

GUAM PUBLIC UTILITIES COMMISSION
SPECIAL MEETING
NOVEMBER 18, 2013
SUITE 202, GCIC BUILDING, HAGATNA



MINUTES

The Guam Public Utilities Commission [PUC] conducted a special meeting commencing at 7:00 p.m. on November 18, 2013, pursuant to due and lawful notice. Commissioners Johnson, Montinola, Pangelinan, McDonald, Perez, Cantoria and Niven were in attendance. The following matters were considered at the meeting under the agenda made *Attachment "A"* hereto.

1. Guam Waterworks Authority

The Chairman announced that the one item on the agenda for this evening was GWA Docket 14-01, Application of GWA to Approve the Issuance of \$195M in Water and Wastewater Revenue Bonds, Consultant Report, Proposed Order, and Order approving Long-Term Debt. Counsel indicated that GWA, in its Petition, has requested authorization to issue bonds in the amount of \$195M. The Commissioners have been provided with a number of materials that deal with the bond issuance: ALJ Report, Consultant Report, GWA Petition, Indentures from 2005 and 2013, and the Preliminary Offering Statement. The bond issuance is part of a sequence of bond issuances that began in 2005. In 2005, GWA issued bonds for \$110M; in 2010 for \$118.825M; and in 2013, GWA is proposing \$173M in bonds.

While GWA has requested authorization of up to \$195M, the reason for the variance is that GWA is not quite sure what the interest rate will come in at. It is likely that GWA will issue bonds for \$173M, not \$195M. GWA also intends to issue bonds again in 2015 for \$128M and in 2017 for \$72M. These bond issuances stem back to the District Court proceeding that has been ongoing since 2003, wherein the District Court approved a request of the US EPA and the Federal Government which required that GWA make certain improvements to the water and wastewater systems. It is under a Court Order that GWA began this process of issuing bonds so that it could secure the necessary funds to make improvements to the water and wastewater systems.

In Schedule A attached to the GWA Petition, GWA sets forth the nature of the projects it intends to undertake through bond financing. It is clear that both the funding and the financing requested in this case are due to the mandates of the District Court Order. Of the \$173M, roughly \$95M will go to water production, treatment, distribution and storage. \$33M will go to wastewater collection and treatment. There is approximately \$5.3M for electrical, including monitoring and control. There are also improvements to the pump system and other matters. Finally, there is general plant and miscellaneous in the amount of \$5.5M. That comes to over \$139M. The balance of the bond issuance goes to such matters as the bond reserve fund and capitalized interest. \$139M is the



amount of actual funds that will go into projects that GWA is undertaking / constructing.

All proper approvals other than the PUC approval have already been given to GWA's bond financing. Initially the CCU considered GWA's request and approved it. The Guam Economic Development Authority, which serves as the financial manager for the bond financing, has also given its approval. The Governor and the Legislature have approved this financing in Public Law 32-69, which was enacted on November 8, 2013. Such Legislation approved an overall bond financing of \$670M; that's the total figure which also includes the 2005 and 2010 bond financings. Looking forward, including this bond authorization, the Legislature is authorized approximately \$450M more to complete the bond projects. The Legislation also sets forth certain parameters; net yield to bond holders on the bonds could not exceed 7.5% per annum. The maturity on the bonds is to be no later than 2055.

The Legislature also approved refinancing bonds. GWA is considering that, in the future, it might request approval to refinance the 2005 and 2010 bonds. The Legislature has authorized it to do so. In this instance, however, with regard to the \$195M authorization, GWA does not intend to use any portion of such bonds for refunding or refinancing. As a result of Commissioner Niven's suggestion, references in the proposed Orders to authorization for refunding and/or refinancing have been deleted. GWA will need to come back to both the CCU and the PUC if it wishes to refinance or refund the bonds.

One final noteworthy aspect of the Legislation is that prior obligation in the law for GWA to pay \$20M of bond financing back to the Government of Guam is eliminated. The Legislature decided that this \$20M obligation would merely increase the rates that GWA ratepayers would have to pay. This change in the law will also moot the litigation pending between the PUC and GWA. The Legislature found that the additional bond financing of \$450M was necessary. The particular projects that it pointed to were wastewater treatment plants in the South, Agat, Umatac, and Baza Gardens, to bring GWA into compliance with the secondary treatment permits. In addition, GWA is going to repair or rebuild all of its water storage tanks island wide. It will repair badly leaking water lines, improve pressure with booster pumps, upgrades and improve its wells. New wells will also be built. There are also some monies for system analysis, monitoring and technology upgrades.

This Legislation provides for two years of capitalized interest. In this Bond Issuance, out of the \$173M, approximately \$20M goes to the first two years of interest. Alternatively, GWA could have issued the bonds now and then immediately begin making principal and interest payments. However, the first two years of interest has been added into the amount that GWA has borrowed in the bond financing. There are points both for and against this approach. A bad point is that ratepayers end up paying interest on interest. However, this issue appears to be moot, as the Legislature has already approved the capitalized interest for two years. In GWA's last bond issuance there were three years of capitalized interest. So, some progress has been made.

Two different Consultant Reports have been provided to the Commissioners which make recommendations on GWA's bond issuance. The ALJ recommends approval after careful review of all of the documents involved in the matter and Schedule A to the Petition. He believes that GWA has demonstrated that issuance of the bonds is necessary to fund capital projects required to meet the order for preliminary relief. By approving the bond financing, the PUC is not approving the individual projects being funded. These projects all fall under the contract review process; for those projects that have not yet been approved, GWA will need to come back to the Commission to have individual approval for each project. For the bond financed projects, a contract review is required, not just for projects in excess of \$1M, but for all "bond-funded" projects. The ALJ further recommended that the PUC approve the issuance, and terms and conditions of the 2013 Revenue Bonds, the 2005 Indenture, and the 2013 Supplemental Indenture. The Commission actually approved the 2005 Indenture both in 2005 and in 2010. The 2013 Supplemental Indenture is pretty much the same as the 2010 Supplemental Indenture. This just makes the Indenture specific to the bonds that are being issued in 2013.

Lummus Consultants also reviewed the bond issuance. Their perspective that the PUC already approved, at the last meeting, a sequence of rate increases starting in 2014 at roughly 14.5% the first year, going up a little in the second year, and then continuing for the five year period. By approving the five year rate plan, the Commission essentially approved the debt service (principal and interest) on the bonds. Calculations concerning the principal and interest on the bonds were the very reason for the rate increases. Lummus' perspective is, that by approving the five year financial and rate plan, the PUC basically accepted the need for this bond issuance. The PUC has already accepted the financial implication associated with the FY2013 Bonds. Lummus' final conclusion was that, assuming no negative updated information was received from GWA prior to the issuance of the bonds that would have a significant negative impact on GWA or its ratepayers, Lummus recommends PUC approval for the issuance of the bonds.

Counsel is not aware of any updated information negative or adverse in nature. Here the Commission has not received updated information on the interest rate. The best information the PUC presently has is the interest rate anticipated in the rate case, i.e. around 6.5%. According to GWA officials, including the Chairman of the CCU, it has not received any updates from the underwriters (Citibank and Barclays).

With the bond ratings, the rating recently received from Standard & Poor is that GWA received an investment grade rating of A-. This is its first investment grade rating. A reason for the upgraded rating in the S&P report was that the PUC approved appropriate rates for the next five years. That was a major factor in the approved rating. Unfortunately, the other two ratings from Fitch and Moodys are still not investment grade. If they were, GWA would get a better interest rate on its bonds. For now GWA is making progress and this is probably as good as we can expect under the

situation. Normally Counsel provides the Commissioners with cost of issuance before the bonds are issued. Counsel does not have specific information at present other than that the requirement in the law is that the costs of issuance not exceed 2% of the bond principal. The costs of issuance include attorney fees, GEDA fees, underwriters' fees, and others. There is also up to 1% origination fee for discount; it is called the underwriters' discount. No negative information has been received which would prevent the Commissioners from approving the bond issuance.

There are certain findings that the Commission needs to make in the two proposed Orders. There is a requirement that PUC find that the GWA petition for bond financing is in the best interest of ratepayers. Secondly, the Commission approves a second Order for the long-term debt. The Long-Term Debt Order approves the issuance of the bonds in the amount of \$195M (although the actual issuance will probably be closer to \$173M). The Order covers a lot of the history of the long-term debt, including prior PUC actions in 2005 and 2010. References to refinancing/refunding were taken out of the Orders. GWA will be required to report to the PUC, within 45 days after each Order, as to its usage of the bond proceeds. Earlier reports state the status of the bond proceeds and how much has been expended. Reporting requirements will continue.

Commissioner Niven requested that Counsel walk the Commissioners through the updated debt service schedule. The Lummus Report had noted that the last three years are very heavily weighted on the 2013 bond principal amount. Counsel indicated that he would defer to GWA Attorney Sam Taylor. Counsel stated that there were already projections about principal and interest that were stipulated between GWA and the PUC Consultant in the rate case. Mr. Taylor stated that this has something to do with the final payments on the bonds. There is P&I due on the final payments. Taylor is not exactly sure why these amounts are due on the backside. It is his understanding that the 2013 bonds have leveled debt service. This service remains constant throughout the bond issuance and the debt service. However, this has something to do with the Indenture, and Mr. Taylor was not really involved with putting this request together. Commissioner Niven felt that if the prior bonds were added to the 2013 bonds, the payments were a leveling of the total of both bonds in each year. When the prior bonds are retired, that's when the 2013 bonds kick in. That may be what's going on. Mr. Taylor concurred with Commissioner Niven's explanation.

The Chairman asked Counsel whether Lummus indicated that the interest rates might be higher than previously thought. Counsel stated that Lummus did recognize that fact, and referenced the possibility of adjustment in the future if necessary. GWA Counsel Taylor confirmed that. He indicated that GWA was asking for \$195M because the interest rates do change. GWA anticipates that it will not be borrowing the full \$195M but the necessary \$139M net proceeds. GWA seeks additional flexibility because rates could change or conditions on the bond market could also be altered. The Chairman asked whether the ceiling given by the Legislature was 7.5%. GWA Counsel Taylor confirmed that such was correct. The Chairman asked whether at the interest rate was 6.5%, would the borrowed amount be more like \$173M. Again, GWA Counsel

Taylor confirmed that such was the case. Mr. Taylor also indicated that the amount could even be less if the interest rate was lower. Upon presentations to investors and institutional investors, in conjunction with ratings, financial reports and the official statement, these all taken together could result in a lower interest rate to GWA ratepayers.

The Chairman then asked if there was a motion. Counsel suggested a few items that should be in the motion: a specific finding that the bond financing is in the interest of the ratepayers; that the Commissioners approve the Indenture and the Supplemental Indenture; and that there be approval of the specific authorization for \$195M including the other terms and conditions of the Orders. The Chairman asked whether there should be one motion or separate motions. Counsel indicated that one motion would suffice. Upon motion duly made, seconded and unanimously carried, the Commissioners approved the \$195M bond issuance, finding that it was in the best interest of the ratepayers. The Commissioners further approved the 2005 Bond Indenture and the 2013 Supplemental Indenture. The Commissioners also approved the Order and the Order Approving Long-Term Debt, which Orders are made *Attachments "A" and "B"* hereto. GWA Counsel Taylor stated for the record that he believes that the approval of the bond projects is not under the contract review protocol.

There being no further business, the Commissioners moved to adjourn the meeting.

Jeffrey C. Johnson
Chairman

**THE GUAM PUBLIC UTILITIES COMMISSION
NOTICE OF PUBLIC MEETING**

NOTICE IS HEREBY GIVEN that the Guam Public Utilities Commission [PUC] will conduct a regular business meeting, commencing at 7:00 p.m. on November 18, 2013, at Suite 202 GCIC Building, 414 W. Soledad Ave., Hagatna.

The following business will be transacted:

Agenda

1. Guam Waterworks Authority
 - GWA Docket 14-01, Application of the Guam Waterworks Authority to Approve the Issuance of \$195M in Water and Wastewater Revenue Bonds, Consultant Report, ALJ Report, proposed Order and Order Approving Long-Term Debt.
2. Other Business

Further information about the meeting may be obtained from the PUC's Administrator Lou Palomo at 472-1907. Those persons who require special accommodations, auxiliary aids, or services to attend the meeting should also contact Ms. Palomo.

This Notice is paid for by the Guam Public Utilities Commission



BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

REQUEST BY THE GUAM)
WATERWORKS AUTHORITY FOR)
APPROVAL OF THE ISSUANCE OF)
\$195M IN WATER AND WASTEWATER)
REVENUE BONDS AND TO APPROVE)
THE ASSOCIATED DOCUMENTS)
_____)

GWA DOCKET 14-01

ORDER

On October 24, 2013, Guam Waterworks Authority ("GWA") petitioned the Commission for authority to issue up to \$195,000,000 in bonds for the purpose of financing new capital projects, plus such amount as may be appropriate for the purpose of redeeming or retiring all or a portion of GWA's outstanding Series 2005 and Series 2010 revenue bonds.

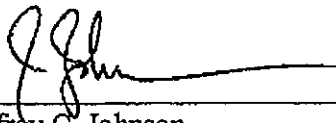
The Commission has examined the petition and the findings and recommendations of its regulatory consultant and Administrative Law Judge. After discussion at a duly convened Commission meeting on November 18, 2013 and upon specific finding that the GWA petition is in the best interests of GWA's ratepayers, for good cause shown, on motion duly made, seconded and carried by the undersigned Commissioners, the Guam Public Utilities Commission hereby **ORDERS** that:

1. The order approving long term debt, in form attached ("Debt Order"), shall be and is hereby adopted by the Commission.
2. GWA is reminded that it must obtain prior approval of the Projects, as scheduled on Exhibit A to the Debt Order, before either procurement can begin on the projects or before bond proceeds can be expended or committed on them. Any reprogramming of projects and the associated bond funds shall be subject to prior Commission approval.
3. GWA must obtain prior approval to use any excess bond proceeds or contingency funds not previously committed to an approved new project before such excess bond proceeds or contingency funds can be expended or committed.
4. No implied approval is provided by the Commission regarding revenue and expense pro-forma statements utilized in the financing where such statements have not been previously approved by the Commission.

ATTACHMENT A

5. The Commission authorizes its Chairman to approve any changes to the maximum principal amount of the bonds to be issued and other matters not inconsistent with the terms of this Order.
6. GWA shall provide quarterly reports in a manner approved by the Commission 45 days after the close of each quarter on the actual uses of the bonds.

Dated this 18th day of November, 2013.



Jeffrey C. Johnson
Chairman



Filomena M. Cantoria
Commissioner



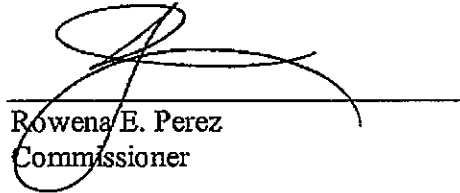
Joseph M. McDonald
Commissioner



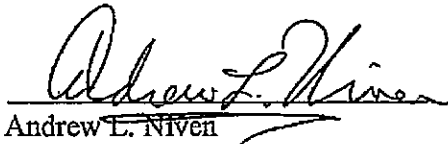
Peter Montinola
Commissioner



Michael A. Pangelinan
Commissioner



Rowena E. Perez
Commissioner



Andrew L. Niven
Commissioner

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BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

REQUEST BY THE GUAM)
WATERWORKS AUTHORITY FOR)
APPROVAL OF THE ISSUANCE OF)
\$195M IN WATER AND WASTEWATER)
REVENUE BONDS AND TO APPROVE)
THE ASSOCIATED DOCUMENTS)

GWA DOCKET 14-01

ORDER APPROVING LONG-TERM DEBT

On October 27, 2005, this Commission adopted an Order in Docket No. 05-10 (the "2005 Order") approving certain aspects of the proposal of the Guam Waterworks Authority ("GWA") to issue and sell long-term debt in the form of revenue bonds (the "Bonds") pursuant to Article 2 of Chapter 14 of Title 12 of the Guam Code Annotated (the "Act") for the purposes of financing certain additions and improvements to the water and wastewater systems of GWA (the "System").

The proposed form of an indenture pursuant to which the Bonds in one or more series were proposed to be issued (the "General Indenture") was presented to the Commission at that time. In accordance with the Act, the terms and conditions pursuant to which the Bonds were to be issued, and included in the General Indenture, were approved by the Commission pursuant to the 2005 Order.

GWA executed and delivered the General Indenture, dated as of December 1, 2005, and issued one series of Bonds on December 7, 2005, having the terms and issued for the purposes authorized and approved by Orders of the Commission heretofore adopted.

On October 29, 2010, this Commission approved an Order in Docket No. 10-03 approving the issuance and sale by GWA of long-term debt in the form of Bonds pursuant to the Act for the purposes of financing certain additions and improvements to the System.

GWA issued one series of Bonds on November 23, 2010, having the terms and issued for the purposes authorized and approved by Orders of the Commission heretofore adopted.

GWA has now applied to the Commission for approval of the issuance of one or more additional series of Bonds in an amount not to exceed \$195,000,000 (the "Additional Bonds") for the purposes of financing certain additions and improvements described in Exhibit A to this Order (the "Projects") the limitations provided in Section 2 of Public Law

30-145, as amended by Public Law 32-069, and as the same may be further amended by the Legislature of Guam (as so amended, the "GWA Bonds Law"), and of the terms and conditions pursuant to which such 2013 Bonds are to be issued.

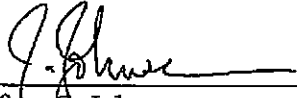
The proposed form of supplemental indenture pursuant to which the 2013 Bonds are proposed to be issued (the "Supplemental Indenture") has been presented to the Commission (together with certain financial and other relevant information) and is attached hereto, together with the General Indenture, as Exhibit B.

The Commission having duly considered the application of GWA and the information presented on GWA's behalf and having determined that the issuance of the 2013 Bonds for such purposes is just and reasonable, it is ordered as follows:

1. The issuance of the 2013 Bonds and the terms and conditions pursuant to which the 2013 Bonds are to be issued and included in Exhibit B are hereby approved; provided, however, that any material modification or amendment of the Supplemental Indenture shall be subject to the Commission's prior review and approval. GWA shall have the responsibility of bringing any such material modification or amendment to the Commission's attention.
2. For the purpose of financing the Projects, GWA is authorized to borrow funds under the terms and conditions described in Exhibit B. The principal amount of 2013 Bonds that may be issued may not exceed \$195,000,000 with respect to the Additional Bonds, and shall be the amount projected to be necessary to implement the Projects, and provide for original issue discount (if any), a credit enhancement fee (if applicable), underwriters' discount, other costs of issuance, a debt service reserve fund deposit and capitalized interest. As provided in the GWA Bonds Law, the 2013 Bonds shall bear interest at such rate or rates and shall be sold for such price or prices as shall result in a net yield to the bondholders not exceeding seven and one-half percent (7.5%) per annum. Original issue discount and credit enhancement each shall not be used unless it results in a lower yield on such Bonds, as evidenced by a certificate of GWA. Capitalized interest shall not exceed an amount sufficient to pay interest on the Additional Bonds for the period to and including September 30, 2015. Underwriters' discount (not including original issue discount) shall not exceed one percent (1.0%) of the original principal amount of such Bonds. Other costs of issuance (including, but not limited to, fees and disbursements of bond counsel, printing fees, rating agency fees, initial trustee's fees, consulting engineer

fees and the fee of the Guam Economic Development Authority) shall not exceed two percent (2.0%) of the original principal amount of such Bonds. The 2013 Bonds shall have a final maturity not later than 30 years from their date of issuance.

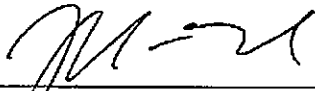
Dated this 18th day of November, 2013.



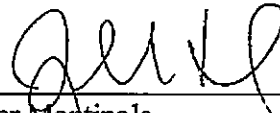
Jeffrey C. Johnson
Chairman



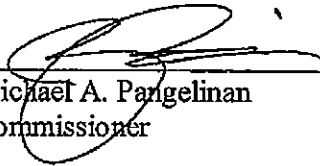
Filomena M. Cantoria
Commissioner



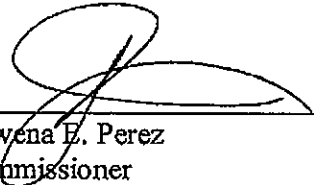
Joseph M. McDonald
Commissioner



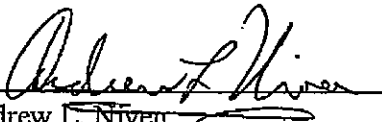
Peter Montinola
Commissioner



Michael A. Pangelinan
Commissioner



Rowena E. Perez
Commissioner



Andrew L. Niven
Commissioner

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EXHIBIT A

2014

2015

| | | Funding | | Funding | |
|---|--|--------------|------------------------|----------------|------------------------|
| | | Source | Amount | Source | Amount |
| A. POTABLE WATER | | | | | |
| PW 05-03 | Santa Rita Springs Booster Pump Rehab Phase II | B2013 | 100,000 | | |
| PW 05-05 | "A" Series Well Transmission Line | B2013 | 400,000 | | |
| PW 05-06 | Water Booster Pump Station | B2013 | 3,000,000 | B2013 | 3,000,000 |
| PW 05-08 | Barrigada Tank Repair/Replacement | B2013 | 6,000,000 | | |
| PW 05-09 | Leak Detection | | | B2013 | 100,000 |
| PW 05-10 | Potable Water System Planning | SRF B2013 | 3,405,000 400,000 | B2013 | 400,000 |
| PW 05-11 | Implement Ground Water Rule | B2013 | 1,000,000 | | |
| PW 05-13 | Deep Well Rehabilitation | B2013 | 400,000 | B2013 | 400,000 |
| PW 05-14 | New Deep Wells at Down Hard | B2013 | 2,000,000 | | |
| PW 05-16 | Master Meters | B2013 | 2,000,000 | B2013 | 2,000,000 |
| PW 09-01 | Ugum Water Treatment Plant Intake | B2013 | 1,000,000 | | |
| PW 09-02 | Water Wells | B2013 SRF | 2,000,000 1,660,000 | B2013 | 2,200,000 |
| PW 09-03 | Water Distribution System Pipe Replacement and Upgrades | B2013 | 6,000,000 | B2013 | 6,000,000 |
| PW 09-04 | Pressure Zone Realignment / Development 2005 Improvements | B2013 | 1,000,000 | | |
| PW 09-08 | Mechanical/Electrical Equipment | B2013 | 230,000 | | |
| PW 09-10 | Water Reservoir Internal/External | B2013 | 400,000 | B2013 | 400,000 |
| PW 09-11 | Water System Reservoirs 2005 Improvements | B2013 | 5,000,000 | B2013 | 16,000,000 |
| PW 11-02 | Ugum Water Treatment Plant Reservoir | B2013 | 4,000,000 | IFCIP B2013 | 2,000,000 3,000,000 |
| PW 12-04 | Agana Heights & Chapl Tanks | B2013 | 1,500,000 | B2013 | 3,000,000 |
| PW 12-05 | Tank Major Repair Yigo #1, Manglao #2, Astumbo #1 | B2013 | 13,500,000 | | |
| PW 12-06 | Tank Replacement Pili & Hyrundai | B2013 | 15,500,000 | B2013 | 6,500,000 |
| PW 12-07 | Assessment/Replacement of Malojol Elevated & Yigo Elevated | B2013 | 500,000 | | |
| TOTAL POTABLE WATER PROJECTS B2013(FY2014) | | | 52,130,000 | | 23,000,000 |

B. WASTEWATER

| | 2014 | FY 2015 |
|---|----------------------------------|------------------------------------|
| WW 05-04 Wastewater System Planning | B2013 2,400,000 SRF 2,465,000 | B2013 2,400,000 |
| WW 09-01 Lift station upgrades | B2013 3,000,000 | B2013 2,000,000 |
| WW 09-06 Wastewater Collection System Rep/ Rehabilitation | B2013 2,500,000 SRF 3,006,341 | B2013 2,000,000 IFCIP 1,000,000 |
| WW 11-08 Aga/ Sia Rita STP Replacement | B2013 2,000,000 | B2013 1,700,000 |
| WW 12-07 UmatacMerizo STP Replacement | B2013 2,000,000 | B2013 2,000,000 |
| TOTAL WASTEWATER PROJECTS B2013 FY2014 | 7,900,000 | 25,400,000 |

C. ELECTRICAL ENGINEERING

| | 2014 | FY 2015 |
|--|------------------|------------------|
| EE 09-01 Wastewater Pumping Station Electrical Upgrade | B2013 1,628,000 | |
| EE 09-02 Electrical Upgrade - Water Walls | | B2013 1,500,000 |
| EE 09-03 Electrical Upgrade - Water Booster | | B2013 325,000 |
| EE 09-04 Electrical Upgrade -Water Booster | | B2013 350,000 |
| EE 09-05 Electrical Upgrade - Other Water | | B2013 250,000 |
| EE 09-08 SCADA Improvements - Phase 3 | B2013 1,850,000 | |
| EE 09-09 SCADA Improvements - Phase 4 | | B2013 500,000 |
| TOTAL ELECTRICAL PROJECTS B2013 FY2014 | 2,470,000 | 2,192,500 |

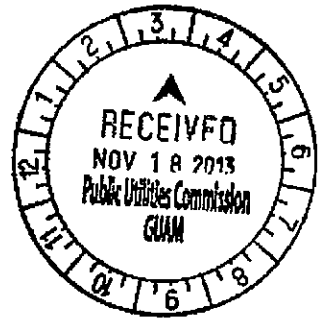
D. MISCELLANEOUS

| | 2014 | FY 2015 |
|--|------------------|------------------|
| MC 05-01 Laboratory Modernization | B2013 1,500,000 | |
| MC 05-02 Land Survey | B2013 1,000,000 | B2013 1,000,000 |
| MC 09-01 General Plant Improvements / Water | IFCIP 2,000,000 | IFCIP 2,000,000 |
| | B2013 1,000,000 | B2013 1,000,000 |
| TOTAL MISCELLANEOUS PROJECTS B2013 FY2014 | 3,500,000 | 2,000,000 |

SUMMARY BY FUNDING

| | 2014 | 2015 |
|---|------------|-------------|
| B2013 POTABLE WATER PROJECTS B2013 FY2014 | 66,000,000 | 73,325,000 |
| | | 139,325,000 |

EXHIBIT B



GUAM WATERWORKS AUTHORITY

and

BANK OF GUAM,
as Trustee,

and

U.S. BANK NATIONAL ASSOCIATION,
as Co-Trustee

SUPPLEMENTAL INDENTURE

Dated as of December 1, 2013

Relating to

\$ _____
Guam Waterworks Authority
Water and Wastewater System Revenue Bonds,
Series 2013

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THIS SUPPLEMENTAL INDENTURE, made and entered into as of December 1, 2013, by and among the GUAM WATERWORKS AUTHORITY, a duly organized public corporation of the government of Guam (the "Authority"), BANK OF GUAM, a domestic banking corporation duly organized and existing under and by virtue of the laws of Guam, having a corporate trust office in Guam, and being qualified to accept and administer the trusts hereby created and to do business within Guam, as trustee (the "Trustee"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized under the laws of the United States of America and qualified to accept and administer the trusts hereby created, as co-trustee (the "Co-Trustee"),

WITNESSETH:

WHEREAS, pursuant to Article 2, Chapter 14 of Title 12 of the Guam Code Annotated (the "Act"), the Authority is authorized to issue and sell revenue bonds to raise funds for the purpose of acquiring, constructing, improving, equipping, maintaining, repairing, renewing, replacing, reconstructing or insuring the System (as defined in the Indenture), or any part thereof, or for the purpose of refunding any such bonds or any other prior obligations of the Authority, or for any combination of such purposes;

WHEREAS, the Authority has determined to issue revenue bonds for such purposes and to that end has duly entered into that certain Indenture, dated as of December 1, 2005 (the "Indenture"), between the Authority and the Trustee, to secure the payment of the principal thereof and the interest and premium, if any, thereon, and the observance of the covenants and conditions therein contained;

WHEREAS, revenue bonds may be issued pursuant to the Indenture and one or more indentures supplemental thereto ("Supplemental Indentures"), from time to time, in an aggregate principal amount not limited except as therein provided, and said revenue bonds are to be designated as the "Guam Waterworks Authority Water and Wastewater System Revenue Bonds" (the "Bonds");

WHEREAS, The Authority, the Trustee and the Co-Trustee have heretofore entered into a Supplemental Indenture dated as of December 1, 2005 pursuant to which \$101,175,000 aggregate principal amount of Bonds further designated as "Series 2005 Bonds" were issued and a Supplemental Indenture dated as of November 1, 2010, pursuant to which \$118,825,000 of Bonds further designated as "Series 2010 Bonds" were issued.

