Swap Agreement Termination Payments (as defined in the Special Escrow Agreement) as set forth in such Qualified Swap Agreement; and
- (i) except as may be provided in one or more Supplemental Indentures to the contrary, to the Surplus Account for application pursuant to the Indenture.

Debt Service Reserve Account

In connection with the issuance of the Series 2012 Bonds, the Trustee will make a deposit to the Debt Service Reserve Account from the proceeds of the Series 2012 Bonds in an amount necessary to meet the Debt Service Reserve Requirement. The Debt Service Reserve Requirement is an amount equal to the least of (i) the maximum principal and interest due on all Outstanding Bonds in the current or any future fiscal year, (ii) 125% of the average annual principal and interest due on the Outstanding Bonds in the current and each future fiscal year or (iii) 10% of the original aggregate principal amount (net of original issue discount) of the Bonds.

A valuation of the Debt Service Reserve Account will be made on March 1 and September 1 in each year pursuant to the Indenture and at such other times as the Authority directs in writing and, in addition, will be valued at the time of any withdrawal from the Debt Service Reserve Account pursuant to the Indenture. In the event the amount on deposit in the Debt Service Reserve Account is less than the Debt Service Reserve Requirement due to a payment made from such account to cure an insufficiency of funds on any Interest Payment Date or Principal Payment Date, the Authority is obligated to restore the deficiency caused thereby (i) by transfers of any moneys on deposit in the Surplus Account and (ii) to the extent any deficiency remains following the transfer from the Surplus Account, then the Authority is obligated to restore the deficiency by equal monthly transfers of Revenues to remedy such deficiency and pay in full amounts owed under or in connection with a Debt Service Reserve Account Credit Facility, any related Credit Agreement, and any Related Agreements over a period of twelve calendar months following the month in which the determination of such deficiency was made.

In the event that there are not sufficient amounts on deposit in the Interest Subaccount on an Interest Payment Date to pay amounts due or if there are not sufficient amounts on deposit in the Principal Subaccount on a Principal Payment Date to pay amounts then due, after making the transfers required to be made from the other Accounts and Subaccounts as provided in the Indenture, the Trustee will transfer amounts on deposit in the Debt Service Reserve Account to the Interest Subaccount or Principal Subaccount, as applicable, in an amount sufficient to make up any such deficiency. The Trustee must notify the Authority of any such transfer.

Additional Bonds

As provided in the Indenture, all Bonds issued under a Supplemental Indenture shall collectively have a first lien upon the Trust Estate, with the exception of the Required Annual Moderate Income Housing Fund Deposit. So long as no Event of Default has occurred and is continuing, the Authority may from time to time enter into a Supplemental Indenture providing for the issuance of Additional Bonds pursuant to the Indenture. Additional Bonds may be issued if the conditions set forth in the Indenture are met, including:

(a) receipt by the Trustee of a certificate of the Authority that no Event of Default under the Indenture has occurred or will continue to exist immediately following the date of issuance of the Bonds to be issued;

(b) receipt by the Trustee of a certificate of an Independent Verification Analyst stating (i) (A) the actual amount of Gross Receipts Taxes collected by the Government during each of the eighteen (18) calendar months immediately preceding the calendar month in which such Bonds are issued (the "Test Period"); and (B) the actual amount of Gross Receipts Taxes collected by the Government during any twelve (12) consecutive month period within the Test Period in which aggregate collections of the Gross Receipts Taxes were the greatest in actual amount, (ii) the maximum annual Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Bonds after giving effect to the issuance of the proposed Additional Bonds; and (iii) that the actual amount of Gross Receipts Taxes collected by the Government during the twelve (12) consecutive calendar month period referred to in (i) (B) above equals or exceeds 150% of the amount of maximum Adjusted Debt Service Requirement on Outstanding Bonds in the current or any subsequent Bond Year after giving effect to the issuance of the proposed Additional Bonds; and

(c) receipt by the Trustee of a certificate of the Director of OMB stating (i) the projected amount of Gross Receipts Taxes to be collected during the period of twelve (12) consecutive calendar months immediately following the calendar month in which such proposed Additional Bonds are to be issued; and (ii) that the projected amount of Gross Receipts Taxes to be collected by the Government during the twelve (12) consecutive calendar month period referred to in clause (i) above equals or exceeds 150% of the amount of the maximum annual Adjusted Debt Service Requirement on Outstanding Bonds in the current or any subsequent Bond Year, after giving effect to the issuance of the proposed Additional Bonds.

Additional Bonds may be issued for any purpose for which Bonds or other obligations may be issued at or after the date of the Indenture under the Act or as otherwise permitted under the laws of the Virgin Islands. Any such Additional Bonds may bear interest at any rate lawful at the time of the issuance thereof and may mature over any period of time not exceeding the maximum maturity permitted by law and may provide for such other payment terms and conditions as the Authority determines in a Supplemental Indenture.

Nothing in the Indenture prevents the Authority or the Government from issuing or creating other bonds, notes or other evidences of indebtedness that are not secured by the Indenture so long as such indebtedness is not secured by a prior pledge of Gross Receipts Taxes.

SOURCES AND USES OF FUNDS

The sources and uses of the proceeds of the Series 2012 Bonds are set forth below:

| | <u>Series 2012A Bonds</u> | <u>Series 2012B Bonds</u> |
|--|--------------------------------|-------------------------------|
| SOURCES OF FUNDS | | |
| Par Amount | \$197,065,000.00 | \$31,740,000.00 |
| Net Original Issue Premium | 12,327,250.10 | - |
| Original Issue Discount | - | (164,095.80) |
| Transfers from existing Debt Service Subaccounts | 3,353,855.64 | 634,084.16 |
| Total Sources | <u>\$212,746,105.74</u> | <u>\$32,209,988.36</u> |
| USES OF FUNDS | | |
| Deposit to the refunding Escrow Subaccounts | \$197,818,499.65 | \$29,194,402.09 |
| Deposit to the Debt Service Reserve Account | 10,971,906.27 | 2,416,676.72 |
| Costs of Issuance ⁽¹⁾ | <u>3,955,699.82</u> | <u>598,909.55</u> |
| Total Uses | <u>\$212,746,105.74</u> | <u>\$32,209,988.36</u> |

-
1. The Costs of Issuance of the Series 2012 Bonds include legal fees, Trustee fees, financial advisor fees, Co-Placement Agents' Fee, and other costs incurred in connection with the issuance of the Series 2012 Bonds.

Plan of Refunding and Refinancing

The Series 2012A Bonds are being issued to current refund the Series 1999A Bonds and pay the Series 2010A Notes. Together with amounts available under the Indenture, proceeds of the Series 2012A Bonds (excluding the deposit to the Debt Service Reserve Account and amounts required to pay related Costs of Issuance) will be deposited into the Series 2012A/Series 1999A Escrow Subaccount pursuant to the Thirteenth Supplemental Indenture. Funds necessary to redeem all of the outstanding Series 1999A Bonds, together with interest accrued to the date of redemption, will be held in the Series 2012A/Series 1999A Escrow Subaccount as cash and applied on December 14, 2012. Funds necessary to pay all of the outstanding principal and any accrued interest payable on the Series 2010A Notes will be deposited into the Series 2012A/Series 2010A Escrow Subaccount and applied on December 14, 2012.

The Series 2012B Bonds are being issued to refinance the Series 2011A Note, which was issued to finance the Broadband Project. The “Broadband Project” involves the development, coordination and operation of a Territory-wide broadband system to expand access and better serve the private citizens and public institutions of the Virgin Islands. To obtain financing for the expansion of broadband access in the Virgin Islands, the Government applied for and was awarded \$55,000,000 in federal grants from the United States Department of Commerce, National Telecommunications and Information Administration through its Broadband Technology Opportunities Program. The proceeds of the Series 2011A Note constitute the Government’s portion of the local match required for receipt of such federal grant funding, and will be applied to the financing of eligible costs in connection with the development and construction of the infrastructure and roadwork, and the acquisition of equipment in connection therewith. Proceeds of the Series 2012B Bonds (excluding the deposit to the Debt Service Reserve Account and amounts required to pay related costs of issuance) will be deposited into the Series 2012B/Series 2011A Escrow Subaccount pursuant to the Thirteenth Supplemental Indenture. Funds necessary to pay all of the outstanding principal, and any accrued interest payable on the Series 2011A Note, will be applied on December 14, 2012.

Simultaneously with the transfer of the proceeds of the Series 2012A Bonds to the Series 2012A/Series 1999A Escrow Subaccount and the Series 2012A/Series 2010A Escrow Subaccount, respectively, and the proceeds of the Series 2012B Bonds to the Series 2012B/Series 2011A Escrow Subaccount, the pledge of any revenues and other moneys, securities, funds and property pledged under the Original Indenture and all other rights granted thereby pertaining to such Series 1999A Bonds, Series 2010A Notes and the Series 2011A Note, including the respective Gross Receipts Tax Loan Notes delivered as security for the Series 1999A Bonds, the Series 2010A Notes and the Series 2011A Note, shall be released, discharged and satisfied. In accordance with the terms of the Indenture, the deposit of such moneys in the Series 2012A/Series 1999A Escrow Subaccount, Series 2012A/Series 2010A Escrow Subaccount and the Series 2012B/Series 2011A Escrow Subaccount will serve to fully discharge and defease the liens of the Original Indenture relative to the Series 1999A Bonds, the Series 2010A Notes and the Series 2011A Note, as applicable, and, thereupon, there shall be paid over to the Trustee certain amounts held under the Original Indenture to be used to fund, together with proceeds of the Series 2012A Bonds and the Series 2012B Bonds, the Debt Service Reserve Account related to the Series 2012A Bonds and the Series 2012B Bonds. Upon the defeasance of the Series 1999A Bonds and the payment of the Series 2010A Notes and the Series 2011A Note, the holders of the Series 1999A Bonds, the Series 2010A Notes and the Series 2011A Note shall have no legal right to the Gross Receipts Taxes Loan Notes, the Gross Receipts Taxes or any security pledged to secure such Bonds or Notes. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

GROSS RECEIPTS TAXES

General

Pursuant to the Gross Receipts Tax Statute, Gross Receipts Taxes are those revenues received by the Government from the payments of individuals and entities doing business in the Virgin Islands of a tax on the gross receipts of such business. The Gross Receipts Tax is broad and extends to most sellers of services and goods, and the rate currently is 5.0%.

According to the Gross Receipts Tax Statute, “gross receipts” means “all receipts, cash or accrued, of the taxpayer for services or derived from trade, business, commerce or sales, and the value accruing from the sale of tangible personal property or services, or both, including rentals, fees and other involvements, however, designated, without any deduction on account of the cost of the property sold, the cost of materials used, labor cost, royalties, taxes, interest or discount paid, and any other expenses whatsoever.”

There is also a 5.0% tax on the gross receipts of all performances or entertainment (excluding dances) where admission is charged or where admission is available to contributors, or where or for which contributions are solicited. This 5.0% tax does not apply to events held or sponsored by officially recognized religious, charitable, benevolent-civic, educational or other organization when not engaged in the conduct of business for profit.

Pursuant to 2012 V.I. Act No. 7346, the Government increased the Gross Receipts Taxes rate to 5.0%, effective March 1, 2012. The Legislature limited the effective period of such rate increase until such time as the annual corporate income tax collections in the Virgin Islands reach \$185 million. In the last five fiscal years, corporate income tax collections were \$53,093,000 in 2012 (preliminary and unaudited), \$53,503,000 in 2011 (unaudited), \$60,999,000 in 2010 (unaudited), \$50,733,000 in 2009 (audited), and \$176,104,000 in 2008 (audited). While the Government does not anticipate corporate income tax collections to reach \$185 million in the near future, the Government can give no assurances as to the effective period of the 5% Gross Receipts Tax rate. Upon achieving corporate income tax collections of \$185 million, the Gross Receipt Tax Rate shall be reduced to 4.5%.

Exemptions from Gross Receipts Taxes

Every person, partnership, firm, corporation or association whose gross receipts are less than \$225,000 per annum is exempted from the payment of Gross Receipts Tax on the first \$9,000 of gross receipts per month.

Certain businesses and products are exempt from the application of the Gross Receipts Tax. Exempt businesses and products include producers of agricultural products within the Virgin Islands, commissions paid for the sale of Virgin Islands' lottery tickets, banks, international insurance companies, franchised bus operators, costume jewelry manufacturers, some reverse osmosis water production plants, providers of affordable housing pursuant to an approved Affordable Housing Development Agreement entered into with the Government under the United States Virgin Islands Affordable Housing Program, certain federally funded projects, and the Army and Air Force Exchange Service. Additionally, some qualifying businesses are granted exemptions from certain tax liabilities, including Gross Receipts Taxes, pursuant to the EDC Program (as defined herein). See APPENDIX D – “Tax Incentives Programs – Economic Development Commission” and “CERTAIN BONDHOLDER RISKS – Gross Receipts Taxes.”

There is a general exemption from the Gross Receipts Tax for agencies of the Government or the United States federal government, religious, charitable, benevolent or educational organizations when not engaged in the conduct of business pursuits for profit, and transactions involving a charitable or benevolent purpose.

Collection of Gross Receipts Taxes

Individuals and entities subject to the Gross Receipts Tax must file a monthly (or annual, under certain circumstances) report with the Director of the Virgin Islands Bureau of Internal Revenue (the “BIR”) declaring the dollar value of the gross receipts during the calendar month or year (as applicable). Such reports must be accompanied by payment of taxes due on the declared gross receipts to preclude accrual of penalties and interest. Monthly or annual reports and payments are due within thirty (30) calendar days following the last day of the calendar month or year concerned. Businesses with annual gross receipts of \$120,000 or less do not file monthly, but are required to file an annual report with the Director of the BIR declaring the gross receipts for each calendar month and the total amount of Gross Receipts Taxes for the year.

Upon the receipt by the BIR of gross receipts tax returns, the Director of the BIR causes such returns to be examined and the applicable tax computed. The Director of the BIR notifies taxpayers of any deficiencies that are due and, after such notice, the amount of the deficiency plus penalties on such deficiencies. Such penalties may become a lien in favor of the Government upon all property or rights to property, whether real or personal, belonging to the taxpayer and may be collected by seizure or sale of such property. A taxpayer failing to report or pay the total amount of tax due within the statutory time periods will be subject to a penalty of 5% per month or any fraction thereof not to exceed 25% in the aggregate. The BIR may waive any penalties upon the taxpayer's satisfactory proof that the taxpayer's failure to file a report or pay any taxes or penalties owed was due to reasonable cause and not due to willful neglect. The BIR may proceed against a delinquent gross receipts taxpayer in any way that any other delinquent taxpayer may be proceeded against, including the levy and attachment and sale of property, whether real or personal.

The proceeds of the Gross Receipts Taxes are paid to the BIR for deposit into the General Fund of the Government; except for the Required Annual Moderate Income Housing Fund Deposit, as more fully described below in “– Special Escrow Agreement and Collecting Agent Agreement.”

Special Escrow Agreement and Collecting Agent Agreement

The Government has entered into the Special Escrow Agreement with the Special Escrow Agent to provide for the deposit of Gross Receipts Tax collections by the Government in the Special Escrow Account, as maintained by the Collecting Agent, as agent of the Special Escrow Agent. The Special Escrow Agreement provides for the daily deposit of all Gross Receipts Taxes collected on the preceding Business Day by or on behalf of the Government, including all additions to tax, penalties and interest thereon and, to the extent pledged by the Government in accordance with the Series 2012 Loan Agreement, the Substitute Revenues, into the Special Escrow Account maintained by the Collecting Agent, who will act on behalf of the Special Escrow Agent pursuant to a Collecting Agent Agreement.

All Gross Receipts Taxes deposited in the Special Escrow Account maintained by the Collecting Agent are free and clear of all prior or parity lien pledges and security interests, with the exception of the Required Annual Moderate Income Housing Fund Deposit. The Required Annual Moderate Income Housing Fund Deposit is paid from the first \$250,000 of Gross Receipts Taxes collected during each fiscal year and deposited into the Moderate Income Housing Fund pursuant to Title 33, Section 3027(a)(3) of the Virgin Islands Code. After satisfaction of the Required Annual Moderate Income Housing Fund Deposit, all further amounts deposited in the Special Escrow Account are transferred daily to the Trustee for deposit in the Pledged Revenue Account as required by the Indenture. Excess Gross Receipts Taxes for each calendar month will be transferred to the Government for deposit into the General Fund to be used for any lawful purpose.

Pursuant to the Series 2012 Loan Agreement, the principal of, interest on, Redemption Price, if any, and all other amounts payable under the Series 2012 Loan Notes shall be payable in immediately available funds at the designated corporate trust office of the Trustee on behalf of the Authority, or such other place as designated in writing to the Government. Not later than the second Business Day prior to October 1 of each year, the Special Escrow Agent, at the direction of the Government, shall advance to the Trustee amounts sufficient to pay, or provide for the payment of, the principal of, and interest on, or the Redemption Price of the Series 2012 Loan Notes, payable on October 1 and April 1 of the next fiscal year.

The failure of the Government to deposit Gross Receipts Taxes in the Special Escrow Account would constitute an Event of Default under the Series 2012 Loan Agreement.

Amnesty Programs

Since 2003, the Government has implemented four tax amnesty programs under which it agreed to waive all interest and penalties on any outstanding taxes of any taxpayer who voluntarily filed and paid any outstanding gross receipts taxes owed to the Government. The table below shows (i) the total amount of interest and penalties waived, (ii) the total amount of outstanding taxes paid and (iii) the date of each tax amnesty period.

Table 1. GRT Amnesty Programs

| <u>Total Interest and Penalties Waived</u> | <u>Amount of Outstanding Taxes Paid</u> | <u>Tax Amnesty Periods</u> |
|---|--|---|
| \$12,920,558.21 | \$4,592,625.12 | 6/2/2003 to 9/2/2003 ⁽¹⁾ |
| \$8,889,376.05 | \$13,673,034.35 | 6/19/2006 to 5/21/2007 |
| \$4,780,088.34 | \$4,455,671.11 | 8/4/2008 to 2/6/2009 |
| \$4,315,492.30 | \$5,834,999.66 | 12/1/2009 to 9/30/2010; extended from 10/26/2010 to 1/25/2011 |

Source: Virgin Islands Bureau of Internal Revenue.

1. This tax amnesty period applied to interest and penalties on any outstanding gross receipts or property taxes.

Tax Collection Initiatives

The BIR has instituted a number of tax collection initiatives in recent fiscal years, beginning in fiscal year 2012, the goal of which is to more efficiently collect all taxes, including Gross Receipts Taxes, due to the Government. Such initiatives include (i) training and instruction of the audit examination staff, increasing audit coverage and expanding the classification of returns for examinations, (ii) enhancing a safe and secure infrastructure in which the United States Internal Revenue Service (the “IRS”) can share and exchange information with the BIR to uncover non-filers and under-reporters, (iii) developing a matching program with the IRS that will assist in matching reportable income from Forms W-2, 1098 and 1099 filed in the United States with tax returns filed in the Virgin Islands and (iv) modernizing the BIR’s current processing system and other technology.

On July 5, 2011, the Legislature passed V.I. Act 7261 that permitted the one-time publication of a list of businesses and individuals that have failed to satisfy their local tax obligations. This publication occurred in fiscal year 2011 and resulted in the collection of \$5 million of delinquent Gross Receipts Taxes and \$250,000 in delinquent hotel occupancy taxes.

The BIR and the Virgin Islands Department of Justice have formed a joint task force to collaborate on closing the gap on tax delinquencies. The task force is focused on tax balances owed for tax year 2008 and earlier. Since June 2012, the task force has entered into 48 settlement agreements and collected a total of \$225,000. The BIR expects that figure to increase with the receipt of additional training and implementation of more advanced tax collections efforts.

Historical Gross Receipts Taxes and Debt Service Coverage

The current number of total taxpayers under the Gross Receipts Tax Statute is approximately 9,000. In fiscal year 2011, the top five taxpayers generated 16% of Gross Receipts Tax collections and the top ten taxpayers generated 23% of Gross Receipts Tax collections.

The table below shows the total amount of Gross Receipts Taxes collected by the Government and Gross Receipts Taxes as a percentage of revenues in the Government's General Fund for fiscal years 2004 through 2012.

**Table 2. Historic Gross Receipts Taxes Collections
Fiscal Years 2004 - 2012
(\$000s)**

| <u>Fiscal Year</u> | <u>Gross Receipts Taxes</u> | <u>Gross Receipts Taxes as Percentage of General Fund Revenues</u> |
|--------------------|-------------------------------|--|
| 2004 | \$112,637 ⁽¹⁾ | 23.6% |
| 2005 | \$129,269 ⁽¹⁾ | 23.8% |
| 2006 | \$142,412 ⁽¹⁾ | 21.4% |
| 2007 | \$151,192 ⁽¹⁾ | 22.5% |
| 2008 | \$143,918 ⁽¹⁾ | 21.5% |
| 2009 | \$124,343 ⁽¹⁾ | 30.4% |
| 2010 | \$133,328 ⁽²⁾ | 22.1% |
| 2011 | \$141,920 ^{(2), (3)} | 20.5% |
| 2012 | \$149,771 ^{(2), (3)} | 22.6% |

Source: United States Virgin Islands Department of Finance - Treasury Division and the AUP Reports (as defined below).

1. Audited.
2. Unaudited.
3. Such figure is based on the amount of Gross Receipts Taxes collected (on an unaudited cash basis) and reduced by 2.4%. See footnote 4 to Table 3.

The Government retains the services of an Independent Accountant to apply agreed upon procedures to review the reporting of the collection of Gross Receipts Taxes on a quarterly basis. The Independent Accountant performs the agreed upon procedures to assist the Government in its evaluation of the accuracy and completeness of the collection of Gross Receipts Taxes. These quarterly agreed upon procedures engagements are conducted in accordance with attestation standards established by the American Institute of Certified public Accountants. However, the Independent Accountant makes no representation regarding the sufficiency of the agreed upon procedures for the purpose for which they are applied or for any other purpose. The Independent Accountant issues its "Report of Independent Accountant on Applying Agreed-Upon Procedures" on a quarterly basis (the "AUP Reports"). The AUP Reports compare and reconcile the collection of Gross Receipts Taxes in the quarter from reports prepared on a cash basis by both the Government and the Collecting Agent.

The information in the table below is derived from a comparative analysis of the amount of Gross Receipts Taxes reported in the Unaudited Statement of General Fund Revenues on a cash basis and the comparable data as reported in the audited or unaudited financial statements of the Government in accordance with GAAP. The table below shows (i) the aggregate amount of Gross Receipts Taxes as reported in the AUP Reports from fiscal year 2004 through 2012, (ii) the audited or unaudited amount, as applicable, of Gross Receipts Taxes for such fiscal years and (iii) the percentage of the difference between items (i) and (ii). Note that the unaudited amounts presented for fiscal years 2011 and 2012 are only an estimate of the Government to approximate a presentation in accordance with GAAP. The differences noted between the unaudited cash basis collections and the audited modified accrual basis collections primarily reflect timing differences in revenue recognition.

**Table 3. Gross Receipts Taxes - AUP Reports and Financial Statements
Fiscal Years 2004 - 2012
(\$000s)**

| <u>Fiscal Year</u> | <u>Gross Receipts Taxes per AUP Reports</u> | <u>Gross Receipts Taxes per Financial Statements</u> | <u>% Change (AUP Reports to Financial Statements)</u> |
|--------------------|---|--|---|
| 2004 | \$113,279 ⁽¹⁾ | \$112,637 | (0.6) |
| 2005 | \$125,105 | \$129,269 | 3.3 |
| 2006 | \$143,838 | \$142,412 | (1.0) |
| 2007 | \$146,985 | \$151,192 | 2.9 |
| 2008 | \$147,468 | \$143,918 | (2.4) |
| 2009 | \$126,149 | \$124,343 | (1.4) |
| 2010 | \$134,775 | \$133,328 ⁽²⁾ | (1.1) |
| 2011 | \$145,409 | \$141,920 ⁽⁴⁾ | (2.4) ⁽⁴⁾ |
| 2012 | \$153,456 ⁽³⁾ | \$149,771 ⁽⁴⁾ | (2.4) ⁽⁴⁾ |

Source: United States Virgin Islands Department of Finance - Treasury Division and the AUP Reports.

1. The fiscal year 2004 third quarter AUP Report was not analyzed; unaudited Gross Receipts Taxes collections sourced on EMMA from a report prepared from the AUP Report.
2. Unaudited.
3. The fiscal year 2012 fourth quarter AUP Report is not yet available.
4. To approximate collections according to GAAP, such figure is based on the amount of Gross Receipts Taxes collected (on an unaudited cash basis) and reduced by 2.4%, which reflects the maximum decrease between collections of Gross Receipts Taxes in the AUP Reports compared against such collections in the Audited Financial Statements during the analysis period.

The table below shows the total amount of Gross Receipts Taxes collected by the Government as compared to the annual debt service on all Outstanding Bonds secured by Gross Receipts Taxes for fiscal years 2004 through 2012.

**Table 4. Gross Receipts Taxes Debt Service and Debt Service Coverage
Fiscal Years 2004 - 2012
(\$000s)**

| <u>Fiscal Year</u> | <u>Gross Receipts Taxes</u> ⁽¹⁾ | <u>Debt Service on Outstanding Bonds</u> | <u>Debt Service Coverage</u> |
|--------------------|--|--|----------------------------------|
| 2004 | \$112,387 ⁽²⁾ | \$32,847 | 3.42x |
| 2005 | \$129,019 ⁽²⁾ | \$38,532 | 3.35x |
| 2006 | \$142,162 ⁽²⁾ | \$38,530 | 3.69x |
| 2007 | \$150,942 ⁽²⁾ | \$39,484 | 3.82x |
| 2008 | \$143,668 ⁽²⁾ | \$39,168 | 3.67x |
| 2009 | \$124,093 ⁽²⁾ | \$40,103 | 3.09x |
| 2010 | \$133,078 ⁽³⁾ | \$40,073 | 3.32x |
| 2011 | \$141,670 ⁽⁴⁾ | \$40,049 | 3.54x |
| 2012 | \$149,521 ⁽⁴⁾ | \$41,017 | 3.65x |

Source: United States Virgin Islands Department of Finance - Treasury Division and the AUP Reports.

1. Reflects the amount of Gross Receipts Taxes after payment of the Required Annual Moderate Income Housing Fund Deposit of \$250,000.
2. Audited.
3. Unaudited.
4. Such figure is based on the amount of Gross Receipts Taxes collected (on an unaudited cash basis) and reduced by 2.4%.

DEBT SERVICE REQUIREMENTS

The table below sets forth the debt service on all Outstanding Bonds, including the Series 2012 Bonds.

| Debt Service on the Series 2012 Bonds | | | | | |
|--|---|------------------------------|------------------------------|------------------------------|--------------------------------|
| Fiscal Year (September 30) | Outstanding Debt Service⁽¹⁾ | Principal | Interest | Total | Total Debt Service |
| 2013 | \$38,832,472 | - | \$3,568,012 | \$3,568,012 | \$42,400,484 |
| 2014 | 29,030,087 | \$10,460,000 | 9,666,100 | 20,126,100 | 49,156,187 |
| 2015 | 28,986,587 | 11,445,000 | 9,375,644 | 20,820,644 | 49,807,231 |
| 2016 | 28,931,813 | 12,400,000 | 9,061,038 | 21,461,038 | 50,392,850 |
| 2017 | 28,884,469 | 12,780,000 | 8,728,938 | 21,508,938 | 50,393,406 |
| 2018 | 28,828,781 | 13,180,000 | 8,385,363 | 21,565,363 | 50,394,144 |
| 2019 | 28,778,844 | 13,690,000 | 7,925,219 | 21,615,219 | 50,394,062 |
| 2020 | 28,723,619 | 14,335,000 | 7,340,906 | 21,675,906 | 50,399,525 |
| 2021 | 40,558,650 | 2,865,000 | 6,971,781 | 9,836,781 | 50,395,431 |
| 2022 | 40,256,325 | 3,315,000 | 6,821,681 | 10,136,681 | 50,393,006 |
| 2023 | 40,025,688 | 3,720,000 | 6,653,075 | 10,373,075 | 50,398,763 |
| 2024 | 39,781,188 | 9,195,000 | 6,331,469 | 15,526,469 | 55,307,656 |
| 2025 | 39,523,813 | 9,940,000 | 5,846,894 | 15,786,894 | 55,310,706 |
| 2026 | 39,266,438 | 10,720,000 | 5,323,863 | 16,043,863 | 55,310,300 |
| 2027 | 38,987,063 | 11,560,000 | 4,759,981 | 16,319,981 | 55,307,044 |
| 2028 | 38,703,688 | 12,450,000 | 4,152,475 | 16,602,475 | 55,306,163 |
| 2029 | 38,413,813 | 13,390,000 | 3,502,750 | 16,892,750 | 55,306,563 |
| 2030 | 38,191,719 | 14,305,000 | 2,810,375 | 17,115,375 | 55,307,094 |
| 2031 | 37,739,000 | 15,500,000 | 2,065,250 | 17,565,250 | 55,304,250 |
| 2032 | 37,699,375 | 16,340,000 | 1,269,250 | 17,609,250 | 55,308,625 |
| 2033 | 37,658,500 | 17,215,000 | 430,375 | 17,645,375 | 55,303,875 |
| 2034 | 37,612,375 | - | - | - | 37,612,375 |
| Total | <u>\$ 785,414,303</u> | <u>\$ 228,805,000</u> | <u>\$ 120,990,437</u> | <u>\$ 349,795,437</u> | <u>\$ 1,135,209,741</u> |

1. Excludes debt service on the Series 1999A Bonds to be refunded with a portion of the proceeds of the Series 2012A Bonds.

CERTAIN BONDHOLDER RISKS

The purchase and ownership of the Series 2012 Bonds may involve investment risks. Prospective purchasers of the Series 2012 Bonds are urged to read this Private Placement Memorandum in its entirety. This section entitled “CERTAIN 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 2012 Bonds. In addition to possible adverse effects on the security for the Series 2012 Bonds, purchasers should be aware that these factors, among others, may adversely affect the market price of the Series 2012 Bonds in the secondary market. See also “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “CONTINUING DISCLOSURE.”

Transfer and Resale Restrictions

The Series 2012 Bonds are being offered through a private placement (i) in reliance on the private placement exemption of Rule 15c2-12, (ii) without registration under, and in reliance upon an exemption from, the registration requirements of the Securities Act and (iii) only to institutional investors under applicable state “blue sky” securities laws that are Qualified Buyers (as defined herein). Any transfer or resale of the Series 2012 Bonds, until such time as the transfer and resale restrictions are eliminated, will be restricted to such Qualified Buyers.

The transfer and resale restrictions may exist for an indefinite amount of time and will cease only at such time that the conditions described herein under “PLAN OF DISTRIBUTION – Elimination of Transfer and Resale Restrictions” are satisfied.

No Public Market

Currently, there is no public market for the Series 2012 Bonds and no assurances can be made that such public market for the Series 2012 Bonds will exist in the future. A prospective purchaser may be required to bear the economic risk of the investment in the Series 2012 Bonds indefinitely and may realize a complete loss of its investment in the Series 2012 Bonds.

Gross Receipts Taxes

Rate Reduction. Section 16 of 2012 V.I Act 7346, which amended Section 3 of 2011 V.I. Act 7248, increased the Gross Receipts Tax Rate from 4.5% to 5% from March 1, 2012, until such time as the annual corporate income taxes collected reach \$185 million. In the event corporate income taxes collected reach \$185 million, the Gross Receipts Tax would revert back to 4.5%. There can be no assurance when corporate income taxes will reach \$185 million.

Exemptions. The Government offers various tax incentives that promote industrial and economic development in the Virgin Islands. For example, the EDC provides qualifying businesses various benefits including a Gross Receipts Tax exemption of up to a 100%. Additionally, the EDC Program allows some qualifying investors to receive limited extensions or renewals of tax benefits. As of September 30, 2012, 83 businesses actively conducted operations under the EDC Program. Applicants that are granted benefits are permitted to commence receiving benefits at some point during the first five years of operation of their enterprise. A total of 89 companies were approved for benefits but have not elected to commence benefits. Of the 89 approved companies, 72 were approved prior to 2007, and 17 companies were approved for benefits after 2007. The EDC has started a retention program to facilitate and support these and other applicants in the activation process. Investors receiving tax benefits under this program

include hotels and other tourism-related businesses, goods-producing enterprises and businesses serving customers outside the Virgin Islands. Granting of EDC benefits could have a material adverse affect on Gross Receipts Taxes available to make payments in connection with the Series 2012 Loan Notes. See APPENDIX D – “Tax Incentives Programs – Economic Development Commission.”

Limits on Exemptions. The Government has covenanted not to take any actions that would, directly or indirectly, result in (i) the repeal, rescission or termination of the effectiveness of the Gross Receipts Tax Statute, (ii) a reduction in the rate or rates at which the Gross Receipts Taxes are imposed or levied, or (iii) a restriction or reduction in the application of the Gross Receipts Taxes, provided, however, that such covenants will not restrict the Government’s right to provide exemptions to any eligible business that applies for new or renewal benefits pursuant to Title 29, Chapters 12 and 13 of the Virgin Islands Code, pertaining to the industrial development program or any similar incentive program determined by the Government to be in the best economic interest of the Government, so long as the grant of any such exemptions do not cause the aggregate Gross Receipts Taxes estimated to be collected thereafter in any fiscal year of the Government, to be less than 150% of the maximum Adjusted Debt Service Requirement on Outstanding Bonds and all outstanding parity indebtedness, for the current and any subsequent Bond Year, such determination to be made only as of the date of the grant of any such exemptions.

Financial Condition of the Government

In recent fiscal years, the Government has experienced substantial fluctuations in revenues and expenditures and recurring deficits. The Government experienced a significant revenue shortfall in fiscal year 2012 and anticipates revenue shortfalls for fiscal years 2013 and 2014. The Government may continue to experience such revenue shortfalls in future fiscal years, as well. No assurances can be given as to whether or not the Government will continue to experience such revenue shortfalls in future fiscal years. See APPENDIX D – “INFORMATION REGARDING THE UNITED STATES VIRGIN ISLANDS – Financial Position of the Government” for more information on the financial condition of the Government.

Federal Oversight of Certain Government Programs

The Government is subject to various consent decrees with the United States Government requiring expenditures for (i) certain environmental remediation at landfills and other sites, (ii) mental health services, (iii) improvements to prisons, and (iv) implementation of new policies and procedures for training polices, investigating complaints against police officers and continued oversight of the Virgin Islands Police Department, each of which may impact the financial condition of the Government. See APPENDIX D – “Financial Position of the Government – Federal Oversight of Certain Government Programs.”

Seismic Risks and Other Natural Disasters

Since September 1989, the Virgin Islands has been affected by two major hurricanes that caused significant damage on all three islands, and three less severe storms. Although historically significant hurricanes had occurred in average intervals of 12 to 15 years, between 1916 and 1989 there had been no major hurricanes.

The Virgin Islands, which is in “Seismic Zone 3,” also experiences fairly frequent earthquake tremors, including earthquakes measuring (i) 3.3 on the Richter Scale in March 2007, (ii) 4.0 in June 2007, (iii) one measuring 4.5 in April 2009, (iv) 2.6 in September 2011, (v) 3.2 in July 2012 , (vi) 3.3 in July 2012, (vii) 4.2 in August 2012 and (viii) 2.6 in October 2012. There has not been, however, a

major earthquake since the early 1900s. A “Seismic Zone 3” region is an area in immediate proximity to a major fault system. Damage from an earthquake in such a zone can include the collapse of buildings and other structures that are not designed to seismic standards.

If a hurricane were to strike or an earthquake to occur causing significant damage to the Virgin Islands, the Authority’s ability to pay debt service on the Series 2012 Bonds could be impaired.

Federal Bankruptcy Code Currently Inapplicable

The Bankruptcy Reform Act of 1978, Title 11, United States Code, as amended (the “Federal Bankruptcy Code”), provides a codified regime for the reorganization, liquidation or debt adjustment of various types of insolvent debtors. Generally, only a “person” or a “municipality” may be debtor in a case under the Federal Bankruptcy Code.

The term “person” includes individuals, partnerships and corporations, but does not include any “governmental unit.” For purposes of the Federal Bankruptcy Code, a governmental unit that cannot file for protection under the Federal Bankruptcy Code, would be (i) a Territory, such as the Government, or (ii) an instrumentality of a Territory, such as the Authority. The term “municipality” is defined to mean a political subdivision or public agency or instrumentality of a State.

Therefore, neither the Government nor the Authority may be a debtor in a case under the Federal Bankruptcy Code. Consequently, no Bondholder would be able to avail itself of Federal Bankruptcy Code provisions protecting rights of creditors since the Government and the Authority are both “governmental units” and neither of them is a “person” or a “municipality” for purposes thereof. Since neither the Authority nor the Government is subject to the Federal Bankruptcy Code, there can be no assurance as to how the pledge of Gross Receipts Taxes would be treated by a court of law in the event of an insolvency or other inability to pay debt by the Government or the Authority.

LITIGATION

There is no litigation pending or, to the knowledge of the Authority or the Government, threatened (i) seeking to restrain or enjoin the issuance of the Series 2012 Bonds or the collection of the Gross Receipts Taxes pledged under the Indenture, (ii) in any way contesting or affecting the authority for the issuance of the Series 2012 Bonds or the validity or the binding effect of the Series 2012 Bonds, the resolutions of the Authority authorizing and implementing the Series 2012 Bonds or the Indenture, the Series 2012 Loan Agreement or the Series 2012 Loan Notes or (iii) in any way contesting the creation, existence, powers or jurisdiction of the Authority or the validity or the binding effect of the Series 2012 Loan Agreement or the Series 2012 Loan Notes or the application of the proceeds of the Series 2012 Bonds for the purposes planned.

INTERNAL REVENUE SERVICE AUDIT

On March 1, 2012, the Internal Revenue Service (“IRS”) notified the Authority that it was conducting a random audit in connection with the \$219,490,000 Virgin Islands Public Finance Authority Revenue Bonds (Gross Receipts Taxes Loan Note), Series 2006, issued on September 28, 2006 (the “2006 Bonds”). A portion of the 2006 Bonds partially refunded the Series 1999A Bonds, which were issued as long-term working capital bonds to address the Government’s cashflow needs. As of the date hereof, the audit is ongoing.

Proceeds of the Series 2012A Bonds are being used, in part, to refund the remaining outstanding Series 1999A Bonds and, in part, to refund the Series 2010A Notes, both of which were initially issued for working capital purposes to address the Government’s cashflow needs. The Government believes that the concerns raised by the IRS in connection with its analysis undertaken in respect of the 2006 Bonds are not present in connection with the analysis undertaken in respect of the Series 2012A Bonds. The Government is working with its counsel to address the audit. The Indenture and Series 2012A Loan Agreement have been structured to satisfy the requirements of federal tax laws currently in effect, as such laws apply to long-term working capital financings. In addition, the Government has covenanted in the Series 2012A Loan Agreement that it shall not “take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest payable on the Series 2012A Bonds under Section 103 of the Code.” It is a condition to the delivery of the Series 2012A Bonds that Bond Counsel delivers an opinion that the interest thereon is excluded from gross income for federal income tax purposes and the form of such opinion is appended hereto as APPENDIX G.

TAX MATTERS

Tax-Exempt Series 2012 Bonds

Opinion of Bond Counsel to the Authority. In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2012A Bonds (herein referred to as the “Tax-Exempt Series 2012 Bonds”) is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Tax-Exempt Series 2012 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; interest on the Series 2012A Bonds, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Tax-Exempt Series 2012 Bonds, and Bond Counsel has assumed compliance by the Authority, with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Tax-Exempt Series 2012 Bonds from gross income under Section 103 of the Code.

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes, interest on the Tax-Exempt Series 2012 Bonds is exempt from personal income taxes imposed by the Virgin Islands, and state, other territory, or possession of the United States or any political subdivision thereof, or by the District of Columbia.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Tax-Exempt Series 2012 Bonds. Bond Counsel renders its opinion under existing statutes

and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any, facts or circumstances, that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the affect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Tax-Exempt Series 2012 Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants. The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Tax-Exempt Series 2012 Bonds in order that interest on the Tax-Exempt Series 2012 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Tax-Exempt Series 2012 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Tax-Exempt Series 2012 Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Tax-Exempt Series 2012 Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences. The following is a brief discussion of certain collateral Federal income tax matters with respect to the Tax-Exempt Series 2012 Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Tax-Exempt Series 2012 Bond. 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 Tax-Exempt Series 2012 Bonds.

Prospective owners of the Tax-Exempt Series 2012 Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Tax-Exempt Series 2012 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount. “Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Tax-Exempt Series 2012 Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Tax-Exempt Series 2012 Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Tax-Exempt Series 2012 Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Tax-Exempt Series 2012 Bonds having OID (a “Discount Tax-Exempt Bond”), OID that has accrued and is properly allocable to the owners of the Discount Tax-Exempt Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Tax-Exempt Series 2012 Bonds.

In general, under Section 1288 of the Code, OID on a Discount Tax-Exempt Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Tax-Exempt Bond. An owner's adjusted basis in a Discount Tax-Exempt Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Tax-Exempt Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Tax-Exempt Bond even though there will not be a corresponding cash payment.

Owners of Discount Tax-Exempt Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Tax-Exempt Bonds.

Bond Premium. In general, if an owner acquires a Tax-Exempt Series 2012 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Tax-Exempt Series 2012 Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Tax-Exempt Series 2012 Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding. Information reporting requirements apply to interest paid on tax-exempt obligations, including the Tax-Exempt Series 2012 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Tax-Exempt Series 2012 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Tax-Exempt Series 2012 Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against

the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous. Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Tax-Exempt Series 2012 Bonds under Federal or state law or otherwise prevent beneficial owners of the Tax-Exempt Series 2012 Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Tax-Exempt Series 2012 Bonds. Prospective purchasers of the Tax-Exempt Series 2012 Bonds should consult their own tax advisers regarding the foregoing matters.

Federally Taxable Series 2012 Bonds

In the opinion of Bond Counsel to the Authority, interest on the Series 2012B Bonds (the "Federally Taxable Series 2012 Bonds") (i) is included in gross income for Federal income tax purposes pursuant to the Code and (ii) is exempt, under existing statutes, from personal income taxes imposed by the United States Virgin Islands or any political subdivision thereof and by any state, other territory or possession of the United States or any political subdivision thereof, or by the District of Columbia.

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of Federally Taxable Series 2012 Bonds by original purchasers of the Federally Taxable Series 2012 Bonds who are "U.S. Holders," as defined herein. This summary (i) is based on the Code, Treasury Regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the Federally Taxable Series 2012 Bonds will be held as "capital assets"; and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Federally Taxable Series 2012 Bonds as a position in a "hedge" or "straddle," holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire Federally Taxable Series 2012 Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code.

Holders of Federally Taxable Series 2012 Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Federally Taxable Series 2012 Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Original Issue Discount. In general, if Original Issue Discount ("OID") is greater than a statutorily defined de minimis amount, a holder of a Federally Taxable Series 2012 Bond must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such Federally Taxable Series 2012 Bond) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the holder's method of accounting. "OID" is the excess of (i) the "stated redemption price at maturity" over (ii) the "issue price." For purposes of the foregoing: "issue price" means the first price at which a substantial amount of the Federally Taxable Series 2012 Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers); "stated redemption price at maturity" means the sum of all payments, other than "qualified stated interest," provided by such Federally Taxable Series 2012 Bond; "qualified stated interest" is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate; and "de

minimis amount” is an amount equal to 0.25 percent of the Federally Taxable Series 2012 Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity. A holder may irrevocably elect to include in gross income all interest that accrues on a Federally Taxable Series 2012 Bond using the constant-yield method, subject to certain modifications.

Bond Premium. In general, if a Federally Taxable Series 2012 Bond is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the Federally Taxable Series 2012 Bond other than “qualified stated interest” (a “Taxable Premium Bond”), that Taxable Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, if the holder of a Taxable Premium Bond elects to amortize the premium as “amortizable bond premium” over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the holder will make a corresponding adjustment to the holder’s basis in the Taxable Premium Bond. Any such election is generally irrevocable and applies to all debt instruments of the holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the holder’s original acquisition cost.

Disposition and Defeasance. Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Federally Taxable Series 2012 Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder’s adjusted tax basis in the Federally Taxable Series 2012 Bond.

The Authority may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Federally Taxable Series 2012 Bonds to be deemed to be no longer outstanding under the Indenture of the Federally Taxable Series 2012 Bonds (a “defeasance”). See APPENDIX B - “SUMMARY OF CERTAIN PROVISIONS OF THE ORIGINAL INDENTURE AND THE THIRTEENTH SUPPLEMENTAL INDENTURE.” For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Federally Taxable Series 2012 Bonds subsequent to any such defeasance could also be affected.

Information Reporting and Backup Withholding. In general, information reporting requirements will apply to non-corporate holders of the Federally Taxable 2012 Bonds with respect to payments of principal, payments of interest, and the accrual of OID on a Federally Taxable Series 2012 Bond and the proceeds of the sale of a Federally Taxable Series 2012 Bond before maturity within the United States. Backup withholding may apply to holders of Federally Taxable Series 2012 Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner’s United States Federal income tax provided the required information is furnished to the Internal Revenue Service.

U.S. Holders. The term “U.S. Holder” means a beneficial owner of a Federally Taxable Series 2012 Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision

thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

IRS Circular 230 Disclosure. The advice under the caption, “Federally Taxable Series 2012 Bonds,” concerning certain income tax consequences of the acquisition, ownership and disposition of the Federally Taxable Series 2012 Bonds, was written to support the marketing of the Federally Taxable Series 2012 Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, each prospective purchaser of the Federally Taxable Series 2012 Bonds is advised that (i) any Federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to the Authority is not intended to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under the Code, and (ii) the taxpayer should seek advice based on the taxpayer’s particular circumstances from an independent tax advisor.

Miscellaneous. Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Federally Taxable Series 2012 Bonds under state law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Federally Taxable Series 2012 Bonds.

Prospective purchasers of the Federally Taxable Series 2012 Bonds should consult their own tax advisors regarding the foregoing matters.

FINANCIAL STATEMENTS

Audited financial statements of the Authority for the fiscal year ended September 30, 2010, and the audited financial statements of the Government for the fiscal year ended September 30, 2009, are available from (i) the Authority or the Government, as applicable or (ii) the Electronic Municipal Markets Access (“EMMA”) system in electronic format, at www.emma.msrb.org, which is operated by the Municipal Securities Rulemaking Board (the “MSRB”). See “CONTINUING DISCLOSURE.”

The Authority has not finalized or filed its audited financial statements for the fiscal year ending September 30, 2011, which were due on June 30, 2012. The Government has not finalized or filed its audited financial statements for the fiscal year ending September 30, 2010, which were due to be filed June 30, 2011, or for the fiscal year ending September 30, 2011, which were due on June 30, 2012.

LEGAL OPINIONS

The validity of the Series 2012 Bonds and certain other legal matters are subject to the approving opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority. The proposed form of Bond Counsel opinion is set forth as APPENDIX G hereto.

Certain legal matters will be passed on for the Authority by its counsel, Birch, deJongh & Hindels PLLC, St. Thomas, Virgin Islands. Certain legal matters will be passed upon for the Government by the Office of the Attorney General of the Government. Hawkins Delafield & Wood LLP, Disclosure Counsel to the Authority, will deliver an opinion regarding certain matters to the Authority, the Government and the Co-Placement Agents. Certain legal matters will be passed upon for the Co-Placement Agents by their counsel, Orrick Herrington & Sutcliffe LLP, Washington, D.C.

FINANCIAL ADVISOR

The Authority has retained Fiscal Strategies Group of Berkley, California, as financial advisor in connection with the issuance of the Series 2012 Bonds. Although Fiscal Strategies Group has assisted in the preparation of this Private Placement Memorandum, Fiscal Strategies Group 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 Private Placement Memorandum.

CONTINUING DISCLOSURE

Prior Continuing Disclosure Non-Compliance

The Authority and the Government have entered into a number of continuing disclosure agreements in connection with bonds previously issued by the Authority. During the past five years, the Authority and the Government have not complied with the majority of their obligations under such continuing disclosure undertakings. Specifically, the Authority and the Government consistently have provided incomplete annual continuing disclosure filings and have failed to provide disclosure on a timely basis. The Authority has not finalized its annual filings for the fiscal year ending September 30, 2011, which were due to be filed with EMMA by June 30, 2012. The Government has not finalized its annual filings for the fiscal year ending September 30, 2010, which were due to be filed with EMMA by June 30, 2011, or for the fiscal year ending September 30, 2011, which were due to be filed with EMMA by June 30, 2012. See “PLAN OF DISTRIBUTION – Elimination of Transfer and Resale Restrictions” for more information on the failure of the Authority and Government to provide continuing disclosure on a timely basis.

Continuing Disclosure Agreement

The Authority has entered into a continuing disclosure agreement for the Series 2012 Bonds that meets the requirements of Rule 15c2-12. See APPENDIX F – “Form of Continuing Disclosure Agreement.”

RATINGS

Standard & Poor’s Ratings Service and Fitch Ratings Inc. have assigned the Series 2012 Bonds a rating of “BBB+” (with a stable outlook) and “BBB” (with a negative outlook), respectively.

A rating, including any related outlook with respect to potential changes in such rating, reflects only the view of the Rating Agency giving such rating and is not a recommendation to buy, sell or hold the Series 2012 Bonds. An explanation of the procedure and methodology used by each Rating Agency and the significance of the above ratings may be obtained from the Rating Agencies. The above ratings may be changed at any time and there is no assurance that either rating will continue for any given period of time or that either rating will not be revised downward or withdrawn entirely by the Rating Agency furnishing the same, if in the judgment of such Rating Agency, circumstances so warrant. Any such downward revision or withdrawal of either rating is likely to have an adverse effect on the market price of the Series 2012 Bonds.

The Authority did not request a rating from Moody’s Investors Service (“Moody’s”) on the Series 2012 Bonds and Moody’s has not rated such bonds. However, on November 1, 2012, Moody’s informed the Authority that it had placed its rating on the Authority’s outstanding indebtedness secured by Gross Receipts Taxes on review. This review will affect approximately \$530 million of the Authority’s outstanding debt, which includes Outstanding Bonds on parity with the Series 2012 Bonds. According to the Moody’s report, this rating review was “prompted by the lack of sufficient current financial and operating information. If the information is not obtained within the next 90 days, [Moody’s] will take appropriate rating action which could include the withdrawal or lowering of the rating.” As indicated herein under “PLAN OF DISTRIBUTION – Elimination of Transfer and Resale Restrictions,” the Government currently expects to file its audited financial statements for the fiscal year ending September 30, 2010 by November 30, 2012 and its audited financial statements for the fiscal year ending September 30, 2011 by May 31, 2013.

PLACEMENT AGREEMENT

The Authority and the Co-Placement Agents identified on the cover of this Private Placement Memorandum have entered into a placement agreement, dated as of November 9, 2012 (the “Placement Agreement”). Subject to the terms and conditions set forth therein, the Co-Placement Agents have agreed to solicit offers to purchase the Series 2012 Bonds from certain institutional investors.

Pursuant to the Placement Agreement, the Co-Placement Agents have agreed to pay to the Authority (i) the aggregate purchase price of the Series 2012A Bonds of \$208,116,978.38 (representing the \$197,065,000.00 par amount of the Series 2012A Bonds, plus net original issue premium of \$12,327,250.10, less the Co-Placement Agents’ Fee of \$1,182,390.00, and less expenses of the Co-Placement Agents in the amount of \$92,881.72) and (ii) the aggregate purchase price of the Series 2012B Bonds of \$31,371,457.85 (representing the \$31,740,000.00 par amount of the Series 2012B Bonds, less original issue discount of \$164,095.80, less the Co-Placement Agents’ Fee of \$190,440.00, and less expenses of the Co-Placement Agents in the amount of \$14,006.35).

The obligation of the Co-Placement Agents to pay for and accept delivery of any Series 2012 Bonds is subject to, among other things, the sale of those Series 2012 Bonds to institutional investors, the receipt of certain legal opinions and the satisfaction of other conditions set forth in the Placement Agreement. The Placement Agreement also provides that the Authority, under certain circumstances, will indemnify the Co-Placement Agents and that the Co-Placement Agents, under certain circumstances, will indemnify the Authority against certain civil liabilities under Federal or state securities laws.

MISCELLANEOUS

In this Private Placement Memorandum, any summaries or descriptions of provisions in the Indenture, the Series 2012 Loan Agreement, the Series 2012 Loan Notes, the Special Escrow Agreement and the Collecting Agent Agreement and all references to other materials not purported to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is hereby made to the complete documents relating to such matters for further information, copies of which may be obtained from the principal corporate trust office of the Trustee.

Any statement in this Private Placement Memorandum involving matters of estimates or opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Private Placement Memorandum 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 2012 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 Co-Placement Agents are not responsible for any of such information nor have the Co-Placement Agents independently verified such information.

This Private Placement Memorandum is submitted in connection with the sale of the Series 2012 Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. The execution and delivery of this Private Placement Memorandum has been duly authorized by the Authority.

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

By: /s/ John P. deJongh, Jr.
The Honorable John P. deJongh, Jr.
Chairman

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

GLOSSARY OF CERTAIN DEFINED TERMS

Certain terms used in the Original Indenture, the Thirteenth Supplemental Indenture and the Series 2012 Loan Agreement are defined below unless otherwise defined herein or the context clearly indicates otherwise. When and if such terms are used in this Preliminary Private Placement Memorandum they shall have the meanings set forth below. Any capitalized term used in this Preliminary Private Placement Memorandum regarding the Indenture and the Series 2012 Loan Agreement and not defined herein shall have the meaning given such term by the Indenture and the Series 2012 Loan Agreement.

Account or **Accounts** means any account or accounts, as the case may be, established pursuant to Section 5.01 of the Indenture.

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 maturity 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 produced 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.

Act means, collectively, the Virgin Islands Revised Organic Act, 48 U.S.C. 1574, et seq. (West 1987), the laws of the Virgin Islands including Title 29, Chapter 15 of the Virgin Islands Code, 1999 V.I. Act 6297, 2009 V.I. Act 7064, as amended by 2009 V.I. Act 7096, 2010 V.I. Act 7174 and 2010 V.I. Act 7198, 2011 V.I. Act 7257, 2011 V.I. Act 7248, as amended by 2012 V.I. Act 7346, 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.

Additional Bonds means Bonds other than the Initial Series of Bonds.

Adjusted Debt Service Requirement means, for any period, as of any date of calculation, the aggregate Debt Service on Outstanding Bonds or on Outstanding Bonds of a particular Series for such period taking into account the following adjustments:

(i) With respect to Bonds that bear interest at a Variable Interest Rate, the aggregate Debt Service thereon is determined as if each such Bond bore interest at the Certified Interest Rate; provided, however, (1) if the Authority (A) enters into a Qualified Swap Agreement with a Swap Provider requiring the Authority to pay a fixed interest rate on a notional amount, and (B) has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for a particular maturity of Bonds in a principal amount equal to the notional amount of the Qualified Swap Agreement, then during the term of such Qualified Swap Agreement and so long as the Swap Provider under such Qualified Swap Agreement is not in default under such Qualified Swap Agreement, the interest rate on such Bonds shall be determined as if such Bonds bore interest at the fixed interest rate payable by the Authority under such Qualified Swap Agreement, and (2) if (A) Bonds of a specific maturity within a Series bear interest at a Variable Interest Rate and Bonds which bear a Variable Interest Rate of another Series with the same maturity are issued in an equal principal amount to the first such Series of Bonds of the same maturity and (B) the Variable Interest Rate of the first Series of such Bonds varies inversely to the Variable Interest Rate of the second Series of such Bonds of the same maturity so that the combined interest rate for the aggregate principal amount of such Bonds of the same specific maturity for both such Series is determined by the Authority to result in a combined fixed interest rate, then so long as the same principal amount of each maturity of such Series of Bonds remain Outstanding, the aggregate Debt Service thereon shall be determined as if all such Variable Rate Bonds of such Series and maturity bore interest at the combined fixed interest rate so determined by the Authority with respect to such aggregate principal amount of such Bonds.

(ii) With respect to Fixed Interest Rate Bonds, if the Authority (1) enters into a Qualified Swap Agreement with a Swap Provider requiring the Authority to pay a variable interest rate on a notional amount and (2) has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for a particular maturity of Bonds in a principal amount equal to the notional amount of the Qualified Swap Agreement, then during the term of such Qualified Swap Agreement and so long as the Swap Provider under such Qualified Swap Agreement is not in default under such Qualified Swap Agreement the interest rate on such Bonds is determined as if such Bonds bore interest at the Certified Interest Rate on the notional amount of such Bonds.

(iii) Except to the extent described in (iv) below, with respect to Bonds secured by a Credit Facility, the aggregate Debt Service thereon shall be deemed to include any payments required to reimburse the related Credit Provider (including any Debt Service Reserve Account Credit Provider), but shall not include any amounts payable as principal of and interest and premium with respect to any reimbursement obligation to such Credit Provider except and to the extent that such payments on such reimbursement obligation are required to be made to the Credit Provider in excess of any corresponding Debt Service with respect to such Bonds during such period.

(iv) With respect to Optional Tender Bonds, the aggregate Debt Service thereon shall not include any amounts payable to a Credit Provider pursuant to any reimbursement obligation arising as the result of the payment of any purchase price with respect to such Bonds on a

Purchase Date except to the extent that, and for any period during which, the Authority is obligated to reimburse the Credit Provider for payments made by such Credit Provider directly or indirectly in satisfaction of any obligation to purchase such Bonds on any Purchase Date following the application of any proceeds of any remarketing of such Bonds.

(v) The aggregate Debt Service for any period on any Bonds shall not include (1) any interest which is payable from Capitalized Interest which is to be transferred to the Debt Service Account for payment of interest on such Bonds or (2) the amount of Debt Service on Bonds to be paid from amounts in a Debt Service Reserve Account at the time of such computation for the period in question, but only if any such amount described in (1) or (2) is available and is to be applied under the applicable Supplemental Indenture to make interest payments on such Bonds when due.

(vi) If the Authority enters into a Qualified Swap Agreement with a Swap Provider requiring the Authority to pay any amount in excess of the amount to be received by the Authority in connection therewith for the period for which any calculation of Adjusted Debt Service Requirement is to be made hereunder, then, to the extent not taken into account in (i) and (ii) above, the net amount of such payments which may be required of the Authority (using the Certified Interest Rate or its equivalent for such purpose if such amount is subject to any variation and excluding any breakage fees or termination payments paid by the Authority) shall be included in Adjusted Debt Service Requirements.

For purposes of this definition of Adjusted Debt Service Requirement, the principal and interest portions of the Accreted Value of Capital Appreciation Bonds and the Appreciated Value of any Deferred Interest Bonds becoming due at maturity or by virtue of Mandatory Sinking Fund Requirements shall be included in the calculation of accrued and unpaid and accruing interest or principal installments on the date on which or for the period during which such amounts become due and payable unless otherwise specified in the Supplemental Indenture authorizing such Capital Appreciation Bonds or Deferred Interest Bonds.

Aggregate Debt Service for any period means, as of any date of calculation, the sum of the amounts of Debt Service for such period with respect to the Bonds.

Annual Administrative Fee means the amount authorized to be transferred annually from the Expense Account to the Authority to pay the Authority's expenses in accordance with the annual budget approved by the Board of the Authority.

Annual Debt Service means, as of any date of calculation with respect to a specified Bond Year, Debt Service plus any premium, if any, 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, using for such calculation 30 day months and a 360 day year, and (2) the difference between the Appreciated Values for such Valuation Dates.

Approved Project means any public improvement or public undertaking authorized by act of the Legislature of the Virgin Islands and by resolution of the Authority to be financed with the proceeds of Authority Bonds.

Arbitrage and Use of Proceeds Certificate shall mean the Arbitrage and Use of Proceeds Certificate dated November 20, 2012, of the Authority and the Government, relating to the requirements of Sections 148 and 103 of the Code relating to exemption of interest on the Series 2012 Bonds from Federal income tax.

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 Denominations shall mean \$100,000 and integral multiples of \$5,000 in excess thereof.

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

Bankruptcy Code means the United States Bankruptcy Reform Act of 1978, as amended, defined as Title 11 of the United States Code, as amended, or any substitute or replacement legislation.

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.

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

Bondowner, Holder, Owner or **Registered Owner** means the Person in whose name a Series 2012 Bond is registered on the Bond Register.

Bond Register means the register maintained by the Bond Registrar pursuant to Section 3.04 of the Indenture.

Bond Registrar means the Trustee, any successor trustee or bond Registrar appointed as Bond Registrar pursuant to Section 3.04 of 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 the maturity of the Bond, (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 the Bond, and (iii) any other fees, charges and expenses that may be lawfully incurred by the Authority relating to the Bond, including, without limitation, any obligation of the Authority to a Credit Provider for the Bond 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 Service Charges means for any applicable time period or date, principal of and premium, if any, and interest payments due and the fees, expenses and costs of the Trustee, Bond Registrar and Paying Agent, if any, on any of the Bonds accruing for that period or due and payable on that date. In determining Bond Service 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.

Bond Year means a period of twelve (12) consecutive months beginning on October 2 in any calendar year and ending on October 1 of the succeeding calendar year.

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, the Special Escrow Agent or banking institutions organized under the laws of the United States Virgin Islands are legally authorized to close.

Capital Appreciation Bonds means any Bonds as to which interest is payable only at the maturity or prior redemption thereof for the purposes of (i) receiving payment of the Redemption Price, if any, of a Capital Appreciation Bond that is redeemed prior to maturity, and (ii) computing the principal amount of Capital Appreciation Bonds held by the Owner thereof in giving any notice, consent, request, or demand pursuant to the applicable Supplemental Indenture for any purpose whatsoever, the Accreted Value of a Capital Appreciation Bonds as of a specific date shall be deemed to be its principal amount as of such date.

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 any Bonds.

Capitalized Interest Subaccount means the subaccount by that name in the Debt Service Account established by the Indenture and the applicable Supplemental Indenture.

Certified Interest Rate means a rate estimated and certified by the financial advisor to the Authority 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.

Collecting Agent means the Collecting Agent designated as such under the Collecting Agent Agreement.

Collecting Agent Agreement means the Collecting Agent Agreement, dated as of November 1, 1999, as amended by and among the Government, the Special Escrow Agent and the Collecting Agent, as the same may be supplemented, or amended from time to time.

Continuing Disclosure Agreement shall mean the Continuing Disclosure Agreement, dated as of November 1, 2012, between the Authority and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent, acknowledged and accepted by the Government.

Co-Placement Agents shall mean, collectively, Jefferies & Company, Inc. and Bostonia Global Securities LLC.

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 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.

Cost 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; 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.

Cost of Issuance Account means the account of that name established by the Indenture.

Counsel's Opinion means an opinion signed by an attorney or firm of attorneys of recognized standing in the field of law relating to municipal Bonds (who may be counsel to the Authority) selected by the Authority and reasonably satisfactory to the Trustee.

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 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) or 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 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.

Credit Subaccount means a subaccount by that name in the Debt Service Account or Debt Service Reserve Account established by the Indenture.

Cumulative Available Revenues means, as of any October 1, commencing with October 1, 2013, the sum of (i) the Surplus Available Revenues as of such October 1 and (ii) the balance on deposit as of such October 1 in the Series 2012A Restricted Moneys Subaccount of the Series 2012A Redemption Subaccount.

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 scheduled principal (including mandatory Sinking Fund Installments) and interest payments required to be made on such Series. For purposes of this definition, unless provided to the contrary in an 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 Installments 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.