WHEREAS, it is now desirable and necessary and in the best interests of the Authority to authorize the issuance of \$_____ aggregate principal amount of Bonds further designated as "Series 2013 Bonds" to raise funds for the purpose of acquiring, constructing, improving, equipping, maintaining, repairing, renewing, replacing and reconstructing parts of the System, fund capitalized interest on the Series 2013 Bonds, make a deposit into the Bond Reserve Fund, and pay costs of issuance;

WHEREAS, pursuant to and subject to the terms and conditions set forth in Public Law No. 28-71, as amended by Public Law Nos. 30-145 and 32-_____, the Legislature of Guam (as required by Section 50103(k) of Title 12, Guam Code Annotated (the "GEDA Law")) approved the terms and conditions of the issuance of said Series 2013 Bonds, so long as the Series 2013 Bonds meet the requirements set forth in the Act;

WHEREAS, the Guam Economic Development Authority has approved the issuance and sale of said Series 2013 Bonds as required by the GEDA Law;

WHEREAS, all acts, conditions and things required by the laws of the United States of America and the laws of Guam to exist, to have happened and to have been performed precedent to and in connection with the issuance of said Series 2013 Bonds exist, have happened, and have been performed in

regular and due time, form and manner as required by law, and the Authority is now duly authorized and empowered, pursuant to each and every requirement of law, to issue said Bonds for the purpose, in the manner and upon the terms herein provided;

WHEREAS, no Event of Default (as defined in the Indenture) has occurred or is now occurring;

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE WITNESSETH, in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Series 2013 Bonds by the owners thereof, and for other valuable considerations, the receipt of which is hereby acknowledged, the Authority does hereby covenant and agree with the Trustee and the Co-Trustee as follows:

ARTICLE XX

DEFINITIONS

SECTION 20.01 Definitions. Unless the context otherwise requires, the terms defined in the Indenture shall, for all purposes of this Supplemental Indenture and of any certificate, opinion or other document herein mentioned, have the meanings specified in the Indenture.

In addition, unless the context otherwise requires, the terms defined in this Section shall for all purposes of the Indenture and this Supplemental Indenture and of any certificate, opinion or other document herein mentioned, have the meanings herein specified.

Bond Year

"Bond Year" means, with respect to the Series 2013 Bonds, the period of twelve consecutive months ending on [July 1] of each year if Series 2013 Bonds are or will be Outstanding in such twelve-month period; provided that the first Bond Year shall commence on the date of delivery of the Series 2013 Bonds and end on [July 1], 2014.

DTC

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

Series 2013 Project

"Series 2013 Project" means, with respect to the Series 2013 Bonds, the acquisition, construction, improvement, equipping, maintenance, repair, renewal, replacement and reconstruction of those certain parts of the System to be funded with proceeds of the Series 2013 Bonds.

Series 2013 Bonds, Series 2013 Serial Bonds, Series 2013 Term Bonds

"Series 2013 Bonds" means the \$_____ aggregate principal amount of Guam Waterworks Authority Water and Wastewater System Revenue Bonds, Series 2013.

"Series 2013 Serial Bonds" means the Series 2013 Bonds designated as Serial Bonds by Section 21.02, and for which no Mandatory Sinking Account Payments are provided.

“Series 2013 Term Bonds” means the Series 2013 Bonds designated as Term Bonds by Section 21.02, and for which Mandatory Sinking Account Payments are provided.

ARTICLE XXI

AUTHORIZATION AND TERMS OF THE SERIES 2013 BONDS

SECTION 21.01 Authorization of Series 2013 Bonds. A Series of Bonds is hereby authorized and created under the Act to raise funds for the Project Costs of the Series 2013 Project and to pay the Costs of Issuance of such Bonds. Such Series of Bonds is designated as the “Guam Waterworks Authority Water and Wastewater System Revenue Bonds, Series 2013”. The aggregate principal amount of Series 2013 Bonds which may be issued and Outstanding under this Supplemental Indenture shall not exceed \$_____.

The Series 2013 Bonds shall be treated as a single Series under the Indenture.

SECTION 21.02 Terms of Series 2013 Bonds; Appointments; Designations.

(a) The Series 2013 Bonds shall be issued as fully registered Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. The Series 2013 Bonds shall be dated their date of delivery, and interest thereon (based on a 360-day year of twelve thirty-days months) shall be payable on January 1 and July 1 of each year, commencing [July 1, 2014] (each, an “Interest Payment Date” for the Series 2013 Bonds).

(b) The Series 2013 Bonds shall mature on the dates and in the amounts and shall bear interest at the rates per annum specified in the following table:

| Maturity Date (July 1) | Principal Amount | Interest Rate |
|---------------------------|---------------------|------------------|
|---------------------------|---------------------|------------------|

(c) The Series 2013 Bonds maturing on July 1, 20__ through July 1, 20__ are Serial Bonds, and the Series 2013 Bonds maturing on July 1, 20__, July 1, 20__ and July 1, 20__ are Term Bonds.

(d) The Principal Payment Period for the Series 2013 Bonds shall be the twelve calendar months next preceding each maturity date or Mandatory Sinking Account Payment date for such Bonds.

(e) The Record Date for all scheduled payments of principal of and interest on the Series 2013 Bonds shall be the 15th day of the calendar month next preceding the date each such payment is due, whether or not such 15th day is a Business Day.

(f) The Co-Trustee is hereby appointed Paying Agent for the Series 2013 Bonds and Registrar for the Series 2013 Bonds, and the Co-Trustee's corporate trust office in Los Angeles, California is hereby designated as the Principal Office of the Co-Trustee. The Trustee is hereby appointed Depositary for the Series 2013 Construction Account and the Series 2013 Capitalized Interest Account.

(g) The principal of and premium, if any, on each Series 2013 Bond shall be payable in lawful money of the United States of America to the Owner of such Bond, upon the surrender of such Bond at the Principal Office of any Paying Agent for such Bond. The interest on each Series 2013 Bond shall be payable in like lawful money to the person whose name appears on the bond registration books of the Registrar for such Bond as the Owner of such Bond as of the close of business on the Record Date for such Bond preceding the Interest Payment Date, whether or not such Record Date is a Business Day, such interest to be paid by check or mailed by first class mail to such Owner at such address as appears on such registration books or at such address as such Owner may have filed with the Registrar for that purpose. Upon the written request of a registered owner of one million dollars (\$1,000,000) or more in aggregate principal amount of Series 2013 Bonds, payment of interest on and principal (including Redemption Price) of such Bonds shall be made by wire transfer from the Paying Agent to the registered owner of such Bonds. Any such principal payment by wire transfer shall nevertheless be subject to prior surrender of the Series 2013 Bonds with respect to which such payment is made. Each payment of interest or principal on Series 2013 Bonds, whether by check, draft or wire transfer, shall be accompanied by information specifying for each maturity of such Bonds with respect to which such payment is being made, the amount and the CUSIP number (if available).

(h) Each Series 2013 Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the Record Date preceding any Interest Payment Date to the Interest Payment Date, inclusive, in which event it shall bear interest from such Interest Payment Date, or unless it is authenticated on or before [June 15, 2014], in which event it shall bear interest from its date of delivery; provided, however, that if, at the time of authentication of any Series 2013 Bond, interest is in default on Outstanding Bonds of such Series, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding Bonds of such Series.

(i) The Series 2013 Bonds shall be subject to redemption as provided in Section 21.03.

(j) The Registrar for the Series 2013 Bonds shall assign each Series 2013 Bond authenticated and registered by it a distinctive letter, or number, or letter and number, and shall maintain a record thereof which shall be available to the Authority for inspection.

(k) The Series 2013 Bonds, the Registrar's certificate of authentication and registration and the form of assignment to appear thereon shall be in substantially the forms set forth in

Exhibit A hereto, with necessary or appropriate variations, omissions and insertions as permitted or required by this Indenture.

SECTION 21.03 Terms of Redemption of the Series 2013 Bonds.

(a) Extraordinary Optional Redemption. The Series 2013 Bonds are subject to redemption on any date prior to their respective stated maturities, as a whole, or in part so that the reduction in Annual Debt Service for the Series 2013 Bonds for each Bond Year after such redemption shall be as nearly proportional as practicable, from and to the extent of proceeds received by the Authority due to a governmental taking of the System or portions thereof by eminent domain proceedings, if such amounts are not used for additions, improvements or extensions to the System, under the circumstances and upon the conditions and terms set forth in the Indenture, at the greater of par or Amortized Value, plus accrued interest to the date fixed for redemption, without premium. "Amortized Value" means on any interest payment date, the then current value of the bond amortizing the original issue premium over the period ending on the first call date using the constant yield method.

(b) Optional Redemption. The Series 2013 Bonds maturing on or after July 1, 20__ are subject to redemption prior to their respective stated maturities, at the option of the Authority, from any source of available moneys, on any date on or after July 1, 20__, as a whole, or in part by such maturities or portions of maturities as shall be determined by the Authority (or by lot within a maturity in the absence of such a determination), at a redemption price equal to the principal amount of each Series 2013 Bond called for redemption plus interest accrued to the date fixed for redemption, without premium.

(c) Mandatory Sinking Account Redemption. The Series 2013 Term Bonds maturing on July 1, 20__ are subject to redemption prior to their stated maturity in part, by lot, on July 1 of each year from Mandatory Sinking Account Payments, commencing July 1, 20__, at a redemption price equal to their principal amount, plus accrued interest thereon to the date fixed for redemption, without premium, in the years and in the amounts, as set forth below:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
|-------------|---------------|

† Final maturity.

The Series 2013 Term Bonds maturing on July 1, 20__ are subject to redemption prior to their stated maturity in part, by lot, on July 1 of each year from Mandatory Sinking Account Payments, commencing July 1, 20__, at a redemption price equal to their principal amount, plus accrued interest thereon to the date fixed for redemption, without premium, in the years and in the amounts, as set forth below:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
|-------------|---------------|

† Final maturity.

The Series 2013 Term Bonds maturing on July 1, 20__ are subject to redemption prior to their stated maturity in part, by lot, on July 1 of each year from Mandatory Sinking Account Payments, commencing July 1, 20__, at a redemption price equal to their principal amount, plus accrued interest thereon to the date fixed for redemption, without premium, in the years and in the amounts, as set forth below:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
|-------------|---------------|

† Final maturity.

SECTION 21.04 Special Covenants as to Book-Entry Only System for Series 2013 Bonds. (a) Except as otherwise provided in subsections (b) and (c) of this Section 21.04, all of the Series 2013 Bonds initially issued shall be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), or such other nominee as DTC shall request pursuant to the Representation Letter. Payment of the interest on any Series 2013 Bond registered

in the name of Cede & Co. shall be made on each interest payment date for such Series 2013 Bonds to the account, in the manner and at the address indicated in or pursuant to the Representation Letter.

(b) The Series 2013 Bonds initially shall be issued in the form of a single authenticated fully registered bond for each stated maturity of each portion of such Series 2013 Bonds, representing the aggregate principal amount of the Series 2013 Bonds of such portion and maturity. Upon initial issuance, the ownership of all such Series 2013 Bonds shall be registered in the registration records maintained by the Registrar pursuant to Section 2.05 hereof in the name of Cede & Co., as nominee of DTC, or such other nominee as DTC shall request pursuant to the Representation Letter. The Trustee, the Co-Trustee, the Registrar, the Authority and any paying agent may treat DTC (or its nominee) as the sole and exclusive owner of the Series 2013 Bonds registered in its name for the purposes of payment of the principal or redemption price of and interest on such Series 2013 Bonds, selecting the Series 2013 Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondowners hereunder, registering the transfer of Series 2013 Bonds, obtaining any consent or other action to be taken by Bondowners of the Series 2013 Bonds and for all other purposes whatsoever; and the Trustee, the Co-Trustee, the Registrar, the Authority and any paying agent shall not be affected by any notice to the contrary. Neither the Trustee, the Co-Trustee, the Authority nor any paying agent shall have any responsibility or obligation to any Participant (which shall mean, for purposes of this Section 21.04, securities brokers and dealers, banks, trust companies, clearing corporations and other entities, some of whom directly or indirectly own DTC), any person claiming a beneficial ownership interest in the Series 2013 Bonds under or through DTC or any Participant, or any other person which is not shown on the registration records as being a Bondowner, with respect to (i) the accuracy of any records maintained by DTC or any Participant, (ii) the payment by DTC or any Participant of any amount in respect of the principal or redemption price of or interest on the Series 2013 Bonds, (iii) any notice which is permitted or required to be given to Holders of Series 2013 Bonds hereunder, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Series 2013 Bonds, or (v) any consent given or other action taken by DTC as Holder of Series 2013 Bonds. The Paying Agent shall pay all principal of and premium, if any, and interest on the Series 2013 Bonds only at the times, to the accounts, at the addresses and otherwise in accordance with the Representation Letter, and all such payments shall be valid and effective to satisfy fully and discharge the Authority's obligations with respect to the principal of and premium, if any, and interest on the Series 2013 Bonds to the extent of the sum or sums so paid. Upon delivery by DTC to the Trustee and Co-Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of its then existing nominee, the Series 2013 Bonds will be transferable to such new nominee in accordance with subsection (f) of this Section 21.04.

(c) In the event that the Authority elects to discontinue the book-entry system for any Series 2013 Bonds, the Trustee shall, upon the written instruction of the Authority, so notify DTC, whereupon DTC shall notify the Participants of the availability through DTC of bond certificates. In such event, such Series 2013 Bonds will be transferable in accordance with subsection (f) of this Section 21.04. DTC may determine to discontinue providing its services with respect to the Series 2013 Bonds at any time by giving written notice of such discontinuance to the Authority or the Trustee and Co-Trustee and discharging its responsibilities with respect thereto under applicable law. In such event, the Series 2013 Bonds will be transferable in accordance with subsection (f) of this Section 21.04. Whenever DTC requests the Authority, the Trustee and the Co-Trustee to do so, the Trustee, the Co-Trustee and the Authority will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of all certificates evidencing the Series 2013 Bonds then Outstanding. In such event, the Series 2013 Bonds will be transferable to such securities depository in accordance with subsection (f) of this Section 21.04, and

thereafter, all references in this Supplemental Indenture to DTC or its nominee shall be deemed to refer to such successor securities depository and its nominee, as appropriate.

(d) Notwithstanding any other provision of this Supplemental Indenture to the contrary, so long as all Series 2013 Bonds Outstanding are registered in the name of any nominee of DTC, all payments with respect to the principal of and premium, if any, and interest on each such Series 2013 Bond and all notices with respect to each such Series 2013 Bond shall be made and given, respectively, to DTC as provided in the Representation Letter.

(e) The Co-Trustee is hereby authorized and requested to execute and deliver the Representation Letter and, in connection with any successor nominee for DTC or any successor depository, enter into comparable arrangements, and shall have the same rights with respect to its actions thereunder as it has with respect to its actions under this Supplemental Indenture.

(f) In the event that any transfer or exchange of Series 2013 Bonds is authorized under subsection (b) or (c) of this Section 21.04, such transfer or exchange shall be accomplished upon receipt by the Registrar from the registered owner thereof of the Series 2013 Bonds to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee, all in accordance with the applicable provisions of Sections 2.03 and 2.04 of the Indenture. In the event Series 2013 Bond certificates are issued to Holders other than Cede & Co., its successor as nominee for DTC as holder of all the Series 2013 Bonds, another securities depository as holder of all the Series 2013 Bonds, or the nominee of such successor securities depository, the provisions of Sections 2.03 and 2.04 of the Indenture shall also apply to, among other things, the registration, exchange and transfer of the Series 2013 Bonds and the method of payment of principal of, premium, if any, and interest on the Series 2013 Bonds.

ARTICLE XXII

ISSUANCE OF SERIES 2013 BONDS; APPLICATION OF PROCEEDS; FUNDS AND ACCOUNTS

SECTION 22.01 Issuance of Series 2013 Bonds. At any time after the execution and delivery of this Supplemental Indenture, the Authority may sell and execute and the Registrar for the Series 2013 Bonds shall authenticate and, upon the Order of the Authority, deliver the Series 2013 Bonds in an aggregate principal amount not to exceed \$_____.

SECTION 22.02 Application of Proceeds of Series 2013 Bonds and Other Moneys. (a) The net proceeds received by the Authority from the sale of the Series 2013 Bonds in the amount of \$_____ shall be deposited with the Trustee, who shall forthwith apply such proceeds in the following manner, as directed by a Request of the Authority:

(i) The Trustee shall deposit in the Series 2013 Capitalized Interest Account the amount of \$_____;

(ii) the Trustee shall deposit in the Series 2013 Construction Account the amount of \$_____; and

(iii) the Trustee shall transfer to the Co-Trustee, for deposit in the Bond Reserve Fund, the amount of \$_____, which brings the total amount on deposit therein to the Bond Reserve Requirement of \$_____.

(b) Pursuant to Section 5.06 of the Indenture, to the extent that moneys in the Bond Reserve Fund exceed the Bond Reserve Fund Requirement, income derived from the investment of the proceeds of the Series 2013 Bonds in the Bond Reserve Fund prior to the completion of the Series 2013 Project shall be deposited in the Series 2013 Construction Account; otherwise such income shall be transferred to the Revenue Fund.

SECTION 22.03 Establishment of Funds and Accounts.

(a) To ensure the proper application of such portion of proceeds from the sale of the Series 2013 Bonds to be applied to pay Project Costs of the Series 2013 Project, including Capitalized Interest on the Series 2013 Bonds, and to pay Costs of Issuance of the Series 2013 Bonds, there is hereby established within the Construction Fund the "Series 2013 Construction Account", which shall be held by the Trustee, as Depositary therefor. To ensure the proper application of such proceeds from the sale of the Series 2013 Bonds to be applied to pay Capitalized Interest on the Series 2013 Bonds, there is hereby established within the Series 2013 Construction Account the "Series 2013 Capitalized Interest Account," which shall be held by the Trustee as Depositary therefor.

(b) The monies set aside and placed in the Series 2013 Construction Account to be applied to the Project Costs of the Series 2013 Project shall be expended for the purposes of the Series 2013 Project and shall not be used for any other purpose whatsoever. The Depositary shall reserve the amount of \$_____ to pay Costs of Issuance of the Series 2013 Bonds; provided, however, that any of such funds that remain on deposit in the Series 2013 Construction Account after [_____, 2014] shall be applied to the Project Costs of the Series 2013 Project.

(i) Before any payment from the Series 2013 Construction Account shall be made by the Depositary, the Authority shall file or cause to be filed with the Depositary a requisition of the Authority (each a "Requisition"), such Requisition to be signed by the Chairperson or the General Manager or by any other officer of the Authority duly authorized by resolution of the Board for that purpose and to include (1) the item number of such payment; (2) the name and address of the person to whom each such payment is due, which may be the Authority in the case of reimbursement for costs theretofore paid by the Authority; (3) the respective amounts to be paid; (4) the purpose by general classification for which each obligation to be paid was incurred; and (5) that obligations in the stated amounts have been incurred by the Authority and are presently due and payable and that each item thereof is a proper charge against the Series 2013 Construction Account and has not been previously paid from said Account.

(ii) When the Authority determines that the Series 2013 Project has been completed, a Certificate of the Authority shall be delivered to the Depositary by the Authority stating: (1) the fact and date of such completion; (2) that all of the Project Costs of the Series 2013 Project have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the Series 2013 Construction Account is to be maintained in the full amount of such claims until such dispute is resolved); and (3) that the Depositary is to transfer the remaining balance in the Series 2013 Construction Account, less the amount of any such retention, to the Co-Trustee for deposit to the Bond Reserve Fund, to the extent of any deficiency therein, and then to the Debt Service Fund.

(c) The Depositary shall transfer all money in the Series 2013 Capitalized Interest Account to the Co-Trustee, and the Co-Trustee shall apply such money to pay interest due on the Series 2013 Bonds in accordance with the following schedule, provided that any amounts remaining in the Series 2013 Capitalized Interest Account after the final transfer shall be transferred to the Co-

Trustee for deposit in the Debt Service Fund and the Depository shall close the 2013 Capitalized Interest Account:

| <u>Series 2013 Capitalized Interest Schedule</u> | |
|---|--------------------------------------|
| Date | Capitalized Interest Transfer Amount |
| | |
| January 1, 2014 | |
| July 1, 2014 | |
| January 1, 2015 | |
| July 1, 2015 | |
| [January 1, 2016]* | Balance |

* Final transfer

(d) As provided in Section 5.05 of the Indenture, the Series 2013 Bonds shall be payable from the Debt Service Fund, and, in accordance with Section 5.06 of the Indenture, the Series 2013 Bonds shall be secured by the Bond Reserve Fund.

ARTICLE XXIII

TAX COVENANTS

SECTION 23.01 2013 Rebate Account.

(A) The Trustee, as Depository for the Revenue Fund, shall establish and maintain within the Rebate Fund a separate subaccount designated as the "2013 Rebate Account." There shall be deposited in the 2013 Rebate Account from amounts in the Operation and Maintenance Fund or other lawfully available moneys such amounts as are required to be deposited therein pursuant to the Tax Certificate delivered by the Authority in connection with the issuance of the Series 2013 Bonds. All money at any time deposited in the 2013 Rebate Account shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement for the Series 2013 Bonds (as defined in such Tax Certificate), for payment to the United States of America, and the United States of America is hereby granted a first lien on such money until such payment. All amounts required to be deposited into or on deposit in the 2013 Rebate Account shall be governed exclusively by this Section and by such Tax Certificate (which is incorporated herein by reference).

In the event that the amount in the 2013 Rebate Account exceeds the Rebate Requirement for the Series 2013 Bonds, upon the Request of the Authority, the Trustee shall transfer the excess from the 2013 Rebate Account to the Revenue Fund.

(B) Notwithstanding any provisions of this Section, if the Authority shall provide to the Trustee an opinion of Bond Counsel that any specified action required under this Section is no longer

required or that some further or different action is required to maintain the exclusion from federal income tax of interest on any Series of Bonds, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of this Section, and, notwithstanding Article IX of the Indenture, the covenants hereunder shall be deemed to be modified to that extent.

SECTION 23.02 Tax Covenants for Series 2013 Bonds. (A) The Authority intends that interest on the Series 2013 Bonds be excluded from gross income for federal income tax purposes, that the Series 2013 Bonds and the interest thereon be exempt from taxation by any state or political subdivision or the District of Columbia and that interest on the Series 2013 Bonds not be treated as a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. The Authority reserves the right to determine the desired tax status of any additional Series of Bonds.

(B) The Authority shall not use or permit the use of any proceeds of the Series 2013 Bonds or any other funds of the Authority, directly or indirectly, to acquire any securities or obligations, and shall not use or permit the use of any amounts received by the Authority in any manner, and shall not take or permit to be taken any other action or actions, which would cause any such Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code or to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(C) The Authority shall at all times do and perform all acts and things permitted by law and this Indenture which are necessary or desirable in order to assure that interest paid on the Series 2013 Bonds (or on any of them) shall be excluded from gross income for federal income tax purposes and that interest paid on the Series 2013 Bonds shall not be treated as a specific preference item for purposes of the federal individual and corporate alternative minimum taxes.

SECTION 23.03 Continuing Disclosure. The Authority hereby covenants and agrees to comply with the Series 2013 Continuing Disclosure Agreement, by and between the Authority and the Co-Trustee (the "Series 2013 Continuing Disclosure Agreement"), as it may from time to time hereafter be amended or supplemented. Notwithstanding any other provision of the Indenture, failure of the Authority to comply with the requirements of the Series 2013 Continuing Disclosure Agreement shall not be considered an Event of Default and the Co-Trustee shall have no right to accelerate amounts due under the Indenture as a result thereof; provided, however, that the Trustee and the Owners of not less than 25% in principal amount of the Outstanding Series 2013 Bonds may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations in this Section with respect to the Series 2013 Continuing Disclosure Agreement.

IN WITNESS WHEREOF, the GUAM WATERWORKS AUTHORITY has caused this Supplemental Indenture to be signed in its name by its duly authorized officers; and BANK OF GUAM and U.S. BANK NATIONAL ASSOCIATION, in token of their acceptance of the respective trusts created hereunder, and being hereby appointed by the GUAM WATERWORKS AUTHORITY to such trusts, have caused this Supplemental Indenture to be signed in their respective corporate names by one of their authorized officers, all as of the day and year first above written.

GUAM WATERWORKS AUTHORITY

By _____
Chairperson of the Board

By _____
General Manager

BANK OF GUAM, as Trustee

By _____
Authorized Officer

U.S. BANK NATIONAL ASSOCIATION, as Co-Trustee

By _____
Authorized Officer

The undersigned U.S. BANK NATIONAL ASSOCIATION, hereby accepts and agrees to perform the duties and obligations of Registrar and Paying Agent under this Supplemental Indenture.

U.S. BANK NATIONAL ASSOCIATION, as Registrar
and Paying Agent

By _____
Authorized Officer

The undersigned BANK OF GUAM, hereby accepts and agrees to perform the duties and obligations of Depositary for the Series 2013 Construction Account and for the Series 2013 Capitalized Interest Account under this Supplemental Indenture.

BANK OF GUAM, as Depositary

By _____
Authorized Officer

EXHIBIT A

FORM OF BOND

No. R-___

\$ _____

GUAM WATERWORKS AUTHORITY
WATER AND WASTEWATER SYSTEM REVENUE BOND,
SERIES 2013

| | | | |
|----------------------|----------------------|-------------------|--------------|
| <u>INTEREST RATE</u> | <u>MATURITY DATE</u> | <u>DATED DATE</u> | <u>CUSIP</u> |
|----------------------|----------------------|-------------------|--------------|

| | | |
|-------------------|------------------------------|-------------------|
| Registered Owner: | July 1, 20__ CEDE AND CO. | December __, 2013 |
|-------------------|------------------------------|-------------------|

Principal Sum: Dollars

The GUAM WATERWORKS AUTHORITY, a duly organized public corporation of the government of Guam (herein called the "Authority"), for value received, hereby promises to pay (but only out of the Revenues pledged therefor as hereinafter mentioned) to the registered owner identified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter mentioned), the principal sum specified above in lawful money of the United States of America; and to pay interest thereon, in like lawful money and solely from said Revenues, from the Interest Payment Date next preceding the date of authentication of this Bond unless this Bond is authenticated as of a day during the period from the Record Date preceding any Interest Payment Date to the Interest Payment Date, inclusive, in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or before [June 15, 2014], in which event it shall bear interest from its date of delivery, until payment of such principal sum shall be discharged as provided in the indenture hereinafter mentioned, at the interest rate specified above per annum, payable on January 1 and July 1 in each year, commencing [July 1, 2014]; provided, however, that if, at the time of authentication of this Bond, interest is in default hereon, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment. The principal (or redemption price) hereof is payable upon surrender hereof at the Principal Office of U.S. Bank National Association (herein called the "Paying Agent") in Los Angeles, California, and the interest hereon is payable by check or draft mailed by first class mail to the person in whose name this Bond is registered at the close of business on the fifteenth day of the month immediately preceding an interest payment date, at such person's address as it appears on the bond registration books of U.S. Bank National Association (herein called the "Registrar"). Upon the written request of a registered owner of \$1,000,000 or more in aggregate principal amount of Series 2013 Bonds, payment of interest on and principal (including redemption price) of such Bonds will be made by wire transfer as provided in the Indenture; provided that any such principal payment shall nevertheless be subject to prior surrender of the Series 2013 Bonds with respect to which such payment is made.