Debt Service Account means the Account by such name established in the Indenture.

Debt Service Reserve Account means the Account by such name established in the Indenture.

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

Debt Service Reserve Account Credit Provider means the Credit Provider of a Debt Service Reserve Account Credit Facility.

Debt Service Reserve Requirement means, as of any date of calculation, an amount equal to the least of (i) the greatest amount required in the then current or any future Bond Year to pay the sum of the interest on Outstanding Bonds payable during such Bond Year, and the principal (including mandatory Sinking Fund Installments) of Outstanding Bonds payable in such Bond Year, (ii) 125% of the average of the annual amounts required in the then current and all future Bond Years to pay the sum of the interest on the Bonds Outstanding payable during such Bond Years and the principal (including mandatory Sinking Fund Installments) of the Outstanding Bonds payable in such Bond Years, and (iii) 10% of the original aggregate principal amount (net of original issue discount) of the Bonds. The Debt Service Reserve Requirement may be satisfied by cash, Permitted Investments or a Debt Service Reserve Account 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:

- (1) the municipal obligations (A) are not subject to redemption prior to maturity or (B) 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;
- (2) 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;
- (3) 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;
- (4) the cash and United States Government Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; and
- (5) 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 Series.

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 by the Indenture.

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.

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

Fitch means Fitch ICBA, Inc., or any successor thereof which qualifies as a Rating Agency hereunder.

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 clause (2)(A) and (B) of paragraph (i) of the definition of Adjusted Debt Service Requirement herein.

Funds means those funds and accounts specified in Section 5.01 of the Indenture.

Government means the Government of the United States Virgin Islands.

Gross Receipts Taxes means the taxes imposed and the resulting tax revenues collected or/and to be collected by the Government pursuant to the provisions of Title 33, Section 43 of the Virgin Islands Code, as amended (together with all fines, interest, penalties and other charges assessed, imposed or otherwise payable in relation to such taxes and revenues) during the period in which the principal amount of the Bonds, together with any interest payable thereon, shall remain due and owing.

Indenture means the Original Indenture, as supplemented by Supplemental Indentures, including the Thirteenth Supplemental Indenture of Trust, each by and between the Authority and the Trustee and each of which may from time to time be amended or supplemented in accordance with the terms thereof.

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).

Independent Verification Analyst means a firm retained by the Authority to prepare the certificates required by the Indenture in connection with the issuance of Additional Bonds.

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 for the Series 2012 Bonds, each April 1 and October 1 through and including the maturity date for such Series 2012 Bonds.

Interest Payment Period with respect to any Bond, 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 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 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 on any Interest Payment Date.

Interest Subaccount means the Subaccount by that name in the Debt Service Account established by the Indenture and the applicable Supplemental Indenture.

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

Letter of Representation means the Letter of Representation from the Authority to the Depository in such 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 S&P, Moody's or Fitch.

Loan Agreement means a loan agreement by and between the Authority and the Government, 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 the general obligation note or notes, as the case may be, of the Government, executed and delivered to the Authority pursuant to a Loan Agreement in connection with the issuance by the Authority of one Series or more of Bonds under the Indenture, each such note being in

the principal amount equal to the aggregate principal amount of the Series of Bonds to which it relates and being further secured by a pledge by the Government of the Gross Receipts Taxes (other than the Required Annual Moderate Income Housing Fund Deposit) on a parity basis with all other such 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 the Bond is required to be purchased by, or on behalf of, the Authority as provided herein or in the Supplemental Indenture authorizing such Bond.

Matching Fund Revenues shall mean amounts paid to the Special Escrow Agent on behalf of the Government pursuant to Section 28(b) of the Revised Organic Act, 48 U.S.C. 1574, et seq. (West 1987), as amended, or any successor provision thereto.

Moody's means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, Moody's shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, by notice to the Trustee.

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, that 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.

Original Indenture means the Indenture of Trust, dated as of November 1, 1999, between the Authority and The Bank of New York Trust Company, N.A., as successor to United States Trust Company of New York.

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 Section 10.01 of the Original 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 this Indenture or irrevocable action shall have been taken to call such Bonds for redemption at a stated redemption date;

(iii) 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 this 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 hereunder, 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 the Trustee 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 hereto.

Participants means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds as securities depository.

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 Bond, and its successor or successors hereafter appointed in the manner provided in the Indenture or a Supplemental Indenture.

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 the highest Rating Category as designated by any Rating Agency;

(iv) 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;

(v) 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 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;

(vi) investment agreements, guaranteed investment contracts or similar funding agreements issued by insurance companies or other financial institutions, including without limitation broker/dealers or subsidiaries thereof; 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 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;

(vii) 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); and

(viii) 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 highest short-term rating category by a national rating agency and maturing no more than 360 days after the date of purchase. Certificates of deposit will be placed directly with depository institutions and (1) 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 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

(ix) Investments in a money market fund rated in the two highest rating categories including money market funds sponsored by the Authority; and

(x) Commercial Paper issued by U.S. Corporations which is rated at the time of purchase in the highest short-term rating category by a national rating agency 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 (ix)

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.

Pledged Revenue Account means the Account by that name established by the Indenture.

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

Principal Payment Date means any date on which a Principal Installment is scheduled to become due on the Bond whether by scheduled maturity or Mandatory Sinking Fund Requirements or otherwise. The Principal Payment Date for the Series 2012 Bonds is October 1.

Principal Subaccount means the subaccount by that name in the Debt Service Account established by the Indenture and the applicable Supplemental Indenture.

Project Account means the Account of that name established by the Indenture.

Proportionate Basis means, when used with respect to the redemption of the 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 Outstanding of such maturity 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 this Indenture or any applicable Supplemental Indenture.

Qualified Swap Agreement means (i) an agreement between the Authority and a Swap Provider 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 three highest applicable Rating Categories by each Rating Agency then rating such Swap Provider or other Person who guarantees such obligation, or shall provide collateral to the Trustee with a market value maintained at levels and upon such conditions as would be acceptable to each such

Rating Agency to maintain a rating on such swap agreement in one of the three highest applicable Rating Categories, or (ii) an option with respect to any agreement described in clause (i) above.

Rating Agency or Rating Agencies means one or more of Moody's, S&P or Fitch or any successor or comparable nationally recognized securities rating agency which shall be maintaining a rating on any Series of Bonds.

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 Account means the Rebate Account established in and maintained pursuant to the Indenture and the applicable Supplemental Indenture.

Rebate Amount Certificate shall have the meaning set forth in the applicable Supplemental Indenture.

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

Record Date means with respect to an Interest Payment Date for the Bonds, 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 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, this Indenture or the applicable Supplemental Indenture of the Indenture.

Redemption Subaccount means the subaccount by that name in the Debt Service Account established pursuant to the 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 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 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 such 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.

Required Annual Moderate Income Housing Fund Deposit means the first \$250,000 of Gross Receipts Taxes collected during each fiscal year of the Government which are required, pursuant to Title 33, Section 3027(a)(3) of the Virgin Islands Code, to be deposited in the Moderate Income Housing Fund of the Government, which amount shall not be subject to the liens granted by the Special Escrow Agreement and the Loan Agreement in the Gross Receipts Taxes.

Restricted Moneys Subaccount shall mean the Restricted Moneys Subaccount of the Redemption Account by the Indenture and the applicable Supplemental Indenture.

Revenues means (i) the Gross Receipts Taxes (other than the Required Annual Moderate Income Housing Fund Deposit), any Substitute Revenues, any other amounts required to be paid by or on behalf of the Government to or for the benefit of the Authority under any Loan Agreement and any other proceeds and collections from any Loan Notes, including investment proceeds, deposited in the Pledged Revenue Account, including any investment earnings earned thereon, and (ii) any proceeds which arise with respect to any disposition of the Trust Estate. Any net payment which the Authority receives with respect to a Qualified Swap Agreement shall be deemed to be “Revenues” and shall be deposited into the Pledged Revenue Account.

S&P means Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, by notice to the Trustee.

Securities Depository means, initially, The Depository Trust Company, New York, New York, and its successors and assigns, and any successor Securities Depository appointed pursuant to the Indenture.

Series 1999A Bonds shall mean the Authority's \$299,880,000 Revenue Bonds, Series 1999A (Virgin Islands Gross Receipts Taxes Loan Note) issued pursuant to the First Supplemental Indenture, dated as of November 1, 1999, between the Authority and Trustee.

Series 2010A Notes shall mean the Authority's \$131,400,000 Subordinate Lien Revenue Bond Anticipation Notes, Series 2010A (Virgin Islands Gross Receipts Taxes Loan Notes) issued pursuant to the Eleventh Supplemental Indenture of Trust, between the Authority and the Trustee, dated as of October 14, 2010, delivered and effective November 4, 2010.

Series 2011A Note shall mean the Authority's \$32,235,000 Subordinate Lien Revenue Bond Anticipation Note (Virgin Islands Gross Receipts Taxes Term Loan Note - Broadband Project), Series 2011A, issued pursuant to the Twelfth Supplemental Indenture of Trust, dated as of April 1, 2010, between the Authority and Trustee.

Series 2012 Bonds shall mean, collectively, the Series 2012A Bonds and Series 2012B Bonds.

Series 2012 Cost of Issuance Subaccount shall mean the Series 2012 Cost of Issuance Subaccount of the Cost of Issuance Account established pursuant to the Thirteenth Supplemental Indenture.

Series 2012 Expense Subaccount shall mean the Series 2012 Expense Subaccount of the Debt Service Account established pursuant to the Thirteenth Supplemental Indenture.

Series 2012 Interest Subaccounts shall mean the Series 2012 Interest Subaccounts of the Debt Service Account established pursuant to the Thirteenth Supplemental Indenture.

Series 2012 Loan Agreement shall mean the Loan Agreement, dated as of November 1, 2012, by and among the Government, the Authority and the Trustee, entered into in connection with the issuance of the Series 2012 Bonds.

Series 2012 Loan Notes shall mean, collectively, the Series 2012A Loan Note and the Series 2012B Loan Note.

Series 2012 Principal Subaccounts shall mean the Series 2012 Principal Subaccounts of the Debt Service Account established pursuant to the Thirteenth Supplemental Indenture.

Series 2012 Rebate Subaccounts shall mean the Series 2012 Rebate Subaccounts established pursuant to the Thirteenth Supplemental Indenture.

Series 2012 Redemption Subaccounts shall mean the Series 2012 Redemption Subaccounts of the Debt Service Account established pursuant to the Thirteenth Supplemental Indenture.

Series 2012A Bonds shall mean the Virgin Islands Public Finance Authority Revenue Refunding Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2012A (Working Capital Refinancing/Tax-Exempt) in the principal amount of \$197,065,000.

Series 2012A Escrow Subaccounts shall mean the Series 2012A/Series 1999A Escrow Subaccount and the Series 2012A/Series 2010A Escrow Subaccount of the Series 2012A Redemption Subaccount established pursuant to the Thirteenth Supplemental Indenture.

Series 2012A Loan Note shall mean the Government's \$197,065,000 principal amount 2012A Gross Receipts Taxes Loan Note, executed and delivered to the Authority pursuant to the Series 2012 Loan Agreement.

Series 2012A/Series 1999A Escrow Subaccount shall mean the Series 2012A/Series 1999A Escrow Subaccount of the Series 2012A Redemption Subaccount established pursuant to the Thirteenth Supplemental Indenture

Series 2012A/Series 2010A Escrow Subaccount shall mean the Series 2012A/Series 2010A Escrow Subaccount of the Series 2012A Redemption Subaccount established pursuant to the Thirteenth Supplemental Indenture

Series 2012B Bonds shall mean the Virgin Islands Public Finance Authority Revenue Refunding Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2012B (Broadband Project Refinancing/Federally Taxable) in the principal amount of \$31,740,000.

Series 2012B Loan Note shall mean the Government's \$31,740,000 principal amount 2012B Gross Receipts Taxes Loan Note, executed and delivered to the Authority pursuant to the Series 2012 Loan Agreement.

Series 2012B/Series 2011A Escrow Subaccount shall mean the Series 2012B/Series 2011A Escrow Subaccount of the Series 2012B Redemption Subaccount established pursuant to the Thirteenth 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 Escrow Account means the Special Escrow Account established under the Special Escrow Agreement.

Special Escrow Agent means The Bank of New York Trust Company, N.A., the special escrow agent under the Special Escrow Agreement, or any successor thereto.

Special Escrow Agreement means the Special Escrow Agreement, dated as of November 1, 1999, as amended, by and among the Authority, the Special Escrow Agent and the Government, as the same may be supplemented or amended from time to time.

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.

Subaccount or **Subaccounts** means any subaccount or subaccounts, as the case may be established in an Account pursuant to the Indenture or in a Supplemental Indenture authorizing a Series of Bonds hereunder.

Substitute Revenues means any taxes or other revenues collected or to be collected by the Government as may hereafter be pledged by the Government pursuant to any Loan Agreement as additional or substitute security for the repayment of any Loan Notes.

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

Surplus Account means the Surplus Account established in Section 5.01 of the Indenture.

Surplus Available Revenues means as of any October 1, commencing with October 1, 2013, the “available amounts” of the Government within the meaning of Treasury Regulations Section 1.148-6(d)(3)(iii) (including, specifically all amounts available to the Government for expenditure for payment of working capital expenditures, including cash or investments and other amounts held in accounts or otherwise by the Government or any related party as defined in Section 1.150-1 of the Treasury Regulations if those amounts may be used for working capital expenditures without legislative or judicial action and without a legislative, judicial or contractual requirement that those amounts be reimbursed). Surplus Available Revenues shall not include an amount equal to 5% of the reasonable capital reserve expenditures paid by the Government from current revenues for the prior fiscal year of the Government.

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 Article VI of 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.

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

Term Bonds means Bonds which are designated in a Supplemental Indenture as subject to scheduled Mandatory Sinking Fund Requirements prior to maturity.

Thirteenth Supplemental Indenture shall mean this Thirteenth Supplemental Indenture of Trust, dated as of November 1, 2012, between the Authority and the Trustee, which supplements and amends the Indenture.

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 means the Revenues and the rights to receive the same, the tangible and intangible properties, rights and other assets described in the Granting Clauses of the Indenture as from time to time supplemented, and, with respect to a specific Series of Bonds or specific Bonds within a Series, such funds, rights, properties and assets pledged to secure such Series of Bonds or specific Bonds within a Series pursuant to a Supplemental Indenture.

Trustee means The Bank of New York Trust Company, N.A. (as successor to the Bank of New York), a national association, designated as trustee under the Indenture, and its successor or successors hereafter appointed in the manner provided in the Indenture.

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 the Bond. The method of commuting 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.

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE ORIGINAL INDENTURE AND THE THIRTEENTH SUPPLEMENTAL INDENTURE

THE ORIGINAL INDENTURE

The following is a summary of certain provisions of the Original Indenture. Such summary does not purport to be complete or definitive and reference is made to the Original 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 CERTAIN DEFINED TERMS.”

Pledge of Revenues. The Bonds shall be special, limited obligations of the Authority payable as to the principal or Redemption Price, if any, and interest thereon, in accordance with their terms and the terms and provisions of the Indenture solely from Revenues, 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 of or interest on the Bonds.

Authorization of Bonds. The Indenture authorizes Bonds of the Authority to be issued and designated as “Refunding Bonds (Virgin Islands Gross Receipts Taxes Loan Note)” or “Revenue Bonds (Virgin Islands Gross Receipts Taxes Loan Note)” or “Revenue and Refunding Bonds (Virgin Islands Gross Receipts Taxes 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 Act, or as may be limited by law.

Sinking Fund Redemption; Purchase. The Bonds of any Series issued pursuant to the Indenture may be subject to optional, mandatory or extraordinary redemption or prepayment on a scheduled or other basis, provided that the Mandatory Sinking Fund Requirements of Bonds or a particular Series and maturity shall be reduced to the extent the Bonds of that Series and maturity have been optionally or mandatorily redeemed prior to or on the date scheduled for payment of the specified principal amount and at the Redemption Prices specified in the applicable Supplemental Indenture.

Additional Bonds; Other Revenue Obligations. All of the Bonds issued under a Supplemental Indenture shall collectively be a charge and lien upon the Trust Estate. Except as permitted by the Indenture, no obligations payable from Revenues or secured by a lien of a superior or equal rank on the Trust Estate (except as to any Credit Facility or Liquidity Facility which secures Bonds or a specific Series of Bonds) shall be issued under the Indenture. If no Event of Default has occurred or will contemporaneously, the Authority may issue Additional Bonds pursuant to a Supplemental Indenture.

Conditions to the Issuance of Additional Bonds:

(a) All Bonds shall be payable from Revenues and secured by a lien on the Trust Estate on a parity basis with all Outstanding Bonds and any Additional Bonds that may be issued under the Indenture (except as to any Credit Facility which secures only a specific Series of Bonds or specific Bonds of a Series) if the Trustee shall receive:

(1) a certificate of the Authority that no Event of Default under the Indenture has occurred and shall continue to exist immediately following the date of the Bonds to be issued; and

(2) a certificate of an Independent Verification Analyst stating (i) (A) the actual amount of Gross Receipts Taxes collected by the Government during each of the twenty-four (24) calendar months immediately preceding the calendar month in which such Bonds are issued (the “Test Period”); (B) the actual amount of Gross Receipts Taxes collected by the Government during any twelve (12) consecutive month period within the Test Period in which collections of Gross Receipts Taxes were the greatest; and (C) the average Gross Receipts Taxes projected to be collected by the Government in the two Fiscal Years succeeding the issuance of such Bonds; (ii) the maximum annual Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Bonds after giving effect to the issuance of the proposed Additional Bonds; and (iii) (A) that the Gross Receipts Taxes collected by the Government during the twelve consecutive calendar month period referred to in (i)(B) above equaled or exceeded 150% of the amount of maximum Adjusted Debt Service Requirement on Outstanding Bonds in the current or any subsequent Bond year after giving effect to the issuance of the proposed Additional Bonds in the current or any subsequent Bond Year or (B) the average Gross Receipts Taxes projected to be collected by the Government for the two Fiscal Years succeeding the issuance of the Bonds is projected to equal or exceed 150% of the Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Bonds and such Additional Bonds.

(b) For purposes of the certifications described in the Indenture there shall be excluded from the Adjusted Debt Service Requirement any amounts otherwise due or to become due on Outstanding Bonds which are to be refunded and will be no longer Outstanding as a result of the issuance of such Additional Bonds.

(c) Any, Supplemental Indenture that authorizes Bonds under this Section shall state the dollar amount of the Debt Service Reserve Requirement, effective as of the date of issuance of such Additional Bonds, and of the portion thereof, if any, to be funded out of the sale proceeds of such Series of Bonds and/or other moneys to be delivered to the Trustee or on deposit with the Trustee.

(d) If the Bonds are subject to mandatory purchase or are to be purchased upon optional tender by the Owners thereof, any amounts required to be segregated or set aside by the Authority to fulfill its purchase obligation shall be deemed additional Adjusted Debt Service Requirements with respect to the related Series of Bonds in the amounts and at the times such amounts are required to be so set aside.

(e) The conversion of Bonds that are Variable Rate Bonds to Fixed Interest Rate Bonds shall not be treated as the issuance of Additional Bonds subject to the other requirements of this Section unless the interest rate to be borne by such Bonds from and after the date of conversion will exceed the Certified Interest Rate taken into account for the purposes of computing Adjusted Debt Service Requirements under Section 2.05(a) of the Indenture.

(f) Prior to the issuance of any Series of Bonds under the provisions of this Section, and as a condition precedent thereto, the following documents and showings shall be executed and delivered:

(i) a Supplemental Indenture, executed by the Authority and the Trustee, providing for the issuance of such Bonds and the terms and conditions thereof, and

(ii) an Authority certificate setting forth information sufficient to satisfy the Trustee that the requirements of this Section have been fulfilled.

Refunding Bonds. Additional Bonds may be issued pursuant to the Indenture if and to the extent needed to refund Outstanding Bonds, which refunding Additional Bonds may be on a parity with the Bonds that are being refunded and are not required to satisfy the tests of issuance of Additional Bonds set forth in the Indenture, if the aggregate Debt Service on the refunding Additional Bonds is equal to or less than the aggregate Debt Service on the refunded Bonds; and provided further, that the Authority has made provisions for the repayment of the Bonds to be refunded.

Book-Entry System Only. The ownership of one or more fully registered Bonds for each maturity of each Series of Bonds shall be registered in the name of Cede and Company, as nominee for the Depository Trust Company (“DTC”). Payments of interest on, principal of any premium on such Series of Bonds shall be made to the account of the DTC on each payment date at the address indicated for the DTC in the Bond Register by transfer of immediately available funds. DTC maintains a book-entry system for recording ownership interests of its participants (the “Direct Participants”), and the ownership interests of a purchaser of a beneficial interest in the Bonds (a “Beneficial Owner”) will be recorded through book entries on the records of the Direct Participants. With respect to Bonds registered in the name of DTC, the Authority, the Trustee and any agent thereof shall have no responsibility or obligation to any Direct Participant or to any Beneficial Owner of such Bonds. DTC may determine to discontinue providing its services with respect to the Bonds of a Series at any time by giving reasonable written notice to the Authority, the Trustee and any tender agent for a Series of Bonds and discharging its responsibilities with respect thereto under applicable law. In addition, the Authority, in its sole discretion and without the consent of any other Person, may terminate, upon provision of notice to the Trustee and any tender agent for a Series of Bonds, the services of the DTC with respect to a Series of Bonds if the Authority determines that the continuation of the system of book entry-only transfers is not in the best interests of the Owners of the Bonds of the Series or is burdensome to the Authority. The Authority may select a new Depository or discontinue the services of a Depository and issue Bond certificates.

General Provisions. The Bonds shall be in minimum denominations of \$100,000 and integral multiples of \$5,000 in excess thereof in the form set forth in the exhibit to the appropriate Supplemental Indenture. The Authority shall execute the Bonds by the manual or facsimile signature of the Governor of the Virgin Islands with the seal or facsimile seal of the Authority and attestation by the manual or facsimile signature of the Secretary of the Authority in accordance with the provisions of the Indenture. The Bonds shall be transferable only upon the books of the Authority by the Trustee. In all cases in which the privilege of exchanging Bonds or transferring registered Bonds is exercised, the Authority shall execute and the Trustee shall authenticate and deliver bonds in accordance with, and subject to the restrictions of, the Indenture. Neither the Authority nor the Trustee shall be required (a) to transfer or exchange Bonds for a period beginning on the Record Date next preceding an interest payment date for the Bonds and ending on such interest payment date, or for a period for fifteen days next preceding the date (as determined by the Trustee) of any selection of Bonds to be redeemed or thereafter until after the mailing of any notice of redemption; or (b) to transfer or exchange any Bonds called or tendered for redemption, in whole or in part.

Exchanges and Transfer of Bonds. The Indenture provides when a Bond is exchanged or transferred, the Authority shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of the Indenture. Bonds surrendered for exchange or transfer shall be canceled by the Trustee. The Authority may only make a charge sufficient to reimburse itself for any tax or other governmental charge required to be paid with respect to such exchange or transfer. The Indenture provides specific time periods when the Authority and the Trustee cannot be required to transfer or exchange Bonds.

Redemption. Bonds subject to mandatory, optional or extraordinary redemption prior to maturity pursuant to any Supplemental Indenture shall be redeemable, upon notice, at such times, at such

Redemption Prices and upon such terms in addition to the terms contained in the Indenture as may be specified in any Supplemental Indenture. At the election or direction of the Authority, the Board shall notify the Trustee of the Authority's decision to redeem and of the particulars of the redemption. If less than all of the Bonds of like maturity of any Series shall be called for prior redemption, the Trustee shall randomly select the particular Bonds or portions of the Bonds to be redeemed.

Notice of Redemption. When the Trustee shall receive notice from the Board, acting on behalf of the Authority, of its election or direction to redeem Bonds pursuant to the Indenture, and when redemption of Bonds is required or authorized pursuant to the Indenture, the Trustee shall give notice, in the name of the Authority, of the redemption of such Bonds, which notice shall specify the Series and maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be so redeemed, and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be mailed by the Trustee by first class mail, postage prepaid, not more than 60 days nor less than 30 days before the redemption date, to each of the Owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the Bond Register, but any defect in, or the failure of any Bondowner to receive, any such notice shall not affect the validity of the proceedings for the redemption of Bonds. Notwithstanding the foregoing, failure to mail any such notice pursuant to the Indenture to any particular Owner of a Bond shall not affect the validity of any proceedings for the redemption of any other Bond.

Payment of Redeemed Bonds. Notice having been given in the manner provided in the Indenture, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds or portions thereof shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be called for redemption less than all of a Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, at the option of the Owner thereof, Bonds of like Series and maturity in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds or portions thereof of such Series and maturity so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Creation of Accounts, and Subaccounts; Deposit of and Use of Moneys. The proceeds of each Series of Bonds and all Revenues and other sums pledged and assigned by the Indenture to the Trustee for the benefit of Bondowners are to be deposited to the 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 Accounts and separate Subaccounts within the Accounts created with respect to each series of Bonds under the Indenture shall be held and administered by the Trustee or the Authority in accordance with the terms of the Indenture and may include the following:

- (1) The Pledged Revenue Account, to be held by the Trustee;
- (2) The Debt Service Account, to be held by the Trustee with such separate Subaccounts as provided in the Indenture or Supplemental Indenture, including any of the following accounts therein:
 - (A) An Interest Subaccount;
 - (B) A Principal Subaccount;
 - (C) A Redemption Subaccount;
 - (D) A Credit Subaccount with respect to each Credit Facility which is not a Debt Service Reserve Account Credit Facility;
 - (E) An Expense Subaccount;
 - (F) A Purchase Subaccount;
 - (G) A Capitalized Interest Subaccount;
 - (H) Any other Account or Subaccount established by the applicable Supplemental Indenture;
- (3) The Debt Service Reserve Account, to be held by the Trustee, with such separate Credit Subaccounts therein as the Authority shall determine in any Supplemental Indenture;
- (4) The Project Account, to be held by the Trustee or the Authority, with such separate Subaccounts therein as the Authority shall determine in any Supplemental Indenture;
- (5) The Cost of Issuance Account and such Subaccounts therein as the Authority shall determine in any Supplemental Indenture, to be held by the Trustee;
- (6) A Rebate Account, to be held by the Trustee, and such Subaccounts therein as the Authority shall determine in any Supplemental Indenture authorizing a Series of Tax-Exempt Bonds; and
- (7) A Surplus Account, to be held by the Authority.

Project Account. There shall be paid into the Project Account the amounts required to be so paid by the provisions of the Indenture and each Supplemental Indenture. There also may be paid into the Project Account, 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 Subaccounts may be created within the Project Account 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 Subaccounts shall be held separately from other moneys in the Project Account and shall be disposed of only in the manner provided in the Supplemental Indentures authorizing such Subaccounts. Such separate, segregated Subaccounts and all funds, investments thereof and investment income earned thereon may be pledged (and a lien and security interest therein may be granted) to secure for any period of time the payment of principal of and/or the purchase price of any or all of any Series of Bonds issued pursuant to such Supplemental Indenture incurred pursuant to such Supplemental Indenture and interest thereon to any date, all as may be more

fully provided in such Supplemental Indenture in which case such pledge, lien and security interest will be prior and superior to the lien and pledge on the Project Account granted by the Indenture securing the Bonds generally. Amounts in the Project Account shall be used to pay any or all of the following: (i) the Costs of the Approved Projects and (ii) with respect to special Subaccounts created within the Project Account by a Supplemental Indenture, to pay all amounts authorized by such Supplemental Indenture. Amounts in the Project Account may be transferred to a Debt Service Account 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 and to the extent that the Authority certifies such amounts are not then obligated to pay costs of an Approved Project.

Pledged Revenue Account. The Trustee shall deposit to the Pledged Revenue Account as received all Revenues received, including but not limited to the Gross Receipts Taxes and any Substitute Revenues pledged under the Loan Agreements, 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 Account under a Supplemental Indenture. All amounts in the Pledged Revenue Account shall be transferred daily on or before the 5:00 p.m. on each Business Day during each calendar month to Accounts and Subaccounts 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) to each Interest Subaccount, until the aggregate amount on deposit in all existing Interest Subaccounts is equal to the sum of all Required Interest Subaccount Balances (as hereinafter defined). The Required Interest Subaccount Balance in effect during each calendar month for each Interest Subaccount shall be the greater of (A) the amount determined by multiplying (x) the portion of the Adjusted Debt Service Requirement for the applicable Series of Bonds which constitutes all of the interest accruing or to accrue on such Series of Bonds during the Interest Payment Period ending on the next Interest Payment Date, by (y) a fraction, the numerator of which is equal to one (1) plus the number of whole calendar months that have elapsed since the immediately preceding Interest Payment Date (or, in the case of the period prior to the first Interest Payment Date, one (1) plus the number of whole calendar months that have elapsed since the date interest on such Series of Bonds commenced to accrue) and the denominator of which is the number of whole calendar months in such Interest Payment Period, or (B) the amount specified in the applicable Supplemental Indenture (such transfers to be subject to the credits provided for below in clause (2) of this paragraph (i));

(2) subject in each case to any credit with respect to any amounts on deposit in the Capitalized Interest Subaccount 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 clause (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 Revenues as interest on the Series of Bonds to which such Qualified Swap Agreement shall relate and (B) as of each Interest Payment Date for Bonds which are not Fixed Rate Bonds 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 Subaccount, 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) hereof; and then

(ii) to each Principal Subaccount, beginning in the first calendar month specified in the applicable Supplemental Indenture (the "Principal Amortization Start Month"), until

the aggregate amount on deposit in all existing Principal Subaccounts is equal to the sum of all Required Principal Subaccount Balances (as hereinafter defined). The Required Principal Subaccount Balance in effect during each calendar month for each Principal Subaccount shall be the greater of (A) the amount determined by multiplying (x) the principal (including Sinking Fund Installments) on the applicable Series of Bonds due on the next succeeding Principal Payment Date by (y) a fraction, the numerator of which is equal to one (1) plus the number of whole calendar months that have elapsed since the immediately preceding Principal Payment Date (or, in the case of the period prior to the first Principal Payment Date, one (1) plus the number of whole calendar months that have elapsed since the first day of the Principal Amortization Start Month), and the denominator of which is the number of whole calendar months between the immediately preceding Principal Payment Date (or, in the case of the period prior to the first Principal Payment Date, the first day of the Principal Amortization Start Month), and the next succeeding Principal Payment Date, or (B) the amount specified in the applicable Supplemental Indenture; and then

(iii) to each Credit Subaccount, an amount sufficient to pay any 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 Section shall in no event be greater than the sum of (1) amounts received under the related Credit Facility for payment of amounts to or for the benefit of Owners of Bonds secured by such Credit Facility and (2) interest thereon at the rate specified in the Credit Agreement; provided, that the amounts of the transfers described in (i), (ii), (iii) and (iv) shall be reduced to the extent of moneys previously transferred or required to be transferred to said Accounts under other provisions hereof or of a Supplemental Indenture; and then

(iv) to the Debt Service Reserve Account the amount of any transfer required by the provisions of the Indenture described below under the heading "Debt Service Reserve Account" to restore any deficiency in the Debt Service Reserve Account (or to pay any amounts then owing to a Credit Provider pursuant to a Credit Agreement relating to a Debt Service Reserve Account Credit Facility); and then

(v) to each Redemption Subaccount, the amount of Revenues required to redeem Bonds subject to redemption pursuant to the related Supplemental Indenture; and then

(vi) to each Expense Subaccount, any amounts then due and owing to the Trustee, any Paying Agent, Remarketing Agent, Bond Registrar, Credit Provider, Special Escrow Agent, Collecting Agent or other Fiduciary which are Bond Services Charges or Bond Related Costs for Bonds relating to the administration (including remarketing) and the Authority's Annual Administrative Fee which otherwise have not been provided for in (i), (ii), (iii) or (iv) above; and then

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

(viii) to any Swap Provider for termination payments which the Authority is required to make under any Qualified Swap Agreement, the amounts required to make such payments as set forth in such Qualified Swap Agreement; and then

(ix) except as may be provided in one of more Supplemental Indentures to the contrary, to the Surplus Account for application pursuant to the Indenture.

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 subsection (a)(ii) above rather than “interest” under subsection (a)(i) above.

Debt Service Account and Subaccounts. There shall be deposited into the Debt Service Account 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 Subaccounts within the Debt Service Account as described in the Indenture.

(a) **Interest Subaccount.** There shall be deposited in each Interest Subaccount, 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 Subaccount to pay the total amount of interest coming due on the Bonds on such Interest Payment Date, the Trustee shall transfer to the Interest Subaccount from respectively, the Pledged Revenue Account, the Redemption Account, the Project Account, the Debt Service Reserve Account or the Principal Subaccount, in the order so listed, an amount equal to the deficiency. On each Interest Payment Date the Trustee shall withdraw from the Interest Subaccount 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 Subaccount.** There shall be transferred to the Principal Subaccount the amounts required to be transferred from the Pledged Revenue Account pursuant to the Indenture. If on any Principal Payment Date there are not sufficient amounts on deposit in the Principal Subaccount 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 Subaccount from, respectively, the Pledged Revenue Account, the Redemption Account, the Project Account, the Debt Service Reserve Account or the Interest Subaccount, in the order so listed, an amount equal to the deficiency. On or before each Principal Payment Date for Bonds, the Trustee shall withdraw from the Principal Subaccount 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.

(c) **Redemption Subaccount.** Any amounts to be used to prepay Bonds by the Authority shall be deposited in the Redemption Subaccount 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 Subaccount from a Project Account as excess proceeds shall be applied only to redeem Bonds of the Series from which such Project Account proceeds were derived, if any such Bonds are Outstanding. Other funds transferred to the Redemption Subaccount 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 Subaccount.** To the extent so provided in the applicable Supplemental Indenture the Trustee shall create a separate Credit Subaccount within the Debt Service Account for each Series of Bonds (or specific Bonds within a Series) secured by a Credit Facility which is not a Debt Service Reserve Account 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 Subaccounts by reason of such subrogation rather than establishing a Credit Subaccount and requiring a transfer of such amounts thereto prior to payment of such amounts to such a Credit Provider.

(e) **Expense Subaccount.** The Trustee shall transfer from the Pledged Revenue Account to the respective Expense Subaccounts 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, Special Escrow Agent, Collecting Agent or other Fiduciary which are Bond Related Costs or Bond Service Charges.

(f) **Purchase or Repayment of Bonds at Request of Authority, Purchase Subaccount.** Amounts in the respective Purchase Subaccounts, if any shall be used as directed in the applicable Supplemental Indenture to purchase the related Series of Bonds.

(g) **Capitalized Interest Subaccount.** Except as provided in a Supplemental Indenture, to the extent available therein, on each date Revenues are regularly transferred to the Indenture, the Trustee shall transfer from the Capitalized Interest Subaccount to any related Interest Subaccount, the amount of interest required to be transferred under the Indenture.

Debt Service Reserve Account. In connection with the issuance of the Initial Series of Bonds under the Indenture, a deposit to the credit of the Debt Service Reserve Account was made by the Trustee from the proceeds thereof or from such other available moneys in the amount equal to the initial Debt Service Reserve Requirement or, in lieu thereof, the Authority may cause a Debt Service Reserve Account Credit Facility to be delivered to the Trustee for such purpose. Upon delivery of each Series of Additional Bonds under the Indenture, a deposit to the credit of the Debt Service Reserve Account is to be made by the Trustee from the proceeds of such Series of Bonds or such other available moneys as are provided to the Trustee for such purpose, as specified in the applicable Supplemental Indenture, in such amount as will cause the value of the moneys and investments on deposit in the Debt Service Reserve Account to equal the Debt Service Reserve Requirement effective upon the issuance and delivery of such Series of Bonds, or in lieu thereof, the Authority may cause a Debt Service Reserve Account Credit Facility to be delivered to the Trustee for such purpose. Thereafter the Debt Service Reserve Account shall be maintained at the Debt Service Reserve Requirement by transfers to the Debt Service Reserve Account from the Pledged Revenue Account; provided, however, (i) in the event the amount on deposit in the Debt Service Reserve Account is less than the Debt Service Reserve Requirement because of a transfer to the Interest Subaccount or the Principal Subaccount by the Indenture, then the Authority shall be required to restore the deficiency caused thereby (1) to the extent there are any amounts on deposit in the Surplus Account, by the transfer to the Trustee for deposit into the Debt Service Reserve Account of the full amount on deposit in the Surplus Account or such lesser amount as will cure such deficiency in the Debt Service Reserve Account, and (2) to the extent any deficiency remains following application as provided in (i)(1) hereof, by equal monthly transfers of Revenues from the Pledged Revenue Account so as to remedy such deficiency and pay in full all amounts owed under or in connection with a Debt Service Reserve Account Credit Facility, any related Credit Agreement and any Related Agreements over the period of twelve (12) calendar months following the month in which such transfer to the Interest Subaccount or the Principal Subaccount occurs and (ii) in the event the amount on deposit in the Debt Service Reserve Account is less than the Debt Service Reserve Account Requirement 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 equal monthly transfers of Revenues from the Pledged Revenue Account over the period of four (4) consecutive calendar months following the month in which the determination that such deficiency was made. If on any Interest Payment Date there are not sufficient amounts on deposit in the Interest Subaccount 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 Subaccount 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 (ii) prior to a transfer from the Debt Service Reserve Account, the Trustee shall transfer sums on deposit in the Debt Service Reserve Account, as provided in the Indenture to the Interest Subaccount or Principal Subaccount, as the case may be, in an amount sufficient to make up any such deficiency.

Cost of Issuance Account. The Trustee may establish within the Cost of Issuance Account 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 Cost of Issuance Account, from the proceeds of each Series of Bonds, the amount specified pursuant to the Supplemental Indenture creating such account.

Rebate Account. 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 Account 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 Account. If the Trustee does not have on deposit in the Rebate Account 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 amount held in the Rebate Account shall be credited to the Rebate Account upon receipt.

Surplus Account. Moneys held in the Surplus Account may be used: (a) for transfers to the Debt Service Account and Debt Service Reserve Account to maintain the required balances therein if no other funds are available for such purposes, (b) for transfers to the Project Account or Subaccount thereof to pay costs of an Approved Project, or (c) for any other purpose as directed by the Authority now or hereafter authorized by law.

Investments. If there are Bonds Outstanding and no Event of Default has occurred or is continuing, an authorized Officer may invest moneys on deposit to the credit of the Project Account, Pledged Revenue Account, the Debt Service Account and the Debt Service Reserve Account.

Events of Default. The following constitute “Events of Default” under the Indenture:

(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 this Indenture or any Supplemental Indenture on the part of the Authority to be performed other than those set forth in (a) and (b) of this Section, 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 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.

Proceedings by Trustee. 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 25% 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 of 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, (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, (v) by mandamus or other suit, action or proceeding at law or in equity, enforce or require the Authority to enforce, all of the rights of the Authority and the Trustee under and pursuant to the Loan Agreement, the applicable Loan Notes or the Special Escrow Agreement, and to require the Government to carry out any of its other covenants or agreements or perform any of its duties thereunder; and (vi) by mandamus or other suit, action or proceeding at law or in equity, enforce all rights of Owners of Bonds and Swap Providers and require the Authority to enforce all rights of the Owners of Bonds and Swap Providers, and to require the Authority to carry out any other covenant or agreement with Owners of Bonds and Swap Providers and to perform its duties hereunder or under any Qualified Swap Agreements.

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.

Rights of Owners. 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 25% in the 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.

Restriction on Action by Owners. 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 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 thereby 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.

Waiver of Events of Default; Effect of Waiver. 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 Bondowners shall be restored to their former positions and rights under the Indenture.

Priority of Payment. All Bonds issued under and secured by the Indenture shall be equally and ratably secured by and payable from the Debt Service Account 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 Account 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 Trustees' 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 Debt Service Account (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.

Application of Moneys. Unless the principal of Bonds shall have become due and payable, all such moneys in the respective Accounts and Subaccounts 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 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;

SECOND: 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;

THIRD: 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; and

FOURTH: To reimburse the Trustee for certain costs and expenses described in the Indenture and not reimbursed thereunder.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, 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 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 this Section and all expenses and charges of the Trustee have been paid any balance remaining shall be paid to the Authority.

Duties, Immunities and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied duties or obligations shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured) exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise as a prudent individual would exercise or use under the circumstances in the conduct of his own affairs.

The Trustee is not required to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not assured to it.

In accepting the trust created by the Indenture, the Trustee acts solely as Trustee for the Owners and not in its individual capacity.

The Trustee makes no representation or warranty, express or implied, as to the compliance with legal requirements of the use contemplated by the Authority of the funds under the Indenture or any Supplemental Indenture. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Indenture or Supplemental Indenture.

The Trustee shall not be responsible for the sufficiency, timeliness or enforceability of the remedies. The Trustee shall have no responsibility in respect of the validity or sufficiency of the Indenture or any Supplemental Indenture or the security provided hereunder or the due execution of the Indenture by the Authority, or the due execution of any other document by any party (other than the Trustee) thereto, or in respect of the validity of any Bonds authenticated and delivered by the Trustee in accordance with the Indenture or to see to the recording or filing (but not refiling) of the Indenture, any Supplemental Indenture or any financing statement or any other document or instrument whatsoever.

The Trustee shall not be deemed to have knowledge of any Event of Default under the Indenture unless and until an officer of its corporate trust department shall have actual knowledge thereof.

The Trustee shall not be liable or responsible because of the failure of the Authority to perform any act required of it by the Indenture or any Supplemental Indenture or because of the loss of any moneys arising through the insolvency or the act or default or omission of any depository other than itself in which such moneys shall have been deposited under the Indenture or any Supplemental Indenture. The Trustee shall not be responsible for the application of any of the proceeds of the Bonds or any other moneys deposited with it and paid out, invested, withdrawn or transferred in accordance with the Indenture or for any loss resulting from any such investment. The Trustee shall not be liable in connection with the performance of its duties under the Indenture except for its own misconduct, negligence or bad faith.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Bonds relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or any trust or power conferred upon the Trustee under the Indenture or any Supplemental Indenture.

Removal, Resignation of Trustee, Successor Trustee. The Authority in its sole discretion may remove the Trustee without cause at any time if no Event of Default has occurred and is continuing and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible or shall become incapable of acting, or shall commence a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take control or charge of the Trustee or its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

The Trustee may resign by giving written notice of such resignation to the Authority and by giving notice of such resignation by mail, first class postage prepaid, to the Owners at the addresses listed in the Bond Register. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and shall have accepted appointment within 45 days of giving notice of removal or notice

of resignation as aforesaid, the resigning Trustee, or any Owner (on behalf of himself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless, at the written request of the Authority or of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon acceptance of appointment by a successor Trustee as provided in this subsection, such successor Trustee provide notice of the succession of such Trustee to the trusts hereunder by first class mail, postage prepaid, to each Paying Agent and to the Owners at their addresses listed in the Bond Register.

Any Trustee appointed shall be a trust company or bank having the powers of a trust company, having a corporate trust office in the United States, having a combined capital and surplus of at least one hundred million dollars (\$100,000,000), and subject to supervision or examination by federal or state authority.

Merger or Consolidation of Trustee. Any company into which the Trustee or any Paying Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee or any Paying Agent may sell or transfer all or substantially all of its corporate trust business provided such company shall be eligible under the Indenture, may succeed to the rights and obligations of such Trustee or Paying Agent, as the case may be, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding; provided that upon the sale or transfer of corporate trust business as a result of such merger or consolidation, so long as no Event of Default has occurred and is continuing, the Authority may by an instrument in writing appoint a successor Trustee or Paying Agent other than the company resulting from such merger, conversion or consolidation by the Trustee or the Paying Agent.

Liability of Fiduciaries. Facts in the Indenture, in any Supplemental Indenture and in the Bonds shall be taken as statements of the Authority, and neither the Trustee nor any Paying Agent assumes any responsibility for the correctness or makes any representations as to the validity or sufficiency of the Indenture, any Supplemental Indenture or of the Bonds other than in connection with the duties or obligations therein or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. Neither the Trustee nor any Paying Agent shall be liable in connection with the performance of its duties under the Indenture, except for its own negligence or default. The Trustee or any Paying Agent may become the Owner of Bonds with the same rights they would have if they were not Trustee or Paying Agent, respectively, and, to the extent permitted by law, may act as depository for and permit any of their officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

No Recourse on the Bonds. No recourse shall be had for the payment of the principal of 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.

Right to Indemnification. The Trustee shall be under no obligation to institute any suit, or to take any remedial proceeding under the Indenture, or to enter any appearance in or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of the trusts created by the indenture or in the enforcement of any rights and powers under the Indenture, until it shall be indemnified to its satisfaction against any and all reasonable costs and expenses, outlays, and counsel fees and other disbursements, and against all liability not due to its willful misconduct, negligence or bad faith.

Supplemental Indenture Without Consent of Bondowners. 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.

Supplemental Indenture With Consent of Bondowners. 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 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 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.

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 (i) 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, (ii) 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 (iii) 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 it instructions to mail a notice to the Owners of such Bonds that the deposit required by (ii) 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.

Notice. Any Notice, demand, direction, request or other instrument authorized or required by the Indenture to be given to or filed with the Authority or the Trustee shall be deemed to have been sufficiently given or filed for all purposes of the Indenture if and when sent by registered mail, return receipt requested.

THE THIRTEENTH SUPPLEMENTAL INDENTURE

The following is a summary of certain provisions of the Thirteenth Supplemental Indenture. Such summary does not purport to be complete or definitive and reference is made to the Thirteenth 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 CERTAIN DEFINED TERMS."

Authorization and Details of Series 2012 Bonds. The Thirteenth Supplemental Indenture authorizes the issuance of the Series 2012 Bonds, the proceeds of which shall be used to (i) refund all of the outstanding Series 1999A Bonds, the Series 2010A Notes and the Series 2011A Note, (ii) fund the Debt Service Reserve Account in an amount necessary to meet the Debt Service Reserve Requirement related to the Series 2012 Bonds, and (iii) pay certain costs incidental to the issuance of the Series 2012 Bonds.

Bonds Equally and Ratably Secured. Except as provided in the Thirteenth Supplemental Indenture, the Series 2012 Bonds shall in all respects be equally and ratably secured.

Details of the Series 2012 Bonds. The Series 2012 Bonds shall be dated the date of delivery, shall be issuable as fully registered bonds in the denomination of \$100,000 and integral multiples of \$5,000 in excess thereof, and shall bear interest paid semiannually on each April 1 and October 1 in the years and amounts specified in the Thirteenth Supplemental Indenture.

Securities Depository Provisions. Initially, one certificate for each respective Series and the Series 2012 Bonds will be issued and registered to the Securities Depository, or its nominee, in a book-entry system.

Optional Redemption. As directed by the Authorized Representative of the Authority, the Series 2012 Bonds are subject to redemption upon payment of the Redemption Prices as specified in the Thirteenth Supplemental Indenture. If less than all of the Series 2012 Bonds of any Series are called for redemption, they shall be called in such order of maturity as the Authority may determine. The portion of any Bond to be redeemed shall be in the principal amount of \$100,000 and integral multiples of \$5,000 in excess thereof. Notice of redemption shall be given in the manner set forth in the Indenture.

Funds and Accounts. There shall be established within the Debt Service Account, the Series 2012 Interest Subaccounts, the Series 2012 Principal Subaccounts, the Series 2012 Redemption Subaccounts, the Series 2012A Restricted Moneys Subaccount; and the Series 2012A Escrow Subaccounts and the Series 2012B/Series 2011A Escrow Subaccount within the Series 2012 Redemption Subaccounts. Moneys in such subaccounts shall be used in accordance with the Indenture.

There shall be established within the Cost of Issuance Account the Series 2012 Cost of Issuance Subaccount. Moneys in the Series 2012 Cost of Issuance Subaccount shall be used in accordance with the provisions of the Indenture.

There shall be established within the Expense Account the Series 2012 Expense Subaccount. Moneys in the Series 2012 Expense Subaccount shall be used in accordance with the provisions of the Indenture.

Security for Series 2012 Bonds. The Series 2012 Bonds shall be equally and ratably secured under the Indenture with any other Bonds issued pursuant to the Indenture, without preference, priority or distinction of any Bonds over any other Bonds, as provided in the Indenture.

Rebate Account. There shall be established within the Rebate Account, the Series 2012 Rebate Subaccounts to be held by the Trustee. Moneys deposited in the Series 2012 Rebate Subaccounts shall be applied in accordance with the Indenture.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2012 LOAN AGREEMENT

The following is a summary of certain provisions of the Series 2012 Loan Agreement. Such summary does not purport to be complete or definitive, and reference is made to the Series 2012 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 CERTAIN DEFINED TERMS."

The Loan. The Authority, on the terms and conditions set forth in the Series 2012 Loan Agreement, shall lend the proceeds of the Series 2012 Bonds to the Government.

Repayment of the Loan. The Government promises to repay the Loan and observe the terms and provisions of the Series 2012 Loan Agreement. The Loan shall be evidenced by the Government's Series 2012 Loan Notes in the principal amount of \$228,805,000. The Government shall repay the Series 2012 Loan Notes in installments of principal not later than the second Business Day preceding October 1 in each year in amounts equal to the amounts due for principal or Redemption Price of, and interest on, the Series 2012 Bonds. The Series 2012 Loan Notes will accrue interest at rates equal to the rates of interest accruing on the Bonds, payable semiannually not later than the second Business Day preceding each April 1 and October 1, commencing April 1, 2013 and ending on the second Business Day preceding the final maturity thereof. Interest on the Series 2012 Loan Notes shall be computed on the basis of a 360-day year composed of twelve (12) thirty (30) day months.

Redemption of the Series 2012 Loan Notes. The Series 2012 Loan Notes may, at the option of the Government, be redeemed, in whole or in part, prior to its maturity at the times, in the manner of and on the same maturities as an optional redemption of the Authority's respective Series 2012 Bonds and at a Redemption Price equal to the principal amount of, plus accrued interest thereon to the date of redemption and any premium required to provide for the payment of the optional redemption of the Authority's respective Series 2012 Bonds. In addition, in the event the Series 2012 Bonds are subject to mandatory redemption in whole or in part or in the event the Series 2012 Bonds are tendered by the holders thereof for purchase and are purchased by the Authority for retirement and cancellation then, upon payment of the Redemption Price or purchase price of such Bonds, the Government shall be deemed to have made a prepayment on the Series 2012 Loan Notes, in accordance with the terms of the Series 2012 Loan Agreement, in a principal amount equal to the aggregate principal amount of the respective Series 2012 Bonds so redeemed or purchased.

Application of Proceeds. The Authority shall deposit all funds received from the proceeds of the Series 2012 Bonds into the respective Accounts and Subaccounts in accordance with the Series 2012 Loan Agreement.

Security. The Series 2012 Loan Notes are the general obligation of the Government and are secured by its full faith and credit and taxing power. As further security for the payment of the Series 2012 Loan Notes, the Government grants and pledges to the Trustee a lien and security interest in the Gross Receipts Taxes (with the exception of the Required Annual Moderate Income Housing Fund Deposit), on a parity with the Outstanding Bonds, and any other additional parity indebtedness to the extent provided in the Series 2012 Loan Agreement, and the Government consents to the deposit of the Gross Receipts Taxes into the Special Escrow Account, as provided for in the Special Escrow Agreement and the Collecting Agent Agreement.

Representations and Warranties of the Government. The Government makes the following representations and warranties to the Authority:

(a) As of the date of the execution and delivery of the Series 2012 Loan Agreement, the amount of Gross Receipts Taxes anticipated to be collected by the Government is a sum which, during the period the Series 2012 Loan Notes are outstanding, is reasonably expected to be in excess of the amount necessary to pay the principal of, interest on and all other amounts payable under the Series 2012 Loan Notes and parity obligations as the same becomes due.

(b) The Government is duly authorized and has full power and authority to execute, deliver and perform its obligations under the Series 2012 Loan Agreement, the Special Escrow Agreement, the Series 2012 Loan Notes and the Collecting Agent Agreement.

(c) The aggregate principal amount of outstanding public indebtedness of the Government is and, as of the date of issuance and delivery of the Series 2012 Bonds, will be, in compliance with the limitation on such public indebtedness contained in Section 8(b) of the Revised Organic Act (48 USC § 1574(b)(ii)(A)).

(d) The execution, delivery and performance by the Government of the Series 2012 Loan Agreement, the Special Escrow Agreement, the Series 2012 Loan Notes and the Collecting Agent Agreement (i) have been duly authorized by all necessary action on the part of the Government; (ii) do not conflict with, or result in a violation of, any provision of law or any order, writ, rule or regulation of any court or governmental agency or instrumentality binding upon or applicable to the Government; (iii) do not and will not conflict with, result in a violation of, or constitute a default under, any agreement, resolution, mortgage, indenture or instrument to which the Government is a party or by which the Government or any of its property is bound; and (iv) do not and will not result in, or require, the creation or imposition of any mortgage, deed of trust, pledge, lien, security interest or other charge or encumbrance of any nature (other than as permitted or arising under the Series 2012 Loan Agreement) upon or with respect to any property of the Government.

(e) No authorization, consent, approval, permit, license, exemption of or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality is or will be necessary for the valid execution or delivery by the Government of the Series 2012 Loan Agreement, the Special Escrow Agreement, the Series 2012 Loan Notes or the Collecting Agent Agreement.

(f) The Series 2012 Loan Agreement, the Special Escrow Agreement, the Series 2012 Loan Notes and the Collecting Agent Agreement when executed and delivered by the other parties thereto, constitute, the legal, valid and binding obligations of the Government enforceable against the Government in accordance with their terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws hereinafter enacted or principles of equity affecting the enforcement of creditors' rights generally as such laws may be applied in the event of insolvency, reorganization or other similar proceeding of, or moratorium applicable to, the Government.

(g) The Government is duly authorized under all applicable laws to issue the Series 2012 Loan Notes as general obligation indebtedness of the Government, secured by its full faith and credit and taxing power and to further secure the Series 2012 Loan Notes by pledging and assigning a lien on and a security interest in the Gross Receipts Taxes (other than the Required Annual Moderate Income Housing Fund Deposit) for the payment of principal and interest on the Series 2012 Loan Notes and all amounts payable thereunder.

(h) There are no suits, actions, proceedings or investigations pending or, to the best knowledge of the Government, threatened against or affecting the Government or any of its properties, before or by any court or governmental department, commission, board, bureau, agency or instrumentality, seeking to restrain or enjoin, the execution and delivery of the Series 2012 Loan Agreement or challenging the creation, validity or binding effect of the Series 2012 Loan Agreement, the Series 2012 Loan Notes, the Special Escrow Agreement or the Collecting Agent Agreement or the ability of the Government to perform its obligations thereunder.

(i) The Government is not, in any material respect, in breach of or in default under any applicable law or administrative regulation of the United States Virgin Islands or of the United States, relating, in each case, to the issuance of debt securities by the Government, or any applicable judgment, decree or loan agreement, note, resolution, ordinance, agreement or other instrument to which the Government is a party or is otherwise subject, the consequence of which or the correction of which would contest the creation, validity or binding effect of the Series 2012 Loan Agreement, the Series 2012 Loan Notes, the Special Escrow Agreement or the Collecting Agent Agreement or the ability of the Government to perform its obligations thereunder.

(j) At the time of issuance of the Series 2012 Loan Notes, there are no other bonds, notes or other evidences of indebtedness of the Government outstanding that are secured on a first lien by the Gross Receipts Taxes other than the Outstanding Bonds.

Affirmative Covenants of the Government. The Government covenants and agrees that so long as the Series 2012 Loan Notes shall remain outstanding and the principal thereof, interest thereon, and all other amounts payable thereunder shall be unpaid or unprovided for, the Government shall, unless the Authority and the Trustee shall otherwise consent in writing:

(a) Observe and comply with the terms and conditions of and perform all of its obligations under the Series 2012 Loan Agreement, under the Series 2012 Loan Notes, the Special Escrow Agreement and the Collecting Agent Agreement, and pay all amounts payable by it thereunder according to the respective terms thereof.

(b) Promptly notify the Authority and the Trustee in writing of the occurrence of (i) any Event of Default under the Series 2012 Loan Agreement and (ii) any default under documents governing any debt of the Government.

(c) In furtherance of the pledge of Gross Receipts Taxes set forth in the Series 2012 Loan Agreement, to ensure (1) the receipt of and the maximization of Gross Receipts Taxes and, if applicable, the Substitute Revenues, and (2) the deposit of all Gross Receipts Taxes, and, if applicable, the Substitute Revenues, in the Special Escrow Account of the Government maintained by the Collecting Agent, as agent for the Special Escrow Agent, pursuant to the Special Escrow Agreement and the Collecting Agent Agreement, or such other place as the Government, with the consent of the Authority and the Trustee, may designate in writing.

(d) Observe and comply with the terms and conditions of and perform all of its obligations under the Special Escrow Agreement and the Collecting Agent Agreement.

(e) At all times while the Series 2012 Loan Notes are outstanding, to the extent permitted by law, defend, preserve and protect the pledge of the Gross Receipts Taxes and, if applicable, the Substitute Revenues, under the Series 2012 Loan Agreement and the security interest under the Special Escrow Agreement in all amounts on deposit or required to be deposited in the Special Escrow Account and all rights of the holders of the Series 2012 Loan Notes against all claims and demands of all third parties.

(f) Consent to the assignment, pursuant to the Indenture, of all right, title and interest of the Authority herein, 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.

(g) Provide to the Authority and the Trustee within 180 calendar days of the end of each Fiscal Year a financial report summarizing annual receipts of Gross Receipts Taxes and, if applicable the Substitute Revenues.

(h) In the event that the Government discontinues the imposition of the Gross Receipts Taxes and the Government substitutes another stream of revenues in lieu thereof (the "Substitute Revenues"), the Government shall provide such Substitute Revenues to repayment of the Series 2012 Loan Notes.

(i) The Government shall deliver or cause to be delivered to the Trustee no later than each December 31 occurring on or after December 31, 2013, a written certification of the Director of the Office of Management and Budget or of the Commissioner of Finance of the Government containing a computation of the Surplus Available Revenues of the Government, if any, as of the immediately preceding October 1.

(j) From October 1, 2013 through October 1, 2021, in the event the Government has any Surplus Available Revenues as of any October 1, as set forth in the certificate delivered to the Trustee pursuant to subsection (a) above, the Government shall either (i) purchase Non-AMT Tax-Exempt investments in the principal amount of such Cumulative Available Revenues, or (ii) within ninety (90) days thereafter, apply or cause to be applied an amount equal to the Cumulative Available Revenues as of such October 1, to redeem or purchase and retire the Series 2012A Bonds in accordance with the terms of the Arbitrage and Use of Proceeds Certificate executed with respect to such Series 2012A Bonds; provided, however, that any redemption is only required to be conducted in accordance with the optional redemption provisions of the Indenture. To the extent moneys on deposit in the Series 2012A Restricted Moneys Subaccount are applied to pay any redemption or purchase price, in accordance with the terms of the Arbitrage and Use of Proceeds Certificate pursuant to clause (iii) hereof, the Government's obligations will be deemed satisfied to the same extent. In the event that any portion of such Surplus Available Revenues cannot be applied to purchase and retire a portion of the Series 2012A Bonds because insufficient Series 2012A Bonds are tendered for purchase by the holders thereof, the Government shall deliver to the Trustee for deposit into the Series 2012A Restricted Moneys Subaccount of the Series 2012A Bonds Redemption Subaccount, any unexpended Surplus Available Revenues.

(k) In the event there are any Cumulative Available Revenues as of October 1, 2022, or any Surplus Available Revenues as of any October 1 thereafter, so long as there are any Series 2012A Bonds Outstanding, the Government may apply such Cumulative Available Revenues or Surplus Available Revenues, as the case may be, to redeem the Series 2012A Bonds in accordance with the Thirteenth Supplemental Indenture and the terms of the Arbitrage and Use of Proceeds Certificate.

(l) Notwithstanding the foregoing provisions, the Government shall not be required to purchase and retire any Series 2012A Bonds (pursuant to subsection (j) above), or to cause a redemption of such Series 2012A Bonds (pursuant to subsection (k) above) if, on or before the December 1 immediately following the applicable October 1, the Government delivers or causes to be delivered to the Authority and the Trustee, an opinion of Bond Counsel to the effect that purchase or redemption is not required under the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on such Series 2012A Bonds.

(j) The Government covenants and agrees that, commencing October 1, 2012, the Government shall set aside an amount equal to four percent (4%) of the gross annual Matching Fund

Revenues in each fiscal year from funds deposited in the Government Account held under the Diageo Subordinated Indenture and the Government Account held under the Cruzan Subordinated Indenture, and shall cause such funds to be applied first to (y) reduce the principal amount of any outstanding working capital credit facility authorized by 2009 V.I. Act 7064, as amended by 2009 V.I. Act 7096, 2010 V.I. Act 7174 and 2012 V.I. Bill No. 29-0386 and, then (z) to retire, through purchase or redemption, outstanding bonds issued for working capital purposes, including the Series 2012A Bonds. This covenant shall apply only to the redemption of such indebtedness which is subject to optional redemption.

Negative Covenants of the Government. The Government covenants and agrees that so long as the Series 2012 Loan Notes shall remain outstanding and the principal thereof or interest thereon shall be unpaid or unprovided for, the Government shall not:

- (a) Revoke or terminate the Special Escrow Agreement or the Collecting Agent Agreement.
- (b) Cause or permit the Authority to issue any Additional Bonds under the Indenture other than in conformance with the terms thereof.
- (c) Take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest payable by the Series 2012 Bonds, under Section 103 of the Code. The Government will not directly or indirectly use or permit the use of any proceeds of the Series 2012 Bonds or take or omit to take any action that would cause the Series 2012 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. To that end, the Government will comply with all requirements of Section 148 of the Code and Section 141 of the Code to the extent applicable to the Series 2012 Bonds.
- (e) Take any actions that would, directly or indirectly result in (1) the repeal, rescission or other termination of the effectiveness of Title 33, Section 43 of the Virgin Islands Code (the “Gross Receipts Taxes Act”), (2) a reduction in the rate or rates at which the Gross Receipts Taxes are imposed or levied, or (3) a restriction or reduction in the application of the Gross Receipts Taxes; provided, however, that the covenants contained in this subsection (e) shall not restrict the Government's right to provide exemptions to any eligible businesses which apply for new or renewal benefits pursuant to Title 29, Chapters 12 and 13 of the Virgin Islands Code, pertaining to the industrial development program or any similar incentive program determined by the Government to be in the best economic interest of the Government, so long as the grant of any such exemptions do not cause the aggregate Gross Receipts Taxes estimated to be collected thereafter in any fiscal year of the Government to be less than 150% of the maximum Adjusted Debt Service Requirement on Outstanding Bonds and all outstanding parity indebtedness, for the current and any subsequent Bond Year, such determination to be made only as of the date of the grant of any such exemptions.
- (f) Take any actions or fail to take any actions which will limit, restrict, or in any way impair the collection, transfer, deposit, or disbursement of the Gross Receipts Taxes in accordance with the terms of the Series 2012 Loan Agreement, the Special Escrow Agreement and the Collecting Agent Agreement.

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 2012 Bonds the principal, Redemption Price, if applicable, and interest due or to become due thereon and such other amounts as are set forth therein, at the times and in the manner stipulated in the Series 2012 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 the Indenture, then the Authority shall credit ratably (or otherwise as directed in writing by the Government) against amounts due under the Series 2012 Loan Notes any

moneys and securities thereupon remaining and held under the Indenture, including amounts, if any, on deposit in the Debt Service Reserve Subaccounts, 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 set forth in the Series 2012 Loan Agreement.