This Bond is one of a duly authorized issue of bonds of the Authority designated as the "Guam Waterworks Authority Water and Wastewater System Revenue Bonds" (herein called the "Bonds"), unlimited in aggregate principal amount, except as otherwise provided in the laws of the United States of America and the government of Guam and in the Indenture hereinafter mentioned, which issue of Bonds consists or may consist of one or more Series of varying dates, maturities, interest rates, and redemption and other provisions, all issued or to be issued pursuant to Article 2, Chapter 14 of Title 12 of the Guam Code Annotated, as amended, and that certain Indenture, dated as of December 1, 2005 (as heretofore and hereafter supplemented, the "Indenture"), by and between the Authority, Bank of

Guam, as trustee (herein called the "Trustee") and U.S. Bank National Association, as co-trustee (herein called the "Co-Trustee"). This Bond is also one of a duly authorized series of Bonds additionally designated "Series 2013" (herein called the "Series 2013 Bonds"), in the aggregate principal amount of _____ Dollars (\$ _____), all issued under the provisions of the Indenture and a Supplemental Indenture, dated as of November 1, 2013, by and between the Authority, the Trustee and the Co-Trustee. Reference is hereby made to the Indenture (a copy of which is on file at said office of the Trustee), including all indentures supplemental thereto, for a description of the rights thereunder of the registered owners of the Bonds, of the nature and extent of the security and provisions for payment of the Bonds, of the rights, duties and immunities of the Trustee and other fiduciaries and of the rights and obligations of the Authority thereunder, to all the provisions of which Indenture the registered owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds and the interest thereon (to the extent set forth in the Indenture) are payable solely from Revenues (as that term is defined in the Indenture) pledged as provided in the Indenture. Subject only to the provisions of the Indenture permitting the application thereof for or to the purposes and on the terms and conditions set forth therein and to the provisions of that certain Consent Decree dated April 24, 2003 and the related Order dated May 9, 2003, relating to *United States of America v. Government of Guam*, said Revenues are pledged under the Indenture to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture and the payment of Credit Agreement Payments and Parity Payment Agreement Payments in accordance with their terms.

The Series 2013 Bonds are subject to redemption on any date prior to their respective stated maturities, as a whole, or in part so that the reduction in Annual Debt Service for the Series 2013 Bonds for each Bond Year after such redemption shall be as nearly proportional as practicable, from and to the extent of proceeds received by the Authority due to a governmental taking of the System or portions thereof by eminent domain proceedings, if such amounts are not used for additions, improvements or extensions to the System, under the circumstances and upon the conditions and terms set forth in the Indenture, at the greater of par or Amortized Value, plus accrued interest to the date fixed for redemption, without premium. "Amortized Value" means on any interest payment date, the then current value of the bond amortizing the original issue premium over the period ending on the first call date using the constant yield method.

The Series 2013 Bonds maturing on or after July 1, 20__ are subject to redemption prior to their respective stated maturities, at the option of the Authority, from any source of available moneys, on any date on or after July 1, 20__, as a whole, or in part by such maturities or portions of maturities as shall be determined by the Authority (or by lot within a maturity in the absence of such a determination), at a redemption price equal to the principal amount of each Series 2013 Bond called for redemption plus interest accrued to the date fixed for redemption, without premium.

The Series 2013 Bonds maturing on July 1, 20__, July 1, 20__ and July 1, 20__ are subject to redemption prior to their stated maturity in part, by lot, on July 1 of each year from Mandatory Sinking Account Payments, commencing July 1, 20__ July 1, 20__ and July 1, 20__, respectively, at a redemption price equal to the Mandatory Sinking Account Payment amount for such date set forth in the Indenture, plus accrued interest thereon to the date fixed for redemption, without premium.

Notice of any redemption, identifying the Bonds or portions thereof to be redeemed, shall be given by the Registrar not less than 30 nor more than 60 days before the date fixed for redemption by first class mail to each of the registered owners of Bonds designated for redemption at their addresses appearing on the bond registration books of the Registrar on the date the Bonds to be redeemed are

selected. Receipt of such notice by such registered owners shall not be a condition precedent to such redemption.

If this Bond is called for redemption and payment is duly provided herefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

The Series 2013 Bonds are issuable only in fully registered form in denominations of \$5,000 or any integral multiple thereof. Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, this Bond may be exchanged, at the Principal Office of the Registrar, in Los Angeles, California, or such other office as the Registrar shall designate, for a new fully registered Bond or Bonds, of the same Series, maturity and tenor and of any authorized denomination or denominations and for the aggregate principal amount of this Bond then remaining outstanding.

This Bond is transferable by the registered owner hereof, in person or by its attorney duly authorized in writing, at said office of the Registrar, but only in the manner, subject to the limitations and upon payment of the charges, if any, provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer a new registered Bond or Bonds, of the same Series and maturity and of any authorized denomination or denominations and for the same aggregate principal amount of this Bond then remaining outstanding, will be issued to the transferee in exchange therefor. The Registrar shall not be required to register the transfer of this Bond during the period established by the Trustee for the selection of Bonds for redemption or at any time after selection of this Bond for redemption.

The Authority, the Trustee, the Paying Agent and the Registrar may treat the registered owner hereof as the absolute owner hereof for all purposes, and neither the Authority, the Paying Agent nor the Registrar shall be affected by any notice to the contrary.

The Indenture and the rights and obligations of the Authority, the registered owners of the Bonds, the Trustee, the Registrar and other fiduciaries may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, provided that no such modification or amendment shall (a) extend the fixed maturities of the Bonds, or extend the time for making any Mandatory Sinking Account Payments, or reduce the rate of interest thereon, or extend the time of payment of interest, or reduce the amount of principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Owner of each Bond so affected, (b) reduce the aforesaid percentage of Owners of Bonds whose consent is required for the execution of any amendment or modification of this Indenture or permit the creation of any lien on the Revenues prior to or on a parity with the lien created by this Indenture or deprive the Owners of the Bonds of the lien created by this Indenture upon such Revenues, without in each case the consent of the Owners of all of the Bonds then Outstanding.

The Bonds are limited obligations of the Authority, payable solely from and secured by a pledge of the Revenues as provided in the Indenture. The Bonds are not a legal or equitable pledge, charge, lien or encumbrance upon any property of the Authority or upon any of its income, receipts or revenues except the Revenues pledged to the payment thereof as provided in the Indenture.

Neither the Government of Guam nor any political subdivision thereof is obligated to pay the principal of, Redemption Price, if applicable, or interest on the Bonds, except from Revenues, and neither the Authority, the Government of Guam nor any political subdivision thereof has pledged its faith or credit to the payment of the principal of, redemption price, if applicable, or interest on the Bonds.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Registrar.

It is hereby certified and recited that any and all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond exist, have happened and have been performed in due time, form and manner as required by the laws of the United States of America and the government of Guam, and that the amount of this Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by such laws, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

IN WITNESS WHEREOF, the GUAM WATERWORKS AUTHORITY has caused this Bond to be executed in its name and on its behalf by the manual or facsimile signature of the Chairman of the Consolidated Commission on Utilities and the Chief Financial Officer of the Authority, all as of the dated date first set forth above.

GUAM WATERWORKS AUTHORITY

By _____
Chairman of the Board of Directors

By _____
Chief Financial Officer

[FORM OF] CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Bonds described in the within-mentioned Indenture, which has been registered as of _____.

U.S. BANK NATIONAL ASSOCIATION, as
Registrar

By _____
Authorized Officer

[FORM OF] ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto the within-mentioned registered Bond and hereby irrevocably constitute(s) and appoint(s) attorney, to transfer the same on the books of the Registrar with full power of substitution in the premises.

Dated: _____

NOTICE: The signature on this Assignment must correspond with the name as it appears on the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever.

Signature Guaranteed:

Social Security Number, Taxpayer Identification Number or other Identifying Number of Assignee:

Notice: Signature must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

Note: Transfer fees must be paid to the Registrar in order to transfer or exchange this bond as provided in the within-mentioned Indenture.

General Indenture

EXHIBIT A
FORM OF BOND

No. R-_____

\$ _____

GUAM WATERWORKS AUTHORITY
WATER AND WASTEWATER SYSTEM REVENUE BOND,
SERIES 2013

| | <u>INTEREST RATE</u> | <u>MATURITY DATE</u> | <u>DATED DATE</u> | <u>CUSIP</u> |
|-------------------|----------------------|--------------------------------|-------------------|--------------|
| Registered Owner: | | July 1, 20____ CEDE AND CO. | December __, 2013 | |
| Principal Sum: | | Dollars | | |

The GUAM WATERWORKS AUTHORITY, a duly organized public corporation of the government of Guam (herein called the "Authority"), for value received, hereby promises to pay (but only out of the Revenues pledged therefor as hereinafter mentioned) to the registered owner identified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter mentioned), the principal sum specified above in lawful money of the United States of America; and to pay interest thereon, in like lawful money and solely from said Revenues, from the Interest Payment Date next preceding the date of authentication of this Bond unless this Bond is authenticated as of a day during the period from the Record Date preceding any Interest Payment Date to the Interest Payment Date, inclusive, in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or before [June 15, 2014], in which event it shall bear interest from its date of delivery, until payment of such principal sum shall be discharged as provided in the indenture hereinafter mentioned, at the interest rate specified above per annum, payable on January 1 and July 1 in each year, commencing [July 1, 2014]; provided, however, that if, at the time of authentication of this Bond, interest is in default hereon, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment. The principal (or redemption price) hereof is payable upon surrender hereof at the Principal Office of U.S. Bank National Association (herein called the "Paying Agent") in Los Angeles, California, and the interest hereon is payable by check or draft mailed by first class mail to the person in whose name this Bond is registered at the close of business on the fifteenth day of the month immediately preceding an interest payment date, at such person's address as it appears on the bond registration books of U.S. Bank National Association (herein called the "Registrar"). Upon the written request of a registered owner of \$1,000,000 or more in aggregate principal amount of Series 2013 Bonds, payment of interest on and principal (including redemption price) of such Bonds will be made by wire transfer as provided in the Indenture; provided that any such principal payment shall nevertheless be subject to prior surrender of the Series 2013 Bonds with respect to which such payment is made.

This Bond is one of a duly authorized issue of bonds of the Authority designated as the "Guam Waterworks Authority Water and Wastewater System Revenue Bonds" (herein called the "Bonds"), unlimited in aggregate principal amount, except as otherwise provided in the laws of the United States of America and the government of Guam and in the Indenture hereinafter mentioned, which issue of Bonds consists or may consist of one or more Series of varying dates, maturities, interest rates, and redemption and other provisions, all issued or to be issued pursuant to Article 2, Chapter 14 of Title 12 of the Guam Code Annotated, as amended, and that certain Indenture, dated as of December 1, 2005 (as heretofore and hereafter supplemented, the "Indenture"), by and between the Authority, Bank of

Guam, as trustee (herein called the "Trustee") and U.S. Bank National Association, as co-trustee (herein called the "Co-Trustee"). This Bond is also one of a duly authorized series of Bonds additionally designated "Series 2013" (herein called the "Series 2013 Bonds"), in the aggregate principal amount of _____ Dollars (\$ _____), all issued under the provisions of the Indenture and a Supplemental Indenture, dated as of November 1, 2013, by and between the Authority, the Trustee and the Co-Trustee. Reference is hereby made to the Indenture (a copy of which is on file at said office of the Trustee), including all indentures supplemental thereto, for a description of the rights thereunder of the registered owners of the Bonds, of the nature and extent of the security and provisions for payment of the Bonds, of the rights, duties and immunities of the Trustee and other fiduciaries and of the rights and obligations of the Authority thereunder, to all the provisions of which Indenture the registered owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds and the interest thereon (to the extent set forth in the Indenture) are payable solely from Revenues (as that term is defined in the Indenture) pledged as provided in the Indenture. Subject only to the provisions of the Indenture permitting the application thereof for or to the purposes and on the terms and conditions set forth therein and to the provisions of that certain Consent Decree dated April 24, 2003 and the related Order dated May 9, 2003, relating to *United States of America v. Government of Guam*, said Revenues are pledged under the Indenture to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture and the payment of Credit Agreement Payments and Parity Payment Agreement Payments in accordance with their terms.

The Series 2013 Bonds are subject to redemption on any date prior to their respective stated maturities, as a whole, or in part so that the reduction in Annual Debt Service for the Series 2013 Bonds for each Bond Year after such redemption shall be as nearly proportional as practicable, from and to the extent of proceeds received by the Authority due to a governmental taking of the System or portions thereof by eminent domain proceedings, if such amounts are not used for additions, improvements or extensions to the System, under the circumstances and upon the conditions and terms set forth in the Indenture, at the greater of par or Amortized Value, plus accrued interest to the date fixed for redemption, without premium. "Amortized Value" means on any interest payment date, the then current value of the bond amortizing the original issue premium over the period ending on the first call date using the constant yield method.

The Series 2013 Bonds maturing on or after July 1, 20__ are subject to redemption prior to their respective stated maturities, at the option of the Authority, from any source of available moneys, on any date on or after July 1, 20__, as a whole, or in part by such maturities or portions of maturities as shall be determined by the Authority (or by lot within a maturity in the absence of such a determination), at a redemption price equal to the principal amount of each Series 2013 Bond called for redemption plus interest accrued to the date fixed for redemption, without premium.

The Series 2013 Bonds maturing on July 1, 20__, July 1, 20__ and July 1, 20__ are subject to redemption prior to their stated maturity in part, by lot, on July 1 of each year from Mandatory Sinking Account Payments, commencing July 1, 20__ July 1, 20__ and July 1, 20__, respectively, at a redemption price equal to the Mandatory Sinking Account Payment amount for such date set forth in the Indenture, plus accrued interest thereon to the date fixed for redemption, without premium.

Notice of any redemption, identifying the Bonds or portions thereof to be redeemed, shall be given by the Registrar not less than 30 nor more than 60 days before the date fixed for redemption by first class mail to each of the registered owners of Bonds designated for redemption at their addresses appearing on the bond registration books of the Registrar on the date the Bonds to be redeemed are

selected. Receipt of such notice by such registered owners shall not be a condition precedent to such redemption.

If this Bond is called for redemption and payment is duly provided herefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

The Series 2013 Bonds are issuable only in fully registered form in denominations of \$5,000 or any integral multiple thereof. Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, this Bond may be exchanged, at the Principal Office of the Registrar, in Los Angeles, California, or such other office as the Registrar shall designate, for a new fully registered Bond or Bonds, of the same Series, maturity and tenor and of any authorized denomination or denominations and for the aggregate principal amount of this Bond then remaining outstanding.

This Bond is transferable by the registered owner hereof, in person or by its attorney duly authorized in writing, at said office of the Registrar, but only in the manner, subject to the limitations and upon payment of the charges, if any, provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer a new registered Bond or Bonds, of the same Series and maturity and of any authorized denomination or denominations and for the same aggregate principal amount of this Bond then remaining outstanding, will be issued to the transferee in exchange therefor. The Registrar shall not be required to register the transfer of this Bond during the period established by the Trustee for the selection of Bonds for redemption or at any time after selection of this Bond for redemption.

The Authority, the Trustee, the Paying Agent and the Registrar may treat the registered owner hereof as the absolute owner hereof for all purposes, and neither the Authority, the Paying Agent nor the Registrar shall be affected by any notice to the contrary.

The Indenture and the rights and obligations of the Authority, the registered owners of the Bonds, the Trustee, the Registrar and other fiduciaries may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, provided that no such modification or amendment shall (a) extend the fixed maturities of the Bonds, or extend the time for making any Mandatory Sinking Account Payments, or reduce the rate of interest thereon, or extend the time of payment of interest, or reduce the amount of principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Owner of each Bond so affected, (b) reduce the aforesaid percentage of Owners of Bonds whose consent is required for the execution of any amendment or modification of this Indenture or permit the creation of any lien on the Revenues prior to or on a parity with the lien created by this Indenture or deprive the Owners of the Bonds of the lien created by this Indenture upon such Revenues, without in each case the consent of the Owners of all of the Bonds then Outstanding.

The Bonds are limited obligations of the Authority, payable solely from and secured by a pledge of the Revenues as provided in the Indenture. The Bonds are not a legal or equitable pledge, charge, lien or encumbrance upon any property of the Authority or upon any of its income, receipts or revenues except the Revenues pledged to the payment thereof as provided in the Indenture.

Neither the Government of Guam nor any political subdivision thereof is obligated to pay the principal of, Redemption Price, if applicable, or interest on the Bonds, except from Revenues, and neither the Authority, the Government of Guam nor any political subdivision thereof has pledged its faith or credit to the payment of the principal of, redemption price, if applicable, or interest on the Bonds.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Registrar.

It is hereby certified and recited that any and all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond exist, have happened and have been performed in due time, form and manner as required by the laws of the United States of America and the government of Guam, and that the amount of this Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by such laws, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

IN WITNESS WHEREOF, the GUAM WATERWORKS AUTHORITY has caused this Bond to be executed in its name and on its behalf by the manual or facsimile signature of the Chairman of the Consolidated Commission on Utilities and the Chief Financial Officer of the Authority, all as of the dated date first set forth above.

GUAM WATERWORKS AUTHORITY

By _____
Chairman of the Board of Directors

By _____
Chief Financial Officer

[FORM OF] CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Bonds described in the within-mentioned Indenture, which has been registered as of _____.

U.S. BANK NATIONAL ASSOCIATION, as
Registrar

By _____
Authorized Officer

[FORM OF] ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto the within-mentioned registered Bond and hereby irrevocably constitute(s) and appoint(s) attorney, to transfer the same on the books of the Registrar with full power of substitution in the premises.

Dated: _____

NOTICE: The signature on this Assignment must correspond with the name as it appears on the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever.

Signature Guaranteed:

Social Security Number, Taxpayer Identification Number or other Identifying Number of Assignee:

Notice: Signature must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

Note: Transfer fees must be paid to the Registrar in order to transfer or exchange this bond as provided in the within-mentioned Indenture.

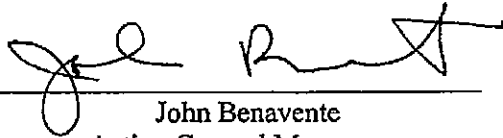
CERTIFICATE OF THE ACTING GENERAL MANAGER OF THE AUTHORITY

Dated: November 23, 2010

I, John Benavente, hereby certify that I am the Acting General Manager of the Guam Waterworks Authority ("Authority") and that attached hereto are true and correct copies of the Indenture, dated as of December 1, 2005 (the "Indenture"), among the Authority, the Bank of Guam, as Trustee and Depository (the "Trustee") and U.S. Bank National Association, as Co-Trustee and Paying Agent (the "Co-Trustee"), and the Supplemental Indenture, dated as of December 1, 2005 (the "Supplemental Indenture"), among the Authority, the Trustee and the Co-Trustee.

I further certify that said copies are full, true, and correct copies of said Indenture and Supplemental Indenture executed by the Authority; and that said Indenture and Supplemental Indenture have not been amended, modified or rescinded in any manner since the dates of their execution, and the same are now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate as of the first date written above.



John Benavente
Acting General Manager

GUAM WATERWORKS AUTHORITY

and

BANK OF GUAM,
as Trustee,

and

U.S. BANK NATIONAL ASSOCIATION,
as Co-Trustee

INDENTURE

Dated as of December 1, 2005

Relating to

Guam Waterworks Authority Water and Wastewater System Revenue Bonds

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THIS INDENTURE, made and entered into as of December 1, 2005, by and between the GUAM WATERWORKS AUTHORITY, a duly organized public corporation of the government of Guam (the "Authority"), BANK OF GUAM, a domestic banking corporation duly organized and existing under and by virtue of the laws of Guam, having a corporate trust office in Guam, and being qualified to accept and administer the trusts hereby created and to do business within Guam, as trustee (the "Trustee"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized under the laws of the United States of America and qualified to accept and administer the trusts hereby created, as co-trustee (the "Co-Trustee")

WITNESSETH:

WHEREAS, the Authority owns certain water and sewer system facilities;

WHEREAS, pursuant to Chapter 14 of Title 12 of the Guam Code Annotated, as amended (the "Act"), the Authority is authorized from time to time by statutory legislation authority, to incur indebtedness, and issue bonds, secured by a pledge on all or any portion of the revenues of the Authority to raise funds for the purpose of establishing the System (as hereinafter defined), or acquiring lands for the System, or acquiring, constructing, improving, equipping, maintaining, repairing, renewing, replacing, reconstructing or insuring the System, or any part thereof, or for the purpose of the refunding any such indebtedness, or for any combination of such purposes;

WHEREAS, the Authority has determined to issue revenue bonds for such purposes and to that end has duly authorized the execution and delivery of this Indenture to secure the payment of the principal thereof and the interest and premium, if any, thereon, and the observance of the covenants and conditions herein contained;

WHEREAS, said revenue bonds issued hereunder are to be designated as the "Guam Waterworks Authority Water and Wastewater System Revenue Bonds" (the "Bonds") and are to be issued from time to time in an aggregate principal amount not limited except as hereinafter provided; and

WHEREAS, the forms of each series of Bonds and various other matters relating to such series shall be prescribed in indentures supplemental hereto;

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in order to secure the payment of the principal of, and the premium, if any, and interest on, all Bonds at any time issued and outstanding under this Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the owners thereof, and for other valuable considerations, the receipt whereof is hereby acknowledged, the Authority does hereby covenant and agree with the Trustee and the Co-Trustee for the benefit of the respective owners from time to time of the Bonds, as follows:

ARTICLE I

DEFINITIONS; EFFECT OF INDENTURE

SECTION 1.01 Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Indenture and of any Supplemental Indenture and of any certificate, opinion or other document herein mentioned, have the meanings herein specified. Unless

otherwise defined in this Indenture, all terms used herein shall have the meanings assigned to such terms in the Act.

Account

"Account" means each account established and given a designation pursuant to this Indenture or any Supplemental Indenture.

Accreted Value

"Accreted Value" means, with respect to any particular Bonds as of any given date of calculation, an amount equal to the sum of the principal amount of such Bonds plus accrued and unpaid interest on such Bonds as of such date, but not including interest payable on a current basis at least annually.

Act

"Act" means Chapter 14 of Title 12 of the Guam Code Annotated, as amended, and as it may from time to time hereafter be amended or supplemented.

Additional Bonds

"Additional Bonds" means bonds, notes or other obligations of the Authority payable from Revenues and ranking on a parity with the Bonds then outstanding and authorized to be issued under and pursuant to Sections 3.04 and 3.05.

Aggregate Annual Debt Service

"Aggregate Annual Debt Service" means, for any year, Annual Debt Service for such year on all Bonds.

Annual Debt Service

"Annual Debt Service" means, for any year, and with respect to any Bonds (A) the sum of (1) the interest falling due on such Bonds then Outstanding (assuming that all then Outstanding Serial Bonds are retired on their respective maturity dates and that all then Outstanding Term Bonds are retired at the times of and in amounts provided for by the Mandatory Sinking Account Payments applicable to such Term Bonds), but not including Capitalized Interest, plus (2) the principal amount of such Bonds then Outstanding that are Serial Bonds falling due by their terms, plus (3) the aggregate amount of all Mandatory Sinking Account Payments falling due with respect to such Bonds then Outstanding that are Term Bonds, plus (4) the aggregate amount of Payment Agreement Payments under Related Parity Payment Agreements then Outstanding falling due, minus (B) the aggregate amount of Payment Agreement Receipts under Related Payment Agreements then Outstanding falling due; all as calculated for said year and provided that for purposes of determining the interest payable on Variable Rate Bonds, any obligation of the Authority to make Payment Agreement Payments based on a variable rate under Parity Payment Agreements and any obligation of a Qualified Counterparty to make payments under a Payment Agreement to the Authority based on a variable rate, the following assumptions shall be made:

(i) for purposes of determining the interest payable on Variable Rate Bonds, the interest rate used in making such determination shall be (a) for periods for which such rate has been determined, the actual interest rate on such Bonds; (b) for purposes of Section

3.05(B)(1)(c)(i)(D) for any other period, a rate equal to 1.1 times the highest rate of interest borne by such Bonds, or if such Bonds were not Outstanding during any portion of any such period bonds with similar ratings and terms, during the next preceding twelve months; or (c) for any other period or purpose, the prevailing interest rate on such Bonds as of the date of such determination;

(ii) for purposes of determining the amount of Payment Agreement Payments based on a variable rate under Parity Payment Agreements, the rate used in making such determination shall be assumed to be (a) for periods for which such rate has been determined, the actual rate used to calculate such payments, (b) for purposes of Section 3.05(B)(1)(c)(i)(D) for any other period, a rate equal to 1.1 times the highest such rate during the next preceding twelve months, and (c) for any other period or purpose, the prevailing rate being used to determine such payment obligation as of the date of such determination; in each such case without regard to the occurrence of any event that, under the provisions of such Payment Agreement, would permit or require the Authority to make payments on any basis other than such rates;

(iii) for purposes of determining the amount of payments by a Qualified Counterparty under a Payment Agreement to the Authority based on a variable rate, the rate used in making such determination shall be (a) if such Payment Agreement obligates a Qualified Counterparty to make payments to the Authority based on a variable rate that is equal to the actual rate on the Related Bonds, the actual rate on such Bonds; and (b) if such Payment Agreement obligates a Qualified Counterparty to make payments to the Authority based on a variable rate other than the actual rate on the Related Bonds (1) for periods for which such rate has been determined, the actual rate used to calculate such payments, (2) for purposes of Section 3.05(B)(1)(c)(i)(D) for any other period, a rate equal to 1.1 times the highest such rate during the next preceding twelve months, and (3) for any other period or purpose, the prevailing rate being used to determine such payment obligation as of the date of such determination; in each such case without regard to the occurrence of any event that, under the provisions of such Payment Agreement, would permit or require the Qualified Counterparty to make payments on any basis other than such rates.

Authority

"Authority" means the Guam Waterworks Authority, a public corporation of the Government of Guam, or any successor to the rights, powers, functions and duties with respect to the management, administration and control of the System which are now or hereafter vested in the Authority.

Authorized Officer

"Authorized Officer" of the Trustee means and includes the chairperson of the board of directors, the president, every vice president, every assistant vice president, every trust officer and any other officer or assistant officer of the Trustee, other than those specifically above mentioned, designated by a certificate of an Authorized Officer of the Trustee as an Authorized Officer for purposes of this Indenture.

Board

"Board" means the Consolidated Commission on Utilities established in Chapter 79 of Title 12 of the Guam Code Annotated or any other governing board of the Authority hereinafter provided for pursuant to law.

Bond Counsel

"Bond Counsel" means an attorney or firm of attorneys designated by the Authority and having a national reputation for expertise in matters relating to governmental obligations the interest on which is excluded from gross income for federal income tax purposes under Section 103 of the Code.

Bond Reserve Fund Requirement

"Bond Reserve Fund Requirement" means, as of any particular date of calculation, an amount equal to the Maximum Annual Debt Service for the then current or any future Fiscal Year on all Outstanding Bonds; provided, however, that if upon issuance of a Series of Bonds, such amount would require moneys to be credited to the Bond Reserve Fund from such Bond proceeds in an amount in excess of the maximum amount permitted from tax-exempt bond proceeds under the Code, the Bond Reserve Fund Requirement shall mean an amount equal to the sum of the Bond Reserve Fund Requirement immediately preceding issuance of such Bonds plus the maximum amount permitted under the Code to be deposited therein from the proceeds of such Bonds, as specified by Certificate of the Authority.

Bond Reserve Fund

"Bond Reserve Fund" means the fund by that name established pursuant to Section 5.01.

Bond Year

"Bond Year" means, with respect to any Series, the period of twelve consecutive months ending on the day in each year specified in the Supplemental Indenture authorizing the issuance of such Series if Bonds are or will be Outstanding in such twelve-month period.

Bondowner, Owner, Holder

"Bondowner" or "Owner" or "Holder" means any person who shall be the registered owner of any Outstanding Bond, or, if such Outstanding Bond shall have a maturity of one year or less and shall have been issued in bearer form, shall mean the bearer of such Bond.

Bonds, Serial Bonds, Term Bonds, Variable Rate Bonds

"Bonds" means the Guam Waterworks Authority Water and Wastewater System Revenue Bonds authorized by, and at any time Outstanding pursuant to, this Indenture and a Supplemental Indenture, including any Additional Bonds authorized by, and at any time Outstanding pursuant to, this Indenture and any Supplemental Indenture.

"Serial Bonds" means Bonds designated as Serial Bonds in the Supplemental Indenture providing for the issuance of such Series and for which no Mandatory Sinking Account Payments are provided.