Event of Default. The occurrence of any of the following events shall be an “Event of Default” under the Series 2012 Loan Agreement:

(a) The Government shall fail to pay when due any amount payable on the Series 2012 Loan Notes; or

(b) The Government shall fail to deposit or cause to be deposited into the Special Escrow Account, within one Business Day after the date required under the Special Escrow Agreement, any Gross Receipts Taxes collected by the Government or, in the event such failure is caused by reason of “*force majeure*” (as defined in the Series 2012 Loan Agreement), on the first Business Day on which, in the reasonable judgment of the Government, the condition which gave rise to such *force majeure* no longer prevents the Government from making such deposit. The determination of whether a failure to make a deposit of Gross Receipts Taxes as required by the Special Escrow Agreement is due to *force majeure* shall be made in the reasonable judgment of the Government, upon telephonic written notice to the Trustee, if possible; or

(c) The Government shall fail to perform or observe any term, covenant or agreement contained in the Series 2012 Loan Agreement, the Special Escrow Agreement or the Collecting Agent Agreement on its part to be performed or observed and any such failure shall remain unremedied for thirty (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

(d) An “Event of Default” under the Indenture; or

(e) The taking of any action that would directly or indirectly result in the repeal, rescission, amendment or other termination of the effectiveness of the Government’s pledge of its security interest in the Gross Receipts Taxes and, if applicable, any Substitute Revenues.

Rights on Default. If an Event of Default shall occur and shall not have been remedied, then, and in every such case, past due principal and interest will continue to accrue under the Series 2012 Loan Notes after such default and the holders of the Series 2012 Loan Notes may do one or more of the following: (i) sue to collect sums due under such Series 2012 Loan Notes, (ii) compel to the extent permitted by law, by mandamus or otherwise, the performance by the Government of any covenant made in the Series 2012 Loan Agreement or the Series 2012 Loan Notes, and (iii) examine the books and records of the Government to account for all moneys and securities constituting the Gross Receipts Taxes and all other revenues of the Government.

Continuing Obligation. Until the date on which all amounts due and owing to the Authority from the Government pursuant to the Series 2012 Loan Notes shall have been paid in full or otherwise provided for, the Series 2012 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, Changes and Modifications. The Governor, on behalf of the Government, with the consent of the Authority or the Authority, with the consent of the Government and the Trustee, may cause to be executed a supplement to the Series 2012 Loan Agreement curing any ambiguity or curing, correcting or supplementing any defect or inconsistent provision contained in the Series 2012 Loan Agreement or making such provisions in regard to matters or questions arising in the Series 2012 Loan Agreement as may be necessary or desirable and as shall not materially adversely affect the interests of the holders of the Series 2012 Loan Notes. Such supplement shall become effective upon the filing with the Government an instrument of the holders of the Series 2012 Loan Notes approving such supplement. In addition, the Government may cause to be executed a supplement to the Series 2012 Loan Agreement at any time and from time to time modifying any provision of the Series 2012 Loan Agreement with the consent of the holders of the Series 2012 Loan Notes, except as provided in the Indenture.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

INFORMATION REGARDING THE UNITED STATES VIRGIN ISLANDS

The information in this Appendix was obtained from the Government and has not been independently verified by the Authority or the Co-Placement Agents.

General

Under the terms of the Revised Organic Act, the Virgin Islands is an unincorporated territory of the United States with separate executive, legislative and judicial branches of government. The legislative power of the Virgin Islands is vested in the Legislature, a unicameral, popularly elected body consisting of 15 members who serve two-year terms. The Legislature has jurisdiction over “all rightful subjects of legislation” not inconsistent with the laws of the United States made applicable to the 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 is the Honorable John P. deJongh, Jr., and the current Lieutenant Governor is the Honorable Gregory R. Francis, both of whom assumed office on January 1, 2007, and were sworn in for a second term on January 1, 2011.

Judicial power is vested in the Supreme Court and the Superior Court of the Virgin Islands, each established by local law with jurisdiction over all local matters, and the District Court of the Virgin Islands, which has the jurisdiction of a District Court of the United States. The Supreme Court of the Virgin Islands has appellate jurisdiction over the Superior Court. The United States Court of Appeals for the Third Circuit has appellate jurisdiction over the District Court and its appellate division and the Supreme Court. The Supreme Court justices are appointed by the Governor and confirmed by the Legislature and serve for terms of ten years. The Superior Court judges are appointed by the Governor and confirmed by the Legislature and serve for terms of six years. The judges of the District Court of the Virgin Islands are appointed by the President of the United States with the advice and consent of the United States Senate and serve for ten years.

As an unincorporated territory of the United States, the Virgin Islands is subject to the plenary power of Congress to make rules and regulations with respect to the Virgin Islands. In addition, Congress has the power to legislate directly for a territory or to establish the government for such territory subject to congressional control.

Pursuant to the Insular Areas Act of 1982, the Office of Inspector General (“OIG”) of the Department of Interior performs the functions of government comptroller through audits of revenues and receipts and expenditure of funds and property of the Virgin Islands, as well as the other insular areas of Guam, American Samoa, and the Commonwealth of Northern Mariana Islands. In this role, the OIG has issued numerous audit reports in the past regarding the finances of the Virgin Islands.

Residents of the 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 1561 of the Revised Organic Act, residency in the Virgin Islands does not carry with it the full range of rights which accompany citizenship in any of the states. Residents of the Virgin Islands do not have the right to vote in national elections for the President and Vice President of the United States. The Virgin Islands has an elected, non-voting delegate to the United States House of Representatives. Pursuant to a rule of the

United States House of Representatives, the delegate may vote in legislative committees and participate in floor debate but may not vote on the House floor.

Economic and Demographic Information

Geography, Landscape and Climate. The United States Virgin Islands – also known as the U.S. Virgin Islands or more commonly as 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 of which lie on a broad central plain. St. Thomas, which lies approximately 35 miles north of St. Croix, 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, which is considered to be one of the finest beaches in the Caribbean. The main urban center, Charlotte Amalie, which also is the capital of the Virgin Islands, is surrounded by a protected deep water harbor. St. John is a 20-square mile 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 approximately one-half mile from the harbor in Charlotte Amalie. In December 1996, Water Island was transferred to the Virgin Islands from the exclusive jurisdiction of the Department of Interior. The Virgin Islands has temperatures ranging between 70°F and 90°F with an average of 78°F. Humidity is low and annual rainfall averages 40 inches. However, three hurricanes since 1989 – Hugo, Marilyn and Bertha – caused considerable damage to all four islands.

Population. In August 2011, the month in which the 2010 U.S. Census data was released, the population of the Virgin Islands was estimated at 106,405, a decrease of 0.9% from 2009, with 51,634 people on St. Thomas, 50,601 people on St. Croix and 4,170 people on St. John. The following table details the Virgin Islands population from 2001 through 2010. The population estimate for calendar year 2011 was not available as of the date of this Private Placement Memorandum.

**Table D-1. Virgin Islands Population
Calendar Years 2001-2010**

| Year | Population | Percentage Increase (Decrease) |
|-------------|-------------------|---|
| 2001 | 109,403 | 0.7% |
| 2002 | 110,026 | 0.6% |
| 2003 | 110,740 | 0.6% |
| 2004 | 111,459 | 0.6% |
| 2005 | 111,470 | 0.6% |
| 2006 | 113,689 | 2.0% |
| 2007 | 114,743 | 0.9% |
| 2008 | 115,852 | 1.0% |
| 2009 | 107,343 | (7.3%) |
| 2010 | 106,405 | (0.9%) |

Sources: United States Census Bureau and the United States Virgin Islands Bureau of Economic Research.

Employment

Table D-2 sets forth Virgin Islands labor and employment statistics and Virgin Islands and United States unemployment rates from 2002 through 2011. Civilian employment in the Virgin Islands grew from 2003 through 2008, reaching a peak of 49,677 in 2008. The improvement in the job market was largely a result of an increase in private sector jobs, particularly in construction and financial services. By 2011, civilian employment averaged 46,121.

From 2003, when the unemployment rate in the Virgin Islands rose to 9.4%, primarily as a result of the completion of construction of the HOVENSA coker plant (described herein), which had employed approximately 2,000 construction workers, the unemployment rate steadily declined through 2008 to 5.8%. As a result of the global financial crisis, however, the unemployment rate increased between 2009 and 2011, reaching an annual rate of 9.1% in 2011. The unemployment rate is expected to increase significantly in 2012 as a result of the HOVENSA refinery closure. On January 17, 2012, HOVENSA announced that it would close its oil refining facilities on St. Croix and lay off approximately 1,200 employees and 950 subcontractors.

The following table sets forth the Virgin Islands labor and employment statistics and the Virgin Islands and the United States unemployment rates from 2002 through 2011.

Table D-2. United States Virgin Islands Labor Force, Employment and Unemployment Rates and United States Unemployment Rates 2002-2011

| Year | Labor Force | Employment | Unemployment Rate United States Virgin Islands | Unemployment Rate United States |
|-------------|--------------------|-------------------|---|--|
| 2002 | 49,457 | 44,980 | 8.7 | 5.8% |
| 2003 | 48,170 | 43,640 | 9.4 | 6.0 |
| 2004 | 50,066 | 46,295 | 7.8 | 5.5 |
| 2005 | 50,906 | 47,301 | 7.1 | 5.1 |
| 2006 | 50,794 | 48,640 | 6.2 | 4.6 |
| 2007 | 52,670 | 49,547 | 5.9 | 4.6 |
| 2008 | 52,710 | 49,677 | 5.8 | 5.8 |
| 2009 | 52,861 | 48,863 | 7.6 | 9.3 |
| 2010 | 51,424 | 47,272 | 8.1 | 9.6 |
| 2011 | 50,729 | 46,121 | 9.1 | 8.9 |

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

In fiscal year 2011, employment in all sectors of the Virgin Islands economy was adversely affected by the global recession, with the majority of the losses concentrated in construction, goods production, other services and manufacturing sectors. The other services sector was affected most significantly, reflecting a 7.0% decline compared to the prior fiscal year.

For the first six months of fiscal year 2012, approximately 72.5% of the jobs in the Virgin Islands were in the private sector. Private sector employment growth is fueled primarily by tourism and related services. Based on the private and public sector employment information provided by the Virgin Islands Department of Labor, during the first half of fiscal year 2012, the services sector accounted for 25.5% of

private employment, leisure and hospitality accounted for 23.8%, and wholesale and retail trade accounted for 22.3%, representing the vast majority of private sector employment. Given the level of disaggregation in employment in the Virgin Islands as reported by the Virgin Islands Department of Labor, the foregoing subcategory percentages will not total to the 72.5% figure.

Total public sector employment accounted for approximately 27.5% of jobs during first six months of fiscal year 2012 in the Virgin Islands. The Federal and local governments are the largest employers in the public sector, with local government as the source of over 92.3% of all public sector jobs. For the first six months of fiscal year 2012, there were 11,870 public sector jobs compared to 12,824 public sector jobs for the same period in fiscal year 2011.

Table D-3 details the Virgin Islands annual wage and salary employment statistics from calendar year 2007 to 2011.

**Table D-3. Annual Wage and Salary Employment United States Virgin Islands
Calendar Year 2007-2011⁽¹⁾**

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Private sector: | | | | | |
| Construction & mining | 3,470 | 2,463 | 2,081 | 2,099 | 2,036 |
| Manufacturing | 2,318 | 2,361 | 2,192 | 2,047 | 2,047 |
| Transportation, communication & public utilities | 1,625 | 1,648 | 1,577 | 1,514 | 1,498 |
| Wholesale & retail trade | 7,013 | 7,076 | 6,825 | 6,706 | 6,753 |
| Finance, insurance & real estate | 2,459 | 2,491 | 2,458 | 2,362 | 2,362 |
| Leisure and Hospitality | 7,469 | 6,875 | 6,952 | 7,296 | 7,222 |
| Information | 803 | 787 | 777 | 768 | 804 |
| Services (professional, business, education, health) | 9,400 | 9,225 | 9,120 | 9,143 | 9,324 |
| Total Private Sector⁽²⁾ | <u>33,362</u> | <u>32,479</u> | <u>30,680</u> | <u>31,029</u> | <u>30,549</u> |
| Government sector: | | | | | |
| U.S. Federal government | 946 | 978 | 1,001 | 962 | 964 |
| Territorial government | 11,752 | 12,031 | 12,009 | 12,116 | 11,563 |
| Total Government Sector | <u>12,698</u> | <u>13,009</u> | <u>13,010</u> | <u>13,078</u> | <u>12,527</u> |
| Total | <u>46,061</u> | <u>45,488</u> | <u>43,690</u> | <u>44,106</u> | <u>43,076</u> |

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

1. Some figures may not add due to rounding.
2. Total Private Sector represents an aggregate of goods- and service-related employment adjusted to exclude all government employment. Given the level of aggregation of the private sector employment, total employment detail by sector will not add to the total.

Table D-4 lists the ten largest private sector employers in the Virgin Islands as of June 30, 2011.

**Table D-4. United States Virgin Islands Ten Largest Employers
(Private Sector)
June 30, 2011**

| <u>Name of Employer</u> | <u>Principal Business</u> |
|---|----------------------------|
| K-Mart Corporation | Department Store |
| HOVENSA L.L.C ⁽¹⁾ | Oil Refinery |
| Ritz-Carlton Hotel VI Inc. | Resort Hotel |
| Innovative Telephone Corporation | Utility |
| Turner St. Croix Maintenance | Maintenance |
| Plaza Extra Supermarket, St. Croix | Grocery Store |
| Westin St. John Hotel, Inc. | Resort Hotel |
| Frenchman’s Reef Beach Resort | Resort Hotel |
| Caneel Bay Resort | Resort Hotel |
| Triangle Construction & Maintenance Corp. | Construction & Maintenance |

1. In February 2012, HOVENSA closed its oil refining facilities on St. Croix and laid off approximately 1,200 employees and 950 subcontractors.

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

Tax Incentives Programs

Economic Development Commission

The Government offers various tax incentives that promote industrial and economic development in the Virgin Islands. The most notable incentive program was created by the Legislature in October 1975. The Economic Development Commission (the “EDC”) was created to promote the growth, development and diversification of the economy of the Virgin Islands (the “EDC Program”). Qualifying businesses – corporations, partnerships or sole proprietorships – receive various benefits if they meet certain criteria set forth in the legislation. Gross Receipts Taxes are eligible for abatement by the EDC that could result in a reduction of Gross Receipts Taxes payable to the Government.

To qualify for tax incentives, investors must invest at least \$100,000, exclusive of inventory, in an eligible business and employ at least ten persons on a full-time basis. Eighty percent of all employees must be residents of the Virgin Islands. Small, locally-owned businesses may receive EDC benefits for a minimum of five years or up to half the term of the regular program if they invest at least \$20,000 and have at least two full-time employees. A beneficiary receives a substantial reduction in, or an exemption from, all taxes imposed on businesses, including the Gross Receipts Taxes. Most importantly, the economic development legislation permits a 90% income tax reduction, resulting in a maximum tax rate of less than 4% on income for approved operations. Tax benefits also extend to passive income from certain qualifying investments, such as the Virgin Islands government obligations. The 90% reduction extends to dividends received by a beneficiary’s Virgin Islands resident shareholders.

As of September 30, 2012, 83 businesses actively conducted operations under the EDC Program. Applicants that are granted benefits are permitted to commence receiving benefits at some point during the first five years of operation of their enterprise. A total of 89 companies were approved for benefits but have not elected to commence benefits. Of the 89 approved companies, 72 were approved prior to

2007, and 17 companies were approved for benefits after 2007. The EDC has started a retention program to facilitate and support these and other applicants in the activation process.

In 2004, Congress passed The American Jobs Creation Act of 2004 (“Jobs Act”), which placed new restrictions on the use of the tax incentives, limiting activities that take place wholly within the Virgin Islands and requiring owners who become residents in the Virgin Islands to live in the Virgin Islands at least half of the year in order to enjoy the tax benefits. As a result of the changes brought about by the Jobs Act, the EDC saw a reduction in the number of applications submitted for EDC benefits. Most of the reduction has been in applicants seeking benefits as Designated Services Companies, which are mainly financial services and consulting companies and which are required to have clients or customers outside of the Virgin Islands. In fiscal year 2011, three Designated Services Companies ceased operations due to the residency requirement of the Jobs Act and two Designated Services Companies and one small jewelry manufacturer ceased operations due to the economic downturn and other financial challenges. As of the date of this Private Placement Memorandum, a total of 83 companies in the EDC program ceased operations, including 34 beneficiaries that closed as a result of changes in the Jobs Act. From 2008 to present, 60 beneficiaries petitioned the Board of the EDC for consideration of waivers of employment, termination, suspension of benefits and/or modifications to special conditions in order to maintain operations within the Virgin Islands. While the program has not experienced significant change in the category of non-Designated Service Company applicants, there has been a significant decline in Designated Service Company applicants. As a result of the changes caused by the Jobs Act, the EDC has implemented a mitigation program to assist EDC beneficiaries who can document economic harm or loss.

It is estimated that since the enactment of the Jobs Act, the Territory lost wages of approximately \$198 million, employment taxes of \$608 million, employment benefits of approximately \$100 million, charitable contributions of \$8 million, local purchases of \$118 million and taxes paid to the Treasury of the Virgin Islands of approximately \$64 million.

To encourage self-compliance, the EDC provides an orientation to all beneficiaries, as part of which beneficiaries receive information on the performance of the terms of their contract with the Government, compliance with all applicable local and Federal laws and regulations and the reporting requirements of the program. The EDC has in place compliance monitoring mechanisms, including an annual compliance conference. The EDC also assists beneficiaries in coordinating with other government agencies responsible for administering provisions of the incentive program to ensure compliance with the program requirements. In cases of non-compliance, the EDC assesses fines and holds revocation and suspension hearings which allow the EDC to revoke, suspend or modify benefits and to require beneficiaries who have failed to comply with EDC conditions to return the amount of any benefits received.

The EDC Program allows some qualifying investors to receive limited extensions or renewals of tax benefits, provided such investors fulfill certain criteria, including the ability to continue to promote economic development in the Virgin Islands. The EDC currently is trying to limit the number of extensions or renewals of benefits in favor of granting benefits to new businesses in growing industries such as financial services industries, tourism, marine and medical technology-based enterprises, which will further stimulate the economy of the Virgin Islands by providing positions for skilled labor and college educated personnel.

For more information on restrictions on the Government’s right to provide exemptions to eligible businesses from paying Gross Receipts Taxes, see “CERTAIN BONDHOLDER RISKS - Gross Receipts Taxes.”

The following is a table setting forth the Commission’s historical applicant information.

**Table D-5. Economic Development Commission - Historical Applicant Information
Fiscal Years 2007-2011**

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|--|---------------|--------------|--------------|--------------|--------------|
| Number of Applications Received | 24 | 26 | 24 | 11 | 14 |
| Number of Applications Approved | 20 | 20 | 10 | 3 | 10 |
| Number of Applications Denied or Tabled | 0 | 1 | 1 | 1 | 1 |
| Applications Pending | 4 | 6 | 13 | 7 | 6 |
| New Job Opportunities | 1,218 | 213 | 282 | 60 | 233 |
| Approximate Wages by New Applicants | \$37,708,081 | \$6,629,473 | \$13,507,347 | \$1,888,379 | \$6,797,409 |
| Minimum Potential Investment of New Applicants | \$613,966,946 | \$19,836,030 | \$67,391,888 | \$10,393,300 | \$25,676,000 |

Source: Government of the Virgin Islands Economic Development Authority Fiscal Year 2011 Annual Report.

Section 934 Tax Incentives

Pursuant to 26 U.S.C. § 934 (“Section 934 Tax Incentives”), the Government, through the EDC, may provide certain reductions in income tax liability incurred to the Virgin Islands. Such tax reductions are permitted for (i) income derived from sources within the Virgin Islands or income effectively connected with the conduct of a trade or business within the Virgin Islands, (ii) income tax liability paid by citizens or residents of the United States, and (iii) income that is (a) derived by qualified foreign corporations from sources outside the United States and (b) not effectively connected with the conduct of a trade or business within the United States. Section 934 Tax Incentives may have the effect of reducing the amount of income tax paid to the Government. Such tax incentives, however, may increase the conduct of business that results in other economic benefits to the Virgin Islands.

Tax Increment Financing

In June 2008, the Government enacted the Tax Increment Financing (“TIF”) legislation as an additional economic development tool. In September 2008, the Economic Development Authority certified the Island Crossings Shopping Center (the “ICSC”) on St. Croix as the Virgin Islands’ first TIF area and authorized the issuance of up to \$30 million in tax-exempt bonds to finance a portion of the costs of a 43 acre mixed-use sustainable development project to be constructed on the ICSC site and anchored by a Home Depot store. The first series of bond anticipation notes, which are secured, in part, by the incremental increase in gross receipts tax and real property tax revenues generated at the ICSC site, were issued in September 2009. The Government converted the bond anticipation note to a five (5) year term loan on October 1, 2012. The Home Depot store on St. Croix commenced operations in September 2011.

Grant Financing

In order to expand the rum industry in the Virgin Islands, in June 2008, the Government entered into a thirty (30) year agreement with Diageo USVI, pursuant to which Diageo USVI agreed to build and operate on St. Croix a distillery for production, and warehouses for the storage, of bulk rum used in the production of Captain Morgan branded products in St. Croix in return for certain economic development incentives from the Government, including a grant to finance the costs of the Diageo Project. In exchange for such incentives, in addition to agreeing to develop the Diageo Project, Diageo USVI agreed (i) that on or about January 1, 2012, all bulk rum used in the production of Captain Morgan branded products sold in the United States will be produced at the Diageo Distillery, (ii) to minimum rum production thresholds starting at 1.5 million proof gallons in fiscal year 2012, and (iii) to certain liquidated damages payable to the Government in the event there is a material default of Diageo USVI’s

obligation to meet certain rum production thresholds within the timeframes set forth in the Diageo Agreement and the Diageo Agreement is terminated.

In addition, in October 2009, the Government entered into an agreement with Cruzan, pursuant to which Cruzan agreed, subject to certain conditions, to develop and construct the Cruzan Project and to distill at the Cruzan Facility all rum for sale into the United States, in exchange for certain economic development incentives to be provided by the Government to Cruzan, including a grant to finance the costs of the Cruzan Project. In December 2009, the Government provided grant financing in the amount of \$35 million for the wastewater treatment facility, which was completed in the summer of 2012. As of the date of this Private Placement Memorandum, plans to further expand and renovate the Cruzan distillery were on hold.

Transportation

The Virgin Islands are accessible by air from around the world. Approximately 80 flights per week during the off-tourist season and 90 flights per week during the peak tourist season travel between the Virgin Islands and the United States mainland on six major airlines.

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 placed into service in December 1992. Major renovation and expansion of the Henry E. Rohlsen Airport Terminal on St. Croix was completed in January 2002. The renovation doubled the terminal's existing square footage to 181,000 square feet and expanded the runway to 10,000 feet.

Inter-island transportation between St. Thomas and St. Croix is provided by seaplane and regular ferry service. The island of St. John can be reached by ferry service. Inter-island ferry service also provides passenger service between St. Thomas and the nearby British Virgin Islands several times a day. The 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.

Tourism

Tourism is the Virgin Islands' largest industry and represents the largest business segment in the private sector.

Visitor Arrivals

After a decrease in tourism in 2001 and 2002, following the September 11, 2001 terrorist attacks in the United States, the tourism industry was uneven from 2003 through 2007, and then worsened in 2008 and 2009 as a result of the global economic crisis. However, the tourism industry began to improve in 2010 and total visitor arrivals in the Virgin Islands in 2011 were 2,687,952, which was a 5.4% increase over 2010 and was largely attributable to an increase in cruise passenger arrivals. For the first five months ending May 31, 2012, total visitor arrivals were 1,399,196, a 2.4% increase over the same period in 2011. In 2012, cruise passenger arrivals in St. Thomas and St. John decreased by 2.6%, while cruise passenger arrivals in St. Croix decreased by 11.9% compared to 2011. In addition, air visitor arrivals in St. Thomas and St. John decreased by 2.0%, while St. Croix air arrivals increased by 21.2% compared to 2011. Table D-6 details visitor arrivals in the Virgin Islands from 2007 to 2011.

**Table D-6. United States Virgin Islands Visitors Arrivals
Calendar Years 2007-2011**

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|
| St. Thomas/St. John: | | | | | |
| Air Visitors | 561.3 | 561.4 | 534.4 | 534.0 | 531.9 |
| Cruise Passengers | 1,917.4 | 1,754.6 | 1,507.6 | 1,751.2 | 1,887.0 |
| Total Visitors | 2,478.7 | 2,316.0 | 2,042.0 | 2,294.2 | 2,418.9 |
| Number of Cruise Ship Visits* | 750 | 685 | 593 | 631 | 643 |
| St. Croix: | | | | | |
| Air Visitors | 132.1 | 121.9 | 121.9 | 148.5 | 147.0 |
| Cruise Passengers | 7.1 | 2.5 | 105.1 | 149.4 | 158.1 |
| Total Visitors | 139.2 | 124.4 | 227.0 | 297.9 | 305.1 |
| Number of Cruise Ship Visits* | 6 | 2 | 48 | 67 | 72 |
| Total U.S. Virgin Islands: | | | | | |
| Air Visitors | 693.4 | 683.3 | 666.1 | 691.5 | 678.9 |
| Cruise Passengers | 1,917.9 | 1,757.1 | 1,582.3 | 1,858.9 | 2,008.9 |
| Total Visitors | 2,611.3 | 2,440.4 | 2,248.4 | 2,550.4 | 2,687.9 |
| Number of Cruise Ship Visits* | 752 | 687 | 621 | 680 | 698 |

* Actual, not thousands. Totals by island include first and second port of entry arrivals. Total arrivals for the Virgin Islands include first territorial port of entry only; passengers visiting more than one U.S. Virgin Island during the same cruise are only counted once in the Virgin Islands total. Consequently, the Virgin Islands total will always be less than or equal to the sum of the two island totals as indicated.

Source: United States Virgin Islands Bureau of Economic Research.

Hotel and Condominium Occupancy

In calendar year 2010, reported hotel and condominium occupancy increased to 57.1% from 54.9% in 2009. The reported number of hotel and condominium rooms increased in 2010 to 5,008 from 4,949 in 2009. The occupancy rate for calendar year 2011 was 52.1%, down from 57.1% during the same period in 2010. The reported number of hotel and condominium rooms decreased in 2011 to 4,889 from 5,008 in 2010. Table D-7 sets forth the statistics for hotel and other tourist accommodations from 2007 through 2011.

**Table D-7. United States Virgin Islands Hotel and Other Tourist Accommodations
Calendar Years 2007-2011**

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|
| St. Thomas/St. John: | | | | | |
| Total rooms/units | 3,580 | 3,669 | 3,749 | 3,799 | 3,667 |
| Number of hotels | 29 | 30 | 30 | 30 | 30 |
| Hotel rooms | 2,775 | 2,872 | 2,909 | 2,963 | 2,833 |
| Condominium/other units | 805 | 797 | 840 | 836 | 834 |
| Occupancy rate (percent) | 68.0 | 68.0 | 60.3 | 60.7 | 54.4 |
| St. Croix: | | | | | |
| Total rooms/units | 1,177 | 1,187 | 1,200 | 1,209 | 1,222 |
| Number of hotels | 17 | 17 | 16 | 17 | 17 |
| Hotel rooms | 903 | 910 | 900 | 915 | 926 |
| Condominium/other units | 275 | 278 | 300 | 295 | 296 |
| Occupancy rate (percent) | 54.3 | 46.3 | 38.7 | 45.8 | 45.1 |
| Total U.S. Virgin Islands: | | | | | |
| Total rooms/units | 4,757 | 4,857 | 4,949 | 5,008 | 4,889 |
| Number of hotels | 46 | 47 | 46 | 47 | 47 |
| Hotel rooms | 3,678 | 3,782 | 3,809 | 3,878 | 3,759 |
| Condominium/other units | 1,079 | 1,075 | 1,139 | 1,131 | 1,130 |
| Occupancy rate (percent) | 64.6 | 60.0 | 54.9 | 57.1 | 52.1 |

Source: United States Virgin Islands Bureau of Economic Research.

Visitor Expenditures

Total expenditures by all visitors (tourists, cruise passengers and other excursionists) to the Virgin Islands totaled \$1,033.3 million in 2010 and \$1,046.7 million in 2011, which represents an increase of 1.3%. Table D-8 details visitor expenditures in the Virgin Islands from 2007 to 2011. The visitor expenditures data for 2011 is estimated.

**Table D-8. United States Virgin Islands Visitor Expenditures
Calendar Years 2007-2011
(in 000,000s)**

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011¹</u> |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Tourists | \$929.8 | \$686.4 | \$687.4 | \$694.2 | \$703.3 |
| Excursionists: | | | | | |
| Day-trip by air | 27.7 | 29.7 | 28.6 | 28.8 | 29.1 |
| Cruise passengers | 555.2 | 441.0 | 305.3 | 310.3 | 314.3 |
| Total | 582.9 | 470.7 | 333.9 | 339.1 | 343.4 |
| Total Expenditures | <u>\$1,512.7</u> | <u>\$1,157.1</u> | <u>\$1,021.3</u> | <u>\$1,033.3</u> | <u>\$1,046.7</u> |

Source: United States Virgin Islands Bureau of Economic Research.

1. The visitor expenditures data for 2011 is estimated.

The Virgin Islands benefits from a \$1,600 duty-free exemption for articles purchased in the Virgin Islands and either mailed or taken back to the United States mainland once each 30 days without regard to the length of stay abroad, while other countries in the Caribbean basin only have a \$800 duty-free exemption (a two-to-one advantage). In addition, each adult is permitted to take up to 1.2 gallons of duty-free liquor as compared to one quart from other areas. In response to falling U.S. tariff rates and increased competition from Caribbean neighbors, local customs duties and excise taxes were removed from selected tourist-oriented merchandise in 1982. As a result, prices of various luxury items, such as jewelry, china, cameras, leather goods, perfumes, watches and clocks, can be significantly below average United States mainland prices.

Per Capita Income

In 2011, per capita income of the Virgin Islands was \$23,988, an increase of approximately 3.0% from 2010. The per capita income in the United States in 2011 was \$41,560, an increase of approximately 4.4% from 2010. The following table sets forth the Virgin Islands and the United States per capita income from 2002 through 2011.

**Table D-9. Comparative Per Capita Income United States Virgin Islands and United States
Calendar Years 2002-2011
(current dollars)**

| Year | United States Virgin Islands | Annual Percentage Increase (Decrease) | United States | Annual Percent Increase (Decrease) |
|-------------|---|--|----------------------|---|
| 2002 | 17,236 | 2.0 | 31,481 | 2.5 |
| 2003 | 17,164 | (0.4) | 32,295 | 2.6 |
| 2004 | 18,178 | 5.9 | 33,909 | 5.0 |
| 2005 | 19,684 | 8.3 | 35,452 | 4.6 |
| 2006 | 21,138 | 7.4 | 37,725 | 6.4 |
| 2007 | 22,264 | 5.3 | 39,506 | 4.7 |
| 2008 | 22,756 | 2.2 | 40,947 | 3.6 |
| 2009 | 22,049 | (3.1) | 38,637 | (5.6) |
| 2010 | 23,289 | 5.6 | 39,791 | 3.0 |
| 2011 | 23,988 | 3.0 | 41,560 | 4.4 |

Sources: U.S. Bureau of Economic Analysis and United States Virgin Islands Bureau of Economic Research.

Construction and Real Estate

From 2010 to 2011, the total value of approved building construction permits for all of the Virgin Islands, an indicator of current and future industry activity, decreased by 4.3%.

The construction sector averaged 2,079 jobs in fiscal year 2010, compared to 2,044 jobs during fiscal year 2011. Construction jobs declined 2.0% for first half of fiscal year 2012 compared with same period in fiscal year 2011.

From 2010 to 2011, private residential construction decreased by 7.4% on St. Thomas and St. John and by 19.6% on St. Croix, and private non-residential construction increased Territory-wide by 50.7%. The following tables detail the value of construction permits and the residential real estate market sales in the Virgin Islands from 2007 to 2011.

**Table D-10. United States Virgin Islands Value of Construction Permits
Calendar Years 2007-2011**

| Year | Total USVI (millions) | Percent Increase (Decrease) | St. Thomas/ St. John (millions) | Percent Increase (Decrease) | St. Croix (millions) | Percent Increase (Decrease) |
|-------------|------------------------------|------------------------------------|--|------------------------------------|-----------------------------|------------------------------------|
| 2007 | 266.0 | (39.9) | 172.6 | (20.6) | 93.1 | (58.6) |
| 2008 | 273.3 | 2.7 | 183.8 | 6.3 | 89.5 | (3.9) |
| 2009 | 261.8 | (4.4) | 79.0 | (53.3) | 175.9 | 96.5 |
| 2010 | 187.2 | (4.2) | 80.6 | 2.0 | 106.5 | (39.5) |
| 2011 | 179.1 | (4.3) | 87.9 | 9.1 | 91.1 | (14.5) |

Source: United States Virgin Islands Bureau of Economic Research.

**Table D-11. United States Virgin Islands Residential Real Estate Market Sales Analysis
Calendar Years 2007-2011**

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| St. Thomas/ St. John: | | | | | |
| Number of Homes Sold | 174 | 148 | 126 | 120 | 138 |
| Average Home Sales Price (\$)..... | 782,938 | 560,006 | 591,904 | 588,214 | 684,213 |
| No. of Condominium Sales..... | 184 | 158 | 92 | 190 | 99 |
| Average Condominium Sales Price (\$) | 294,969 | 311,654 | 263,059 | 244,013 | 198,075 |
| St. Croix: | | | | | |
| Number of Homes Sold | 280 | 187 | 172 | 158 | 134 |
| Average Home Sales Price (\$)..... | 364,266 | 385,665 | 356,954 | 388,536 | 379,024 |
| No. of Condominium Sales..... | 114 | 108 | 60 | 63 | 63 |
| Average Condominium Sales Price (\$) | 246,346 | 218,382 | 234,619 | 178,533 | 210,361 |
| Total U.S. Virgin Islands: | | | | | |
| Number of Homes Sold | 454 | 335 | 298 | 278 | 272 |
| Average Home Sales Price (\$)..... | 524,726 | 462,687 | 456,295 | 474,728 | 533,862 |
| No. of Condominium Sales..... | 298 | 266 | 152 | 253 | 162 |
| Average Condominium Sales Price (\$) | 279,368 | 273,784 | 251,832 | 227,708 | 202,852 |

Source: United States Virgin Islands Bureau of Economic Research.

Financial Management, Budgeting and Controls

Budgetary Process. The fiscal year of the Government begins on October 1 of each year. The Governor is required by law to submit to the Legislature an annual budget of capital improvements and operating expenses for the following fiscal year no later than May 30. In a letter dated May 4, 2012, the Governor notified the Legislature that the fiscal year 2013 budget would not be submitted by the May 30 deadline. The delay in the submission of the fiscal year 2013 budget was primarily a result of the closing of the HOVENSA facility in St. Croix. The fiscal year 2013 budget was submitted by the Governor to the Legislature on June 29, 2012 and approved on October 5, 2012 (the "Fiscal Year 2013 Budget").

The annual budget is prepared by the Virgin Islands Office of Management and Budget ("OMB"), working in conjunction with other Government departments and instrumentalities. If a budget has not been approved before the commencement of any fiscal year, then the appropriations for the preceding fiscal year, insofar as they may be applicable, are automatically deemed re-appropriated item by item.

The Legislature, in its consideration of the budget for each fiscal year, may modify the Governor's submission. The Legislature is obligated by law to pass a final budget no later than September 30, the last day of the fiscal year. Upon passage by the Legislature, the budget is submitted to the Governor, who may eliminate any item by a line-item veto but not increase or insert any new item in the budget. The Governor also may veto the budget in its entirety and return it to the Legislature with his objections. The Legislature may override any veto by the Governor (including any line-item veto) only by a vote of two-thirds of its members.

Once the budget is enacted, fiscal control over expenditures made pursuant thereto is exercised by the Governor through the Director of OMB. During any fiscal year in which the resources available to the Government are not sufficient to cover the appropriations approved for such year, the Governor, through the Director of OMB, may take administrative measures to reduce expenses. The Governor also may make recommendations to the Legislature for new taxes, or any other necessary action to meet the estimated deficiency. It has been the practice of the Director of OMB, when making funding adjustments, to allot funds in the following order of priority: to the payment of the interest on and amortization requirements for public debt; to the fulfillment of obligations arising out of legally binding contracts, court decisions on eminent domain and certain commitments to protect the name, credit and good faith of the Government; and to current expenditures in the areas of health, protection, education and welfare.

Fund Structure and Accounts. The Government maintains certain funds pursuant to authority set forth in the United States Virgin Islands Code.

The Government has established three fund types: Governmental Fund Types, Proprietary Fund Types and Fiduciary Fund Types, and two account groups: General Fixed Assets Account Group and General Long-Term Debt Account Group. Although General Fixed Assets and General Long-Term Debt are classified as account groups, these account groups possess the basic characteristics of funds.

Government Fund Types include the General Fund, the Special Revenue Funds, the Debt Service Funds and the Capital Projects Funds. The Proprietary Fund Types are composed of the Enterprise Funds. The Expendable Trust Funds, Pension Trust Fund and Agency Funds comprise the Fiduciary Fund Types.

The General Fund is the Government's largest fund as it accounts for the operations of the three branches of government. The General Fund accounts for all revenues and receipts not required to be

accounted for, or deposited in, other funds and for the major portion of Government expenditures. Tax receipts represent the majority of the General Fund revenues.

Basis of Accounting. The Government utilizes a modified accrual basis of accounting. Revenues in the Governmental Fund Types are recognized when the cash is received and expenditures when paid or when accounts payable are recorded. Uncollected revenues are reflected as receivables. Provisions for receivables and payables are established at year-end in the report of undesignated fund balance.

Expenditures are made pursuant to an allotment process. Budgetary control is exercised at the department level and through the allotment process. Encumbrances and expenditures cannot exceed total allotment amounts. Encumbrances are employed to record purchase orders, contracts and other commitments so that the appropriate amounts of appropriations are reserved to cover future estimated expenditures. Encumbrances outstanding at year-end are reported as reservations of fund balance for the subsequent year's expenditures. The authority to liquidate an encumbrance, provided no service has been rendered, is carried forward with the appropriation. Before September 30 of the next fiscal year, the Government must administratively liquidate outstanding encumbrances unless funding is available until expended, or an administrative determination is executed by the Commissioner of Finance. In the Proprietary Fund Types, revenues are accrued.

Financial Reporting. The annual reports of the financial operations of the Government are audited by independent accountants. The Government contracted Ernst & Young LLP to audit the financial statements for fiscal years 2006 through 2013. The audits are performed in accordance with government auditing standards and the accounting records of the Government are kept in accordance with government accounting standards. Fiscal year 2007 audited financial statements were issued on October 16, 2009. Fiscal year 2008 audited financial statements were issued on August 31, 2010, and fiscal year 2009 audited financial statements were issued on July 25, 2011.

The Government has not finalized its audited financial statements for the fiscal year ending September 30, 2010, which were due to be filed by June 30, 2011, or for the fiscal year ending September 30, 2011, which were due to be filed by June 30, 2012.

The Authority and the Government have entered into a number of continuing disclosure agreements in connection with bonds previously issued by the Authority. Since 2005, the Government has not satisfied its continuing disclosure agreements to provide audited financial statements within 270 days after the end of its fiscal year. The filings for fiscal years 2005-2011 were made, or are expected to be made, between 20 and 30 months after the end of the respective fiscal years, and the next filing relating to fiscal year 2010 is expected to be made not earlier than 26 months after the end of that fiscal year. The Government's current aspiration is to file when due (June 30, 2014) the audited financial statements for the fiscal year ending September 30, 2013. The Government advised in July 2010 that it had "established new policies and procedures that [it] believe[s] will ensure full and timely compliance with all continuing disclosure obligations in the future." However, although all other filing requirements have been met, the Government's failures to file timely annual audited financial statements nevertheless continued. Accordingly, the current aspirational date of compliance by June 30, 2014, must be read in that light and there can be no assurances that such a date of compliance will be achieved.

Revenues of the Government

General

The principal sources of revenues for the Government are: United States income taxes (collected locally as Virgin Islands income taxes); Gross Receipts Taxes and other taxes and fees levied by the Government under its own locally applicable internal revenue laws; real property taxes; federal excise taxes imposed on products of the Virgin Islands entering the United States; and other fees and taxes collected by the United States government. For a description of the Government's program to provide tax relief and subsidies to certain businesses to promote economic growth, see "Tax Incentive Programs."

The Revised Organic Act sets forth the taxes imposed by the United States government, the proceeds of which are paid into the Treasury of the Virgin Islands, including: customs duties, the United States income tax, any taxes levied by Congress on the inhabitants of the Virgin Islands, and quarantine, passport, immigration and naturalization fees collected in the Virgin Islands. In addition, the Government has the power to impose local taxes which include real property taxes, Gross Receipts Taxes, excise taxes and hotel room taxes. There are no political subdivisions with taxing power in the Virgin Islands.

Unaudited revenues of the General Fund (cash basis) for fiscal years 2007 through 2012 are presented in the following table. The data for fiscal year 2012 is preliminary.

**Table D-12. Summary Statement of Principal Components of General Fund (Cash Basis) Revenues
Fiscal Years 2007-2012
(\$000s)**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| Income | \$579,789 | \$609,871 | \$378,688 | \$395,432 | \$408,125 | \$379,597 |
| Gross Receipts ⁽¹⁾ | 146,992 | 147,484 | 126,151 | 134,773 | 145,409 | 150,263 |
| Real Property | 54,092 | 26,337 | 29,624 | 25,925 | 88,049 | 88,977 |
| Excise | 24,121 | 22,761 | 21,441 | 23,143 | 24,623 | 18,872 |
| Other Taxes ⁽²⁾ | 17,655 | 14,133 | 9,670 | 9,472 | 10,076 | 9,213 |
| Total Taxes | \$822,649 | \$820,586 | \$565,574 | \$588,745 | \$676,282 | \$646,922 |
| Other Sources of Revenue ⁽³⁾ | 14,119 | 33,348 | 14,145 | 13,933 | 13,770 | 15,140 |
| Total Revenue (Operating) | \$836,768 | \$853,934 | \$579,719 | \$602,678 | \$690,052 | \$662,062 |

Note: The data in Table D-12 is not intended to include all General Fund Revenues and is not intended to correspond directly with the data presented in Tables D-18 through D-21 as set forth below.

1. Does not include Required Annual Moderate Income Housing Fund Deposit.
2. Other Taxes include stamp taxes, foreign sales corporation franchise taxes, inheritance taxes and corporate franchise taxes.
3. Other Sources of Revenue include, among other things, license, fees and permits fines, forfeitures, penalties, rents and concessions, customs dues, bank fees and charges, and franchise fees.

Source: United States Virgin Islands Department of Finance - Treasury Division.

Income Taxes

The principal source of revenue for the Government is income taxes. The Naval Appropriations Act, 1922, and Section 1642 of the Revised Organic Act created a separate tax structure for the Virgin Islands that mirrors the Code. To the extent the tax structure of the Virgin Islands mirrors that of the Code, any changes to federal tax laws can affect the Government's collections of certain taxes. The Government also has the power to impose a territorial income tax and has assessed a corporate income tax surcharge of 10%.

Income taxes are levied each year for every corporation, partnership, individual, estate or trust that meets the filing requirements of the Code. A United States taxpayer who is a permanent resident of the Virgin Islands satisfies his United States income tax obligations by filing his return with, and paying income taxes to, the Government, even if his income is from non-Virgin Islands sources. A non-resident

of the Virgin Islands pays income taxes on his Virgin Islands source income to the Government, and is entitled to a foreign tax credit for such payments on his or her United States federal tax return if the taxpayer is a United States citizen or United States domestic corporation.

In fiscal year 2008, income tax collections were \$609.9 million, comprising 71.4% of General Fund Revenues. In fiscal year 2009, income tax collections were \$378.7 million, comprising 65.3% of General Fund Revenues. In fiscal year 2010, income tax collections were approximately \$395.4, comprising 65.6% of the General Fund Revenues. In fiscal year 2011, income tax collections were approximately \$408.1, comprising 59.1% of the General Fund Revenues. The figures in this paragraph were derived using the cash basis of accounting.

Gross Receipts Taxes

For information on the Government's collection of Gross Receipts Taxes, see "GROSS RECEIPTS TAXES" in the main body of this Private Placement Memorandum.

Real Property Taxes

Title 33 of the Virgin Islands Code, Section 2301 (the "Real Property Tax Statute") imposes a tax on all real property in the Virgin Islands. As a result of litigation discussed below, the Government is only permitted to tax based on the property tax assessment statute in effect in 1998. The real property tax statute requires assessment of real property based upon its actual value and assesses a real property tax levy equal to 1.25% of 60% of assessed valuation. The proceeds of this tax are deposited into the General Fund, with the exception of the first \$1.5 million of such tax collected annually, which must be deposited into the St. John Capital Improvements Fund.

Noncommercial real property is reassessed once every five years and commercial real property is reassessed every two years. The Virgin Islands Office of the Tax Assessor prepares an annual assessment roll and schedule of collections for each parcel of real property that is used as the basis for issuing tax bills to all taxpayers in the Virgin Islands. Pursuant to legislation passed in 2007, the responsibility for real property tax collections was transferred from the Virgin Islands Department of Finance to the Virgin Islands Office of the Tax Assessor, located within the Office of the Lieutenant Governor, giving one agency the responsibility for the preparation of assessments and for the collection of real property taxes, allowing for a more streamlined assessment and collection process.

All real property not expressly exempted is subject to the real property tax. Exemptions include (i) property of the United States government subject to a \$10,000 payment in lieu of real estate taxes, (ii) property of the Government, (iii) property used for religious, educational, literary, scientific and charitable purposes, (iv) property subject to the homestead exemption and (v) property for which an exemption has been granted by the EDC. See "Tax Incentives Programs – Economic Development Commission." For tax year 2010, approximately 52.7% of all real property in the Virgin Islands was exempt from real property taxation, including approximately 3.0% of which is due to EDC exemptions.

As a result of litigation instituted against the Government by several commercial property owners in 2000, which challenged the real property tax system, the District Court in 2003 enjoined the Government from appraising and assessing any real property in the Virgin Islands until the Government modified its system of appraisal to comply with certain court mandates. The District Court also required the Board of Tax Review to put in place procedures to ensure procedural due process to appellants appealing their tax assessment. This delayed the issuance of real property tax bills for many years until resolution of the litigation. In an effort to generate real property tax revenues in fiscal year 2010, pursuant to Act No. 7154, which was signed into law on March 22, 2010, the Government obtained

approval from the Legislature to issue tax bills for 2006 and later years. On January 20, 2011, the District Court vacated the portion of the 2003 decree that enjoined the Government from issuing and collecting tax at rates other than the 1998 assessment values. It also ordered that those rates could begin with the 2010 tax bills. The 2006 revised bills were issued in June 2010. The 2007 and 2008 tax bills were issued in fiscal year 2011. The 2009 tax bills were issued in February 2012 and the 2010 tax bills were issued in July 2012. The planned revaluation of property assessment has been rescheduled for the 2012 tax year at which time the Government expects to be current with the issuance of the property tax bills.

The issuance of multiple bills and an aggressive campaign to collect delinquent property taxes in recent fiscal years has resulted in increased collections. Fiscal year 2011 collections were \$86.7 million. For fiscal year 2012, the collections totaled \$104.3 million and the Government estimates that collections for fiscal year 2013 will be \$105 million.

The following table presents property taxes, assessed value and exemptions for Virgin Islands real estate for the calendar years 2005 through 2010, the most current year in which real property tax bills were issued:

**Table D-13. United States Virgin Islands Property Tax—Assessed Value And Exemptions
Calendar Years 2005-2010
(\$ in millions)**

| Year | Total Assessed Value¹ | Local and Federal Government² | Other³ | EDC⁴ | Taxed Assessed Value | Levy |
|-------------|---|---|--------------------------|------------------------|-----------------------------|-------------|
| 2005 | \$ 16,951.8 | \$ 7,175.5 | \$ 1,210.3 | \$ 446.0 | \$ 8,120.0 | \$ 60.9 |
| 2006 | 17,178.5 | 6,974.3 | 1,149.5 | 506.8 | 8,277.9 | 62.1 |
| 2007 | 17,210.9 | 6,902.4 | 1,149.5 | 503.2 | 8,373.3 | 62.8 |
| 2008 | 17,314.6 | 6,883.8 | 1,420.1 | 501.0 | 8,509.7 | 63.8 |
| 2009 | 17,346.0 | 6,866.5 | 1,357.5 | 508.7 | 8,613.3 | 64.6 |
| 2010 | 17,558.2 | 6,909.2 | 1,399.5 | 518.6 | 8,730.9 | 65.5 |

1 Pursuant to Act No. 6297, effective 1999, the assessed value of real property is required to equal the actual value of such real property.

2 Includes a national park on St. John.

3 Includes exemptions for veterans, non-profit organizations, churches, farms and homesteads, and senior citizens.

4 The EDC Program provides exemptions for periods of 10 to 15 years.

Source: United States Virgin Islands Office of the Tax Assessor.

The table below shows the largest real property taxpayers in the United States Virgin Islands in 2010.

**Table D-14. Largest Real Property Taxpayers of the United States Virgin Islands
Calendar Year 2010**

| <u>Name</u> | <u>Assessment</u> | <u>Taxes</u> |
|--|----------------------------------|--------------------------------|
| HOVENSA | \$1,871,718,566.00 | \$14,062,732.25 ⁽¹⁾ |
| Lockhart (Family) | 85,470,545.00 | 648,879.15 |
| TOPA Equities (St. Thomas/St. Croix/St. John) | 54,934,729.00 | 418,510.47 |
| Hartman (Family) | 47,577,030.00 | 197,935.35 |
| Palace Resorts | 31,918,500.00 | 239,388.75 |
| GINN-LA Fund IV, LLC, GINN-LA USVI Golf, LLP and GINN-LA Fund Sanctuary, LLC | 17,814,132.00 | 124,262.25 |
| Cabrita Grand Estates, Muller Bay Holdings, LLC and Lionstone Development | 19,582,100.00 | 146,875.75 |
| Innovative Telephone | 18,902,300.00 | 142,267.25 |
| Sunny Isles Shopping Center | 18,750,600.00 | 147,629.25 |
| Banco Popular de Puerto Rico | 16,376,900.00 | 122,826.75 |
| VI Dev. Corp. | 12,376,566.00 | 96,424.25 |
| Boschulte (Family) | 12,267,979.00 | 90,409.57 |
| St. Thomas Liquor Co. | 12,092,600.00 | 92,744.50 |
| B&W Realty Investment, LTD | 11,655,500.00 | 93,066.25 |
| Leo T. Barbel Jr. Trustee | 8,566,700.00 | 66,620.25 |
| <u>TOTAL</u> | <u>\$2,240,004,747.00</u> | <u>\$16,690,572.04</u> |

1. In January 2012, HOVENSA announced that it would cease operations at the refinery on St. Croix. The Government and HOVENSA are in negotiations regarding an existing concession agreement between the Government and HOVENSA that stipulates HOVENSA's annual property tax obligation. To date, there has been no change to the concession agreement and HOVENSA continues to pay its property taxes based on the existing agreement.

Source: United States Virgin Islands Office of the Tax Assessor.

Excise Tax

Individuals and entities doing business in the Virgin Islands are required to pay an excise tax on all articles, goods, merchandise or commodities (collectively, "Products") brought into the Virgin Islands for any business use or purpose, based on the volume or value of each such Product. Items specifically exempt from such excise tax include educational materials, nutritive foodstuffs, coal, fuel oil and liquid gas, molasses used for the production of rum and for agricultural purposes, animal feed, poultry feeds and commercial fertilizers, motor vehicles requiring licensing for highway use, items for sale to the United States government, the Government or an instrumentality of either one, items imported or manufactured in the Virgin Islands that are exported to purchasers who take delivery and actual possession outside of the Virgin Islands, as well as paper, plastics, glass or wooden materials and supplies used to package foodstuffs grown, processed, bottled or produced in the Virgin Islands, spirits, perfumes, toilet waters, bath salts, tapestry, hand-woven fabrics, handmade carpets, sweaters, shawls, scarves and ties. An exemption also is extended to franchised bus operators, costume jewelry manufacturers, EDC beneficiaries, certain film-making and other related professional equipment and licensed insurers.

There is a general exemption from the excise tax for agencies of the Government or the United States government, religious, charitable, benevolent or educational organizations when not engaged in the conduct of business pursuits for profit, and transactions involving a charitable or benevolent purpose.

In fiscal year 2008, excise tax collections were \$22.8 million, comprising 2.7% of General Fund Revenues. In fiscal year 2009, excise tax collections were \$21.4 million, comprising 3.7% of General Fund Revenues. In fiscal year 2010, excise tax collections were \$23.1 million, comprising 3.8% of General Fund Revenues. In fiscal year 2011, excise tax collections were approximately \$24.6 million, comprising 3.6% of General Fund Revenues. The figures in this paragraph were derived using the cash basis of accounting.

Additional Revenues of the Government

In addition to the taxes and other revenues discussed above which comprise the primary General Fund revenues, there are additional taxes, fees and charges imposed by the Government which are dedicated for specific purposes.

Transportation Trust Fund Revenues

General. The Transportation Trust Fund (“TTF”) was created to secure the payment of principal of, redemption premium, if any, and interest on bonds issued by the Authority to finance maintenance, improvement, repair and construction of the road and highway system. Taxes, fees and fines designated for deposit in the TTF include the motor fuel tax, highway users’ tax, motor vehicle registration fees, driver’s license fees and traffic law violation fines. Prior to the creation of the TTF, motor fuel and highway users’ taxes and traffic law violation fines were deposited into the Road Fund and driver’s license and motor vehicle registration fees were deposited into the General Fund. There are currently no outstanding bonds secured by the TTF. It is anticipated that the Legislature will continue its practice of appropriating in each fiscal year the estimated TTF revenues to the General Fund. Any amounts remaining in the TTF following such appropriation are deposited into the Road Fund.

A description of the taxes, fees and fines designated for deposit in the TTF is set forth below.

Motor Fuel Taxes. A tax of 14 cents is levied on each gallon of gasoline and diesel fuel manufactured, sold, or consumed or otherwise disposed of in the Virgin Islands. The following are exempt from motor fuel taxes: (i) the Government; (ii) fuel used for fueling of aircraft, motorboats, yachts or any other motor vehicle not operating or intended for operation upon the public highway; and (iii) fuel used for industrial or other purposes not connected with the fueling of motor vehicles.

Highway Users’ Tax. Before registering a motor vehicle in the Virgin Islands for the first time, every person, is required to pay a highway users’ tax of 16 cents per pound on the unladen weight of the vehicle, provided that the minimum highway users’ tax for any vehicle is \$25.00. The following are exempt from the highway users’ tax: (i) those motor vehicles to be used as either a taxicab or a bus under a franchise granted by the Governor; (ii) up to two motor vehicles used by non-profit corporations; (iii) Government vehicles subsequently sold to individuals; and (iv) vehicles belonging to individuals transferred for military duty. Highway users’ taxes are collected by the BIR and are deposited daily into the TTF.

Motor Vehicle Registration Fees and Driver’s License Fees. Every motor vehicle must be registered annually with the Government and an annual fee for registration must be paid. Every three years, operators of both public and private use vehicles must renew their licenses and pay the required

fee. The registration and license fees range in unit value but have remained relatively constant since 1983. Registration and licensing fees are collected throughout the fiscal year by the Virgin Islands Police Department and are deposited daily in the TTF.

Traffic Law Violation Fines. The Government collects fines for traffic law violations. Fines for traffic law violations are collected throughout the fiscal year by the Superior Court and are deposited daily to the TTF.

The following table sets forth total TTF revenues for fiscal years 2007 through 2012:

**Table D-15. Transportation Trust Fund Revenues
Fiscal Years 2007-2012**

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Motor Fuel Taxes | \$2,549,591 | \$2,212,476 | \$3,486,726 | \$2,571,524 | \$2,924,925 | \$1,851,419 ⁽¹⁾ |
| Highway Users Taxes | 4,672,686 | 3,990,104 | 2,803,289 | 2,783,109 | 2,965,478 | 2,588,511 |
| Motor Vehicle Registration Fees and Driver's License Fees | 6,604,245 | 6,453,922 | 6,480,556 | 6,175,402 | 6,201,531 | 5,974,981 |
| Traffic Law Violation Fees | 943,150 | 764,030 | 756,846 | 788,243 | 867,809 | 1,131,187 |
| <u>TOTAL</u> | <u>\$14,769,673</u> | <u>\$13,420,531</u> | <u>\$13,527,417</u> | <u>\$12,318,277</u> | <u>\$12,959,742</u> | <u>\$11,546,097</u> |

Source: United States Virgin Islands Department of Finance - Treasury Division. Some figures may not add due to rounding.

1. Pursuant to 2012 V.I. Act 7360, the tax of 14 cents on each gallon of gasoline and diesel fuel manufactured, sold, consumed or otherwise disposed of in the Virgin Islands was authorized to be made available to the Virgin Islands Water and Power Authority to fund new energy and power generating units and/or heat recovery steam generators for St. Thomas, St. John and St. Croix, effective as of June 19, 2012.

Matching Fund Revenues

“Matching Fund Revenues” are those revenues received by the Government from the United States Department of the Treasury (the “Treasury”), through the Secretary of the United States Department of Interior (“DOI”), as a transfer of Federal excise taxes imposed and collected under the Internal Revenue Code of 1986, as amended (the “Code”), on any product that is subject to Federal excise tax that is produced in the Virgin Islands and exported to the United States, referred to herein as the “Matching Fund Act.” Rum is the only product currently produced in the Virgin Islands and exported to the United States that is subject to the Matching Fund Act. In accordance with Federal law, Matching Fund Revenues have been transferred to the Government every year since 1954.

Pursuant to the Matching Fund Act, the Secretary of the Treasury is directed to make transfers to the Government of certain excise taxes imposed and collected under the Code in any fiscal year on certain products produced in the Virgin Islands and exported to the United States mainland from the Virgin Islands. Rum is the only product currently produced in the Virgin Islands and exported to the United States that is subject to Federal excise tax that qualifies for transfer to the Government under the applicable provisions of the Revised Organic Act and the Code. The term “Matching Fund Revenues” is used to denote the payments that are transferred to the Government.

The Treasury collects the Federal excise taxes levied on rum exported to the United States from the Virgin Islands, whether the rum is shipped to the United States in bulk or the rum is bottled in the Virgin Islands, and submits monthly reports of the Federal excise tax revenues collected to the DOI.

In September of each year, the Governor requests a Matching Fund Revenue prepayment from the DOI that is calculated by OMB based on an estimate of the amount of Federal excise taxes to be collected in the ensuing fiscal year taking into account any required adjustments. Based on the Governor's request, the DOI calculates the amount of the Federal excise taxes that will be transferred to the Virgin Islands and requests the Treasury to transfer the prepayment for the ensuing fiscal year to a special escrow account of the Government held by a designated special escrow agent prior to September 30 of that fiscal year.

This prepayment is subject to subsequent adjustment based on the amount of Matching Fund Revenues actually received by the Government and the amount of Federal excise taxes actually collected by the Treasury during each fiscal year. Any adjustments to such prepayment are made in the second succeeding fiscal year after the prepayment is received by the Government. Adjustment payments also may be requested by the Governor and made by the DOI during a fiscal year. The amount required to be remitted to the Government by the Secretary of the Treasury is limited to an amount no greater than the total amount of local duties, taxes and fees collected by the Government in the applicable fiscal year.

The Federal excise tax on rum exports from the Virgin Islands to the United States currently accounts for all of the Matching Fund Revenues. Until recently, the only producer of rum in the Virgin Islands was Cruzan VIRIL, Ltd. ("Cruzan"). Diageo USVI Inc. ("Diageo") agreed to build the Diageo Project on St. Croix for production of all of its Captain Morgan rum for export to the United States. The Diageo Project, including the Visitors Center, was completed in March 2012 and shipments of rum to the United States produced from the Diageo Project commenced in or around February 2012.

IHS Global Insight (USA), Inc. ("Global Insight"), an economic consulting firm, was engaged to verify Matching Fund Revenues received by the Government from fiscal year 1992 through fiscal year 2011 and to project Matching Fund Revenues for fiscal years 2012 through 2041. In connection with this engagement, Global Insight produced the Global Insight Report dated August 15, 2012.

Global Insight's review of the records that document the Matching Fund Revenue collection and transfer process concluded that annual Matching Fund Revenues transferred to the Virgin Islands during the fiscal year 1992 through fiscal year 2011 period were consistent with excise taxes collected from United States distillers on purchases of bulk rum produced in the Virgin Islands and Customs duties levied on cased Virgin Islands rum.

In connection with its revenue projections, Global Insight developed three models to project future Matching Fund Revenues. The first model, the "Constant Market Share Model," projects Matching Fund Revenues as a function of historical rum excise tax revenues, assumes a \$13.25 Cover Over Rate, and forecasts Matching Fund Revenues growing from approximately \$192.9 million in fiscal year 2012 to approximately \$377.6 million in fiscal year 2041. The second model, the "Growing Market Share Model," bases future revenue projections on historical rum production in the Virgin Islands, assumes a \$13.25 Cover Over Rate, and forecasts Matching Fund Revenues growing from approximately \$194.9 million in fiscal year 2012 to \$377.6 million in fiscal year 2041. The third model, the "Alternative \$10.50 Cover Over Rate Model," bases future revenue projections on the assumption that the Cover Over Rate remains at \$10.50 per proof gallons and forecasts Matching Fund Revenues growing from approximately \$152.8 million in fiscal year 2012 to \$299.3 million in fiscal year 2041.

The Federal excise tax and the Federal excise tax per proof gallon remitted by the Treasury back to the Government (the “Cover Over Rate”) are set by Congress and codified in Sections 5001(a)(1) and 7652(f) of the Code. The Federal excise tax on distilled spirits produced in, or imported into, the United States has over the years ranged from \$10.50 per proof gallon to \$13.50 per proof gallon. Until 1984, the entire amount of such excise tax qualified for transfer to the Government. As part of the Deficit Reduction Act of 1984, Congress increased the Federal excise tax on distilled spirits from \$10.50 per proof gallon to \$12.50 per proof gallon, but capped the Cover Over Rate at \$10.50 per proof gallon. As part of the Omnibus Budget Reconciliation Act of 1990, Congress again increased the Federal excise tax rate on distilled spirits to \$13.50 per proof gallon, but maintained the cap on the Cover Over Rate at \$10.50. As part of the Omnibus Budget Reconciliation Act of 1993, Congress increased the Cover Over Rate paid to the Government, through September 30, 1998, from \$10.50 per proof gallon to \$11.30 per proof gallon. As part of the Tax Relief Extension Act of 1999, Congress increased the Cover Over Rate to \$13.25 per proof gallon from July 1, 1999, through December 31, 2001. Congress, thereafter, has continued to extend the \$13.25 per proof gallon Cover Over Rate from January 1, 2002, through December 31, 2011, pursuant to legislation described in the table below.

On August 2, 2012, the Senate Finance Committee approved the increase of the Cover Over Rate to \$13.25 per proof gallon. However, it is not anticipated that Congress will approve of this increase of the Cover Over Rate prior to the issuance of the Series 2012 Bonds. The advance payment for 2013, based on the \$10.50 per proof gallon Cover Over Rate, was remitted by the Treasury to the Government in September 2012. Upon approval of the extension of the \$13.25 per proof gallon Cover Over Rate by Congress, it is anticipated that a supplemental request, based on the \$13.25 per proof gallon Cover Over Rate, will be submitted to the Treasury by the Government.