"Term Bonds" means Bonds designated as Term Bonds in the Supplemental Indenture providing for the issuance of such Series and which are payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

"Variable Rate Bonds" means Bonds which bear interest at a variable rate of interest.

Business Day

"Business Day" means any day other than a Saturday, Sunday or other day upon which banks in the cities in which the Principal Offices of the Trustee, the Co-Trustee, each Depositary, each Paying Agent and each Credit Provider are located are authorized or required to be closed.

Capital Improvement

"Capital Improvement" means any addition, betterment, improvement or extension of the System having costs in excess of \$100,000 and a useful life in excess of five (5) years.

Capital Improvement Fund

"Capital Improvement Fund" means the fund by that name established pursuant to Section 5.01 for the purposes provided in Section 5.10.

Capitalized Interest

"Capitalized Interest" means interest to be paid from the original proceeds of Bonds (including proceeds constituting accrued interest on the Bonds) and from income derived from the investment of such proceeds.

Certificate of the Authority

"Certificate of the Authority" means an instrument in writing signed by the Chairperson or by the General Manager or by any other officer of the Authority duly authorized by resolution of the Board for that purpose. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the provisions of Section 1.03, each Certificate of the Authority shall include the statements provided for in Section 1.03.

Certified Public Accountant

"Certified Public Accountant" means (i) any nationally recognized U.S. certified public accountant or accounting firm or (ii) any other U.S. certified public accountant or accounting firm approved by each Credit Provider, if any, not then in default of its obligations under a Credit Facility.

Chairperson

"Chairperson" means the chairperson of the Board.

Chief Financial Officer

"Chief Financial Officer" means the Chief Financial Officer of the Authority.

Code

"Code" means the Internal Revenue Code of 1986 or any similar or successor federal law.

Construction Account

"Construction Account" means an account by that name established pursuant to Section 3.03.

Construction Fund

"Construction Fund" means the Guam Waterworks Authority Construction Fund established pursuant to the Act.

Consulting Engineer

"Consulting Engineer" means an Independent architect, engineer, consultant, or architectural, engineering, or consulting firm experienced in water and sewer system design, construction, or operation, having a favorable reputation with respect thereto and retained by the Authority to perform the acts and carry out the duties of a Consulting Engineer under this Indenture and, in any case, nationally recognized as being experienced in the preparation of feasibility studies for use in connection with the financing of water and sewer systems.

Costs of Issuance

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to advertising costs, Bond and official statement printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee, the Co-Trustee, and any Depositary, Paying Agent or Registrar, legal fees and charges, fees and disbursements of consultants and professionals, fees and expenses of any Credit Provider, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds and any other cost, charge or fee in connection with the original issuance of Bonds.

Co-Trustee

"Co-Trustee" means U.S. Bank National Association, appointed by the Authority as Co-Trustee in Section 8.02 and acting as an independent trustee with the duties and powers herein provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place as provided in Section 8.03.

Credit Agreement

"Credit Agreement" means any agreement between the Authority and a Credit Provider pursuant to which such Credit Provider agrees to provide a Credit Facility or pursuant to which the Authority agrees to reimburse a Credit Provider for draws or advances under or claims made against a Credit Facility.

Credit Agreement Payments

"Credit Agreement Payments" means Credit Agreement Reimbursement Payments and Other Credit Agreement Payments.

Credit Agreement Reimbursement Payments

"Credit Agreement Reimbursement Payments" means any payment obligation of the Authority pursuant to a Credit Agreement designated as such in a Supplemental Indenture.

Credit Facility

"Credit Facility" means any letter of credit, insurance policy, surety bond or other instrument designated by a Supplemental Indenture as providing supplemental credit support for a Series of Bonds (including by substituting for a deposit in a Bond Reserve Fund).

Credit Provider

"Credit Provider" means any person, firm or entity designated in a Supplemental Indenture as providing a Credit Facility for a Series of Bonds, and any successor thereto.

Date of Completion

"Date of Completion" means, for any particular Project, the date on which such Project is projected to be available for use by the Authority for the purposes for which it is intended to be used.

Debt Service Fund

"Debt Service Fund" means the fund by that name established pursuant to Section 5.01.

Depository

"Depository" means, with respect to any particular fund or account, the bank or trust company or other financial institution with similar powers designated by a Supplemental Indenture or a Statement of the Authority to act as the Depository hereunder for such fund or account, its successors and assigns, and any other bank or trust company or financial institution which may at any time be substituted in its place, as provided in Section 8.03.

Event of Default

"Event of Default" means an event of that name described in Section 7.01.

Federal Securities

"Federal Securities" means (1) direct obligations of the United States of America for which the full faith and credit of the United States of America are pledged for the payment of principal and interest (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America); (2) obligations for which the payment of principal and interest is guaranteed directly by the full faith and credit of the United States of America of the following types issued by the following agencies: U.S. Export-Import Bank (direct obligations or fully guaranteed certificates of beneficial ownership), Farmers Home Administration (certificates of beneficial ownership), Federal Financing Bank, General Services Administration (participation certificates), U.S. Maritime Administration (guaranteed Title XI financing), U.S. Department of Housing and Urban Development (project notes, local authority bonds, new communities debentures—U.S. government guaranteed debentures, or U.S. public housing notes and bonds—U.S. government guaranteed public housing notes and bonds); (3) obligations of any state of the United States of America or of any agency, instrumentality

or local governmental unit of any such state (collectively, "Municipal Obligations") (a) which are fully secured as to principal and interest and redemption premium, if any, by an escrow or trust fund consisting only of cash or obligations of the character described in clauses (1) or (2) of this definition ("Government Obligations"), which fund may be applied only to the payment of interest on such municipal obligations when due and principal of and redemption premium, if any, on such municipal obligations on the maturity date or dates thereof or the redemption date or dates specified in an irrevocable notice, as appropriate, (b) as to which the cash and the principal of and interest on the Government Obligations in such escrow or trust fund will be sufficient to pay such interest, principal and redemption premium on such date or dates, and (c) which at the time of purchase are rated in the highest rating category by each Rating Agency; (4) certificates which evidence ownership of the right to the payment of any specified portion of the principal of and interest on obligations described in clause (1) of this definition, provided that such obligations have been stripped by the Treasury of the United States of America; and (5) the interest component of Resolution Funding Corp. stripped securities, which have been stripped by request to the Federal Reserve Bank of New York, in book entry form.

Fiduciaries

"Fiduciaries" means the Trustee, the Co-Trustee, each Depositary, each Registrar and each Paying Agent.

Financial Newspaper or Journal

"Financial Newspaper or Journal" means, collectively, The Wall Street Journal, The Bond Buyer or any one or more other newspapers or journals publishing financial news and selected by the Trustee, whose decision shall be final and conclusive, printed in the English language, customarily published on each business day and circulated in New York, New York, San Francisco, California, and Hagatña, Guam.

Fiscal Year

"Fiscal Year" means the period beginning on October 1 of each year and ending on the next succeeding September 30, or such other fiscal year as may be adopted by the Authority.

Fund

"Fund" means each fund established and given a designation pursuant to this Indenture or any Supplemental Indenture.

General Manager

"General Manager" means the person appointed by the Board under the Act to supervise the administration of the Authority as its chief executive officer.

Government

"Government" means the Government of Guam or any successor to the rights, powers and obligations thereof under the Act with respect to the Bonds.

Indenture

"Indenture" means this Indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Independent

"Independent" means, when used with respect to any given person, that such person (who may be selected and paid by the Authority or the Government) (1) is in fact independent and not under domination of the Authority or the Government; (2) does not have any substantial interest, direct or indirect, with the Authority or the Government; and (3) is not connected with the Authority or the Government as an officer or employee of the Authority or the Government, but who may be regularly retained to provide services to the Authority or the Government.

Interest Accrual Period

"Interest Accrual Period" means, for any particular Bond, each period between successive Interest Payment Dates for such Bond, including in each case in such period the concluding Interest Payment Date but not the beginning Interest Payment Date, and treating the day prior to the date of original issuance of such Bond as if it were an Interest Payment Date for such Bond for this purpose.

Interest Payment Date

"Interest Payment Date" means, for any particular Bond, each date specified as an Interest Payment Date for such Bond by the Supplemental Indenture authorizing the issuance of such Bond and, for all Bonds, all such dates.

Investment Securities

"Investment Securities" means any of the following which at the time are legal investments under the laws of Guam for moneys held hereunder and then proposed to be invested therein (the Trustee and the Co-Trustee shall be entitled to rely upon a Request of the Authority directing investments hereunder as a determination that such investment constitutes a legal investment):

- (1) Federal Securities;
- (2) obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Federal Home Loan Banks, Federal National Mortgage Association, Government National Mortgage Association, Federal Housing Administration or Federal Home Loan Mortgage Corporation;
- (3) interest-bearing demand or time deposits (including certificates of deposit) which are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund;
- (4) obligations, including deposits, federal funds borrowings and banker's acceptances, of any bank, or of the subsidiary lead bank of any bank holding company, which has an unsecured, uninsured and unguaranteed obligation of equivalent maturity rated at least the second highest major rating category by each Rating Agency;
- (5) commercial paper rated at least the second highest rating category by each Rating Agency;

(6) money market funds which are (a) restricted to Federal Securities or (b) registered under the Investment Company Act of 1940 and the shares of which are registered under the Securities Act of 1933, and have a rating by S&P of AA-Am-G; AAA-m; or AA-m and Moody's of Aaa, Aa1 or Aa2;

(7) repurchase agreements, the underlying securities of which are specifically designated and are obligations described in clause (1) or (2) of this definition, provided that, (a) the agreement is between the municipal entity and a dealer bank or securities firm; (b) such dealer bank or securities firm is either a primary dealers on the Federal Reserve reporting dealer list rated "A" or better by Standard & Poor's and Moody's, or a bank rated "A" or better by Standard & Poor's and Moody's; (c) the agreement provides that the securities be delivered to the Authority, the Trustee, the Co-Trustee or third party acting as agent for either (if the Trustee or Co-Trustee is supplying the collateral) before payment or on a delivery versus payment basis; (d) the securities must be valued weekly, marked-to-market at current market price plus accrued interest; (e) the value of collateral must be equal to 104% (or 105% if the collateral is comprised of obligations of Federal National Mortgage Association or Federal Home Loan Mortgage Corporation) of the amount of cash transferred to the dealer bank or security firm plus accrued interest; and (c) the Authority receives a legal opinion that the agreement is a legal investment under the laws of Guam;

(8) subject to the provisions of any Supplemental Indenture, investment agreements (a) with corporations, associations or financial institutions which have general obligations, or whose holding companies have general obligations, rated at least the second highest rating category by each Rating Agency, or (b) which agreements are continuously secured by obligations described in clause (1) or (2) of this definition which have a market value (valued at least weekly) not less than 103% of the amount so invested; and

(9) any other investment approved in writing by each Credit Provider then providing a Credit Facility for Bonds not then in default of its obligations thereunder.

None of the Trustee, the Co-Trustee nor any Depositary shall be deemed, by entering into this Indenture, to have agreed to make the valuation required by clauses (7) and (8) above, but such agreement by or on behalf of the Trustee, the Co-Trustee or a Depositary shall be a condition precedent to investment in obligations of the type described in such clauses.

Legislature

"Legislature" means the Legislature of Guam or any successor to the rights, powers and obligations thereof under the Act with respect to the Bonds.

Mandatory Sinking Account Payment

"Mandatory Sinking Account Payment" means, as of any date of calculation with respect to any Series of Bonds, the amount required by this Indenture and any Supplemental Indenture to be paid by the Authority on a given date for the retirement of Term Bonds of such Series.

Maximum Annual Debt Service

"Maximum Annual Debt Service" means, for any particular Bonds as of any particular date of calculation, Annual Debt Service on such Bonds for the Bond Year including or commencing on or after such date for which such sum shall be largest.

Navy/GPA Surcharge

"Navy/GPA Surcharge" means that certain surcharge established by order of the Guam Public Utilities Commission on September 13, 2001, as amended on June 23, 2003 and October 27, 2005, for the purpose of collecting revenues for the payment of amounts due to the United States Treasury, the Guam Power Authority and the Guam Public Utilities Commission and any successor surcharge to the extent provided for the same purpose or purposes.

Net Revenues

"Net Revenues" means, for any particular period, (a) the sum of (i) all of the Revenues (other than Payment Agreement Receipts) received during such period plus (ii) the aggregate amount of all transfers from the Rate Stabilization Fund to the Revenue Fund during such period, less (b) the sum of (x) all Operation and Maintenance Expenses incurred during such period plus (y) the amount of all transfers from the Revenue Fund to the Rate Stabilization Fund during such period.

Operation and Maintenance Expenses

"Operation and Maintenance Expenses" means such reasonable and necessary current expenses of the Authority, paid or accrued, for operation, maintenance and repair of the System as may be determined by the Board, and the term may include at the Board's option; except as limited by contract or otherwise limited by law, without limiting the generality of the foregoing:

- (a) Legal and overhead expenses of the Authority directly related and reasonably allocable to the administration of the System;
- (b) Fidelity bond and insurance premiums appertaining to the System or a reasonably allocable share of a premium of any blanket bond or policy pertaining to the System;
- (c) Contractual services, professional services, salaries, administrative expenses, and costs of labor appertaining to System, including fees and expenses of the Trustee;
- (d) The costs incurred in the collection of all or any part of the Revenues; and
- (e) Any costs of utility services furnished to the System by the Authority or otherwise.

However, the term "Operation and Maintenance Expenses" as used herein does not include:

- (i) Any allowance for depreciation;
- (ii) Any costs of System capital renewals, replacements, major repairs, reconstruction, improvements, extensions or betterments;
- (iii) Any accumulation of reserves for System capital renewals, replacements, major repairs or reconstruction;
- (iv) Any reserves for operation, maintenance or repair of the System;
- (v) Any liabilities incurred in the acquisition or improvement of any properties comprising the System or any combination thereof;

(vi) Any other legal liability not based on contract;

(vii) Payments made by the Authority to the United States Treasury, the Guam Power Authority or the Guam Public Utilities Commission from revenues derived from the Navy/GPA Surcharge; and

(vii) Payments made by the Authority to Guam Power Authority for power delivered prior to the Fiscal Year commencing October 1, 2003.

Operation and Maintenance Fund

"Operation and Maintenance Fund" means the fund by that name established pursuant to Section 5.01.

Operation, Maintenance, Renewal and Replacement Reserve Fund

"Operation, Maintenance, Renewal and Replacement Reserve Fund" means the fund by that name established pursuant to Section 5.01.

Opinion of Counsel

"Opinion of Counsel" means a written opinion of counsel (who may be counsel for the Authority) retained by the Authority. If and to the extent required by the provisions of Section 1.03, each Opinion of Counsel shall include the statements provided for in Section 1.03.

Order, Request, Requisition or Statement of the Authority

"Order of the Authority", "Request of the Authority", "Requisition of the Authority", or "Statement of the Authority" mean, respectively, a written order, request, requisition or statement signed by or on behalf of the Authority by the Chairperson or the General Manager or by any person (whether or not an officer of the Authority) who is specifically authorized by resolution of the Board to sign or execute such a document on behalf of the Authority.

Other Credit Agreement Payments

"Other Credit Agreement Payments" means any payment obligation of the Authority pursuant to a Credit Agreement designated as such in a Supplemental Indenture.

Outstanding

"Outstanding," when used as of any particular time with reference to

(A) Bonds, means (subject to the provisions of Section 9.03) all Bonds theretofore executed, issued and delivered by the Authority under this Indenture except --

(1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(2) Bonds for the payment or redemption of which funds or securities in the necessary amount (as set forth in Section 10.01) shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or redemption date of such Bonds); provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall

have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the Authority pursuant to Section 2.08;

(B) Payment Agreements, means all Payment Agreements which have not been paid or otherwise satisfied as provided in the proceedings and instruments pursuant to which such Payment Agreements have been incurred; provided that Payment Agreements shall not be Outstanding if the Authority or the Qualified Counterparty with respect thereto is in default thereunder; and

(C) Credit Agreements, means all Credit Agreements which have not been paid or otherwise satisfied as provided in the proceedings and instruments pursuant to which such Credit Agreements have been incurred; provided that a Credit Agreement shall not be Outstanding during any period in which the Credit Provider with respect thereto is in default on its payment obligations thereunder.

Parity Payment Agreement

"Parity Payment Agreement" means a Payment Agreement which is designated as such in a Supplemental Indenture, the payment of which constitutes a charge and lien on Revenues equal to and on a parity with the charge and lien upon the Revenues for the payment of the Bonds.

Parity Payment Agreement Payments

"Parity Payment Agreement Payments" means Payment Agreement Payments under a Parity Payment Agreement.

Paying Agent

"Paying Agent" means any paying agent appointed pursuant to a Supplemental Indenture, and its successors and assigns as provided in Section 8.03.

Payment Agreement

"Payment Agreement" means any contract entered into by the Authority with a Qualified Counterparty in connection with, or incidental to, the issuance of Bonds, or the carrying of any investment or program of investment or entering into or maintaining any agreement which secures Bonds, which the Authority determines to be necessary or appropriate to place the obligation or investment of the Authority, as represented by such Bonds, investment, program of investment or agreement and the contract or contracts, in whole or in part, on the interest rate, currency, cash-flow, or other basis desired by the Authority, including, without limitation, contracts commonly known as interest rate swap agreements or contracts providing for payments based on levels of, or changes in, interest rates, or contracts to exchange cash flows or a series of payments, or contracts, including, without limitation, interest rate floors or caps, options, put or call to hedge payment, rate, spread, or similar exposure and which is designated as such and as Related to particular Bonds in a Supplemental Indenture.

Payment Agreement Payment Accrual Period

"Payment Agreement Payment Accrual Period" means, for any Payment Agreement, each period between successive Payment Agreement Payment Dates for such Payment Agreement,

including in each case in such period the concluding Payment Agreement Payment Date but not the beginning Payment Agreement Payment Date, and treating the day prior to the effective date of such Payment Agreement as if it were a Payment Agreement Payment Date for such Payment Agreement for this purpose.

Payment Agreement Payment Date

"Payment Agreement Payment Date" means, for any particular Payment Agreement, each date specified as a payment date in such Payment Agreement.

Payment Agreement Payments

"Payment Agreement Payments" means amounts required to be paid periodically by the Authority to any Qualified Counterparty pursuant to a Payment Agreement, but not including (i) Termination Payments or (ii) such other payments as may be specified in a Supplemental Indenture.

Payment Agreement Receipts

"Payment Agreement Receipts" means amounts required to be paid periodically by a Qualified Counterparty to the Authority pursuant to a Payment Agreement, but not including Termination Payments.

Principal Office

"Principal Office" means, with respect to the Trustee, the Co-Trustee and any other Fiduciary, the office at the respective address set forth in Section 12.07 hereof or at such other address as the respective party may have designated for such purpose. The Principal Office of any Credit Provider shall be as specified by such Credit Provider pursuant to its Credit Facility or Credit Agreement.

Principal Payment Period

"Principal Payment Period" means, for any particular Bond, each period so designated by the Supplemental Indenture authorizing the issuance of such Bond.

Project

"Project" means any particular additions, enlargements, betterments, extensions and other improvements to or related to, and the equipping of, the System, including, without limitation, the acquisition of land and furnishings therefor or the payment of any claims or judgments relating thereto, as specified and described by the Supplemental Indenture authorizing issuance of the first Series of Bonds for such Project, and as such specification and description may be modified in accordance with Section 3.03.

Project Costs

"Project Costs" means, with respect to any given Project, all costs which are chargeable to the capital account of such Project, including, but not limited to, the following:

- (1) costs of the Authority and all contractors for land (including franchises, licenses or other interests in land), labor, materials, machinery, equipment and furnishings in connection with the

acquisition, construction, reconstruction, installation and equipping of the Project or otherwise attributable to the Project;

(2) the cost of relocation and installation of utilities, environmental cleanup and noise abatement;

(3) the cost of contract bonds and insurance of all kinds that may be required or necessary during the construction of the Project;

(4) all costs of architectural and engineering services, including the costs of test borings, surveys, estimates, plans and specifications and preliminary investigation therefor, and for inspecting and supervising construction, as well as for the performance of all other duties required by or consequent upon the proper construction of the Project;

(5) relocation costs and any claims, awards or judgments relating to the Project;

(6) Capitalized Interest; and

(7) all amounts required to reimburse the Authority for advances made by it for any of the above items or for any other costs incurred and for work done, whether before or after the date of this Indenture, which are properly chargeable to the Project.

Qualified Counterparty

"Qualified Counterparty" means the party, other than the Authority, to a Payment Agreement; provided that any such party must satisfy the following requirements: (1) either (a) the obligations of such party under the Payment Agreement (or obligations of such type) must be rated in one of the three (3) highest rating categories of each of the Rating Agencies then rating the Bonds (without regard to any gradations within a rating category), or (b) the obligations of such party under the Payment Agreement are guaranteed by a bond insurer or other institution, in each case the obligations of such type of which must be rated in one of the three (3) highest rating categories of each of the Rating Agencies then rating the Bonds (without regard to any gradations within a rating category); and (2) such party must be otherwise qualified to act as the other party to a Payment Agreement with the Authority under any applicable laws.

Rate Stabilization Fund

"Rate Stabilization Fund" means the fund by that name established pursuant to Section 5.01.

Rating Agency

"Rating Agency" means, as of any given date, each nationally recognized securities rating agency designated by this Indenture or any Supplemental Indenture as a Rating Agency hereunder and then rating any Series of Bonds.

Rebate Fund

"Rebate Fund" means the fund by that name established pursuant to Section 5.01.

Record Date

"Record Date" means, for any particular payment of principal of or interest or premium on particular Bonds, each date specified as a Record Date for such Bonds by the Supplemental Indenture authorizing the issuance of such Bonds.

Redemption Price

"Redemption Price" means, with respect to any Bond (or portion thereof if less than all of a Bond is to be redeemed) the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and this Indenture.

Registrar

"Registrar" means any registrar appointed pursuant to a Supplemental Indenture, and its successors and assigns as provided in Section 8.02.

Related

"Related" means, with respect to any particular Payment Agreement, having been designated as such with respect to any particular Bonds pursuant to a Supplemental Indenture.

Renewal and Replacement Costs

"Renewal and Replacement Costs" means the costs of System capital renewals, replacements, major repairs or reconstruction.

Revenue Fund

"Revenue Fund" means the Guam Waterworks Authority Revenue Fund established pursuant to the Act.

Revenues

"Revenues" means all gross income and other amounts received or receivable by the Authority as revenues of any kind from the ownership or operation of any part of the System, including all rates, fees and charges (including ground water, surface water and treated water charges and all sewer and wastewater service charges), received by the Authority for providing water and sewer services (but excluding development charges and assessments and hook-up fees and other special charges such as penalties and fines), all Payment Agreement Receipts, and all proceeds of insurance or grants covering business interruption loss (and related losses and expenses) relating to the System, and all other income and revenue howsoever derived by the Authority from the ownership or operation of, or arising from, the System, together with all interest, profits or other income derived from the investment of amounts in the Revenue Fund, but not including:

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- (1) amounts received as insurance proceeds (except as hereinabove provided) or from the sale, transfer or other disposition of, or upon the taking by or under the threat of eminent domain of, all or any part of the System (which moneys shall be received and disposed of pursuant to Sections 6.03, 6.06 and 6.11, as the case may be),

- (2) proceeds from any securities issued by the Authority or proceeds from loans obtained by the Authority,
- (3) the proceeds of any court or arbitration award or settlement in lieu thereof received by the Authority,
- (4) amounts received by the Authority as gifts or as grants (except as hereinabove provided), whether restricted or unrestricted,
- (5) amounts received by the Authority as revenues from the Navy/GPA Surcharge;
- (6) other amounts (except as hereinabove provided), the use of which is restricted by the donor or grantor.

Series

"Series" or "Series of Bonds" means and refers to all Bonds of like designation and described as such in a Supplemental Indenture authenticated and delivered on original issuance at the same time pursuant to this Indenture, and any Bonds thereafter delivered in lieu of or substitution for any of such Bonds pursuant to this Indenture.

Series 2005 Certificates

"Series 2005 Certificates" means the Certificates of Participation, Series 2005, evidencing an assignment of a proportionate interest in rights to receive certain Net Pledged Revenues pursuant to the Purchase Agreement between Guam Waterworks Facilities Corporation and the Authority.

Sinking Accounts

"Sinking Accounts" means any special account or accounts established by any Supplemental Indenture or Indentures in the Debt Service Fund for the payment of Term Bonds.

Subordinate Securities

"Subordinate Securities" means any obligations of the Authority payable from the Subordinate Securities Fund and having a lien, if any, on Revenues subordinate to the pledge and lien of this Indenture securing the payment of the Bonds.

Subordinate Securities Fund

"Subordinate Securities Fund" means the fund by that name established pursuant to Section 5.01 for the purposes provided in Section 5.07.

Supplemental Indenture

"Supplemental Indenture" means any indenture hereafter duly authorized under and in compliance with the Act, entered into by and between the Authority, the Trustee and the Co-Trustee and accepted by each Depositary, Paying Agent and Registrar the duties of which are affected thereby, supplementing, modifying or amending this Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

System

"System" means the water and sewer systems, now or hereafter existing, owned and/or operated by the Authority or its contractors, agents or subcontractors.

Tax Certificate

"Tax Certificate" means a Certificate of the Authority concerning the calculation of any amount to be paid to the United States of America pursuant to Section 148(f) of the Code and any other matters relating to the exclusion of interest on Bonds from gross income for federal income tax purposes.

Termination Payments

"Termination Payments" means amounts required to be paid by the Authority or a Qualified Counterparty pursuant to a Payment Agreement in connection with a termination of all or any portion thereof.

Trustee

"Trustee" means Bank of Guam, appointed by the Authority as Trustee in Section 8.01 and acting as an independent trustee with the duties and powers herein provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place as provided in Section 8.03.

SECTION 1.02 Equal Security. In consideration of the acceptance of the Bonds by those who shall hold the same from time to time, this Indenture shall be deemed to be and shall constitute a contract between the Authority and the Owners from time to time of the Bonds; and the covenants and agreements herein set forth to be performed on behalf of the Authority shall be for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the Series, number or date thereof or the time of issue, sale, execution or delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or herein.

SECTION 1.03 Content of Certificates and Opinions. Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture, including each Certificate of the Authority, shall include (A) a statement that the person or persons making or giving such certificate or opinion have read such covenant or condition and the definitions herein relating thereto; (B) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (C) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (D) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such certificate or opinion made or given by an officer of the Authority may be based, insofar as it relates to legal, accounting or System matters, upon a certificate or opinion of or representations by counsel, accountants or consultants, respectively, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion may be based, as aforesaid, are erroneous. Any such certificate or opinion made or given by counsel, accountants or consultants may be based, insofar as it relates to factual matters, information with respect to which is in the possession of the

Authority, upon the certificate or opinion of or representations by an officer or officers of the Authority, unless such counsel, accountant or consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representations with respect to the matters upon which his opinion may be based as aforesaid are erroneous.

ARTICLE II

THE BONDS

SECTION 2.01 Authorization of Bonds. Bonds may be issued hereunder from time to time in order to obtain funds for the purposes authorized herein. The Bonds shall be issued under the Act for the purpose of financing or refinancing the acquisition, construction, reconstruction, improvement, betterment, extension, financing and refinancing of the System. The aggregate principal amount of Bonds which may be issued hereunder is not limited (subject, however, to the right of the Authority, which is hereby reserved, to limit or restrict the aggregate principal amount of Bonds which may at any time be issued and Outstanding hereunder) and consists or may consist of one or more Series of varying denominations, dates, maturities, interest rates and other provisions, all issued and to be issued pursuant to this Indenture and the Act, subject to the limitations contained in Sections 3.04 and 3.05. The Bonds are designated as the "Guam Waterworks Authority Water and Wastewater System Revenue Bonds." The Bonds may be issued in such Series as from time to time shall be established and authorized by the Authority by Supplemental Indenture, subject to the provisions and conditions herein contained.