Set forth below is a brief synopsis of the history of the Federal excise tax rates and corresponding Cover Over Rates per proof gallon of rum since 1984.

| <u>Year</u> | <u>Excise Tax Rate*</u> | <u>Cover Over Rate*</u> | <u>Legislation</u> |
|-------------|-------------------------|--|--|
| 1984 | \$12.50 | Lesser of \$10.50 or the excise tax rate | The Deficit Reduction Act of 1984 |
| 1990 | \$13.50 | \$10.50 | Omnibus Budget Reconciliation Act of 1990 |
| 1993 | \$13.50 | \$11.30 | Omnibus Budget Reconciliation Act of 1993 |
| 1998 | \$13.50 | Lesser of \$10.50 or the excise tax rate | Section 7652(f) of the U.S. Code |
| 1999-2001 | \$13.50 | \$13.25 | Tax Relief Extension Act of 1999 |
| 2002-2003 | \$13.50 | \$13.25 | Job Creation and Worker Assistance Act of 2002 |
| 2004-2005 | \$13.50 | \$13.25 | Working Families Tax Relief Act of 2004 |
| 2006-2007 | \$13.50 | \$13.25 | Tax Relief and Health Care Act of 2006 |
| 2008-2009 | \$13.50 | \$13.25 | Tax Extenders and Alternative Minimum Tax Relief Act of 2008 |
| 2010-2011 | \$13.50 | \$13.25 | Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 |

* Per proof gallon.

Proposed Legislation. Prior to December 31, 2011, all rum used by Diageo in Captain Morgan branded products sold in the U.S. was procured through an exclusive supply contract with a Puerto Rican third-party supplier, which contract expired on December 31, 2011. Diageo commenced production on St. Croix in or around November 2010 and, as of February 2012, all rum used in Captain Morgan branded products sold in the U.S. has been produced at the Diageo Project.

The Commonwealth of Puerto Rico (“Puerto Rico”) also is eligible to receive, and prior to December 31, 2011 had received, Matching Fund Revenues on rum produced by the Diageo Group in Puerto Rico. Since 2008, when Diageo agreed to build the Diageo Project, certain elected and appointed

officials in Puerto Rico and the U.S. Congress have publicly objected to the amount of benefits provided by the Government to Diageo. In April 2009, Puerto Rico’s Resident Commissioner to the U.S. House of Representatives, Pedro R. Pierluisi, introduced H.R. 2122, and in April 2010, U.S. Senator Bob Menendez introduced S. 3208, two proposed acts that would limit the amount of any subsidy paid from Matching Fund Revenues by either the Virgin Islands or by Puerto Rico to any private company to a maximum of ten percent (10%) of such revenues. The 111th Congress adjourned without taking action on either bill.

In the 112th Congress, Resident Commissioner Pierluisi and Senator Menendez introduced new legislation, H.R. 1883 and S. 986, respectively, that would limit the amount of any subsidy paid from Matching Fund Revenues to any private company to a maximum of fifteen percent (15%) of such revenues. In addition, the Pierluisi and Menendez bills would set minimum and maximum percentages with respect to the allocation of total Cover-Over Revenues apportioned to the Virgin Islands and Puerto Rico. Under these bills, the Virgin Islands would receive a minimum of 30 percent of total Cover-Over Revenues attributable to total rum shipments from both the Virgin Islands and Puerto Rico, regardless of the total amount of rum shipments from the Virgin Islands to the United States; similarly, the Virgin Islands would receive a maximum of 35 percent of such total revenues, regardless of the total amount of such Virgin Islands shipments. As of the date of this Private Placement Memorandum, no committee of the House or Senate has taken action on either H.R. 1883 or S. 986.

The following table sets forth (i) the total Matching Fund Revenues received by the Government, (ii) debt service on senior bonds secured by Matching Fund Revenues and (iii) the debt service coverage for such bonds for fiscal years 2007 through 2011.

**Table D-16. Historical Matching Fund Revenues
Fiscal Years 2007-2011
(\$000’s)**

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Total Matching Fund Revenues | \$86,710 | \$91,939 | \$106,820 | \$103,666 | \$123,901 |
| Senior Indenture Senior Lien Bonds Debt Service | \$36,249 | \$36,245 | \$36,248 | \$37,398 | \$42,862 |
| Senior Indenture Senior Lien Bonds Debt Service Coverage | 2.39x | 2.54x | 2.95x | 2.77x | 2.89x |

Source: The Global Insight Report.

Hotel Occupancy Taxes

Pursuant to Title 33 of the Virgin Islands Code, Section 54, hotel guests in the Virgin Islands are required to pay a hotel occupancy tax of 10% of the gross room rate or rental. The hotel or innkeeper is responsible for collecting, reporting and remitting such revenues to the Government. All hotel room tax revenues are deposited into the Tourism Advertising Revolving Fund. Table D-17 shows hotel occupancy tax collections for fiscal years 2007 through 2012.

**Table D-17. Hotel Occupancy Tax Revenues
Fiscal Years 2007-2012**

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Hotel Occupancy Taxes | \$17,266,702 | \$18,404,687 | \$15,466,271 | \$17,055,684 | \$15,472,151 | \$19,890,277 |

Source: United States Virgin Islands Department of Finance - Treasury Division.

Expenditures of the Government

A significant portion of the Government expenditures consist of appropriations for the administration and operation of the Government's institutions and facilities (such as educational facilities, health and hospital facilities, correctional facilities and courts) and for the operation of the Government's departments and agencies (such as the Virgin Islands Police Department, Housing, Parks and Recreation, Economic Development, Agriculture, Human Services, Department of Planning and Natural Resources and general administration).

Expenditures are also required under legally binding contractual agreements that the Government has previously executed or statutes that have continuing applicability. Contractually required expenditures include amounts for debt service payments. Expenditure totals also include amounts from the General Fund contributed to the University of the Virgin Islands, inter-fund transfers for special projects and operating and capital funding for other semi-autonomous-authorities.

Financial Position of the Government

In recent fiscal years, the Government has experienced substantial fluctuations in revenues and expenditures and recurring deficits. To finance working capital needs and other Government obligations since fiscal year 2009, the Government has used multiple working capital financings, including drawings from a working capital credit facility entered into in fiscal year 2009 with FirstBank Puerto Rico for up to \$150 million and Banco Popular de Puerto Rico for up to \$100 million (collectively, the "Initial Working Capital Credit Facility") and the issuance of \$399 million of senior lien working capital bonds secured by Matching Fund Revenues in fiscal year 2010 (the "Series 2010 Bonds"). In fiscal year 2010, the Initial Working Capital Credit Facility was refunded in part with proceeds of the Series 2010 Bonds and reinstated in an aggregate principal amount of \$131.4 million (the "Working Capital Credit Facility"). As of the date hereof, the Government has drawn down the full balance of the \$131.4 million from the Working Capital Credit Facility and intends to use a portion of the proceeds of the Series 2012A Bonds to pay the outstanding principal and interest due on the Working Capital Credit Facility (the "Series 2010A Notes").

Fiscal Year 2009: For fiscal year 2009, the Government reported an audited shortfall of revenues over expenditures of \$475.4 million. After taking into account transfers from other funds and other financing sources, such as bond and loan proceeds, the Government reported an audited shortfall of

revenues over expenditures of \$83.6 million. The Government ended fiscal year 2009 with a net deficit of \$739.8 million on its balance sheet.

The unaudited results for fiscal years 2010 and 2011 that follow were prepared on a cash basis, while the audited financial statements for fiscal year 2009 were prepared on an accrual basis. Consequently, the unaudited results for fiscal years 2010 and 2011 are not directly comparable to the audited results for fiscal year 2009. In addition, the estimates for fiscal years 2010 and 2011 are preliminary and unaudited and there may be material revisions to these numbers when the audits are complete. In recent prior years, there have been material revisions to the unaudited numbers in the process of completing the audits.

Fiscal Year 2010: Based on unaudited results, however, the Government estimates it ended fiscal year 2010 with a shortfall of revenues over expenditures of approximately \$302.5 million. As described above, the Government sought to manage this shortfall through a combination of expenditure reductions and working capital borrowings. The Government funded approximately \$299 million of its fiscal year 2010 revenue shortfall from the Working Capital Credit Facility and proceeds of the Series 2010 Bonds.

Fiscal Year 2011: The Government estimates it ended fiscal year 2011 with a shortfall of revenues over expenditures of approximately \$215.7 million. The Government funded approximately \$212.8 million of this shortfall from draws under the Working Capital Credit Facility, internal borrowing, delays in income tax refunds, draws from stabilization funds from the American Recovery and Reinvestment Act of 2009 and transfers from other funds and accounts.

Fiscal Year 2012 and Future Fiscal Years: Currently, OMB estimates it ended fiscal year 2012 with a shortfall of revenues over expenditures of approximately \$60 million. OMB currently projects a shortfall of revenues and expenditures of approximately \$35 million in fiscal year 2013 and approximately \$25 million for fiscal year 2014. The Government issued the Revenue Bonds (Virgin Islands Matching Fund Loan Note), Series 2012A (Working Capital) on September 13, 2012 (the “Series 2012A Matching Fund Bonds”) and used \$60 million to meet the fiscal year 2012 deficit and intends to use the balance of such proceeds to finance a portion of the Government’s projected working capital expenditures for each of fiscal year 2013 and 2014, respectively.

Fiscal Year 2013 Budget

On June 29, 2012, the Governor submitted his proposed fiscal year 2013 budget to the Legislature for its review and approval. The Fiscal Year 2013 Budget was approved by the Legislature and signed into law by the Governor on October 5, 2012. In the Fiscal Year 2013 Budget, the General Fund appropriation level is \$709.6 million, which includes funding for the projected operating costs of all branches of Government. The fiscal year 2013 appropriation level is \$55.4 million less than the fiscal year 2012 appropriation level of \$765.0 million. Currently, the Authority has working capital reserves of \$60 million from the issuance of Series 2012A Matching Funds Bonds.

Prevention of Future Operating Deficits

The Government has taken a series of actions to reduce its operating budget and address its operating deficits, including reducing salaries of Government employees by 8% and instituting personnel reductions. The combined savings from the personnel reductions for fiscal year 2012 are estimated to be \$40 million. In addition, the Legislature authorized the reduction of the required balance in the Insurance Guaranty Fund from \$50 million to \$10 million until September 30, 2015, allowing the Government to release \$13.5 million to the General Fund. The Legislature also increased the Gross Receipts Tax Rate from 4.5% to 5.0%, among other things. Currently, OMB projects a shortfall of revenues over

expenditures of approximately \$35 million in fiscal year 2013 and approximately \$25 million in fiscal year 2014. The Authority expects to use a portion of the proceeds of the Series 2012A Matching Funds Bonds to make a loan to the Government to finance a portion of the Government's working capital expenditures for each of fiscal years 2013 and 2014. The Government intends to meet the balance of any revenue shortfalls in those fiscal years through continued expenditure reductions and revenue initiatives.

Statement of Revenues, Expenditures and Changes in Fund Balances of the Government

**Table D-18. Government of the United States Virgin Islands
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds**

**Year Ended September 30, 2007
(\$ In thousands)**

| | General | PFA Debt Service | PFA Capital Projects | Other Governmental | Total Governmental |
|--|----------------|---------------------------------|-------------------------------------|-------------------------------|-------------------------------|
| Revenues: | | | | | |
| Taxes | \$ 653,007 | \$ 192,283 | \$ 3,686 | \$ 24,564 | \$ 873,540 |
| Federal grants and contributions | 11,494 | 3,649 | - | 135,168 | 150,311 |
| Charges for services | 37,156 | - | - | 11,532 | 48,688 |
| Tobacco settlement rights | - | - | - | 1,063 | 1,063 |
| Interest and other | 26,383 | 6,608 | 5,912 | 23,197 | 62,100 |
| Total revenues | 728,040 | 202,540 | 9,598 | 195,524 | 1,135,702 |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 283,283 | - | 48 | 41,847 | 325,178 |
| Public safety | 69,370 | - | - | 5,165 | 74,535 |
| Health | 116,637 | - | - | 28,128 | 144,765 |
| Public housing and welfare | 50,745 | - | 1,984 | 51,193 | 103,922 |
| Education | 242,412 | - | - | 13,566 | 255,978 |
| Transportation and communication | 22,551 | - | 1,539 | 13,424 | 37,514 |
| Culture and recreation | 21,020 | - | - | 34 | 21,054 |
| Capital outlays | 37,300 | - | 46,662 | 18,747 | 102,709 |
| Debt service: | | | | | |
| Principal | | 30,030 | 3,413 | 1,305 | 34,748 |
| Interest | | 54,639 | 273 | 905 | 55,817 |
| Total expenditures | 843,318 | 84,669 | 53,919 | 174,314 | 1,156,220 |
| Excess (deficiency) of revenue over (under) expenditures | (115,278) | 117,871 | (44,321) | 21,210 | (20,518) |
| Other financing sources (uses): | | | | | |
| Transfers from other funds | 122,422 | 5,401 | - | 26,886 | 154,709 |
| Transfers to other funds | (26,925) | (118,417) | (4,092) | (4,354) | (153,788) |
| Total other financing sources (uses), net | 95,497 | (113,016) | (4,092) | 22,532 | 921 |
| Net change in fund balances | (19,781) | 4,855 | (48,413) | 43,742 | (19,597) |
| Fund balance at beginning of year, as restituted | 246,456 | 130,141 | 168,160 | 55,443 | 600,200 |
| Fund balance at end of year | \$ 226,675 | \$ 134,996 | \$ 119,747 | \$ 99,185 | \$ 580,603 |

**Table D-19. Government of the United States Virgin Islands
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds**

**Year Ended September 30, 2008
(\$ In thousands)**

| | General | PFA Debt Service | PFA Capital Projects | Other Governmental | Total Governmental |
|---|------------------|---------------------------------|-------------------------------------|-------------------------------|-------------------------------|
| Revenues: | | | | | |
| Taxes | \$ 621,422 | \$ 187,538 | \$ 3,356 | \$ 22,497 | \$ 834,813 |
| Federal grants and contributions | - | 3,646 | - | 157,171 | 160,817 |
| Charges for services | 25,769 | - | - | 12,089 | 37,858 |
| Tobacco settlement rights | - | - | - | 2,504 | 2,504 |
| Interest and other | 31,556 | 6,460 | 5,683 | 27,555 | 71,254 |
| Total revenues | 678,747 | 197,644 | 9,039 | 221,816 | 1,107,246 |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 398,812 | - | 3,803 | 62,898 | 465,513 |
| Public safety | 63,814 | - | 5 | 5,360 | 69,179 |
| Health | 120,317 | - | 25 | 26,435 | 146,777 |
| Public housing and welfare | 55,192 | - | 73 | 51,233 | 106,498 |
| Education | 200,701 | - | 36 | 46,335 | 247,072 |
| Transportation and communication | 30,772 | - | 28 | 14,075 | 44,875 |
| Culture and recreation | 6,817 | - | 167 | 39 | 7,023 |
| Capital outlays | 12,758 | - | 20,626 | 9,813 | 43,197 |
| Debt service: | | | | | |
| Principal | - | 32,170 | 2,980 | 2,500 | 37,650 |
| Interest | - | 58,341 | 147 | 1,014 | 59,502 |
| Total expenditures | 889,183 | 90,511 | 27,890 | 219,702 | 1,227,286 |
| Excess (deficiency) of revenue over (under) expenditures | (210,436) | 107,133 | (18,851) | 2,114 | (120,040) |
| Other financing sources (uses): | | | | | |
| Federal economic stimulus | 41,500 | - | - | - | 41,500 |
| Loans issued | - | - | 7,650 | - | 7,650 |
| Cost of issuance of loans | - | - | (151) | - | (151) |
| Basis swap termination fee | - | 4,910 | - | - | 4,910 |
| Transfers from other funds | 115,011 | - | 14,858 | 16,020 | 145,889 |
| Transfers to other funds | (9,974) | (110,025) | - | (25,990) | (145,989) |
| Total other financing sources (uses), net | 146,537 | (105,115) | 22,357 | (9,970) | 53,809 |
| Net change in fund balances | (63,899) | 2,018 | 3,506 | (7,856) | (66,231) |
| Fund balance at beginning of year, as restated | 218,622 | 134,996 | 119,747 | 99,185 | 572,550 |
| Fund balance at end of year | \$ 154,723 | \$ 137,014 | \$ 123,253 | \$ 91,329 | \$ 506,319 |

**Table D-20. Government of the United States Virgin Islands
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds**

**Year Ended September 30, 2009
(\$ In thousands)**

| | General | PFA Debt Service | PFA Capital Projects | Other Governmental | Total Governmental |
|--|--------------------|---------------------------------|-------------------------------------|-------------------------------|-------------------------------|
| Revenues: | | | | | |
| Taxes | \$ 400,306 | \$ 167,488 | \$ 4,177 | \$ 22,554 | \$ 594,525 |
| Federal grants and contributions | - | 3,647 | - | 223,824 | 227,471 |
| Charges for services | 42,092 | | | 9,124 | 51,216 |
| Tobacco settlement rights | - | - | | 2,650 | 2,650 |
| Interest and other | 40,607 | 4,821 | 745 | 30,622 | 76,795 |
| Total revenues | <u>483,005</u> | <u>175,956</u> | <u>4,922</u> | <u>288,774</u> | <u>952,657</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 376,739 | - | 68,269 | 82,955 | 527,963 |
| Public safety | 63,017 | - | - | 1,600 | 64,617 |
| Health | 120,501 | - | - | 31,989 | 152,490 |
| Public housing and welfare | 56,557 | - | 40 | 67,548 | 124,145 |
| Education | 208,863 | - | 2 | 71,274 | 280,139 |
| Transportation and communication | 26,474 | - | 3,400 | 12,680 | 42,554 |
| Culture and recreation | 9,504 | - | - | 31 | 9,535 |
| Capital outlays | 15,579 | - | 37,356 | 35,666 | 88,601 |
| Debt service: | | | | | |
| Principal | - | 64,365 | 3,839 | 2,820 | 71,024 |
| Interest | - | 56,584 | 338 | 1,069 | 57,991 |
| Cost of issuance of bonds and loans | - | 8,323 | 696 | | 9,019 |
| Total expenditures | <u>877,234</u> | <u>129,272</u> | <u>113,940</u> | <u>307,632</u> | <u>1,428,078</u> |
| Excess (deficiency) of revenue over (under) expenditures | <u>(394,229)</u> | <u>46,684</u> | <u>(109,018)</u> | <u>(18,858)</u> | <u>(475,421)</u> |
| Other financing sources (uses): | | | | | |
| Loans issued | - | 96,207 | 153,793 | - | 250,000 |
| Cost of issuance of loans | 100,000 | 2,335 | 41,312 | - | 143,647 |
| Basis swap termination fee | - | (2,507) | - | - | (2,507) |
| Transfers from other funds | 104,504 | - | 401 | 25,397 | 130,302 |
| Transfers to other funds | (12,886) | (95,470) | (2,345) | (18,901) | (129,602) |
| Total other financing sources (uses), net | <u>191,618</u> | <u>565</u> | <u>193,161</u> | <u>6,496</u> | <u>391,840</u> |
| Net change in fund balances | <u>(202,611)</u> | <u>47,249</u> | <u>84,143</u> | <u>(12,362)</u> | <u>(83,581)</u> |
| Fund balance at beginning of year, as restated | 147,253 | 137,014 | 123,253 | 91,329 | 498,849 |
| Fund balance at end of year | <u>\$ (55,358)</u> | <u>\$ 184,263</u> | <u>\$ 207,396</u> | <u>\$ 78,967</u> | <u>\$ 415,268</u> |

**Table D-21. Government of the United States Virgin Islands
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds**

**Year Ended September 30, 2010*
(\$ In thousands)**

| | General | PFA Debt Service | PFA Capital Projects | Other Governmental | Total Governmental |
|--|--------------------|---------------------------------|-------------------------------------|-------------------------------|-------------------------------|
| Revenues: | | | | | |
| Taxes | \$ 486,900 | \$ 172,152 | \$ 4,341 | \$ 22,262 | \$ 685,655 |
| Federal grants and contributions | 72,770 | - | 1,896 | 262,822 | 337,488 |
| Charges for services | 24,287 | | | 17,473 | 41,760 |
| Tobacco settlement rights | - | - | | 2,258 | 2,258 |
| Interest and other | 1,483 | 6,900 | 916 | 30,897 | 40,276 |
| Total revenues | <u>585,440</u> | <u>179,132</u> | <u>7,153</u> | <u>335,712</u> | <u>1,107,437</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 425,659 | - | 107,686 | 74,501 | 607,846 |
| Public safety | 64,159 | - | - | 5,689 | 69,848 |
| Health | 113,452 | - | - | 33,492 | 146,944 |
| Public housing and welfare | 59,656 | - | - | 79,778 | 139,434 |
| Education | 221,617 | - | - | 61,099 | 282,716 |
| Transportation and communication | 27,031 | - | - | 14,513 | 41,544 |
| Culture and recreation | 8,995 | - | - | 121 | 9,116 |
| Capital outlays | 5,862 | - | 39,009 | 49,276 | 94,147 |
| Debt service: | | | | | |
| Principal | 200,000 | 410,075 | 3,264 | 2,015 | 615,354 |
| Interest | 6,958 | 69,145 | 769 | 916 | 77,788 |
| Cost of issuance of bonds and loans | - | 15,980 | - | - | 15,980 |
| Total expenditures | <u>1,133,389</u> | <u>495,200</u> | <u>150,728</u> | <u>321,400</u> | <u>2,100,717</u> |
| Excess (deficiency) of revenue over (under) expenditures | <u>(547,949)</u> | <u>(316,068)</u> | <u>(143,575)</u> | <u>14,312</u> | <u>(993,280)</u> |
| Other financing sources (uses): | | | | | |
| Bonds issued | 350,000 | 426,069 | 121,011 | - | 897,080 |
| Loans issued | 106,400 | 675 | 3,725 | - | 110,400 |
| Bond premium | | 18,333 | | | 18,333 |
| Bond discounts and issuance costs | - | (2,734) | - | - | (2,734) |
| Transfers from other funds | 92,848 | - | 61 | 8,488 | 101,397 |
| Transfers to other funds | (6,763) | (81,381) | (54) | (12,500) | (100,698) |
| Total other financing sources (uses), net | <u>542,485</u> | <u>360,962</u> | <u>124,343</u> | <u>(4,012)</u> | <u>1,023,778</u> |
| Net change in fund balances | <u>(5,464)</u> | <u>44,894</u> | <u>(19,232)</u> | <u>10,300</u> | <u>30,498</u> |
| Fund balance at beginning of year, as restated | <u>(55,358)</u> | <u>184,263</u> | <u>207,396</u> | <u>70,968</u> | <u>415,269</u> |
| Fund balance at end of year | <u>\$ (60,822)</u> | <u>\$ 229,157</u> | <u>\$ 188,164</u> | <u>\$ 89,268</u> | <u>\$ 445,767</u> |

* Unaudited, subject to change.

Federal Oversight of Certain Government Programs

The Government is subject to various consent decrees with the United States Government requiring expenditures for (i) certain environmental remediation at landfills and other sites, (ii) mental health services, (iii) improvements to prisons, and (iv) implementation of new policies and procedures for training polices, investigating complaints against police officers and continued oversight of the Virgin Island Police Department, each of which may impact the financial condition of the Virgin Islands.

Landfills. The United States Environmental Protection Agency (the “EPA”) filed a complaint alleging that the Government and Virgin Islands Waste Management Authority (the “WMA”) violated Sections 111(d), 112, 114 and 503 of the Clean Air Act, 42 U.S.C. § 7401, et seq. (the “CAA”) and Section 7003(a) of the Solid Waste Disposal Act, as amended, 42 U.S.C. § 6901, et seq. (the “RCRA”) at the Bovoni Municipal Solid Waste Landfill (“Bovoni”) on the island of St. Thomas in the Virgin Islands and that the Government, WMA and the Virgin Islands Port Authority (“VIPA”) violated Sections 111(d), 112, 114 and 503 of the CAA and Section 7003(a) of RCRA at the Anguilla Municipal Solid Waste Landfill (“Anguilla”) on the island of St. Croix in the Virgin Islands. The EPA later filed an amended complaint adding a claim regarding the removal of scrap tires at Bovoni. The parties have entered into a consent decree. WMA, an independent instrumentality of the Government, is the lead party in this matter. Tolling Agreements are in place to allow the defendants to carry out compliance actions.

Tutu Wellfield Superfund Site. The EPA filed a claim pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”) seeking reimbursement of response costs the United States Government had expended as a result of the hazardous substances that were dumped or escaped into the ground at the Tutu Wellfield. The Government entered into a consent decree with the United States, which requires the Government to take over the operation and maintenance of the remediation operations. Because of the nature of the Wellfield site, the cleaning process is difficult and will likely continue for many years. It is expected that the cost to the Government to clean the Wellfield site may be in the hundreds of thousands annually. There is no timetable for when the cleaning process might be finished.

Mental Health Class Action. A class action suit was brought on behalf of persons who have been certified as individuals in need of mental health services. In the complaint, it was alleged that the Government violated the constitutional rights of the mentally ill by failing to provide adequate mental health care to the class members and instituting discriminatory practices and policies that infringed on the rights of the mentally ill. In July 2009, the parties entered into a consent decree, which requires the establishment of a Mental Health Alliance Task Force to explore and recommend appropriate measures to remedy the alleged violations and prepare a five-year strategic plan for the care of patients with mental illness in the Virgin Islands. Monies were appropriated and allocated for retaining a consultant to assist with the preparation of the five-year strategic plan.

Golden Grove Correctional Adult Facility Consent Decree. In 1986, the United States brought an action in the District Court of the Virgin Islands, Division of St. Croix, against both certain Government officials in their official capacity and the Virgin Islands in connection with alleged unconstitutional conditions at the Golden Grove Adult Correctional Facility and Detention Center (“Golden Grove”) on St. Croix. The parties entered into a consent decree in 1986, which became an order of the Court. The Court entered several subsequent orders over the years, including one appointing a Special Master in 2006. On October 27, 2011, the orders, except for the one appointing the Special Master, were stayed. In February 2012, the Court determined that all of the orders, except the one which had ordered the appointment of the Special Master, could not be enforced due to their failure to comply with the Prison Litigation Reform Act (the “PLRA”). The Special Master was active from 2006 through February 2012, when the Court issued an Order to Stay the Operations of the Special Master. On August 31, 2012, the parties filed a

Joint Motion to Enter Consent Judgment, by which the parties sought the Court's approval of a settlement agreement regarding the ongoing litigation. The settlement anticipates that a monitor will be appointed to oversee remedial efforts at Golden Grove. The motion is pending.

Criminal Justice Complex. A class action suit was brought on behalf of prisoners alleging inhumane and dangerous conditions at the Criminal Justice Complex ("CJC") and CJC Annex in St. Thomas. On October 12, 1994, the parties signed a Settlement Agreement (the "Settlement Agreement"), which requires that the Government make specific improvements to many aspects of operations and conditions at the CJC. Notwithstanding the financial challenges, the Virgin Islands Board of Corrections continues to work towards addressing the deficiencies in the prisons.

Virgin Islands Police Department Consent Decree. On March 23, 2009, the Government and the United States entered into a consent decree aimed at addressing a pattern or practice of the use of excessive force by officers in the Virgin Islands Police Department ("VIPD"). The consent decree also sought to remedy VIPD's failure to investigate complaints of excessive force, discipline officers, adequately train police officers and establish consistent policies and procedures and practice that appropriately guide and monitor the actions of VIPD's officers. Pursuant to the consent decree, a monitor was selected to monitor and report on VIPD's implementation of the consent decree. Economic challenges and personnel changes have delayed or hampered VIPD's ability to reach substantial compliance with all of the terms of the consent decree.

Future Borrowings

The Authority is seeking approval of the Legislature to finance certain Capital Projects and issue bonds to achieve such a financing. The Legislature is scheduled to meet to consider the proposed legislation on November 19, 2012.

The Authority may choose to finance the Capital Projects with bonds that are secured by Matching Fund Revenues or Gross Receipts Taxes or some combination of both. There can be no assurances that the Authority will obtain legislative approval to, or otherwise determine to, issue any such bonds or to approve and finance any Capital Projects.

Back Wages and Pension Obligations

Back Wages

As of September 30, 2009, the Government has contractual liabilities for retroactive union arbitration salary increases estimated at \$231.8 million, accruing from fiscal years 1993 through 2009, as established by the Virgin Islands Retroactive Wage Commission. Under the Virgin Islands Code, the Government may not make any payments of retroactive salaries until there is an appropriation of funds by the Legislature. The Legislature, from time to time, has appropriated funds for partial payment of such retroactive wages and related payroll costs. Until additional appropriations are made by the Legislature, the retroactive salary liability is recorded as a non-current liability in the Government statement of net assets (deficit). The Government is unable to provide an update of this information until subsequent fiscal year audited financial statements are complete.

Government Employees Retirement System

The Employees' Retirement System of the Government of the Virgin Islands (known as the GERS) is a cost-sharing, multiple-employer defined benefit plan which requires that benefits promised under the law to members of the GERS be funded on an "actuarial reserve" basis. As of September 30,

2010, the net assets of the GERS were approximately \$1.5 billion. The GERS audit report for fiscal year 2010 was qualified because (i) the GERS lacks adequate procedures to assess the reasonableness of the reported values of certain investments in limited partnerships, which were provided by the fund managers and valued at \$48,710,369, (ii) the GERS' procedures are not adequate to determine whether the approximate fair value of the investments is in conformity with GAAP, and (iii) the schedules of funding progress and employer contributions are not in conformity with GAAP as a result of not having an actuarial valuation performed within the required two-year period.

Based on the audited financial statements of GERS for the fiscal year ending September 30, 2010, (i) the number of contributing members to GERS was approximately 11,117, (ii) the number of retirees was 7,301 and (iii) the number of surviving beneficiaries was 196.

As of September 30, 2011 (based upon unaudited financial information of the GERS), the number of contributing members was approximately 10,731, the number of retirees was 7,528 and the number of surviving beneficiaries was 197.

The valuation of the GERS' assets is an estimate predicated upon the book value of such assets on a date certain. For the fiscal year ended September 30, 2011 (based upon unaudited financial information of the GERS), benefits paid to retirees were approximately \$193 million. The foregoing data for fiscal year 2011 is unaudited and may be substantially revised when the audit is completed.

Employee and employer contributions rates to the system are set forth in Table D-22.

**Table D-22. Employees' Retirement System of the Government of the Virgin Islands
Employee and Employer Contributions**

| | Employee Contribution Rate | |
|---|-----------------------------------|----------------|
| | Tier I | Tier II |
| Members of the Legislature | 9.000% | 11.000% |
| All other regular employees | 8.000% | 8.500% |
| Public Safety employees | 10.000% | 10.625% |
| Hazardous duty employees who elect early retirement | 10.000% | 10.625% |
| Judges | 11.000% | 11.000% |

Source: GERS

According to the GERS, as of September 30, 2011, current employer contributions were 17.5% of membership payroll. According to recommendations from the GERS' actuary and estimates based on the audited financial statements of GERS for the fiscal year ending September 30, 2010, the statutory government and member contribution rates are not sufficient to meet the obligations of the GERS. To meet the full current annual required contribution (including the system's current normal cost and the amount necessary to amortize the unfunded actuarial liability over 20 years as set forth in the Government of the Virgin Islands Retirement System Actuarial Evaluation, dated and certified as of September 30, 2006), the contribution rates would have to be increased such that, in total, an additional 17.5% of payroll contribution would need to be made each year from some combination of member and/or Government sources. For fiscal year 2010, the annual required contribution was \$157,817,709, and the Government contributed \$77,004,630, or 48.79%.

The GERS' investments in marketable securities are carried at quoted market value, are held in trust by a commercial bank on behalf of the GERS and are administered by several investment managers. The GERS' board of trustees has established investment policies in accordance with the Virgin Islands Code that place limitations and guidelines on amounts that may be invested in certain investment

categories and the institutions with which investment transactions can be entered into. The guidelines for each investment manager stipulate the investment style, the performance objective, performance benchmarks and portfolio characteristic. As of September 30, 2011, the investment policy provided that a minimum of 60% of the investment portfolio be invested in equity stocks and a maximum of 40% be invested in fixed income. The Board of Trustees is authorized under Title 3, Section 717(20) of the Virgin Islands Code to invest a maximum amount of 10% of the total amount of the available investment portfolio in an Alternative Investment Program. Alternative Investments are investment opportunities that have not been identified by the traditional public equity or fixed income capital markets.

As of September 30, 2010, the GERS' plan was 50% funded. The actuarial accrued liability was \$3.0 billion and actuarial value of assets was \$1.5 billion, resulting in an unfunded actuarial accrued liability of approximately \$1.5 billion.

As indicated in unaudited preliminary data from GERS' actuary for the period ending September 30, 2011, (i) the GERS' plan was 47.9% funded, (ii) the actuarial accrued liability was \$3.0 billion, (iii) the actuarial value of assets was \$1.4 billion and (iv) the unfunded actuarial accrued liability was \$1.6 billion. As of the date hereof, audited financial information regarding the GERS' plan for the fiscal year ending September 30, 2011 is unavailable.

Since 1994, the Legislature has enacted legislation which has authorized certain unfunded legislative mandates providing for increased benefits and early retirement programs. Without recovery of such increased costs, the increased loss of contributions and payments required will negatively impact GERS' ability to meet its future obligations.

The GERS is responsible for the collection and disbursement of all loan repayments, employee contributions and employer contributions. In accordance with Title 3, Section 718(a) of the Virgin Islands Code, after October 1, 2005, the GERS may not provide any increases in benefits to members or beneficiaries, unless the Government has identified a specific funding source and concurrently makes a provision for the funding of all future benefit improvements on sound actuarial basis in the annual budget. The Authority has no liability on these obligations.

Labor Relations

There are 13 distinct labor organizations subject to 30 collective bargaining agreements with a total of 31 pay plans currently in place for Governmental employees. As specific disciplines are not grouped under a single pay plan, it is common to have clerical and non-professional workers in departments throughout government represented by different unions.

APPENDIX E

BOOK-ENTRY-ONLY SYSTEM

The information contained in this APPENDIX has been extracted from a document prepared by DTC, entitled "SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING DTC AND BOOK-ENTRY-ONLY ISSUANCE."

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered 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 Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount thereof, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the 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 the 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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 a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. 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.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each 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 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 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 the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the 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 Agent on the 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, the Agent or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments 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 Agent, 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 Bonds purchased or tendered, through its Participant, to the Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Agent's DTC account.

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

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

The information in this APPENDIX concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the Co-Placement Agents believe to be reliable, but the Authority and the Co-Placement Agents take no responsibility for the accuracy thereof.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “**Disclosure Agreement**”), dated as of November 1, 2012, is executed and delivered by the Virgin Islands Public Finance Authority (the “**Authority**”) and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the “**Disclosure Dissemination Agent**” or “**DAC**”) for the benefit of the Holders and the Underwriters or the Placement Agents (each as hereinafter defined), as applicable, of the Bonds (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (“**Rule 15c2-12**”) and the laws of the United States Virgin Islands.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in Rule 15c2-12 or, to the extent not in conflict with Rule 15c2-12, in the Offering Document (hereinafter defined). The capitalized terms shall have the following meanings:

“**Additional Disclosure**” means the information provided to the Disclosure Dissemination Agent by the Authority pursuant to Sections 9(a) and 9(b).

“**Annual Filing Date**” means the date set forth in Sections 2(a) and 2(f) by which the Annual Report is to be filed with the Repository.

“**Annual Financial Information**” means annual financial information as such term is used in paragraph (b)(5)(i) of Rule 15c2-12 and specified in Section 3(a) of this Disclosure Agreement.

“**Annual Report**” means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

“**Audited Financial Statements**” means the financial statements (if any) of the Authority for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of Rule 15c2-12 and specified in Sections 3(b) and 3(c) of this Disclosure Agreement.

“**Bonds**” means the bonds, with the 9-digit CUSIP numbers relating thereto, listed on the attached **Exhibit A**.

“**Certification**” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Quarterly Report, Additional Disclosure, Voluntary Report or notice of an Event delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Quarterly Report, Additional Disclosure, Voluntary Report or notice of an Event required to be submitted to the Repository under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Authority and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“**Disclosure Dissemination Agent**” or “**DAC**” means Digital Assurance Certification, L.L.C., acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Authority pursuant to Section 12.

“**Disclosure Representative**” means the Director of Finance and Administration of the Authority or his or her designee, or such other person as the Authority shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“**Event**” means an event listed in Section 7(a) of this Disclosure Agreement.

“**Holder**” means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

“**Information**” means the Annual Financial Information, the Audited Financial Statements (if any), the Quarterly Report, the Additional Disclosure, the Voluntary Report and the notice of an Event.

“**MSRB**” means the Municipal Securities Rulemaking Board established pursuant to Section 16B(b)(1) of the Securities Exchange Act of 1934.

“**Offering Document**” means that Official Statement or Private Placement Memorandum prepared by the Authority in connection with the respective issue of Bonds listed in **Exhibit A**.

“**Placement Agents**” means the placement agents of the respective issue of Bonds listed in **Exhibit A**.

“**Quarterly Report**” shall mean information required to be provided on a quarterly basis as specified in Section 5 of this Disclosure Agreement.

“**Quarterly Report Date**” shall mean within 45 days after of the end of each quarter of each Fiscal Year.

“**Repository**” means (i) MSRB or any other entity designated or authorized by the SEC to receive reports pursuant to Rule 15c2-12 and (ii) any State Depository. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“**SEC**” means the United States Securities and Exchange Commission.

“**State Depository**” means any public or private depository or entity designated by the Government of the Virgin Islands as a state information depository.

“**Trustee**” means the institution defined as such in the document under which the respective issue of Bonds was issued.

“**Underwriters**” means the underwriters of the respective issue of Bonds listed in **Exhibit A**.

“**Voluntary Report**” means the information provided to the Disclosure Dissemination Agent by the Authority pursuant to Section 9.

SECTION 2. Provision of Annual Reports.

(a) The Authority shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than

the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the Repository not later than 270 days after the end of each fiscal year of the Authority, commencing with the fiscal year ending September 30, 2012. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 6 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Authority of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Authority will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such fiscal year will be provided and instruct the Disclosure Dissemination Agent to immediately send a notice to the Repository in substantially the form attached as **Exhibit B**.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 12:00 noon on the first business day following the Annual Filing Date for the Annual Report, the Authority shall irrevocably direct the Disclosure Dissemination Agent to immediately send a notice to the Repository in substantially the form attached as **Exhibit B**.

(d) If Audited Financial Statements of the Authority are prepared but not available prior to the Annual Filing Date, the Authority shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certificate, together with a copy for the Trustee, for filing with the Repository.

(e) The Disclosure Dissemination Agent shall:

- (i) determine the name and address of the Repository each year prior to the Annual Filing Date;
- (ii) upon receipt, promptly file each Annual Report received under Section 2(a) with the Repository;
- (iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the Repository;
- (iv) upon receipt, promptly file the text of each disclosure to be made with the MSRB and a completed copy of the MSRB Material Event Notice Cover Sheet in the form attached as **Exhibit C**, describing the event by checking the appropriate box on the form attached as **Exhibit C** when filing pursuant to:

1. Section 7(c) and the relevant subsection of Section 7(a) of this Disclosure Agreement; or
2. Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement, together with a completed copy of **Exhibit B** to this Disclosure Agreement.

- (v) provide the Authority evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Authority may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the Repository, provided that the period between the existing Annual Filing Date and the new Annual Filing Date shall not exceed one year.

SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Authority, including (i) an update to the tabular information provided in the Offering Document under the headings “GROSS RECEIPTS TAXES” and “INFORMATION REGARDING THE UNITED STATES VIRGIN ISLANDS”, if applicable, and in the Appendix to the Offering Document that contains economic and demographic information regarding the United States Virgin Islands, and (ii) updated information with respect to the percentage of Gross Receipts Tax collections from the top 5 and the top 10 taxpayers.

(b) Audited Financial Statements of the Authority prepared in accordance with generally accepted accounting principles (“GAAP”) as described in the Offering Document will be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, prepared in accordance with GAAP will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

(c) Audited Financial Statements of the Government prepared in accordance with GAAP as described in the Offering Document will be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, prepared in accordance with GAAP will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

(d) The information regarding amendments to this Disclosure Agreement pursuant to Section 15 of this Disclosure Agreement will be included in the Annual Report.

SECTION 4. Provision of Quarterly Reports.

(a) The Authority shall provide, quarterly, an electronic copy of the Quarterly Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than the Quarterly Filing Date. Promptly upon receipt of an electronic copy of the Quarterly Report and the Certification, the Disclosure Dissemination Agent shall provide a Quarterly Report to the Repository not later than 45 days after the end of each quarter of each fiscal year of the Authority, commencing with the quarter ending June 30 of fiscal year ending September 30, 2012. Such date and each 45 days after each quarter thereof is the Quarterly Filing Date. The Quarterly Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 6 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Quarterly Filing Date, the Disclosure Dissemination Agent has not received a copy of the Quarterly Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Authority of its undertaking to provide the Quarterly Report pursuant to Section 4(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Quarterly Report and the Certification) no later than two (2) business days prior to the Quarterly Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Authority will not be able to file the Quarterly Report within the time required under this Disclosure Agreement, state the date by which the Quarterly Report for such quarter will be

provided and instruct the Disclosure Dissemination Agent to immediately send a notice to the Repository in substantially the form attached as **Exhibit B**.

(c) If the Disclosure Dissemination Agent has not received a Quarterly Report and Certification by 12:00 noon on the first business day following the Quarterly Filing Date for the Quarterly Report, the Authority shall irrevocably direct the Disclosure Dissemination Agent to immediately send a notice to the Repository in substantially the form attached as **Exhibit B**.

(d) The Disclosure Dissemination Agent shall:

(i) determine the name and address of the Repository prior to the Quarterly Filing Date;

(ii) upon receipt, promptly file each Quarterly Report received under Section 4(a) with the Repository; and

(iii) upon receipt, promptly file with the MSRB the text of each disclosure and a completed copy of the MSRB Material Event Notice Cover Sheet in the form attached as **Exhibit C**, describing the event by checking the appropriate box on the form attached as **Exhibit C** when filing pursuant to:

1. Section 7(c) and the relevant subsection of Section 7(a) of this Disclosure Agreement; or
2. Section 4(b)(ii) or Section 4(c) of this Disclosure Agreement, together with a completed copy of **Exhibit B** to this Disclosure Agreement; and

(iv) provide the Authority evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

SECTION 5. Content of Quarterly Reports.

(a) The Authority and the Government shall provide (i) quarterly summaries of the information provided by the Virgin Islands Bureau of Internal Revenue on Gross Receipts Taxes collected as reported by the Bureau of Internal Revenue and (ii) quarterly review of Gross Receipts Taxes transferred to the Collecting Agent for deposit into the Special Escrow Account by the certified public accounting firm in accordance with the terms of the Loan Agreement entered into by and among the Authority, the Government and the Trustee in connection with the issuance of the Bonds.

SECTION 6. Incorporation by Reference; Modified Data.

(a) Any or all of the items listed in Section 3 and Section 5 hereof may be included by specific reference from other documents, including offering documents of debt issues with respect to which the Authority is an "obligated person" (as defined by Rule 15c2-12), which have been previously filed with the Repository or the SEC. If the document incorporated by reference is a final offering document, it must be available from the MSRB. The Authority will clearly identify each such document so incorporated by reference.

(b) The requirements contained under Section 3 and Section 5 hereof are intended to set forth a general description of the type of financial information and operating data to be provided; such descriptions are not intended to state more than general categories of financial information and operating data; and where the provisions of Section 3 or Section 5 call for information that no longer can be generated or is no longer relevant because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided.

(c) Any annual or quarterly financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

SECTION 7. Event Disclosure.

(a) The Authority will provide or cause to be provided to the MSRB a notice of the occurrence of any Event not later than ten (10) business days after the occurrence of an Event. Each notice of an Event shall be so captioned and shall prominently state the title, date and CUSIP number of the Bonds. "Event" means any one of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements relating to the Bonds reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or issuance by the IRS of proposed or final determination of taxability or of a Notice or Proposed Issue (IRS Form 5701 TEB);
6. Tender Offers;
7. Defeasances;
8. Rating Changes;
9. Bankruptcy, insolvency, receivership or similar event of the obligated person;
10. Unless described in 7(a)(5), other material notices or determinations by the IRS with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
11. Modifications to rights of Bond Holders, if material;
12. Optional, unscheduled or contingent Bond calls, if material;
13. Release, substitution, or sale of property securing repayment of the Bonds, if material;
14. Non-payment related defaults, if material;
15. If material, consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligation person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relation to any such actions, other than pursuant to its terms; and
16. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Note: for the purposes of the Event identified in subparagraph 7(a)(9) above, the Event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order

confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

Whenever the Authority obtains knowledge of the occurrence of an Event described in Sections 7(a)(10)-(16), the Authority shall determine if such event would be material under applicable federal securities laws. Notwithstanding the foregoing, notice of the Event described in subparagraphs 7(a)(7) or 7(a)(12) need not be given any earlier than the notice (if any) of the underlying event is given to the Bondholders of affected Bonds pursuant to the applicable indenture of trust.

The Authority shall promptly notify the Disclosure Dissemination Agent in writing upon the occurrence of an Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c). Such notice shall be accompanied with the text of the disclosure that the Authority desires to make, the written authorization of the Authority for the Disclosure Dissemination Agent to disseminate such information, and the date the Authority desires for the Disclosure Dissemination Agent to disseminate the information, provided that such disclosure must occur within 10 days of the occurrence of the Event.

(b) The Disclosure Dissemination Agent is under no obligation to notify the Authority or the Disclosure Representative of an event that may constitute an Event. If the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative shall within five (5) business days of receipt of such notice, instruct the Disclosure Dissemination Agent that (i) an Event has not occurred and no filing is to be made or (ii) an Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c), together with the text of the disclosure that the Authority desires to make, the written authorization of the Authority for the Disclosure Dissemination Agent to disseminate such information, and the date the Authority desires for the Disclosure Dissemination Agent to disseminate the information.

(c) If the Disclosure Dissemination Agent has been instructed by the Authority as prescribed in subsection (a) or (b)(ii) of this Section to report the occurrence of an Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the Repository.

SECTION 8. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, notices of Events, Quarterly Reports, Additional Disclosure and Voluntary Reports, the Authority shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 9. Voluntary Reports.

(a) The Authority may instruct the Disclosure Dissemination Agent to file information with the Repository, from time to time pursuant to a Certification of the Disclosure Representative accompanying such information.

(b) Upon receipt, the Disclosure Dissemination Agent shall promptly file the text of each Voluntary Report to be made with the MSRB and a completed copy of the MSRB Material Event Notice Cover Sheet in the form attached as Exhibit C, describing the event by checking the appropriate box on the form attached as Exhibit C together with the summary description provided by the Disclosure Representative.

(c) Nothing in this Disclosure Agreement shall be deemed to prevent the Authority from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual

Report, Annual Financial Statement, Quarterly Report, Additional Disclosure, Voluntary Report or notice of an Event, in addition to that required by this Disclosure Agreement. If the Authority chooses to include any information in any Annual Report, Annual Financial Statement, Quarterly Report, Voluntary Report or notice of an Event in addition to that which is specifically required by this Disclosure Agreement, the Authority shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Annual Financial Statement, Quarterly Report, Voluntary Report or notice of an Event.

SECTION 10. Other State and Federal Law Obligations. The Authority acknowledges and understands that other state and federal 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 Authority, and that the failure of the Disclosure Dissemination Agent to advise the Authority that state and federal laws, including securities laws and disclosure obligations thereunder, may apply to the Authority shall not constitute a breach by the Disclosure Dissemination Agent of any of its duties and responsibilities under this Disclosure Agreement. The Authority acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 11. Termination of Reporting Obligation. The obligations of the Authority and the Disclosure Dissemination Agent under this Disclosure Agreement and the obligations of the Government pursuant to Sections 3(c) and 5(a) hereof shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Authority is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required.

SECTION 12. Disclosure Dissemination Agent. The Authority has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Authority may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Authority or DAC, the Authority agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders and the Underwriters or the Placement Agents of the Bonds, as applicable. Notwithstanding any replacement or appointment of a successor, the Authority shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Authority.

SECTION 13. Remedies in Event of Default. In the event of a failure of the Authority or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement; provided that any Holder, Underwriter or Placement Agent seeking to require compliance with this Disclosure Agreement shall first provide to the Disclosure Representative at least 30 days' prior written notice of the Authority's failure, giving reasonable details of such failure, following which notice the Authority shall have 30 days to comply. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default with respect to the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default with respect to the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 14. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Authority has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Authority's failure to report to the Disclosure Dissemination Agent an Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Authority has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Authority at all times.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Authority. The obligations of the Authority under this Section 14(b) shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

SECTION 15. Amendment; Waiver.

(a) The Authority at any time and from time to time may waive any provision of this Disclosure Agreement or enter into any amendments to this Disclosure Agreement for any of the following purposes:

(i) to comply with or conform to Rule 15c2-12 or any amendments thereto or authoritative interpretations thereof by the SEC or its staff (whether required or optional) which are applicable to the Disclosure Agreement;

(ii) to replace or appoint a successor to the Disclosure Dissemination Agent; or

(iii) for any other purpose as a result of a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Authority, or type of business conducted; provided that (a) the Disclosure Agreement, as amended, would have complied with the requirements of Rule 15c2-12 at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of Rule 15c2-12, as well as any change in circumstances, (b) the amendment or change does not materially impair the interests of Holders, as determined by counsel expert in federal securities laws and (c) the Authority receives a written opinion of counsel expert in federal securities laws that such amendment is authorized or permitted by this Disclosure Agreement;

provided neither the Authority or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto; and further provided that, if an amendment of this Disclosure Agreement affects the respective obligations of the Government hereunder, the Authority and the Disclosure Dissemination Agent may not amend this Disclosure Agreement without obtaining prior written consent of the Government to such an amendment.

(b) Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of Rule 15c2-12 as announced by the SEC from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Authority. No such amendment shall become effective if the Authority shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 16. Beneficiaries; Applicability to Prior Bonds.

(a) This Disclosure Agreement shall inure solely to the benefit of the Authority, the Trustee, the Disclosure Dissemination Agent, the Underwriters, the Placement Agents and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

(b) This Disclosure Agreement is applicable to the Bonds set forth in Exhibit A, as such Exhibit A may be supplemented or amended from time to time.

SECTION 17. Governing Law. This Disclosure Agreement shall be governed by the laws of the United States Virgin Islands (other than with respect to conflicts of laws).

SECTION 18. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

The Disclosure Dissemination Agent and the Authority have caused this Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as
Disclosure Dissemination Agent

By: _____
Paula Stuart
CEO

VIRGIN ISLANDS
PUBLIC FINANCE AUTHORITY

By: _____
Angel E. Dawson, Jr.
Executive Director

ACKNOWLEDGEMENT AND AGREEMENT:

The Government of the United States Virgin Islands hereby acknowledges the Authority's undertaking to provide information in accordance with Rule 15c2-12 as described herein and agrees to make available (i) within 270 days of the end of the Government's fiscal year, information set forth in Section 3(c) hereof, and (ii) within 45 days of the end of each quarter of the Government's fiscal year, information set forth in Section 5(a) hereof.

By: _____
Angel E. Dawson, Jr.
Commissioner of Finance

EXHIBIT A

NAME AND CUSIP NUMBERS OF BONDS

| | |
|---|--|
| Name of Issuer: | Virgin Islands Public Finance Authority |
| Obligated Person(s): | Virgin Islands Public Finance Authority |
| Principal Amount & Name of Bond Issue: | \$299,880,000 Revenue Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 1999A |
| Date of Official Statement: | November 10, 1999 |
| Date of Issuance: | November 16, 1999 |
| Underwriter(s): | PaineWebber Incorporated, et al. |
| CUSIP Number(s): | 927676JH0 927676JJ6 |

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer: Virgin Islands Public Finance Authority
Obligated Person(s): Virgin Islands Public Finance Authority
Principal Amount & Name of Bond Issue: \$268,020,000 Revenue Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2003A
Date of Official Statement: December 5, 2003
Date of Issuance: December 17, 2003
Underwriter: UBS Financial Services Inc.
CUSIP Number(s): 927676KE5
927676KF2
927676KG0
927676KH8
927676KJ4
927676KK1
927676KL9
927676KM7
927676KN5
927676KP0
927676KQ8
927676KR6
927676KS4
927676KT2
927676KU9
927676KV7
927676KW5
927676LF1

NAME AND CUSIP NUMBERS OF BONDS

| | |
|---|--|
| Name of Issuer: | Virgin Islands Public Finance Authority |
| Obligated Person(s): | Virgin Islands Public Finance Authority |
| Principal Amount & Name of Bond Issue: | \$219,490,000 Revenue Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2006 |
| Date of Official Statement: | September 19, 2006 |
| Date of Issuance: | September 28, 2006 |
| Underwriter: | UBS Investment Bank |
| CUSIP Number(s): | 927676MF0 927676MG8 927676MH6 927676MJ2 927676MK9 927676ML7 927676MM5 927676MN3 927676MP8 927676MQ6 927676MR4 927676MS2 927676MT0 927676MU7 927676MV5 927676MW3 927676MX1 927676MY9 927676MZ6 927676NA0 927676NF9 927676NG7 |

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer: Virgin Islands Public Finance Authority
Obligated Person(s): Virgin Islands Public Finance Authority
Principal Amount & Name of Bond Issue: \$197,065,000 Revenue Refunding Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2012A (Working Capital Refinancing/Tax Exempt)
\$31,740,000 Revenue Refunding Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2012B (Broadband Project Refinancing/Federally Taxable)

Date of Private Placement Memorandum: November 9, 2012
Date of Issuance: November 20, 2012
Co-Placement Agents: Jefferies & Company, Inc.; Bostonia Global Securities LLC
CUSIP Number(s): 927676RM0
927676RN8
927676RP3
927676RQ1

EXHIBIT B

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL/QUARTERLY REPORT

Name of Issuer Virgin Islands Public Finance Authority

Name of Bond Issue: _____

Date of Issuance: _____

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual/Quarterly Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of November 1, 2012, between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual/Quarterly Report will be filed by _____.

Dated: _____

Digital Assurance Certification, L.L.C., as Disclosure
Dissemination Agent, on behalf of the Issuer

cc: Issuer
 Obligated Person(s)

EXHIBIT C

EVENT NOTICE COVER SHEET

This cover sheet and event notice will be sent to the Municipal Securities Rulemaking Board pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D) and the State Depository, if any, pursuant to the laws of the United States Virgin Islands.

Issuer's and/or Other Obligated Person's Name:

Issuer's Six-Digit CUSIP Number:

or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates (the "Bonds"):

Number of pages of attached event notice: _____

Description of Event Notice (Check One):

- 1. Principal and interest payment delinquencies
- 2. Unscheduled draws on debt service reserves reflecting financial difficulties
- 3. Unscheduled draws on credit enhancements reflecting financial difficulties
- 4. Substitution of credit or liquidity providers, or their failure to perform
- 5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB)
- 6. Tender Offers
- 7. Defeasances
- 8. Rating changes
- 9. Bankruptcy, insolvency, receivership or similar event of the obligated person
- 10. Other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds
- 11. Modifications to rights of Bond holders, if material
- 12. Optional, unscheduled or contingent Bond calls, if material
- 13. Release, substitution, or sale of property securing repayment of the Bonds, if material
- 14. Non-payment related defaults, if material
- 15. If material, consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such action, other than pursuant to its terms
- 16. Appointment of a successor or additional trustee or the change of name of a trustee, if material
- 17. Other event notice (specify) _____

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Employer: Digital Assurance Certification, L.L.C.

Address: _____

City, State, Zip Code: _____

Telephone Number: _____

APPENDIX G

FORM OF OPINION OF BOND COUNSEL

November 20, 2012

Virgin Islands Public Finance Authority
St. Thomas, Virgin Islands

The Bank of New York Mellon Trust Company, N.A.
Jacksonville, Florida

Ladies and Gentlemen:

We have examined a Record of Proceedings relating to the issuance of \$197,065,000 Revenue Refunding Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2012A (Working Capital Refinancing/Tax-Exempt) (the “Series 2012A Bonds”) and \$31,740,000 Revenue Refunding Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2012B (Broadband Project Refinancing/Federally Taxable) (the “Series 2012B Bonds”, and, together with the Series 2012A Bonds, the “Series 2012 Bonds”) of the United States Virgin Islands Public Finance Authority (herein called the “Authority”), a body corporate and politic, constituting a public corporation and autonomous governmental instrumentality of the Government of the United States Virgin Islands (the “Government”), organized and existing under and pursuant to the Revised Organic Act of 1954, as amended (48 U.S.C. Section 1574 et seq.) (the “Revised Organic Act”), and the Virgin Islands Public Finance Authority Act (Title 29, Chapter 15, of the Virgin Islands Code), as amended, 1999 V.I. Act 6297, 2009 V.I. Act 7064, as amended by 2009 V.I. Act 7096, 2010 V.I. Act 7174, 2010 V.I. Act 7198, 2011 V.I. Act 7257, 2011 V.I. Act 7248, as amended by 2012 V.I. Act 7346, (collectively, the “Act”), and Resolution No. 12-013, dated October 30, 2012 (the “Bond Resolution”), authorizing the issuance of the Series 2012A Bonds and Series 2012B Bonds.

The Series 2012 Bonds are issued under and pursuant to the Revised Organic Act, the Act, the Bond Resolution, an Indenture of Trust, dated as of November 1, 1999 (the “Indenture of Trust”), as previously supplemented and amended, including as supplemented by the Thirteenth Supplemental Indenture of Trust, dated as of November 1, 2012 (the “Thirteenth Supplemental Indenture” and, together with the Indenture of Trust, the “Indenture”), each by and between the Authority and The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida, as successor trustee (the “Trustee”). All terms not otherwise defined herein shall have the meanings set forth in the Indenture.

The Series 2012 Bonds shall be secured by the Indenture, which pledges and assigns to the Trustee a lien on and a security interest in the Trust Estate, subject to the provisions of the Indenture.

The proceeds of the Series 2012 Bonds are being loaned by the Authority to the Government pursuant to a Loan Agreement, dated as of November 1, 2012, by and among the Authority, the Government and the Trustee (the “Series 2012 Loan Agreement”), against delivery by the Government of its \$197,065,000 principal amount Series 2012A Gross Receipts Taxes Loan Note (the “Series 2012A Loan Note”) and its \$31,740,000 principal amount Series 2012B Gross Receipts Taxes

Loan Note (the “Series 2012B Loan Note”, and together with the Series 2012A Loan Note, the “Series 2012 Loan Notes”).

The Series 2012 Bonds shall be dated, shall mature, shall be subject to redemption prior to maturity and shall have such other terms as set forth in the Indenture.

The proceeds of the Series 2012A Bonds will be used to (i) refund all or a portion of the Authority’s outstanding Revenue Bonds, Series 1999A (Virgin Islands Gross Receipts Taxes Loan Note), (ii) refund all or a portion of the Authority’s outstanding Subordinate Lien Revenue Bond Anticipation Notes, Series 2010A (Virgin Islands Gross Receipts Taxes Loan Notes), (iii) fund the Debt Service Reserve Account in an amount necessary to meet the Debt Service Reserve Requirement related to the Series 2012A Bonds, and (iv) pay certain costs of issuing the Series 2012A Bonds.

The proceeds of the Series 2012B Bonds will be used to (i) refinance all or a portion of the Authority’s outstanding Subordinate Lien Revenue Bond Anticipation Note (Virgin Islands Gross Receipts Taxes Term Loan Note - Broadband Project) (the “Series 2011A Note”), (ii) fund the Debt Service Reserve Account in an amount necessary to meet the Debt Service Reserve Requirement related to the Series 2012B Bonds, and (iii) pay the costs and expenses of issuing the Series 2012B Bonds.

Pursuant to the Indenture, the Authority is authorized to issue Additional Bonds from time to time upon the terms and conditions set forth therein.

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2012A Bonds in order that interest on the Series 2012A Bonds will be and remain excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of gross proceeds of the Series 2012A Bonds, yield and other restrictions on investments of gross proceeds, and the Arbitrage Rebate Requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2012A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2012A Bonds from gross income under Section 103 of the Code. In rendering the opinion in paragraph four hereof, we have assumed that the Authority and the Government will comply with the provisions and procedures set forth in the Arbitrage and Use of Proceeds Certificate.

We are of the opinion that:

1. The Authority is duly created and validly existing under the provisions of the Act and the Revised Organic Act.

2. The Indenture has been duly authorized, executed and delivered by the Authority and, assuming the due authorization, execution and delivery thereof by the Trustee, is valid and binding upon the Authority and enforceable in accordance with its terms. The Indenture creates the valid pledge which it purports to create of the Trust Estate, moneys, securities and funds held or set aside under the Indenture, subject only to the application thereof to the purposes and on the conditions permitted by the Indenture.

3. The Series 2012 Bonds are valid and binding special limited obligations of the Authority, enforceable in accordance with their terms and the terms of the Indenture and entitled to the benefits of the Indenture, the Revised Organic Act, and the Act, and the Series 2012 Bonds have been duly and validly authorized and issued in accordance with law (including the Act and the Revised Organic Act) and the Indenture.

4. Under existing statutes and court decisions, interest on the Series 2012A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code and interest on the Series 2012A Bonds is not treated as a preference item in calculating the alternative minimum taxable income imposed on individuals and corporations under the Code, such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax. Under existing statutes, interest on the Series 2012 Bonds is exempt from any income tax imposed on individuals by the Government or any political subdivision thereof or by any state, territory or possession or by any political subdivisions thereof or by the District of Columbia pursuant to the Revised Organic Act and the Virgin Islands Code.

5. Interest on the Series 2012B Bonds is included in gross income for Federal income tax purposes.

This opinion is issued as of the date hereof, and we assume no obligation to (i) update, revise or supplement this opinion to reflect any actions hereafter taken or not taken, or any facts or circumstances, or any changes in law or interpretations thereof, that may hereafter occur, or for any other reason whatsoever, (ii) notify you or any other person if the conditions stated in paragraph four above have not been met, or (iii) review any legal matters incident to the authorization, issuance, validity and tax exemption of the Series 2012A Bonds, or the purposes to which the proceeds thereof are to be applied, after the date hereof.

Except as stated in paragraph 4 and 5, we express no opinion regarding any other federal, state, local or foreign tax consequences with respect to the Series 2012 Bonds. We express no opinion regarding the federal, state, local or foreign tax consequences of any action hereafter taken or not taken in reliance upon an opinion of other counsel with respect to the Series 2012 Bonds.

We express no opinion as to the accuracy or sufficiency of any financial or other information which has been or will be supplied to purchasers of the Series 2012 Bonds.

This opinion letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material of any kind not specifically opined on above. It is understood that the rights of the holders of the Series 2012 Bonds under the Indenture and the enforceability thereof under the same may be subject to the

exercise of judicial discretion, the sovereign police powers of the Government and the constitutional powers of the United States of America, and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights or remedies and are subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined one of each of the Series 2012A Bonds and the Series 2012B Bonds as executed, and, in our opinion, the form of said Series 2012A Bonds and Series 2012B Bonds and their execution are regular and proper.

Very truly yours,