SECTION 2.02 Execution of Bonds. The Bonds shall be executed on behalf of the Authority by the manual or facsimile signature of the Chairperson and countersigned by the manual or facsimile signature of the Chief Financial Officer of the Authority. The Bonds shall then be delivered to the applicable Registrar for authentication by it. In case any of the officers who shall have signed or countersigned any of the Bonds shall cease to be such officer or officers before the Bonds so signed or countersigned shall have been authenticated or delivered by the Registrar or issued by the Authority, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Authority as though those who signed and countersigned the same had continued to be such officers of the Authority, and also any Bond may be signed and countersigned on behalf of the Authority by such persons as on the actual date of the execution of such Bond shall be the proper officers of the Authority although at the nominal date of such Bond any such person shall not have been such officer of the Authority.

Except as may be provided in any Supplemental Indenture, only such of the Bonds as shall bear thereon a certificate of authentication in the form hereinbefore recited, manually executed by the applicable Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Registrar shall be conclusive evidence that the Bonds so authenticated have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

SECTION 2.03 Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.05, by the person in whose name it is registered, in person or by its duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the applicable Registrar.

Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the applicable Registrar shall authenticate and deliver a new Bond or Bonds of the same Series and maturity, for a like aggregate principal amount of authorized denominations. The Registrar

shall require the payment by any Bondowner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

No transfer or exchange of any Bond of any Series shall be required during the period established by the applicable Registrar for the selection of Bonds of such Series for redemption or at any time after selection of such Bond for redemption.

SECTION 2.04 Exchange of Bonds. Bonds may be exchanged at the Principal Office of the applicable Registrar, for a like aggregate principal amount of Bonds of other authorized denominations of the same Series and maturity. The Registrar shall require the payment by the Bondowner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

SECTION 2.05 Bond Register; Right of Inspection. Each Registrar will keep or cause to be kept, at the Principal Office of the Registrar, sufficient books for the registration and transfer of the Bonds of the applicable Series, which shall at all times be open to inspection during regular business hours by the Authority, the Co-Trustee or the Trustee; and, upon presentation for such purpose, the Registrar shall, under such reasonable regulations as the Registrar may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as hereinbefore provided.

SECTION 2.06 Temporary Bonds. The Bonds may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Authority, shall be in registered form without coupons and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the Authority and be authenticated by the applicable Registrar upon the same conditions and in substantially the same manner as the definitive fully registered Bonds. If the Authority issues temporary Bonds, it may execute and furnish definitive Bonds without delay, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Principal Office of the applicable Registrar, and the Registrar shall deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of the same Series and maturity or maturities in authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds executed and delivered hereunder.

SECTION 2.07 Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Authority, at the expense of the Owner of said Bond, shall execute, and the applicable Registrar shall thereupon authenticate and deliver a new Bond of like tenor in exchange and substitution for the Bond so mutilated (except that such number may be preceded by a distinguishing prefix), but only upon surrender to the Registrar of the Bond so mutilated. Every mutilated Bond so surrendered to the Registrar shall be cancelled by it and delivered to, or upon the order of, the Authority. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Authority and the Registrar and, if such evidence be satisfactory to both and indemnity satisfactory to them shall be given, the Authority, at the expense of the Owner, shall execute, and the Registrar shall thereupon authenticate and deliver a new Bond in lieu of and in substitution for the Bond so lost, destroyed or stolen (except that such number may be preceded by a distinguishing prefix). The Authority may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Authority and the Registrar in the premises. Any Bond issued under the provisions of this Section in exchange for any Bond mutilated or in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Authority, whether or not the Bond so mutilated or so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately

entitled to the benefits of this Indenture with all other Bonds secured by this Indenture. Neither the Authority, the Trustee nor the Co-Trustee shall be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the Accreted Value of Bonds which may be issued hereunder or for the purpose of determining any percentage of Bonds Outstanding hereunder, but both the original and duplicate Bond shall be treated as one and the same.

SECTION 2.08 Book-Entry Registration of Exchanges. (A) Notwithstanding any of the provisions of Sections 2.02 through 2.07 to the contrary, the Supplemental Indenture providing for the issuance of a Series of Bonds may provide: (1) that one or more Bonds of such Series shall be delivered upon initial issuance to, and registered in the name of, or in the name of one or more nominees of, one or more bond depositories, (2) that such Bonds may not be exchanged, transferred or replaced on the registration books maintained pursuant to Section 2.05, subject to such exceptions as may be provided by such Supplemental Indenture, (3) that, while any such Bond is held by such a bond depository, the Authority, the Trustee, the Co-Trustee, any Paying Agent and any Registrar for such Bond may treat the bond depository as the absolute owner of such Bond for all purposes and shall have no liability with respect to (a) the accuracy of the records of such bond depository or any participant with respect to any ownership interest in such Bond, (b) the delivery to any participant, any beneficial owner or any other person, other than such bond depository, of any notice with respect to such Bond, including any notice of redemption, or (c) the payment to any participant, any beneficial owner or any other person, other than such bond depository, of any amount with respect to the principal or Redemption Price of or interest on such Bond.

(B) In the alternative, notwithstanding any of the provisions of Sections 2.02 through 2.07 to the contrary, the Supplemental Indenture providing for the issuance of a Series of Bonds may provide: (1) that one or more Bonds shall be delivered upon initial issuance to, and registered in the name of, or in the name of one or more nominees of, the Trustee, the Co-Trustee or any other Registrar for such Series of Bonds, in order to set forth the terms of such Bonds in the same manner as for Bonds that are subject to exchange, transfer and replacement in written certificated form, (2) that no person other than the Trustee, the Co-Trustee or such other Registrar may receive an authenticated Bond, subject to such exceptions as may be provided by such Supplemental Indenture, (3) that the ownership of such Bonds shall be evidenced solely by the bond registration books of the Trustee, the Co-Trustee or such other Registrar, and (4) that the transfer of the ownership of such Bonds shall take place subject to such regulations as may be provided by such Supplemental Indenture.

ARTICLE III

ISSUANCE OF BONDS; ISSUANCE OF A SERIES OF BONDS; PARITY PAYMENT AGREEMENTS

SECTION 3.01 Issuance of Bonds. At any time after the execution of this Indenture and one or more appropriate Supplemental Indentures, the Authority may sell and execute one or more Series of Bonds and the Registrar for each such Series of Bonds shall authenticate and, upon the Order of the Authority, deliver such Series of Bonds.

SECTION 3.02 Application of Proceeds of Bonds. The proceeds received by the Authority from the sale of each Series of Bonds shall be deposited with the Trustee or the Co-Trustee, who shall forthwith set aside such proceeds in such respective funds and accounts as are directed by a Request of the Authority, subject to the requirements of this Indenture.

SECTION 3.03 Establishment and Application of Construction Accounts; Modification of Projects. (A) With respect to each Project or Series, as determined by the Authority, the

Depository for the Construction Account for such Project or Series shall establish within the Construction Fund and maintain and hold in trust hereunder a separate account designated as the "Construction Account" (inserting therein the Project or Series designation). Amounts in each Construction Account shall be used and withdrawn, as provided in this Section, solely for the payment of Project Costs of such Project (or of the Project or Projects for which such Series is being issued), including by (1) direct payment, (2) payment of any debt obligations issued by the Authority, or repayment of any advances made from any source, to finance temporarily such Project Costs, (3) payment of Capitalized Interest accruing on Bonds issued for such Project as specified in the Supplemental Indenture relating thereto, and (4) payment of Costs of Issuance of such Bonds. A Depository shall disburse moneys in a Construction Account only upon Requisition of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper and lawful charge against such account.

The Authority may modify the specifications or description of any Project or Projects by filing with the Trustee and each Depository for each Construction Account for such Project or Projects a Certificate of the Authority describing such modification, together with a written report of an Consulting Engineer to the effect that such modification will have no material adverse effect on the Authority's ability to comply with Section 6.12 and an opinion of Bond Counsel to the effect that such modification and the use of amounts in such Construction Accounts for such modified Project or Projects will not adversely effect the exclusion, if any, of interest on any Bonds from gross income for federal income tax purposes.

Upon receipt of a Certificate of the Authority that amounts in any Construction Account are no longer required for the purpose of such account, said amounts shall be transferred to the Capital Improvement Fund or any other fund or account designated by the Authority in such Certificate; provided, however, that any such transfer shall be subject to receipt by the Trustee of an opinion of Bond Counsel to the effect that such transfer and the use of such amounts for the purposes intended by the Authority after such transfer will not adversely affect the exclusion, if any, of interest on any Bonds from gross income for federal income tax purposes.

(B) All interest and other profits derived from the investment of moneys in each Construction Account shall be retained therein.

(C) The Authority may provide in the Supplemental Indenture providing for the issuance of Additional Bonds that the proceeds of such Additional Bonds shall otherwise be limited as to use or application.

SECTION 3.04 Issuance of Additional Series of Bonds; Additional Parity Payment Agreements; Other Payment Agreements. (A) In addition to the initial Series of Bonds, the Authority may by Supplemental Indenture establish one or more other Series of Bonds payable from Revenues on a parity with the initial Series of Bonds and Parity Payment Agreements and secured by a lien upon and pledge of Revenues equal to the lien and pledge securing the initial Series of Bonds and Parity Payment Agreements, and the Authority may issue Bonds of any Series so established, in such principal amount and for such lawful purpose or purposes (including refunding of any Bonds issued hereunder and then Outstanding) as shall be specified by the Authority in said Supplemental Indenture, but only upon compliance by the Authority with the provisions of Section 3.05 and any applicable provisions of any Supplemental Indenture, and subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such additional Series of Bonds:

(1) No Event of Default shall have occurred and then be continuing.

(2) The Supplemental Indenture providing for the issuance of such additional Series of Bonds shall specify the purposes for which such Series is being issued, which shall be one or more of the following (1) to provide moneys for deposit into a Construction Account and withdrawal therefrom in accordance with law for purposes other than the refunding of Bonds, or (2) to refund all or part of the Bonds of any one or more Series then Outstanding, by depositing with the Trustee, in trust, moneys or noncallable Federal Securities in the necessary amount to discharge all liability of the Authority with respect to the Bonds to be refunded as provided in Section 10.02 and to make any payment necessary or desirable in connection with the termination of any Related Payment Agreement in connection with such refunding.

(3) The Supplemental Indenture providing for the issuance of such additional Series of Bonds shall require that the amount in the Bond Reserve Fund be increased, if and to the extent necessary, to an amount at least equal to the Bond Reserve Fund Requirement for such Series. Said deposit may be made from such proceeds or any other source, as provided in Sections 5.02 and 5.06 and said Supplemental Indenture.

(4) The aggregate principal amount of Bonds issued hereunder shall not exceed any limitation imposed by law or by any Supplemental Indenture.

(5) The representations and estimates set forth in the certificates and written reports required by Section 3.05 for such Series shall have been made by the parties required to give such certificates and written reports.

(B) The Authority may enter into Parity Payment Agreements payable from Revenues on a parity with the Bonds and other Parity Payment Agreements and secured by a lien upon and pledge of Revenues equal to the lien and pledge securing the Bonds and other Parity Payment Agreements, but only upon compliance by the Authority with the provisions of Section 3.05 and any applicable provisions of any Supplemental Indenture, and subject to the following specific conditions, which are hereby made conditions precedent to the entering into by the Authority of any Parity Payment Agreement:

(1) No Event of Default shall have occurred and then be continuing.

(2) The representations and estimates set forth in the certificates and written reports required by Section 3.05 shall have been made by the parties required to give such certificates and written reports.

(3) The Authority, the Trustee and the Co-Trustee shall have executed and delivered a Supplemental Indenture designating such agreement as a Parity Payment Agreement and the Bonds to which such Parity Payment Agreement is Related.

(C) In addition to Parity Payment Agreements, the Authority may enter into Payment Agreements payable from Revenues after and subordinate to the payment from Revenues of payments with respect to the Bonds and Parity Payment Agreements, but only upon compliance by the Authority with any applicable provisions of any Supplemental Indenture and any such agreement shall constitute a Payment Agreement upon execution and delivery by the Authority, the Trustee and the Co-Trustee of a Supplemental Indenture designating such agreement as a Payment Agreement and the Bonds to which such Payment Agreement is Related.

SECTION 3.05 Proceedings for the Issuance of a Series of Bonds; Parity Payment Agreements. The requirements of this Section 3.05 are in addition to the other applicable conditions precedent set forth in Section 3.04.

(A) Whenever the Authority shall determine to issue a Series of Bonds, the Authority shall execute and deliver a Supplemental Indenture providing for the issuance of such Series of Bonds and specifying the terms and conditions of such Series of Bonds, including the following:

- (1) the authorized principal amount of such Series;
- (2) the purpose or purposes for which such Series is being issued and, if such purpose is the deposit of moneys in a Construction Account, the Project or Projects for which such Series is being issued (including any appropriate modifications to any previously specified or described Project or Projects);
- (3) the amount of the Bond Reserve Fund Requirement upon the issuance of such Series;
- (4) the amount to be deposited (or otherwise available) in the Bond Reserve Fund upon the issuance of such Series, the source or sources of such amount (which may be proceeds of such Series, a Credit Facility or other amounts available for such purpose);
- (5) the amount, if any, to be deposited in the applicable Construction Account, if any, upon the issuance of such Series, and the source or sources of such deposit (which may be the proceeds of such Series or other amounts available for such purpose);
- (6) the amounts, if any, to be reserved within the applicable Construction Account to pay Costs of Issuance and Capitalized Interest of such Series and the source or sources of such amounts (which may be the proceeds of such Series or other amounts available for such purpose);
- (7) the amount, if any, to be deposited in the Debt Service Fund as accrued interest upon the issuance of such Series;
- (8) the Credit Facility and Credit Provider, if any, for such Series and any special provisions not inconsistent with the terms of this Indenture relating to such Credit Facility and designating any Credit Agreement Payments with respect thereto;
- (9) the Related Payment Agreement, if any, and Qualified Counterparty with respect thereto and any provisions not inconsistent with the terms of this Indenture relating to such Payment Agreement;
- (10) the appointment of the Registrar and any Paying Agents for such Series and, if necessary, any Depositary for any Funds or Accounts relating to such Series;
- (11) the form, title and designation of, and the manner of numbering and lettering, Bonds of such Series;
- (12) the denomination or denominations of Bonds of such Series;

(13) the date or dates of maturity and Principal Payment Periods of Bonds of such Series and the manner of payment of principal of such Bonds;

(14) the rate or rates of interest or the manner of determining such rate or rates borne by the Bonds of such Series and the Record Dates and Interest Payment Dates for such Bonds;

(15) the Bonds of such Series which are Serial Bonds (if any) and the Bonds of such Series which are Term Bonds (if any);

(16) the terms of redemption, if any, of Bonds of such Series;

(17) the date and amount of each Mandatory Sinking Account Payment (if any) required to be paid by the Authority for the retirement of Term Bonds of such Series;

(18) the designation of any accounts to be established pursuant to this Indenture and any other accounts deemed advisable by the Authority;

(19) any tax or other covenants which, in the judgment of the Authority, are designed to insure that interest on such Series of Bonds will be excludable from gross income for federal income tax purposes and which are not inconsistent with the provisions of this Indenture; provided, however, that the Authority may, in its sole and absolute discretion, determine in connection with the authorization of a Series of Bonds that it will not make any such covenants because interest on such Series is not intended to be excludable from gross income for federal income tax purposes; and

(20) any other provisions deemed advisable by the Authority, not in conflict with or in substitution for the provisions of this Indenture (except as expressly permitted in this Indenture).

(B) (1) Before any Series of Bonds other than the initial Series shall be issued and delivered and before any Parity Payment Agreements are entered into, the Authority shall file the following documents with the Trustee:

(a) If and to the extent that an additional Series of Bonds is being issued, an Opinion of Counsel setting forth (i) that such counsel has examined the Supplemental Indenture; (ii) that the execution and delivery of the additional Series of Bonds have been duly authorized by the Authority; and (iii) that said additional Series of Bonds, when duly executed by the Authority and, if required, authenticated and delivered by the Registrar for such Bonds, will be valid and binding special obligations of the Authority, payable from Revenues as provided herein.

(b) A Certificate of the Authority that the requirement of Section 3.04(A)(1) has been met.

(c) (i) If and to the extent that an additional Series of Bonds is being issued for the purpose of providing moneys for deposit in a Construction Account, the following certificates:

(A) A certificate of a Consulting Engineer setting forth (I) the projected Date of Completion for the Project or Projects for which such Series of Bonds is being issued and for any other uncompleted Projects, and (II) an estimate of the cost of construction of such Projects;

(B) A written report of a Consulting Engineer setting forth for each Fiscal Year from the then current Fiscal Year through the later of (I) the first Fiscal Year commencing at least five years after the date of original issuance of such additional Series, or (II) the first Fiscal Year commencing at least three years after the Date of Completion projected by the Consulting Engineer pursuant to subparagraph (A) above, estimates of Revenues, Operation and Maintenance Expenses and Net Revenues; and

(C) A Certificate of the Authority (I) setting forth (a) the estimates of Revenues, Operation and Maintenance Expenses and Net Revenues, as set forth in the written report of a Consulting Engineer pursuant to subparagraph (B) above, for each of the Fiscal Years covered by such report, and (b) the Aggregate Annual Debt Service and Capitalized Interest for each of such Fiscal Years, including Annual Debt Service and Capitalized Interest on all future Series of Bonds, if any, which such Certificate of the Authority shall estimate (based on the estimate of the Consulting Engineer of the cost of construction of such Projects) are required to complete payment of the cost of construction of such Projects, and (II) demonstrating that for each of such Fiscal Years (a) Revenues are projected to be at least equal to the aggregate amount of all transfers required to be made pursuant to Section 5.02(A) through (E) and, to the extent applicable, otherwise required to provide for the payment of all obligations of the Authority to be paid from Revenues, and (b) Net Revenues are projected to be at least equal to 1.25 times Aggregate Annual Debt Service.

(ii) In lieu of the certificates and reports required by subparagraphs (i)(A), (B) and (C) above, the Authority may deliver to the Trustee a Certificate of the Authority to the effect that for the last complete Fiscal Year or any period of 12 consecutive calendar months out of the 18 calendar months next preceding the original issuance of such Series of Bonds, Net Revenues for such Fiscal Year or 12-month period equaled at least 1.25 times the Maximum Annual Debt Service on all Bonds then Outstanding plus the Series of Bonds being issued.

(iii) In addition, a Series of Bonds may be issued for the sole purpose of depositing in a Construction Account the amounts necessary to complete any one or more Projects without filing with the Trustee of the certificates and reports required by subparagraphs (i)(B) and (C), if such certificates and reports demonstrating compliance with such subparagraphs were filed in connection with the issuance of the prior Series of Bonds for each of such Projects and if the principal amount of such Bonds to be issued for completion purposes does not exceed ten percent (10%) of the principal amount of Bonds previously issued for and allocable to such Projects.

(d) If and to the extent that an additional Series of Bonds is being issued for the purpose of refunding Bonds, either (i) a certificate of an Independent Certified Public Accountant that Aggregate Annual Debt Service for each Fiscal Year thereafter will be less than or equal to Aggregate Annual Debt Service for each such Fiscal Year in the absence of such refunding, or (ii) the certificates and reports required by subsection (B)(1)(c)(i)(A) (if any one or more of the Projects for which the Bonds being refunded is not then completed), (B) and (C) of this Section; provided that in lieu of the certificates and reports required by subparagraphs (A), (B) and (C) of said subsection (B)(1)(c)(i), the Authority may deliver to the Trustee the certificate required by subsection (B)(1)(c)(ii).

(e) If and to the extent that a Parity Payment Agreement, other than a Parity Payment Agreement all payments pursuant to which have been taken into account for purposes of determining that the requirements of this subsection (B) have been satisfied with respect to the issuance of the Related Bonds, is being entered into; either (i) a certificate of an Independent Certified Public Accountant that Aggregate Annual Debt Service for each Fiscal Year thereafter will be less than or equal to Aggregate Annual Debt Service for each such Fiscal Year in the absence of such Parity Payment Agreement, or (ii) the certificates and reports required by subsection (B)(1)(c)(i)(B) and (C) of this

Section, in each case treating such Payment Agreement as in effect for purposes of any calculations; provided that in lieu of the certificates and reports required by subparagraphs (B) and (C) of said subsection (B)(1)(c)(i), the Authority may deliver to the Trustee the certificate required by subsection (B)(1)(c)(ii), treating such Payment Agreement as in effect for purposes of any calculations.

(2) In connection with the issuance of an additional Series of Bonds, upon the delivery to the Trustee of the foregoing instruments, the applicable Registrar shall authenticate and deliver said additional Series of Bonds, in the aggregate principal amount specified in such Supplemental Indenture, to, or upon the Order of, the Authority, when such additional Series of Bonds shall have been presented to it for that purpose.

SECTION 3.06 Validity of Bonds. The validity of the authorization and issuance of the Bonds shall not be dependent on or affected in any way by any proceedings taken by the Authority for the improvement of the System, or by any contracts made by the Authority in connection therewith, or the failure to construct the System or any part thereof. The recital contained in the Bonds that the same are regularly issued pursuant to the Act shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

ARTICLE IV

REDEMPTION OF BONDS.

SECTION 4.01 Terms of Redemption. Any Series of Bonds may be made subject to redemption prior to maturity, as a whole or in part, at such time or times, and upon payment of the principal amount thereof plus such premium or premiums, if any, as may be determined by the Authority at the time such Series is authorized and as shall be set forth in the Supplemental Indenture authorizing such Series; provided, however, that such Supplemental Indenture shall provide that the Authority shall have the right, on any date, to redeem the Bonds of any such Series, as a whole, or in part so that the reduction in Annual Debt Service for the Bonds of such Series for each Bond Year after such redemption shall be as nearly proportional as practicable, from and to the extent of proceeds received by the Authority due to a governmental taking of the System or portions thereof by eminent domain proceedings, if such amounts are not used for additions, improvements or extensions to the System, under the circumstances and upon the conditions and terms set forth in Section 6.11, at the principal amount thereof plus interest accrued thereon, without premium.

SECTION 4.02 Selection of Bonds for Redemption. For purposes of selecting Bonds for redemption, Bonds shall be deemed to be composed of portions equal to their respective minimum authorized denomination, and any such portion may be separately redeemed. The applicable Registrar shall promptly notify the Authority, the Trustee and the Co-Trustee in writing of the Bonds or portions thereof selected for redemption. In the event that less than all of the Bonds of any Series and maturity are to be redeemed, the Bonds (or portions thereof) to be redeemed shall be selected by the Authority or, in the absence of such a selection by the Authority, by the applicable Registrar by lot within such maturity in such manner as the Registrar may determine. The amount of each Series and maturity of the Bonds to be redeemed shall be determined by Section 4.01 or the applicable Supplemental Indenture or, if permitted, by Request of the Authority.

In addition, a Supplemental Indenture providing for the issuance of Additional Bonds may specify any other method or order of selection of such Additional Bonds for redemption, subject to Section 4.01.

SECTION 4.03

Notice of Redemption. Notice of redemption (except as provided below) shall be given, not less than thirty (30) nor more than sixty (60) days before the date fixed for redemption, by first class mail to each of the registered owners of Bonds designated for redemption at their addresses appearing on the Bond registration books of the applicable Registrar on the date the Bonds to be redeemed are selected. Each notice of redemption shall state the redemption date, the place or places of redemption, the Series and maturities to be redeemed, and, if less than all of any such maturity, the numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed, and shall also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered, with a written instrument of transfer duly executed by the registered owner thereof or by such registered owner's attorney duly authorized in writing. No defect in or failure to give such mailed notice of redemption shall affect the validity of proceedings for the redemption of such Bonds. Each notice of redemption shall also state the CUSIP number, date of issue and interest rate on each Bond, or portion thereof, to be redeemed, and shall include the redemption agent name and address; provided, however, that failure to include any of such information in any redemption notice, or any inaccuracy in any such information, shall not affect the sufficiency of the proceedings for redemption of any Bonds.

A copy of any notice of redemption given pursuant to the foregoing paragraph shall also be sent by first class mail to each Owner of \$1,000,000 or more in aggregate principal amount of Bonds to be redeemed and to each of the Fiduciaries, each of the Credit Providers, the Securities Depositories (as defined below) and two or more Information Services (as defined below); provided, however, that failure to give notice pursuant to this sentence by certified mail to any Bondowners, to any Fiduciaries, to any Credit Providers or to any Securities Depositories or Information Services, or the insufficiency of any such notices, shall not affect the sufficiency of the proceedings for redemption of any Bonds. A second notice shall be sent by first class mail to the registered owner of any Bond which has been called for redemption in whole or in part, and is not surrendered for payment within sixty (60) days after the date fixed for redemption; provided, however, that failure to send any such second notice, or any deficiency of any such notice, shall not affect the sufficiency of the proceedings for redemption of any Bonds. As used in this paragraph, the term "Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 55 Broad Street, 28th Floor, New York, New York 10004; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard and Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then-current guidelines of the Securities and Exchange Commission, and/or such other services providing information with respect to called bonds, or no such services, as the Authority may designate in a Certificate delivered to the Trustee; and the term "Securities Depositories" means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; and/or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depositories, or no such depositories, as the Authority may designate in a Certificate delivered to the Trustee.

Notice of redemption of Bonds shall be given by the applicable Registrar for and on behalf of the Authority.

A Supplemental Indenture providing for the issuance of Bonds may provide that notice of the redemption of such Bonds shall be given at times and in a manner different from that specified above.

SECTION 4.04 Partial Redemption. Upon surrender of any Bond redeemed in part only, the Authority shall execute and the applicable Registrar shall authenticate and deliver to the registered owner thereof, at the expense of the Authority, a new Bond or Bonds of authorized denominations, and of the same Series, maturity and tenor, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

SECTION 4.05 Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys being held by the Trustee, the Co-Trustee or Paying Agents for payment of the Redemption Price of, and interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption on the redemption date designated in such notice, such Bonds (or such portions) shall become due and payable at the Redemption Price specified in such notice plus interest accrued thereon to the date fixed for redemption, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest.

All Bonds purchased or redeemed pursuant to the provisions of this Indenture shall be cancelled upon surrender thereof and delivered to or upon the Order of the Authority.

SECTION 4.06 Rescission of Notice of Redemption. The Authority may, at its option and expense, prior to the date fixed for redemption in any notice of redemption rescind and cancel such notice of redemption.

ARTICLE V

REVENUES AND FUNDS

SECTION 5.01 Pledge and Assignment of Revenues; Revenue Fund. (A) Subject only to the provisions of this Indenture permitting the application thereof for or to the purposes and on the terms and conditions set forth herein and to the provisions of that certain Consent Decree dated April 24, 2003 and the related Order dated May 9, 2003, relating to *United States of America v. Government of Guam* (settling a lawsuit filed on behalf of the U.S. Navy against the Government and the Authority), there are hereby pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of this Indenture and the payment of Credit Agreement Payments and Parity Payment Agreement Payments in accordance with their terms, all of the Revenues. Said pledge shall constitute a lien on and security interest in such Revenues and shall attach, be perfected and be valid and binding from and after delivery by the applicable Registrar of the first Series of Bonds hereunder, without any physical delivery of such Revenues or further act.

(B) The Depositary for the Revenue Fund shall maintain and hold in trust the Revenue Fund so long as any Bonds, Credit Agreement Payments, or Parity Payment Agreement Payments remain Outstanding. The Authority shall deposit all Revenues upon the receipt thereof in the Revenue Fund. Subject only to the provisions of this Indenture permitting the application thereof for or to the purposes and on the terms and conditions set forth herein and therein, the Trustee and the Depositary shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee, the Co-Trustee and the Depositary for the Revenue Fund and shall forthwith be paid by the Authority to such Depositary.

(C)(1) In addition to the Revenue Fund, the Depositary for the Revenue Fund shall establish within the Revenue Fund and maintain and hold in trust hereunder additional separate funds designated as follows:

- (a) The "Operation and Maintenance Fund";
- (b) The "Subordinate Securities Fund" (which may be held by the applicable trustee or depositary for any Subordinate Securities);
- (c) the "Operation, Maintenance, Renewal and Replacement Reserve Fund";
- (d) the "Rate Stabilization Fund";
- (e) the "Capital Improvement Fund"; and
- (f) the "Rebate Fund".

The Operation, Maintenance, Renewal and Replacement Reserve Fund, the Rate Stabilization Fund and the Capital Improvement Fund may also be held by any one or more Depositories other than the Depositary for the Revenue Fund.

(2) The Co-Trustee shall establish, maintain and hold in trust the following additional fund and accounts:

- (a) the Debt Service Fund (within the Revenue Fund); and
- (b) the Bond Reserve Fund (within the Revenue Fund).

(D) All moneys at any time deposited with the Trustee, the Co-Trustee or any Depositary, as the case may be, shall be held by the Trustee, the Co-Trustee or such Depositary, as the case may be, in trust for the benefit of the Owners at any time of the Bonds (and, to the extent any Credit Agreement Payment is due and payable, for the benefit of the applicable Credit Provider), and the Authority shall have no beneficial right or interest in any of such moneys, except as provided in this Indenture. All Revenues and other moneys so deposited shall be held, disbursed, allocated and applied only as provided in this Indenture.

SECTION 5.02 Allocation of Revenues. On or before the fifth day of each calendar month, after providing for any amounts due under the Consent Decree described in Section 5.01 for which revenues from the Navy/GPA Surcharge are not available to pay, the Depositary for the Revenue Fund shall transfer from the Revenue Fund (to the Trustee as necessary) for deposit into one or more of the following respective separate funds, the following amounts in the following order of priority, the requirements of each such fund or account (including the making up of any deficiencies in any such fund or account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied, and the results of such satisfaction being taken into account, before any transfer is made to any fund subordinate in priority:

(A) into the Operation and Maintenance Fund, an amount equal to the amount of Operation and Maintenance Expenses budgeted by the Authority, pursuant to the budget, as revised, filed in accordance with Section 6.08, to be paid from Revenues during the next succeeding calendar month

(including any amount to be held as a reserve for transfer to the Rebate Fund) plus the amount of any Other Credit Agreement Payments then due and payable or to become due and payable during such month not otherwise included in such amount;

(B) into the Debt Service Fund held by the Co-Trustee, an amount equal to the amount necessary to increase the amount in the Debt Service Fund to the aggregate amount for all Outstanding Bonds of all unpaid interest, principal and Mandatory Sinking Account Payments and for all Outstanding Parity Payment Agreements of all Parity Payment Agreement Payments with respect thereto and for all Outstanding Credit Agreements of all Credit Agreement Reimbursement Payments due and payable to the extent not otherwise included in such amount which shall be required to have been transferred to the Debt Service Fund on the basis of the following transfer requirement rules (after taking into account amounts transferred and to be transferred from any Construction Account to pay Capitalized Interest):

(1) an amount equal to the amount of interest payable on each Bond on a current uncompounded basis on any Interest Payment Date shall be transferred in equal monthly amounts over the Interest Accrual Period for such Bond ending on such Interest Payment Date (or in the case of Variable Rate Bonds 110% of the amount of interest accrued during the next preceding calendar month less any excess deposited for the next preceding calendar month); provided that to the extent that a Qualified Counterparty is obligated to make payments to the Authority on or prior to such Interest Payment Date pursuant to an Outstanding Payment Agreement Related to any Bonds, an amount equal to the amount of any such payment obligation shall be transferred from the Revenue Fund to the Debt Service Fund on the date such payment is due and the amount of each monthly transfer with respect to such Bonds required by this subparagraph (1) during the Interest Accrual Period (or portion thereof) over which such payment obligation accrues shall be reduced by an amount equal to the amount of such Qualified Counterparty's payment obligation accruing during the next preceding calendar month;

(2) the amount of interest payable on each Bond on a deferred compounded basis on any Interest Payment Date shall be transferred in substantially equal monthly amounts over the period during which such interest accrues on such basis;

(3) the amount of the principal of each Bond shall be transferred in equal monthly amounts over the Principal Payment Period for such Bond ending on the maturity date for such Bond;

(4) the amount of each Mandatory Sinking Account Payment for Bonds shall be transferred in equal monthly amounts over the Principal Payment Period for such Bonds ending on the date such Mandatory Sinking Account Payment is due;

(5) the amount of any Parity Payment Agreement Payment payable on any Payment Agreement Payment Date shall be transferred (a) in the case of such payments calculated based on a fixed rate, in equal monthly installments over the Payment Agreement Payment Accrual Period for such Payment Agreement Payment ending on such Payment Agreement Payment Date and (b) in the case of such payments calculated based on a variable rate, in monthly installments equal to 110% of the amount of such obligation accrued during the next preceding calendar month less any excess deposited for the next preceding calendar month; and

(6) to the extent not otherwise included in amounts described in subparagraphs (1) through (5) above, the amount of any Credit Agreement Reimbursement Payment due and payable shall be transferred.

(C) into the Bond Reserve Fund held by the Co-Trustee, the amount, if any, needed to increase the amount in the Bond Reserve Fund to the Bond Reserve Fund Requirement as of the date of such transfer;

(D) into the Subordinate Securities Fund (and any accounts therein), the amount, if any, needed to increase the amount in such Fund and each such account to its requirement (including any requirements for reasonable debt service reserves and requirements related to Payment Agreements that constitute Subordinate Securities (including Termination Payments)) established by each resolution, indenture or other instrument pursuant to which Subordinate Securities are issued and outstanding;

(E) into the Operation, Maintenance, Renewal and Replacement Reserve Fund, the amount, if any, needed to increase the amount in the Operation, Maintenance, Renewal and Replacement Reserve Fund to a requirement equal to one-fourth (1/4) of the sum of the amounts of Operation and Maintenance Expenses and Renewal and Replacement Costs budgeted by the Authority, pursuant to the budget, as revised, filed in accordance with Section 6.08, for the then current Fiscal Year; *provided, however, that prior to the Fiscal Year beginning October 1, 2010, the deposit into such fund each month shall not be required to be greater than one-sixtieth (1/60) of such requirement for the then-current Fiscal Year;*

(F) into the Rate Stabilization Fund, the amount specified for such month in a Certificate of the Authority which also certifies that such amount is consistent with the annual budget established by the Authority pursuant to Section 6.08; and

(G) into the Capital Improvement Fund, the balance remaining in the Revenue Fund after the foregoing deposits.

SECTION 5.03 Application of Operation and Maintenance Fund. All amounts in the Operation and Maintenance Fund shall be used and withdrawn by the Authority upon Requisition solely for the purpose of paying Operation and Maintenance Expenses; provided that any amounts deposited in the Operation and Maintenance Fund for the purpose of paying Other Credit Agreement Payments shall be used and withdrawn only for the purpose for which they were deposited. For purposes of this Section, any check, draft, warrant or purchase order of the Authority executed by an officer or employee of the Authority duly authorized by resolution of the Board of Directors of the Authority to execute such instruments shall be treated as a Requisition.

SECTION 5.04 Rebate Fund.

(A) If and to the extent required by the Supplemental Indenture providing for the issuance of a Series of Bonds, the Trustee shall establish and maintain within the Rebate Fund a separate Rebate Account for such Series. There shall be deposited in such Rebate Account from amounts in the Operation and Maintenance Fund or other lawfully available moneys such amounts as are required to be deposited therein pursuant to the Tax Certificate with respect to such Series of Bonds. All money at any time deposited in a Rebate Account shall be held by the Trustee in trust, and shall be governed exclusively by this Section and by the Tax Certificate with respect to such Series of Bonds.

(B) Notwithstanding any provisions of this Section, if the Authority shall provide to the Trustee an opinion of Bond Counsel that any specified action required under this Section is no longer required or that some further or different action is required to maintain the exclusion, if any, from gross income for federal income tax purposes of interest on any Series of Bonds, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of this Section, and,

notwithstanding Article IX of this Indenture, the covenants hereunder shall be deemed to be modified to that extent.

SECTION 5.05 Application of Debt Service Fund. (A) Subject to subsection (C) of this Section, all amounts in the Debt Service Fund shall be used and withdrawn by the Co-Trustee solely for the purpose of (1) paying interest on Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Indenture), (2) paying the principal of Serial Bonds when due and payable, (3) purchasing or redeeming or paying at maturity Term Bonds as provided in this Section, (4) paying Parity Payment Agreement Payments due and payable, and (5) paying Credit Agreement Reimbursement Payments due and payable.

(B) Subject to subsection (C) of this Section, on each Mandatory Sinking Account Payment date, the Co-Trustee shall apply the Mandatory Sinking Account Payment or Payments required on that date to the redemption (or payment at maturity, as the case may be) of the applicable Term Bonds upon the notice and in the manner provided in Article IV. At any time prior to giving such notice of such redemption, the Co-Trustee, upon the Request of the Authority, shall apply moneys in the Debt Service Fund, in an amount not in excess of such Mandatory Sinking Account Payment, to the purchase of the applicable Term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges) as are specified in such Request, except that the purchase price (excluding accrued interest) shall not exceed the price that would be payable for such Bonds upon redemption by application of such Mandatory Sinking Account Payment.

(C) If (1) during the twelve-month period immediately preceding a Mandatory Sinking Account Payment date the Co-Trustee purchases the applicable Term Bonds with moneys in the Debt Service Fund, or (2) during said period and prior to giving notice of redemption the Authority otherwise deposits the applicable Term Bonds with the Co-Trustee (together with a Request of the Authority to apply such Bonds so deposited to the Mandatory Sinking Account Payment due on said date), the amount of Bonds so purchased or deposited shall be credited at the time of such purchase or deposit, to the extent of the full principal amount thereof, to reduce such Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to this subsection shall be cancelled and destroyed by the Co-Trustee.

(D) With respect to each series of Bonds for which proceeds of the sale thereof are required to be set aside to pay interest on the Bonds, the Co-Trustee (if so instructed by the Supplemental Indenture providing for the issuance of such series) shall transfer from the Construction Fund and deposit in the Debt Service Fund the amounts at the times specified in the Supplemental Indenture providing for the issuance of such Series.

SECTION 5.06 Application of Bond Reserve Fund. All amounts in the Bond Reserve Fund shall be used and withdrawn by the Co-Trustee solely for the purpose of paying debt service on Bonds (including Payment Agreement Payments to the extent provided in any Supplemental Indenture) in the event of a deficiency in the Debt Service Fund, in the manner and to the extent set forth in Section 5.12. So long as the Authority is not in default hereunder, any amount in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement shall be transferred to the Revenue Fund. A Supplemental Indenture providing for the issuance of a Series of Bonds may provide that income derived from the investment of the proceeds of such Series in the Bond Reserve Fund prior to the completion of each Project for which such Bonds were issued shall be deposited in the Construction Account for such Project. Otherwise, such income shall be deposited in the Revenue Fund.

If and to the extent provided by Supplemental Indenture, the Bond Reserve Fund Requirement may be wholly or partially satisfied by a Credit Facility. Notwithstanding anything to the contrary contained hereinbefore in this Section or in Article IV, such Supplemental Indenture may also

provide that a draw on such Credit Facility shall be made only after all cash in the Bond Reserve Fund has been withdrawn, and that if a drawing or other claim on such Credit Facility is honored, amounts available under Section 5.02(C) for deposit in the Bond Reserve Fund shall be applied by the Co-Trustee to reimburse, as soon as practicable, the amount of each payment honoring such drawing or other claim, and the Trustee shall give any notice of such reimbursement required by the applicable Credit Agreement. No such Credit Facility shall be given any priority over any other such Credit Facility as to draws or repayments.

SECTION 5.07 Application of Subordinate Securities Fund. All amounts in the Subordinate Securities Fund may be used and withdrawn, as directed by a Request of the Authority, for the purpose of paying debt service due on Subordinate Securities, amounts due pursuant to Payment Agreements (including Termination Payments), funding or replenishing reasonable reserves and meeting other requirements of the instrument pursuant to which such Subordinate Securities are issued.

SECTION 5.08 Application of Operation, Maintenance, Renewal and Replacement Reserve Fund. All amounts in the Operation, Maintenance, Renewal and Replacement Reserve Fund shall be used and withdrawn upon Requisition of the Authority solely for the purposes of (A) paying Operation and Maintenance Expenses if and to the extent that amounts on deposit in the Operation and Maintenance Fund are insufficient for such purpose, (B) paying Renewal and Replacement Costs budgeted by the Authority, pursuant to the budget, as revised, filed in accordance with Section 6.08, for the then current Fiscal Year, and (C) paying the costs of repair or replacement of loss or damage caused by or resulting from fire or from action of the elements (including loss from typhoons, earthquakes, floods and tidal waves), whether or not such costs are Operation and Maintenance Expenses or Renewal and Replacement Costs. For purposes of this Section, any check, draft, warrant or purchase order of the Authority executed by an officer or employee of the Authority duly authorized by resolution of the Board of Directors of the Authority to execute such instruments shall be treated as a Requisition.

SECTION 5.09 Application of Rate Stabilization Fund. All amounts in the Rate Stabilization Fund shall be transferred by the Authority from time to time to the Revenue Fund in the amounts specified by a Certificate of the Authority which also certifies that such amount is consistent with the annual budget established by the Authority pursuant to Section 6.08.

SECTION 5.10 Application of Capital Improvement Fund. Except as may be otherwise set forth in a Supplemental Indenture, all amounts in the Capital Improvement Fund may be used and withdrawn by the Authority for any lawful purpose of the Authority or may be transferred to the Revenue Fund, in each case upon Request of the Authority. The Authority may direct the appropriate Depository to establish accounts within the Capital Improvement Fund for appropriate purposes, and may restrict the purposes for which amounts in any such account may be used and withdrawn so long as such purposes are lawful purposes.

SECTION 5.11 Deficiencies in Funds or Accounts. In the event that the amount in any Fund or Account is insufficient for the purposes for which such Fund or Account was established, the Co-Trustee, or the Trustee or the Depository upon the direction of the Co-Trustee, shall transfer to such Fund or Account the amount of such deficiency by withdrawing said amount from subordinate Funds and Accounts in reverse order of the priority set forth in Section 5.02 and prior to any other claims upon such Funds and Accounts, subject only to the limitation that amounts in the Bond Reserve Fund shall only be used as provided in Section 5.06. If after making all such transfers, the amount in the Debt Service Fund is insufficient, the Co-Trustee shall promptly notify each Credit Provider of the amount of such insufficiency.

SECTION 5.12 Investment of Moneys in Funds. All Investment Securities and any other investments acquired with moneys held hereunder shall be acquired subject to the limitations of any covenant relating to the exclusion of interest on Bonds from gross income for federal income tax purposes, to the limitations as to maturities hereinafter in this Section set forth and to such additional limitations or requirements consistent with the foregoing as may be established by Request of the Authority. No Investment Security which is subject to redemption at the option of the issuer may be purchased at a premium above the amount of the premium payable upon any such redemption.

Moneys in the Construction Accounts, the Rebate Fund, the Debt Service Fund and the Bond Reserve Fund shall be invested solely in Investment Securities to maximize investment income, with proper regard for the preservation of principal, pursuant to a Request of the Authority as to such investment. In the absence of any different instruction, such moneys shall be invested in Investment Securities described in clause (6) of the definition thereof.

Moneys in the Revenue Fund, the Operation and Maintenance Fund, the Subordinate Securities Fund, the Operation, Maintenance, Renewal and Replacement Reserve Fund and the Capital Improvement Fund may be invested in any investment designated by Request of the Authority.

Notwithstanding any other provision hereof, moneys in the Revenue Fund and the Bond Reserve Fund shall be invested only in Investment Securities having at least an investment grade rating from the Rating Agency.

Subject to the provisions of any Supplemental Indenture, moneys in all Funds and Accounts established under this Indenture shall be invested in investments paying interest and maturing not later than the dates on which it is estimated that such moneys will be required by the Trustee, the Co-Trustee, the applicable Depositary or the Authority.

All interest and other profit derived from such investments shall be deposited in the Revenue Fund when received, except that interest and other profit derived from the investment of moneys in the Construction Accounts, the Capital Improvement Fund and the Rebate Fund shall be retained in such respective Fund or Account, and except that interest and other profit derived from the investment of moneys in the Bond Reserve Fund shall be deposited as provided in Section 5.06. Investments acquired as an investment of moneys in any Fund or Account established under this Indenture shall be credited to such Fund or Account.

Subject to the provisions of any Supplemental Indenture, for the purpose of determining the amount in any Fund or Account, except the Rebate Fund, the amount of any obligation allocable to such Fund or Account shall be equal to the purchase price of such obligation (not including accrued interest, if any, paid on the purchase of such obligation) plus the amount of any discount below par accounting for any such discount ratably each year over the term of such obligation (i.e., by dividing the amount of such discount by the number of interest payments remaining to maturity and by multiplying the amount so calculated by the number of interest payment dates having passed since the date of purchase) (in this Section called "amortized value"); provided, however, that the amount of any accrued interest on any obligation may be credited to the Revenue Fund or to any Fund or Account to which such amount or any portion thereof may have been transferred from the Revenue Fund.

The Trustee, the Co-Trustee or the applicable Depositary may sell at the best price obtainable, or present for redemption, any security purchased hereunder whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the Fund or Account to which such security is credited, and the Trustee, the Co-Trustee and such Depositary shall not be liable or responsible for any loss resulting from such investment.

ARTICLE VI

CERTAIN COVENANTS

SECTION 6.01 Payment of Principal and Interest. The Authority will punctually pay or cause to be paid the principal and interest (and premium, if any) to become due in respect of every Bond issued hereunder at the times and places and in the manner provided herein and in the Bonds, in strict conformity with the terms of the Bonds and of this Indenture, but solely from Revenues and other moneys held in trust hereunder, as provided herein.

SECTION 6.02 Against Encumbrances. Subject to any rights of the United States of America or as otherwise set forth herein, the Authority will not mortgage or otherwise encumber, pledge or place any charge upon the System or any part thereof, or upon any of the Revenues, prior to or on a parity with the Bonds, the Parity Payment Agreements and Credit Agreement Payments.

So long as any Bonds are Outstanding, the Authority will not issue any bonds or obligations payable from Revenues or secured by a pledge, lien or charge upon Revenues prior to or on a parity with the Bonds, the Parity Payment Agreements and the Credit Agreement Payments, other than the Bonds, the Parity Payment Agreements and the Credit Agreement Payments.

Except as may be otherwise set forth in a Supplemental Indenture, nothing in this Indenture, and particularly nothing in the preceding two paragraphs, shall prevent the Authority from authorizing and issuing bonds, notes, warrants, certificates or other obligations or evidences of indebtedness which as to principal or interest, or both, (1) are payable from Revenues after and subordinate to the payment from Revenues of the principal of and interest on the Bonds, the Parity Payment Agreement Payments and Credit Agreement Payments, or (2) are payable from moneys which are not Revenues as such term is defined in this Indenture.

SECTION 6.03 Sale or Other Disposition of Property. (A) The Authority and the Government will not sell or otherwise dispose of the System or any part thereof, or permit others to sell or otherwise dispose of the System or any part thereof, essential to the proper operation of the System or to the collection of Revenues sufficient to pay debt service on the Bonds, Parity Payment Agreement Payments and Credit Agreement Payments and otherwise comply with Section 6.12. The Authority will not enter into any agreement which impairs the operation of the System or impedes the collection of Revenues sufficient to pay debt service on the Bonds, Parity Payment Agreement Payments and Credit Agreement Payments and otherwise comply with Section 6.12.

(B) Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the System, or any material or equipment which has worn out, may be sold at a price not less than the fair market value thereof if such sale will not reduce Net Revenues and if the net proceeds of such sale are deposited in the Revenue Fund.

SECTION 6.04 Operation and Maintenance of the System. The Authority will maintain and preserve the System in good repair and working order at all times from the Revenues available for such purposes, in conformity with prudent management and standards customarily followed in the industry for systems of like size and character. The Authority will from time to time make all necessary and proper repairs, renewals, replacements and substitutions to the properties of the System, so that at all times business carried on in connection with the System shall and can be properly and advantageously conducted in an efficient manner and at reasonable cost. The Authority will operate the System in an efficient and economical manner, consistent with the protection of the Owners of the Bonds and so as to assure that the System shall be financially self-sufficient and self-sustaining. The Authority

shall not commit or allow any waste with respect to the System. Nothing herein shall prohibit the Authority from subcontracting any part of the maintenance and operation of the System.

SECTION 6.05 Liens and Claims. Subject to any rights of the United States of America, the Authority shall keep the System and all parts thereof free from judgments, from mechanics' and materialmen's liens and from all liens and claims of whatsoever nature or character, to the end that the security provided pursuant to this Indenture may at all times be maintained and preserved, and the Authority shall keep the System and the Revenues free from any liability which might hamper the Authority in conducting its business or operating the System. The Trustee or and Co-Trustee at its option (after first giving the Authority ten days written notice to comply therewith and failure of the Authority to so comply within said ten-day period) may defend against any and all actions or proceedings in which the validity of this Indenture is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against such actions or proceedings or in paying or compromising such claims or demands, the Trustee or the Co-Trustee shall not in any event be deemed to have waived or released the Authority from liability for or on account of any of its covenants and warranties contained herein, or from its liability hereunder to defend the validity of this Indenture and the pledge herein made and to perform such covenants and warranties.

SECTION 6.06 Insurance.

(A) The Authority will maintain or cause to be maintained insurance on the System with responsible insurers in such amounts and against such risks (including accident to or destruction of the System) as are usually maintained by prudent operators of systems similar and similarly situated to the System and which it shall deem advisable or necessary to protect its interests and the interests of the Bondowners so long as such insurance is available to the Authority on the open market from responsible insurers at reasonable cost. In the event of any damage to or destruction of the System caused by the perils covered by such insurance, the proceeds of such insurance shall be applied to the repair, reconstruction or replacement of the damaged or destroyed portion of the System; and the Authority shall cause such repair, reconstruction or replacement to begin promptly after such damage or destruction shall occur and to continue and to be properly completed as expeditiously as possible. If the proceeds received by reason of any such loss shall exceed the costs of such repair, reconstruction or replacement, the Authority shall deposit such excess in the Capital Improvement Fund. Notwithstanding the foregoing, if the proceeds of such insurance, together with other moneys available for such purpose, are sufficient to enable the Authority to retire all Outstanding Bonds, whether at maturity or on redemption prior to maturity or any combination thereof, and to pay the Parity Payment Agreement Payments and any Termination Amount payable by the Authority pursuant to Parity Payment Agreements in connection with a termination thereof, and to pay any Credit Agreement Payments then due and payable the Authority may elect not to repair, reconstruct or replace the damaged or destroyed portion of the System, and thereupon, the proceeds of such insurance shall be applied by the Authority and the Trustee to the payment when due of the interest to become due on all Outstanding Bonds on and prior to the maturity date or redemption date thereof, as the case may be, to the payment of the principal of and redemption premiums, if any, on all Outstanding Bonds at maturity or on redemption prior to maturity, as the case may be, and to the payment of such Parity Payment Agreement Payments and any such Termination Amounts, as the case may be, when due and to pay any Credit Agreement Payments then due and payable.

(B) The Authority will maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Bondowners, which insurance shall afford protection in such amounts and against such risks as are usually maintained by prudent operators of systems similar to the System.

(C) Any insurance required under this Section may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner customarily maintained by prudent operators of systems similar to the System. The Authority shall, every third year, engage an insurance consultant to review the Authority's self-insurance program and to make recommendations for any necessary modifications, including, but not limited to, any modifications necessary to comply with this Section. Each such report shall be filed with the Trustee.

SECTION 6.07 Books and Accounts; Financial Statements. (A) The Authority will keep proper books of record and accounts, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the System. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Trustee, the Co-Trustee or any Owner of Bonds then Outstanding or their representatives authorized in writing, at reasonable hours and under reasonable conditions.

(B) The Authority will prepare and file with the Trustee and the Co-Trustee annually within nine months after the close of each Fiscal Year so long as any of the Bonds are Outstanding --

(1) financial statements for the preceding Fiscal Year, prepared in accordance with (i) the accounting requirements of this Indenture and (ii) generally accepted accounting principles applied on a consistent basis from year to year, including a balance sheet, statement of income, statement of retained earnings, and statement of changes in financial position (including a statement of revenue, expenditures and fund balances for each of the Funds and Accounts established pursuant to this Indenture), and including a reconciliation between the bases of accounting required under clauses (i) and (ii) above, which financial statements shall be examined by and include the certificate or opinion of an Independent Certified Public Accountant, such certificate or opinion to include a statement as to the manner and extent to which the Authority has complied with the provisions of this Indenture as it relates to said financial statements; and

(2) a statement as to all insurance carried by the Authority as of the end of such Fiscal Year, including a brief description of the amount and coverage of each insurance policy and the name of the insuring company.

The Authority will furnish a copy of the aforesaid statements to any Credit Provider and to any Bondowner upon request, and will furnish to the Trustee such reasonable number of copies thereof (not exceeding 100 copies) as may be required by the Trustee for distribution to investment bankers, securities dealers and others interested in the Bonds and to the Owners of Bonds requesting copies thereof. The Trustee shall not be required to incur any nonreimbursable expenses in making such distribution.

SECTION 6.08 Authority Budgets. Prior to the commencement of each Fiscal Year, the Authority shall prepare and adopt an annual budget for such Fiscal Year. Such budget shall set forth in reasonable detail the Revenues anticipated to be derived in such Fiscal Year and the expenditures anticipated to be paid or provided for therefrom in such Fiscal Year including, without limitation, the amounts required to provide for the payment of the principal of, interest and redemption premium, if any, on the Bonds during such Fiscal Year, to pay or provide for Operation and Maintenance Expenses for such Fiscal Year, to pay or provide for Renewal and Replacement Costs for such Fiscal Year, to make up any deficiencies in any Fund or Account anticipated for the then current Fiscal Year, to transfer to or from the Rate Stabilization Fund each month, and to pay or provide for the payment of all other claims or obligations required to be paid from Revenues in such Fiscal Year, and shall show that Net Revenues shall be at least adequate to satisfy the requirements of Section 6.12. The Authority shall supply to the Trustee, the Co-Trustee, the Revenue Fund Depository, any Credit Provider and any Bondowners who

shall so request in writing a copy of the annual budget for the then current Fiscal Year. Such budget shall also be open for inspection by any Owner during normal business hours. The Authority may at any time adopt a revised annual budget and shall supply copies as aforesaid.

SECTION 6.09 Payment of Taxes, Etc. The Authority will pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Authority on account of the System or any portion thereof or upon any Revenues and which, if unpaid, might impair the security of the Bonds, when the same shall become due, but nothing herein contained shall require the Authority to pay any such tax, assessment or charge so long as it shall in good faith contest the validity thereof. The Authority will duly observe and conform with all valid requirements of any governmental authority having jurisdiction over the Authority or the System or any part thereof.

SECTION 6.10 Acquisition and Construction of Improvements. The Authority will commence and will continue to completion the acquisition and construction of the improvements to the System proposed to be financed from any Series of Bonds, and said improvements will be acquired, constructed and completed in a sound and economical manner and in conformity with law.

SECTION 6.11 Eminent Domain Proceeds. If all or any part of the System shall be taken by or under threat of eminent domain proceedings, the net proceeds realized by the Authority therefrom (excluding any portion thereof payable to the United States of America or required by the United States of America to be deposited in a restricted fund) shall be deposited by the Chief Financial Officer in a special fund in trust and applied and disbursed by the Chief Financial Officer subject to the following conditions:

(A) If such proceeds are sufficient to provide for the payment of the entire amount of principal due or to become due upon all of the Bonds, together with all of the interest due or to become due thereon and any redemption premiums, and all amounts payable under Parity Payment Agreements (including Termination Amounts) and all Credit Agreement Payments then due and payable so as to enable the Authority to retire all of the Bonds, either by redemption at the then current redemption prices or by payment at maturity or partly by redemption prior to maturity and partly by payment at maturity, and terminate such Parity Payment Agreements and discharge such obligations with respect to such Credit Agreement Payments, the Chief Financial Officer shall transfer such moneys to the Trustee who shall apply such moneys to such retirement and to the payment of such amounts. The balance of such moneys, if any, shall be transferred back to the Authority and shall be deposited in the Capital Improvement Fund.

(B) If such proceeds are insufficient to provide the moneys required for the purposes set forth in the foregoing subsection (A), the Authority shall by resolution determine to apply such proceeds for one of the following purposes, subject to the conditions hereinafter in this subsection (B) set forth:

(1) The Authority may determine to apply such proceeds to the purchase or redemption of Bonds then Outstanding and to the payment of Credit Agreement Payments then due and payable. In that event, the Chief Financial Officer shall transfer such proceeds to the Trustee, who shall apply such proceeds pro rata to the redemption or purchase of Bonds of each Series then Outstanding in the proportion which the principal amount of outstanding Bonds of each Series bears to the aggregate principal amount of all Bonds then Outstanding.

(2) The Authority may determine to apply such proceeds to the cost of additions or improvements to or extensions of the System if the Authority first secures and files with the Trustee a report of an Independent Consulting Engineer (a) showing (i) the loss in annual Revenues, if any, suffered or to be suffered, by the Authority by reason of such eminent domain proceedings, (ii) a general

description of the additions, improvements or extensions then proposed to be acquired by the Authority from such proceeds, and (iii) an estimate of the additional Revenues to be derived from such additions, improvements or extensions; and (b) determining that such eminent domain proceedings will not substantially impair the ability of the Authority to meet its obligations under Section 6.12. The Authority shall then promptly proceed with the construction of the additions, improvements or extensions substantially in accordance with such report. Payments for such construction shall be made by the Authority from such proceeds. Any balance of such proceeds not required by the Authority for the purposes aforesaid shall be deposited in the Capital Improvement Fund.

SECTION 6.12 Rate Covenant.

(A) The Authority shall at all times fix, prescribe and collect rates, fees and charges in connection with the services furnished by the System which will be sufficient to yield the sum of Net Revenues during each Fiscal Year equal to at least 1.25 times the Aggregate Annual Debt Service for such Fiscal Year and to yield Revenues during each Fiscal Year equal to at least the aggregate amount of all transfers required by Section 5.02(A) through (E) for such Fiscal Year.

The debt service coverage ratio specified in this Section shall be the debt service coverage ratio used by the PUC, together with other appropriate factors, in setting rates.

If the financial statements prepared pursuant to Section 6.07(B)(1) reflect that (or if the Authority's other books and records at the time such statements are due hereunder reflect that) at the end of a Fiscal Year the sum of Net Revenues shall have been less than 1.25 times Aggregate Annual Debt Service for such Fiscal Year, or if Revenues shall have been less than the aggregate amount of all transfers required by Sections 5.02(A) through (E) for such Fiscal Year, the Authority shall promptly employ a Consulting Engineer to make recommendations as to a revision of such rates, fees and charges or the methods of operation of the System. The Authority shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law and subject to a good faith determination of the Board that such recommendations, in whole or in part, are in the best interests of the Authority, the Owners and each Credit Provider, revise such rates, fees and charges or methods of operation and will take such other actions as shall be in conformity with such recommendations.

If the Authority complies in all material respects with the reasonable recommendations of the Consulting Engineer with respect to said rates, fees, charges and methods of operation or collection, or makes a good faith determination that such recommendations are not in the best interests of the Authority, the Authority will be deemed to have complied with this Section for such Fiscal Year; provided, that Net Revenues shall in no event have been less than Aggregate Annual Debt Service for such Fiscal Year.

(B) The Authority may make adjustments from time to time in its rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce such rates, fees and charges below those then in effect unless the Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of this Section.

SECTION 6.13 Compliance with Indenture. The Authority (and the Government as to Section 6.17) will faithfully observe and perform all the covenants, conditions and requirements of this Indenture, and will not suffer or permit any default to occur hereunder, or do or permit to be done, in, upon or about the System, or any part thereof, anything that might in any way weaken, diminish or impair the security intended to be given pursuant to this Indenture:

SECTION 6.14 Observance of Laws and Regulations. The Authority shall comply promptly, fully and faithfully with and abide by any contract relating to or affecting the availability of any grant or other similar assistance and any statute, law, ordinance, order, rule, regulation, judgment, decree, direction or requirement now in force or hereafter enacted, adopted or entered by any competent governmental authority or agency applicable or with respect to or affecting the acquisition, construction or reconstruction of the System or any part thereof or applicable or with respect to or affecting the operation, manner, use or condition of the System or any part or parcel thereof or adjoining public ways or relating to the imposition of charges or collection of Revenues; provided that the Authority need not comply with any such contract, statute, law, ordinance, rule, regulation, judgment, decree, direction or requirement if and so long as the Authority in good faith shall be contesting or permitting or causing to be contested the applicability or validity thereof by appropriate proceedings diligently prosecuted, even though such contest may result in the imposition of a lien or charge against the System or the Revenues, if (1) the Authority shall effectively prevent foreclosure or enforcement of any such lien or charge and (2) the foreclosure or enforcement of any such lien or charge shall be stayed, and if said stay thereafter expires, the Authority shall forthwith discharge such lien or charge or cause the same to be discharged, so that pending such proceedings the System and the Revenues thereof shall not be affected thereby, and the security of the Bonds shall not be impaired.

SECTION 6.15 Prosecution and Defense of Suits. The Authority shall promptly from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the System hereafter developing, and shall prosecute all such suits, actions and other proceedings as may be appropriate for such purposes and, to the extent permitted by law, shall indemnify and save the Trustee and every Bondowner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The Authority shall defend against every suit, action or proceeding at any time brought against the Trustee or any Bondowner upon any claim arising out of the receipt, application or disbursement of any of the Revenues or involving the rights of the Trustee or any Bondowner under this Indenture; provided, that the Trustee or any Bondowner at its or his election may appear in and defend any such suit, action or proceeding. To the extent permitted by law, the Authority shall indemnify and hold harmless the Trustee and the Bondowners against any and all liability claimed or asserted by any person arising out of such receipt, application or disbursement, and shall indemnify and hold harmless the Bondowners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation to which any of them may become a defendant by reason of its ownership of Bonds. To the extent permitted by law, the Authority shall promptly reimburse any Bondowner in the full amount of any attorneys' fees or other expenses which such Bondowner may incur in litigation or otherwise in order to enforce its rights under this Indenture or the Bonds, if such litigation is concluded favorably to such Bondowner's contentions therein. Notwithstanding any contrary provision hereof, this Section shall remain in full force and effect, even though all indebtedness and obligations issued hereunder may have been fully paid and satisfied, until the Authority shall have been dissolved.

SECTION 6.16 Further Assurances. Whenever and so often as requested so to do by the Trustee or any Bondowner, the Authority will promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Bondowners all rights, interest, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by this Indenture.

SECTION 6.17 Pledge of the Government. The Government hereby pledges to the holders of all Bonds the following: while any Bonds remain outstanding and not fully performed or

discharged (A) to maintain the rights, powers and duties of the Board and the Guam Public Utilities Commission, or their respective successors in accordance with law, to fulfill the terms of Bonds and this Indenture, (B) to maintain the rights and remedies of Bondholders provided in the Act and this Indenture, (C) to protect the exclusive right of the Authority to operate or maintain within Guam any water or wastewater system operated by the government or its designees by preventing the acquisition, operation, maintenance or permitting of any instrumentality of the Government or any other public or private agency, entity or person to operate a separate and competitive water and/or wastewater system, and (D) not to transfer any additional non-system operating responsibilities or other unfunded mandates to the Authority without providing for the payment of the costs of such additional responsibilities, with the exception of annual supplemental annuity and COLA contributions paid by the Authority on behalf of retired employees of the Authority (or its lawful predecessors) as may be required by other laws of Guam. The Authority includes this pledge and agreement of the Government in this Indenture as authorized by Section 14229 of the Act.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF BONDOWNERS

SECTION 7.01 Events of Default; Remedies. (A) Any one or more of the following events shall be an "Event of Default" hereunder:

(1) if default shall be made in the due and punctual payment of the principal of, or the premium (if any) on, any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, or otherwise, or if default shall be made in the redemption or payment at maturity from any Sinking Account of any Term Bonds in the amounts and at the times provided therefor;

(2) if default shall be made in the due and punctual payment of any installment of interest on any Bond or any Parity Payment Agreement Payment when and as such interest installment or Parity Payment Agreement Payment shall become due and payable;

(3) if default shall be made by the Authority in the observance of any of the other covenants, agreements or conditions on its part in this Indenture or in the Bonds contained or by the Government in the observance of its covenant in Section 6.17, and such default shall have continued for a period of thirty (30) days after notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee, the Co-Trustee or a Credit Provider, or to the Authority, the Trustee and the Co-Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or

(4) if the Authority shall file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the Authority, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property.

(B) In each and every case during the continuance of an Event of Default, the Trustee in its own name and as Trustee of an express trust, on behalf and for the benefit and protection of the Bondowners, after notice to the Authority, and upon the request of the Owners of a majority in Accrued Value of the Bonds then Outstanding, shall proceed to protect and enforce any rights of the Trustee and,

to the full extent that the Bondowners themselves might do, the rights of such Bondowners under this Indenture and under the laws of the Government by such of the following remedies as such majority shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondowners, including the right to require the Authority to charge, prescribe and collect Revenues adequate to comply with the covenants and agreements made herein, and to require the Authority to carry out any other covenant or agreement with the Bondowners and to perform its duties under the Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, to require the Authority to account as if it were the trustee of an expressed trust for the Bondowners;

(4) by realizing or causing to be realized through sale or otherwise upon the moneys, securities and other assets pledged hereunder;

(5) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Bondowners;

(6) by requiring the Authority to endorse all checks and other negotiable instruments representing Revenues to the order of the Trustee immediately upon the receipt thereof and to deliver such endorsed instruments daily to the Trustee;

(7) by notifying any or all account debtors of the Authority to pay any amounts representing Revenues, when due, directly to the Trustee as Trustee; and

(8) by commencing proceedings for the appointment of a receiver or receivers of the System and of the Revenues, with such powers as the court making such appointment confers.

SECTION 7.02 Application of Funds Upon Default. All of the Revenues, all amounts in all of the Funds and Accounts provided for in Sections 3.02 (except any escrow fund established for the payment of any refunded obligations), 3.03, 5.01 and 5.02 upon the date of the declaration of an Event of Default as provided in Section 7.01 and all Revenues thereafter received by the Authority, the Trustee, the Co-Trustee or any Depository hereunder, shall be transmitted to the Trustee and be applied by the Trustee as and in the order of priority provided in Sections 5.01, 5.02 and 5.06; provided, however, that (A) if amounts in the Debt Service Fund are insufficient to pay, when due, all interest on, principal of, and Mandatory Sinking Account Payments on all Bonds then Outstanding, all Parity Payment Agreement Payments pursuant to Parity Payment Agreements then Outstanding and all Credit Agreement Reimbursement Payments due and payable pursuant to Credit Agreements then Outstanding, then such amounts in the Debt Service Fund shall be used first to pay all installments of interest then due and owing without preference or priority of any such installment of interest over any other installment of interest, then to pay installments of principal and Mandatory Sinking Account Payments then due and owing, without preference or priority of any installment of principal or Mandatory Sinking Account Payments over any other such installment, then to pay all Credit Agreement Reimbursement Payments then due and payable, and then to pay Parity Payment Agreement Payments then due and owing, without preference or priority of any Parity Payment Agreement Payment over any other such Parity Payment Agreement Payment; and (B) amounts in Construction Accounts may be used for the purposes for which such Construction Accounts were created and funded if the Trustee

determines, in accordance with Section 8.03(A), that such use is in the best interests of the Bondholders and the Credit Providers.

If any installment of interest, principal or Redemption Price is only partially paid, such payment shall occur only upon presentation of the several Bonds and the recording thereon of a record of such partial payment.

SECTION 7.03 Representation of Bondowners by Trustee. In case one or more of the Events of Default shall happen, then and in every such case the Owner of any Bond at the time Outstanding shall be entitled to proceed to protect and enforce the rights vested in such Owner by this Indenture by such appropriate judicial proceeding as such Owner shall deem most effectual to protect and enforce any such right, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in this Indenture, or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Owners of Bonds by this Indenture or by law; provided, however, that no such Bondowner shall have the right to institute any such judicial proceeding pursuant to this Section unless (A) such Owner shall have previously given to the Trustee notice of the occurrence of an Event of Default hereunder; (B) the Owners of at least a majority in Accreted Value of the Bonds then Outstanding shall have made request to the Trustee to exercise the powers herein granted or to institute such action, suit or proceeding in its own name; (C) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (D) the Trustee shall have refused or omitted to comply with such request for a period of sixty days after such request shall have been received by, and said tender of indemnity shall have been made to, the Trustee. The provisions of this Indenture shall constitute a contract with the Owners of the Bonds, and such contract and duties of the Authority and of the Authority members, officers and employees thereof shall be enforceable by any Bondowner by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction.

Nothing in this Section shall affect or impair the right of any Owner to enforce the payment of principal of and interest on such Owner's Bonds or the obligation of the Authority to pay the principal of and interest on each such Bond at the time and place specified in such Bond.

SECTION 7.04 Nonwaiver. Nothing in this Article or in any other provision of this Indenture, or in the Bonds, shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and the interest (and premium, if any) on the Bonds to the respective Owners of the Bonds at the respective dates of maturity, or upon call for redemption, as herein provided, but only out of the Revenues herein pledged for such payments, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default or breach of duty or contract by any Bondowner shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on the subsequent default or breach. No delay or omission of the Trustee or of any Owner of any of the Bonds to exercise any right or power arising upon the happening of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by the Act or this Article to the Trustee or to the Owners of Bonds or any Credit Provider may be exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners of Bonds or any such Credit Provider.

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Bondowners, the Authority, the Trustee and the Bondowners and each

Credit Provider shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

SECTION 7.05 Actions by Trustee as Attorney-in-Fact. Any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated (notwithstanding any conditions upon the bringing of any such action, suit or proceeding set forth in Section 7.03) and the Trustee is hereby appointed (and the successive respective Owners of the Bonds issued hereunder, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Bonds for the purpose of bringing any such suit, action, or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Except as may be set forth in a Supplemental Indenture in accordance with Section 11.15, anything in this Indenture to the contrary notwithstanding, the Owners of a majority in Accreted Value of the Bonds at any time Outstanding shall have the right, by an instrument or concurrent instruments 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 hereunder, provided that such direction shall be in accordance with law and the provisions of this Indenture.

SECTION 7.06 Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of Bonds or to any Credit Provider is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

ARTICLE VIII

THE FIDUCIARIES

SECTION 8.01 Appointment of Trustee. Bank of Guam is hereby appointed as Trustee under this Indenture.

Appointment of Co-Trustee. U.S. Bank National Association is hereby appointed as Co-Trustee under this Indenture.

SECTION 8.02 Duties, Immunities and Liabilities of Fiduciaries. (A) The Trustee and the Co-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 this Indenture for each to perform. The Trustee and the Co-Trustee shall, during the existence of any Event of Default which has not been cured, exercise such of the rights and powers vested in them by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. The Authority, the Trustee, the Co-Trustee and each Depositary shall establish such accounting, notice and other relationships as are necessary to provide for the operation of the accounts created under or pursuant to Article V, and the handling of the Revenues credited thereto in accordance herewith.

(B) Each Depositary, Registrar and Paying Agent 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 this Indenture, and shall, during the existence of any Event of Default (which has not been cured), follow the directions of the Trustee with respect to any of the Funds and Accounts held under this Indenture.

(C) The Authority may remove any Fiduciary at any time unless an Event of Default shall have occurred and then be continuing, and shall remove a Fiduciary 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 Accreted Value of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time such Fiduciary shall cease to be eligible in accordance with subsection (F) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of such Fiduciary or its property shall be appointed, or any public officer shall take control or charge of such Fiduciary or its property or affairs for the purpose of rehabilitation, conservation or liquidation; in each case by giving notice of such removal to such Fiduciary and thereupon shall appoint a successor Trustee, Co-Trustee, Depository, Registrar or Paying Agent, as the case may be, by an instrument in writing. Any Supplemental Indenture or Credit Agreement entered into in connection with Bonds may provide that the Credit Provider with respect thereto has the right to direct the Authority to remove any Fiduciary and appoint a successor under the circumstances specified therein.

(D) Any Fiduciary may at any time resign by giving notice of such resignation to the Authority, the other Fiduciaries and each Credit Provider. Subject to the provisions of any Supplemental Indenture or Credit Agreement, upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee, Co-Trustee, Depository, Registrar or Paying Agent, as the case may be, by an instrument in writing.

(E) Any such removal or resignation and appointment of a successor Fiduciary shall become effective upon acceptance of appointment by the successor. Promptly upon such acceptance, the Authority shall give notice thereof to each Fiduciary, to each affected Credit Provider and to the affected Bondowners by mail in the manner provided by Section 4.03. If no successor shall have been appointed and have accepted appointment within forty-five (45) days after giving notice of removal or notice of resignation as aforesaid, the resigning Fiduciary or any Bondowner (on behalf of such Bondowner and all other Bondowners) or any Credit Provider may petition any court of competent jurisdiction for the appointment of a successor, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor. Any such successor appointed under this Indenture shall signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor a written acceptance thereof (which may be a Supplemental Indenture), and thereupon such successor, 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, with like effect as if originally named herein; but, nevertheless, at the Request of the Authority or the request of the successor, such predecessor 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 in and confirming to such successor all the right, title and interest of such predecessor in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor all such moneys, estates, properties, rights, powers, trusts, duties and obligations.

(F) (1) The Trustee and the Co-Trustee appointed under the provisions of this Section shall meet the requirements of any Supplemental Indenture and any Credit Agreement and shall each be a trust company or bank having the powers of a trust company doing business and having a corporate trust office in any State or territory and having a combined capital and surplus of at least Fifty Million Dollars

(\$50,000,000), and subject to supervision or examination by federal, state or territorial authority. The Co-Trustee shall have a corporate trust office in one of the contiguous 48 States and have a combined capital and surplus of at least One Hundred Million Dollars (\$100,000,000). Either the Trustee or the Co-Trustee shall have a corporate trust office in Guam. Any bank or trust company that meets the requirements of both of the preceding two sentences may serve as both Trustee and Co-Trustee. If a bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee or the Co-Trustee shall cease to be eligible in accordance with the provisions of this subsection (F)(1), it shall resign immediately in the manner and with the effect specified in this Section. The Trustee and Co-Trustee may be appointed and act as a Depositary, Registrar or Paying Agent hereunder.

(2) Each Registrar and Paying Agent appointed under the provisions of this Section shall meet the requirements of any Supplemental Indenture and any Credit Agreement and shall be a trust company or bank having trust powers doing business and having a corporate trust office in any State of the United States and subject to supervision or examination by federal or state authority. In case at any time any Registrar or any Paying Agent shall cease to be eligible in accordance with the provisions of this subsection (F)(2), it shall resign immediately in the manner and with the effect specified in this Section.

(3) Each Depositary appointed under the provisions of this Section shall be a trust company or commercial bank having the powers of a trust company doing business and having a trust office on Guam, having a combined capital and surplus of at least Ten Million Dollars (\$10,000,000), and subject to supervision or examination by federal or territorial authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Depositary shall cease to be eligible in accordance with the provisions of this subsection (F)(3), the Depositary shall resign immediately in the manner and with the effect specified in this Section.

(G) Any company into which any Fiduciary 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 such Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under subsection (F) of this Section, shall be the successor to such Fiduciary without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding. Any such successor shall give notice of such merger, conversion or consolidation to each other Fiduciary and to the Authority.

SECTION 8.03 Compensation. Subject to the terms of separate contracts with Fiduciaries, the Authority shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Indenture, and also all reasonable expenses, charges, fees of counsel, accountants and consultants and other disbursements, including those of their attorneys, agents and employees, incurred in good faith in and about the performance of their powers and duties under this Indenture. The Authority further agrees, to the extent permitted by law, to indemnify and save each Fiduciary harmless against any losses, costs, expenses, claims and liabilities (including without limitation those of its attorneys, agents and receivers) which they may incur in the exercise and performance of their respective powers, functions and duties under this Indenture, which are not due to their own respective gross negligence or willful misconduct. Such indemnity shall survive the resignation or removal of each Fiduciary.

SECTION 8.04 Liability of Fiduciaries. The recitals of facts herein and in the Bonds contained shall be taken as statements of the Authority, and no Fiduciary assumes any responsibility or liability for the correctness of the same, or makes any representations as to the validity or sufficiency of this Indenture, of the Bonds, of any Credit Facility or of the pledge and assignment of Revenues herein or any information or statements in any offering memorandum or other disclosure material prepared or distributed in connection with the issuance of Bonds or shall incur any responsibility or liability in respect thereof, other than in connection with the duties or obligations herein or in the Bonds assigned to or imposed upon them, respectively. Each Registrar shall, however, be responsible for its representations contained in its certificate of authentication and registration on the Bonds. No Fiduciary shall be liable in connection with the performance of its respective duties hereunder, except for its own respective gross negligence or willful misconduct. Any Fiduciary may become the owner of the Bonds with the same rights it would have if it were not a Fiduciary, 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 Bondowners, whether or not such committee shall represent the Owners of a majority in Accreted Value of the Bonds then Outstanding. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary or the acts or omissions of any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would require it to expend or risk its own moneys or otherwise incur any liability or to institute or defend any action or suit in respect of this Indenture or the Bonds, unless it is in its judgment adequately indemnified. No Fiduciary shall be deemed to have knowledge of an Event of Default hereunder unless it has received actual knowledge thereof at its Principal Office, except, in the case of the Trustee, default in the payment of any amounts due on the Bonds on the due date therefor.

SECTION 8.05 Right of Fiduciaries to Rely on Documents. Any Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, requisition, statement, report, opinion, bond or other paper or document believed to be genuine and to have been signed or presented by the proper party or parties. Any Fiduciary may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever in the administration of the trusts imposed upon it by this Indenture a Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the Authority, and such Certificate shall be full warrant to such Fiduciary for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Certificate, but in its discretion such Fiduciary may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

SECTION 8.06 Preservation and Inspection of Documents. All documents received by any Fiduciary under the provisions of this Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Authority and any Bondowner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

ARTICLE IX

MODIFICATION OR AMENDMENT OF THE INDENTURE

SECTION 9.01 Amendments Permitted. (A)(1) This Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee and Co-Trustee may be modified or amended at any time by a Supplemental Indenture which shall become binding when the consents of the Owners of at least sixty percent (60%) in Accreted Value of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 9.03 hereof; provided that if such modification or amendment will, by its terms, not take effect so long as any bonds of any particular maturity or Series remain Outstanding, the consent of the Owners of Bonds of such maturity or Series 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; and provided further that the consent of a Credit Provider for any Bond shall be deemed to be the consent of the Owner of such Bond if specified in the Supplemental Indenture pursuant to which such Credit Provider is designated as providing a Credit Facility for such Bond.

(2) No such modification or amendment shall (a) extend the fixed maturities of the Bonds, or extend the time for making any Mandatory Sinking Account Payments, or reduce the rate of interest thereon, or extend the time of payment of interest, or reduce the amount of principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Owner of each Bond so affected, (b) reduce the aforesaid percentage of Owners of Bonds whose consent is required for the execution of any amendment or modification of this Indenture or permit the creation of any lien on the Revenues prior to or on a parity with the lien created by this Indenture or deprive the Owners of the Bonds of the lien created by this Indenture upon such Revenues, without in each case the consent of the Owners of all of the Bonds then Outstanding.

(3) No such modification or amendment shall modify any of the rights or obligations of any Fiduciary without its consent thereto.

(B) This Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption, without the consent of any Bondowners, but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority in this Indenture contained other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the Authority;

(2) to cure, correct or supplement any ambiguous or defective provision contained in this Indenture or in regard to questions arising under this Indenture, as the Authority may deem necessary or desirable and not inconsistent with this Indenture, and which shall not materially adversely affect the interests of the Owners of the Bonds or any Credit Provider;

(3) to provide for the issuance of Additional Bonds, and to provide the terms and conditions under which such Additional Bonds may be issued, subject to and in accordance with the provisions of Article III;

(4) to provide for any other matters for which a Supplemental Indenture is expressly permitted or required hereunder; and

(5) to make any other amendment or modification which shall not materially adversely affect the interests of the Owners of the Bonds or any Credit Provider.

(C) Any Supplemental Indenture providing for the issuance of a Series of Bonds may require, in addition to or in lieu of any consents required by the foregoing provisions of this Section 9.01, the consent of any Credit Provider for such Bonds in order for any amendment hereto affecting such Bonds to be effective, and may set forth appropriate procedures for obtaining and evidencing such consent.

SECTION 9.02 Procedure for Amendment with Consent of Bondowners. The Authority may at any time adopt a Supplemental Indenture amending the provisions of the Bonds or of this Indenture or any Supplemental Indenture, to the extent that such amendment is permitted by Section 9.01(A)(1), to take effect when and as provided in this Section. A copy of such Supplemental Indenture, together with a request to Bondowners for their consent thereto, shall be mailed by the Authority to each Owner of Bonds, but failure to receive any such copies of such Supplemental Indenture and request shall not affect the validity of the Supplemental Indenture when assented to as in this Section provided.

Such Supplemental Indenture shall not become effective unless there shall be filed with the Trustee the consents of the Owners of sixty percent (60%) in Accreted Value of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in Section 9.03) and a notice shall have been published as hereinafter in this Section provided. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by Section 11.08. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the notice hereinafter in this Section provided for has been published.

After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Indenture, the Authority shall mail a notice to the Bondowners in the manner hereinbefore provided in this Section for the mailing of the Supplemental Indenture and publication of the notice of adoption thereof, stating in substance that the Supplemental Indenture has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in this Section (but failure to receive copies of said notice shall not affect the validity of the Supplemental Indenture or consents thereto). A record, consisting of the papers required by this Section to be filed with the Trustee, shall be proof of the matters therein stated until the contrary is proved.

In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Bondowners upon such notice and in accordance with such rules and regulations as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

SECTION 9.03 Disqualified Bonds. Bonds owned or held by or for the account of the Authority (but excluding Bonds held in any pension or retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided for in this Article or Indenture, and shall not be entitled to consent to or take any other action provided for in this Article or Indenture.

The Authority may adopt appropriate regulations to require each Bondowner, before his consent provided for in this Article shall be deemed effective, to reveal if the Bonds as to which such consent is given are disqualified as provided in this Section.

SECTION 9.04 Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective pursuant to this Article, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Authority, the Trustee, the Co-Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.05 Endorsement or Replacement of Bonds Issued Before Amendments. The Authority may determine that Bonds issued and delivered before the effective date of any action taken as provided in this Article shall bear a notation, by endorsement or otherwise, in form approved by the Authority, as to such action. In that case, upon demand of the Owner of any Bond Outstanding at such effective date and presentation of his Bond for that purpose at the office of the Authority or at such other office as the Authority may select and designate for that purpose, a suitable notation shall be made on such Bond. The Authority may determine that new Bonds, so modified as in the opinion of the Authority is necessary to conform to such action, shall be prepared, executed and delivered. In that case, upon demand of the Owner of any Bonds then Outstanding, such new Bonds shall be exchanged at the Principal Office of the applicable Registrar, without cost to such Owner, for Bonds of the same character then Outstanding, upon surrender of such Bonds.

SECTION 9.06 Amendatory Endorsement of Bonds. The provisions of this Article shall not prevent any Bondowner from accepting any amendment as to the particular Bonds held by such Bondholder, provided that due notification thereof is made on such Bonds.

SECTION 9.07 Credit Provider Consent. Nothing in this Article or in this Indenture shall affect any provision of any Credit Agreement or Supplemental Indenture requiring the Authority to obtain the consent of the Credit Provider or to satisfy any other conditions before amending or supplementing this Indenture or any Bond.

ARTICLE X

DEFEASANCE

SECTION 10.01 Discharge of Indenture. If the Authority shall pay and discharge the entire indebtedness on all Bonds Outstanding in any one or more of the following ways—

(A) by well and truly paying or causing to be paid the principal of (including redemption premiums, if any) and interest on all Bonds Outstanding, as and when the same become due and payable (but this clause shall not include Bonds the principal of or interest on which has been paid by a Credit Provider until said principal and interest shall have been paid by the Authority); or

(B) by depositing with the Co-Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Debt Service Fund and the Bond Reserve Fund, is fully sufficient to pay or redeem all Bonds Outstanding, including all principal, interest and redemption premiums, if any; or

(C) by delivering to the Co-Trustee, for cancellation by it, all Bonds Outstanding; or

(D) by depositing with the Co-Trustee, in trust, non-callable Federal Securities in such amount which, in the determination of an Independent Certified Public Accountant, who shall certify such

determination to the Co-Trustee and, if so provided in a Supplemental Indenture, any Credit Provider, shall, together with the income or increment to accrue thereon and any other moneys of the Authority made available for such purpose, be fully sufficient to pay and discharge the indebtedness on all Bonds (including all principal, interest and redemption premiums, if any) at or before their respective maturity dates;

and if the Authority shall also pay or cause to be paid all other sums payable hereunder by the Authority (including all Parity Payment Agreement Payments and any Termination Payments payable in connection with a termination of a Parity Payment Agreement and any Credit Agreement Payments then due and payable) and deliver or have delivered to the Trustee, the Co-Trustee and each Credit Provider an Opinion of Counsel to the effect that upon satisfaction of the other requirements of this Section 10.01 and any Supplemental Indenture all obligations of the Authority under this Indenture have ceased, terminated and been completely discharged, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority signifying its intention to pay and discharge all such indebtedness and that this Indenture and all other obligations of the Authority under this Indenture shall cease and terminate, which shall be filed with the Trustee and the Co-Trustee), and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Revenues and other funds provided for in this Indenture and all other obligations of the Authority under this Indenture shall cease, terminate and be completely discharged, and the Owners of the Bonds not so surrendered and paid shall thereafter be entitled to payment only out of the money or Federal Securities deposited with the Co-Trustee as aforesaid for their payment; subject, however, to the provisions of Section 10.03. The discharge of the obligations of the Authority under this Indenture shall be without prejudice to the rights of the Co-Trustee to charge for and be reimbursed by the Authority for any expenditures which it may thereafter incur in connection herewith.

The Authority may at any time surrender to the Co-Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

SECTION 10.02 Discharge of Liability on Bonds. Upon the deposit with the Co-Trustee, in trust, at or before maturity, of money or Federal Securities in the necessary amount to pay or redeem Outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Co-Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, determine and be completely discharged and the Owners thereof shall thereafter be entitled only to payment out of the money or Federal Securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.03.

SECTION 10.03 Payment of Bonds after Discharge of Indenture. Notwithstanding any provisions of this Indenture, any moneys deposited with the Co-Trustee in trust for the payment of the principal of, or interest or premium on, any Bonds and remaining unclaimed for two years after the principal of all the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in this Indenture) shall then be repaid to the Authority upon its Request, and the Owners of such Bonds shall thereafter be entitled to look only to the Authority for payment thereof; and all liability of the Co-Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Co-Trustee may (at the cost of the Authority) first publish at least once in a Financial Newspaper or Journal and in a newspaper of general circulation in Guam a notice, in such form as may be deemed appropriate by the Co-Trustee, with respect to the Bonds so payable and not presented and with

respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof. In the event of the repayment of any such moneys to the Authority as aforesaid, the Owners of the Bonds in respect of which such moneys were deposited shall thereafter be deemed to be general creditors of the Authority for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the Authority (without interest thereon).

ARTICLE XI

MISCELLANEOUS

SECTION 11.01 Liability of Authority Limited to Revenues. Notwithstanding anything in this Indenture contained, the Authority shall not be required to advance any moneys derived from any source of income other than the Revenues, for the payment of the principal of or interest on the Bonds, Payment Agreement Payments, Termination Payments and Credit Agreement Payments, for the operation and maintenance of the System, for the performance of any covenants herein contained or for the payment of any obligations hereunder, including indemnification. The Authority may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the Authority for such purpose without incurring indebtedness.

The Bonds shall be limited obligations of the Authority, payable solely from and secured by a pledge of the Revenues as provided in this Indenture. The Bonds shall not be a legal or equitable pledge, charge, lien or encumbrance upon any property of the Authority or upon any of its income, receipts or revenues except the Revenues pledged to the payment thereof as provided in this Indenture.

Neither the Government of Guam (the "Government") nor any political subdivision thereof is obligated to pay the principal of, Redemption Price, if applicable, or interest on the Bonds, except from Revenues, and neither the Authority, the Government nor any political subdivision thereof has pledged its faith or credit to the payment of the principal of, redemption price, if applicable, or interest on the Bonds.

SECTION 11.02 Successor Is Deemed Included in All References to Predecessor. Whenever in this Indenture either the Authority or any Fiduciary is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the Authority or any Fiduciary shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

SECTION 11.03 Limitation of Rights to Parties and Bondowners. Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person, other than the Authority, the Fiduciaries and the Owners of the Bonds issued hereunder and to the extent set forth herein or in a Supplemental Indenture any Credit Provider, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Fiduciaries and the Owners of the Bonds issued hereunder and any such Credit Provider.

SECTION 11.04 Waiver of Notice. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 11.05 Destruction of Bonds. Whenever in this Indenture provision is made for the cancellation by the Co-Trustee and the delivery to the Authority of any Bonds, the Co-Trustee may destroy such Bonds (in the presence of an officer of the Authority, if the Authority shall so require), and deliver a certificate of such destruction to the Authority, unless the Authority shall, by Request of the Authority, request the Co-Trustee to instead cancel and deliver said Bonds to the Authority.

SECTION 11.06 Severability of Invalid Provisions. If any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority hereby declares that it would have adopted this Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable. If, by reason of the judgment of any court, the Trustee or the Co-Trustee or any successor Trustee or Co-Trustee is rendered unable to perform its duties hereunder, and if no successor Trustee or Co-Trustee be then appointed, all such duties and all of the rights and powers of the Trustee or the Co-Trustee hereunder, as applicable, shall be assumed by and vest in the Chief Financial Officer of the Authority in trust for the benefit of the Bondowners.

SECTION 11.07 Notice to Authority, Trustee and Co-Trustee. Any notice to or demand upon the Authority, the Trustee, the Co-Trustee, any Depositary or any Registrar shall be deemed to have been sufficiently given or served for all purposes by being deposited, postage prepaid, in a post office letter box, addressed to the applicable address set forth below, or at such other address as may have been specified by the Supplemental Indenture appointing such party or filed in writing by such party with each other party.

Any notice to or demand upon the Authority may be served or presented, and such demand may be made, at the office of the principal administrative office of the Authority, which at the date of adoption of this Indenture is: Guam Waterworks Authority, 578 N. Marine Corps Drive, Tamuning, Guam 96913, Attention: Chief Financial Officer.

Any notice to or demand upon the Trustee or the Depositary may be served or presented, and such demand may be made, at the Principal Office of the Trustee, which at the date of adoption of this Indenture is: Bank of Guam, 111 Chalan Santo Papa, 2nd Floor, Agaña, Guam 96910, Attention: Corporate Trust Department.

Any notice to or demand upon the Co-Trustee may be served or presented, and such demand may be made, at the Principal Office of the Co-Trustee, which at the date of adoption of this Indenture is: U.S. Bank National Association, 633 West Fifth Street, 24th Floor, Los Angeles, CA 90071, Attention: Corporate Trust Services; provided, however, that for purposes of payment, transfer, registration and exchange of Bonds, presentation shall be made at the Principal Office of the Co-Trustee located at 60 Livingston Avenue, St. Paul, MN 55107, Attention: Corporate Trust Operations.

SECTION 11.08 Evidence of Rights of Bondowners. Any request, consent or other instrument required by this Indenture to be signed and executed by Bondowners may be in any number of concurrent writings of substantially similar tenor and may be signed or executed by such Bondowners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent shall be sufficient for

any purpose of this Indenture and shall be conclusive in favor of the Trustee, the Co-Trustee and of the Authority if made in the manner provided in this Section.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved in any manner reasonably acceptable to the Trustee or the Co-Trustee, as applicable.

The ownership of Bonds shall be proved by the Bond registration books maintained pursuant to Section 2.06.

Any request, consent, vote or declaration of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee, the Co-Trustee or the Authority in pursuance of such request, consent, vote or declaration.

SECTION 11.09 Article and Section Headings and References. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Indenture.

All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

SECTION 11.10 Funds and Accounts. Any fund required by this Indenture to be established and maintained by the Authority, the Trustee, the Co-Trustee or any Depository may be established and maintained in the accounting records of the Authority, the Trustee, the Co-Trustee or the Depository, as applicable, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with generally accepted accounting practices (and as to the Trustee, the Co-Trustee and any Depository, sound industry practice) and with due regard for the protection of the security of the Bonds and the rights of every Owner thereof.

SECTION 11.11 Saturdays, Sundays and Legal Holidays. If any party hereto is required to perform, pursuant to a provision of this Indenture, any act on a date which falls on a Saturday, Sunday or legal holiday, the party required to perform such act shall be deemed to have performed it in a timely manner, and in conformance with such provision, if it shall perform such act on the next succeeding Business Day. Any payments or transfers which would otherwise become due on any day which is not a Business Day shall become due or shall be made on the next succeeding Business Day.

SECTION 11.12 Waiver of Personal Liability. No Board member, officer, agent or employee of the Authority shall be individually or personally liable for the payment of the principal of or interest on the Bonds; but nothing herein contained shall relieve any such Board member, officer, agent or employee from the performance of any official duty provided by law.

SECTION 11.13 Governing Law. This Indenture and any Supplemental Indentures shall be construed and governed in accordance with the laws of the Government of Guam, provided, however, that the administration of the trusts imposed upon the Trustee and the Co-Trustee by the Indenture and the rights and duties of the Trustee and Co-Trustee hereunder shall be governed by, and

construed in accordance with, the laws of the jurisdiction in which the Trustee or the Co-Trustee, as applicable, has its corporate trust office.

SECTION 11.14 Execution in Several Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority, the Trustee and the Co-Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

SECTION 11.15 Credit Agreements and Credit Providers. Anything herein to the contrary notwithstanding, a Supplemental Indenture providing for the issuance of a Series of Bonds for which a Credit Facility provides supplemental credit support may, so long as such Credit Facility shall be Outstanding or any Credit Agreement Payments are due and payable with respect thereto, provide additional terms, provisions and limitations not inconsistent with the provisions hereof for the protection and benefit of the related Credit Provider.

IN WITNESS WHEREOF, the GUAM WATERWORKS AUTHORITY has caused this Indenture to be signed in its name by its duly authorized officers; and BANK OF GUAM and U.S. BANK NATIONAL ASSOCIATION, in token of their acceptance of the respective trusts created hereunder, has caused this Indenture to be signed in their respective corporate names by one of their authorized officers, all as of the day and year first above written.

GUAM WATERWORKS AUTHORITY

By *James A. Sangu II*
Chairperson of the Board

By *David E. R. Curbish*
General Manager

BANK OF GUAM, as Trustee

By *Re Bralley*
Title:

U.S. BANK NATIONAL ASSOCIATION, as Co-Trustee

By _____
Title:

IN WITNESS WHEREOF, the GUAM WATERWORKS AUTHORITY has caused this Indenture to be signed in its name by its duly authorized officers; and BANK OF GUAM and U.S. BANK NATIONAL ASSOCIATION, in token of their acceptance of the respective trusts created hereunder, has caused this Indenture to be signed in their respective corporate names by one of their authorized officers, all as of the day and year first above written.

GUAM WATERWORKS AUTHORITY

By _____
Chairperson of the Board

By _____
General Manager

BANK OF GUAM, as Trustee

By _____
Title:

U.S. BANK NATIONAL ASSOCIATION, as Co-Trustee

By Mateo
Title: Assistant Vice President

The undersigned BANK OF GUAM, hereby accepts and agrees to perform the duties and obligations of Depositary for the Revenue Fund under this Indenture.

BANK OF GUAM, as Depositary for the Revenue Fund

By

R. Brally
Title: VP/Trust and Economic and
Market Statistics Officer



Supplemental Indenture

GUAM WATERWORKS AUTHORITY

and

BANK OF GUAM,
as Trustee,

and

U.S. BANK NATIONAL ASSOCIATION,
as Co-Trustee

SUPPLEMENTAL INDENTURE

Dated as of December 1, 2005

Relating to

\$101,175,000
Guam Waterworks Authority
Water and Wastewater System Revenue Bonds,
Series 2005

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THIS SUPPLEMENTAL INDENTURE, made and entered into as of December 1, 2005, by and between the GUAM WATERWORKS AUTHORITY, a duly organized public corporation of the government of Guam (the "Authority"), BANK OF GUAM, a domestic banking corporation duly organized and existing under and by virtue of the laws of Guam, having a corporate trust office in Guam, and being qualified to accept and administer the trusts hereby created and to do business within Guam, as trustee (the "Trustee"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized under the laws of the United States of America and qualified to accept and administer the trusts hereby created, as co-trustee (the "Co-Trustee"),

WITNESSETH:

WHEREAS, pursuant to Article 2, Chapter 14 of Title 12 of the Guam Code Annotated (the "Act"), the Authority is authorized to issue and sell revenue bonds to raise funds for the purpose of acquiring, constructing, improving, equipping, maintaining, repairing, renewing, replacing, reconstructing or insuring the System (as defined in the Indenture), or any part thereof, or for the purpose of refunding any such bonds or any other prior obligations of the Authority, or for any combination of such purposes;

WHEREAS, the Authority has determined to issue revenue bonds for such purposes and to that end has duly authorized the execution and delivery of that certain Indenture, dated as of December 1, 2005 (the "Indenture"), between the Authority and the Trustee, to secure the payment of the principal thereof and the interest and premium, if any, thereon, and the observance of the covenants and conditions therein contained;

WHEREAS, revenue bonds may be issued pursuant to the Indenture and one or more indentures supplemental thereto ("Supplemental Indentures"), from time to time, in an aggregate principal amount not limited except as therein provided, and said revenue bonds are to be designated as the "Guam Waterworks Authority Water and Wastewater System Revenue Bonds" (the "Bonds");

WHEREAS, it is now desirable and necessary and in the best interests of the Authority to authorize the issuance of \$101,175,000 principal amount of Bonds further designated as "Series 2005 Bonds" to raise funds for the purpose of acquiring, constructing, improving, equipping, maintaining, repairing, renewing, replacing and reconstructing parts of the System and for the purpose of refunding and effecting the defeasance of the Authority's outstanding Certificates of Participation, Series 2005 (as further defined below, the "Series 2005 Certificates");

WHEREAS, pursuant to and subject to the terms and conditions set forth in Public Law No. 28-71, the Legislature of Guam (as required by Section 50103(k) of Title 12, Guam Code Annotated (the "GEDCA Law")) approved the terms and conditions of the issuance of said Series 2005 Bonds, so long as the Series 2005 Bonds meet the requirements set forth in the Act;

WHEREAS, the Guam Economic Development and Commerce Authority has approved the issuance and sale of said Series 2005 Bonds as required by the GEDCA Law;

WHEREAS, all acts, conditions and things required by the laws of the United States of America and the laws of Guam to exist, to have happened and to have been performed precedent to and in connection with the issuance of said Series 2005 Bonds exist, have happened, and have been performed in regular and due time, form and manner as required by law, and the Authority is now duly authorized and empowered, pursuant to each and every requirement of law, to issue said Bonds for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE WITNESSETH, in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Series 2005 Bonds by the owners thereof, and for other valuable considerations, the receipt whereof is hereby acknowledged, the Authority does hereby covenant and agree with the Trustee and the Co-Trustee as follows:

ARTICLE XII

DEFINITIONS

SECTION 12.01 Definitions. Unless the context otherwise requires, the terms defined in the Indenture shall, for all purposes of this Supplemental Indenture and of any certificate, opinion or other document herein mentioned, have the meanings specified in the Indenture.

In addition, unless the context otherwise requires, the terms defined in this Section shall for all purposes of the Indenture and this Supplemental Indenture and of any certificate, opinion or other document herein mentioned, have the meanings herein specified.

Bond Year

"Bond Year" means, with respect to the Series 2005 Bonds, the period of twelve consecutive months ending on July 1 of each year if Series 2005 Bonds are or will be Outstanding in such twelve-month period; provided that the first Bond Year shall commence on the date of delivery of the Series 2005 Bonds and end on July 1, 2006.

Certificate Indenture

"Certificate Indenture" means the indenture, dated as of July 1, 2005, between the Guan Waterworks Facilities Corporation and the Certificate Trustee, relating to the Series 2005 Certificates.

Certificate Trustee

"Certificate Trustee" means J.P. Morgan Trust Company, National Association, as trustee under the Certificate Indenture, its successors and assigns, and any other corporation or association which may at any time be substituted in its place.

DTC

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

Escrow Agreement

"Escrow Agreement" means the agreement, dated as of December 1, 2005 and entitled "Escrow Agreement," to be entered into between the Authority and the Certificate Trustee.

Escrow Fund

"Escrow Fund" means the fund of that name to be established by the Certificate Trustee pursuant to the Escrow Agreement.

Representation Letter

"Representation Letter" means any representation letter delivered to or agreement with DTC with respect to the Series 2005 Bonds L Bonds.

Series 2005 Certificates

"Series 2005 Certificates" means the Certificates of Participation, Series 2005, evidencing an assignment of a proportionate interest in rights to receive certain Net Pledged Revenues pursuant to the Purchase Agreement between Guam Waterworks Facilities Corporation and the Authority.

Series 2005 Bonds, Series 2005 Serial Bonds, Series 2005 Term Bonds

"Series 2005 Bonds" means the \$101,175,000 principal amount of Guam Waterworks Authority Water and Wastewater System Revenue Bonds, Series 2005.

"Series 2005 Serial Bonds" means the Series 2005 Bonds designated as such by Section 13.02, and for which no Mandatory Sinking Account Payments are provided.

"Series 2005 Term Bonds" means the Series 2005 Bonds designated as such by Section 13.02, and for which Mandatory Sinking Account Payments are provided.

ARTICLE XIII

AUTHORIZATION AND TERMS OF THE SERIES 2005 BONDS

SECTION 13.01 Authorization of Series 2005 Bonds. An initial Series of Bonds is hereby authorized and created under the Act to raise funds for the purpose of acquiring, constructing, improving, equipping, maintaining, repairing, renewing, replacing and reconstructing parts of the System, and for the purpose of refunding and effecting the defeasance of the Authority's Series 2005 Certificates. Such Series of Bonds is designated as the "Guam Waterworks Authority Water and Wastewater System Revenue Bonds, Series 2005". The aggregate principal amount of Series 2005 Bonds which may be issued and Outstanding under this Supplemental Indenture shall not exceed \$101,175,000.

The Series 2005 Bonds shall be treated as a single Series under the Indenture.

SECTION 13.02 Terms of Series 2005 Bonds; Appointments; Designations.

The Series 2005 Bonds shall be issued as fully registered Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. The Series 2005 Bonds shall be dated their date of delivery, and interest thereon (based on a 360-day year of twelve thirty-days months) shall be payable on January 1 and July 1 of each year, commencing January 1, 2006 (each, an "Interest Payment Date" for the Series 2005 Bonds).

The Series 2005 Bonds shall mature on the dates and in the amounts and shall bear interest at the rates per annum specified in the following table:

| Maturity Date (July 1) | Principal Amount | Interest Rate |
|---------------------------|---------------------|------------------|
| 2008 | \$ 1,865,000 | 5.000% |
| 2009 | 1,960,000 | 5.000 |
| 2010 | 2,055,000 | 5.000 |
| 2011 | 2,160,000 | 5.000 |
| 2012 | 2,270,000 | 5.000 |
| 2013 | 2,380,000 | 5.000 |
| 2016 | 7,420,000 | 5.500 |
| 2025 | 27,700,000 | 6.000 |
| 2035 | 53,365,000 | 5.875 |

The Series 2005 Bonds maturing on July 1, 2008 through July 1, 2013 are Serial Bonds, and the Series 2005 Bonds maturing on July 1, 2016, July 1, 2025 and July 1, 2035 are Term Bonds.

The Principal Payment Period for the Series 2005 Bonds shall be the twelve calendar months next preceding each maturity date for such Bonds. The Series 2005 Bonds are Series 2005 Serial Bonds.

The Record Date for all scheduled payments of principal of and interest on the Series 2005 Bonds shall be the 15th day of the calendar month next preceding the date each such payment is due, whether or not such 15th day is a Business Day.

The Co-Trustee is hereby appointed Paying Agent for the Series 2005 Bonds and Registrar for the Series 2005 Bonds, and the Co-Trustee's corporate trust office in Los Angeles, California is hereby designated as the Principal Office of the Co-Trustee. The Trustee is hereby appointed Depositary for the Series 2005 Construction Account.

The principal of and premium, if any, on each Series 2005 Bond shall be payable in lawful money of the United States of America to the Owner of such Bond, upon the surrender of such Bond at the Principal Office of any Paying Agent for such Bond. The interest on each Series 2005 Bond shall be payable in like lawful money to the person whose name appears on the bond registration books of the Registrar for such Bond as the Owner of such Bond as of the close of business on the Record Date for such Bond preceding the Interest Payment Date, whether or not such Record Date is a Business Day, such interest to be paid by check or mailed by first class mail to such Owner at such address as appears on such registration books or at such address as such Owner may have filed with the Registrar for that purpose. Upon the written request of a registered owner of one million dollars (\$1,000,000) or more in aggregate principal amount of Series 2005 Bonds, payment of interest on and principal (including Redemption Price) of such Bonds shall be made by wire transfer from the Paying Agent to the registered owner of such Bonds. Any such principal payment by wire transfer shall nevertheless be subject to prior surrender of the Series 2005 Bonds with respect to which such payment is made. Each payment of interest or principal on Series 2005 Bonds, whether by check, draft or wire transfer, shall be accompanied by information specifying for each maturity of such Bonds with respect to which such payment is being made, the amount and the CUSIP number (if available).

Each Series 2005 Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the Record

Date preceding any Interest Payment Date to the Interest Payment Date, inclusive, in which event it shall bear interest from such Interest Payment Date, or unless it is authenticated on or before December 15, 2004, in which event it shall bear interest from its date of delivery; provided, however, that if, at the time of authentication of any Series 2005 Bond, interest is in default on Outstanding Bonds of such Series, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding Bonds of such Series.

The Series 2005 Bonds shall be subject to redemption as provided in Section 13.03.

The Registrar for the Series 2005 Bonds shall assign each Series 2005 Bond authenticated and registered by it a distinctive letter, or number, or letter and number, and shall maintain a record thereof which shall be available to the Authority for inspection.

The Series 2005 Bonds, the Registrar's certificate of authentication and registration and the form of assignment to appear thereon shall be in substantially the forms set forth in Exhibit A hereto, respectively, with necessary or appropriate variations, omissions and insertions as permitted or required by this Indenture.

SECTION 13.03 Terms of Redemption of the Series 2005 Bonds. (A) The Series 2005 Bonds are subject to redemption on any date prior to their respective stated maturities, as a whole, or in part so that the reduction in Annual Debt Service for the Series 2005 Bonds for each Bond Year after such redemption shall be as nearly proportional as practicable, from and to the extent of proceeds received by the Authority due to a governmental taking of the System or portions thereof by eminent domain proceedings, if such amounts are not used for additions, improvements or extensions to the System, under the circumstances and upon the conditions and terms set forth in the Indenture, at the greater of par or Amortized Value, plus accrued interest. "Amortized Value" means on any interest payment date, the then current value of the bond amortizing the original issue premium over the period ending on the first call date using the constant yield method.

(B) The Series 2005 Bonds maturing on or after July 1, 2016 are subject to redemption prior to their respective stated maturities, at the option of the Authority, from any source of available moneys, on any date on or after July 1, 2015, as a whole, or in part by such maturities or portions of maturities as shall be determined by the Authority (or by lot within a maturity in the absence of such a determination), at a redemption price equal to the principal amount of each Series 2005 Bond called for redemption plus interest accrued to the date fixed for redemption, without premium.

(C) The Series 2005 Term Bonds maturing on July 1, 2016 are subject to redemption prior to their stated maturity in part, by lot, on July 1 of each year, commencing July 1, 2014, at a redemption price equal to their principal amount, plus accrued interest thereon to the date fixed for redemption, without premium, in the years and in the amounts, as set forth below:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2014 | \$2,500,000 |
| 2015 | 2,635,000 |
| 2016† | 2,285,000 |

† Final maturity.

(D) The Series 2005 Term Bonds maturing on July 1, 2025 are subject to redemption prior to their stated maturity in part, by lot, on July 1 of each year, commencing July 1, 2017, at a redemption price equal to their principal amount, plus accrued interest thereon to the date fixed for redemption, without premium, in the years and in the amounts, as set forth below:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2017 | \$2,410,000 |
| 2018 | 2,555,000 |
| 2019 | 2,710,000 |
| 2020 | 2,870,000 |
| 2021 | 3,045,000 |
| 2022 | 3,225,000 |
| 2023 | 3,420,000 |
| 2024 | 3,625,000 |
| 2025† | 3,840,000 |

† Final maturity.

(E) The Series 2005 Term Bonds maturing on July 1, 2035 are subject to redemption prior to their stated maturity in part, by lot, on July 1 of each year, commencing July 1, 2026, at a redemption price equal to their principal amount, plus accrued interest thereon to the date fixed for redemption, without premium, in the years and in the amounts, as set forth below:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2026 | \$4,070,000 |
| 2027 | 4,310,000 |
| 2028 | 4,565,000 |
| 2029 | 4,835,000 |
| 2030 | 5,115,000 |
| 2031 | 5,420,000 |
| 2032 | 5,735,000 |
| 2033 | 6,075,000 |
| 2034 | 6,430,000 |
| 2035† | 6,810,000 |

† Final maturity.

SECTION 13.04 Special Covenants as to Book-Entry Only System for Series 2005 Bonds. (a) Except as otherwise provided in subsections (b) and (c) of this Section 13.04, all of the

Series 2005 Bonds initially issued shall be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), or such other nominee as DTC shall request pursuant to the Representation Letter. Payment of the interest on any Series 2005 Bond registered in the name of Cede & Co. shall be made on each interest payment date for such Series 2005 Bonds to the account, in the manner and at the address indicated in or pursuant to the Representation Letter.

(b) The Series 2005 Bonds initially shall be issued in the form of a single authenticated fully registered bond for each stated maturity of each portion of such Series 2005 Bonds, representing the aggregate principal amount of the Series 2005 Bonds of such portion and maturity. Upon initial issuance, the ownership of all such Series 2005 Bonds shall be registered in the registration records maintained by the Registrar pursuant to Section 2.05 hereof in the name of Cede & Co., as nominee of DTC, or such other nominee as DTC shall request pursuant to the Representation Letter. The Trustee, the Co-Trustee, the Registrar, the Authority and any paying agent may treat DTC (or its nominee) as the sole and exclusive owner of the Series 2005 Bonds registered in its name for the purposes of payment of the principal or redemption price of and interest on such Series 2005 Bonds, selecting the Series 2005 Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondowners hereunder, registering the transfer of Series 2005 Bonds, obtaining any consent or other action to be taken by Bondowners of the Series 2005 Bonds and for all other purposes whatsoever; and the Trustee, the Co-Trustee, the Registrar, the Authority and any paying agent shall not be affected by any notice to the contrary. Neither the Trustee, the Co-Trustee, the Authority nor any paying agent shall have any responsibility or obligation to any Participant (which shall mean, for purposes of this Section 13.04, securities brokers and dealers, banks, trust companies, clearing corporations and other entities, some of whom directly or indirectly own DTC), any person claiming a beneficial ownership interest in the Series 2005 Bonds under or through DTC or any Participant, or any other person which is not shown on the registration records as being a Bondowner, with respect to (i) the accuracy of any records maintained by DTC or any Participant, (ii) the payment by DTC or any Participant of any amount in respect of the principal or redemption price of or interest on the Series 2005 Bonds, (iii) any notice which is permitted or required to be given to Holders of Series 2005 Bonds hereunder, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Series 2005 Bonds, or (v) any consent given or other action taken by DTC as Holder of Series 2005 Bonds. The Paying Agent shall pay all principal of and premium, if any, and interest on the Series 2005 Bonds only at the times, to the accounts, at the addresses and otherwise in accordance with the Representation Letter, and all such payments shall be valid and effective to satisfy fully and discharge the Authority's obligations with respect to the principal of and premium, if any, and interest on the Series 2005 Bonds to the extent of the sum or sums so paid. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of its then existing nominee, the Series 2005 Bonds will be transferable to such new nominee in accordance with subsection (f) of this Section 13.04.

(c) In the event that the Authority elects to discontinue the book-entry system for any Series 2005 Bonds, the Trustee shall, upon the written instruction of the Authority, so notify DTC, whereupon DTC shall notify the Participants of the availability through DTC of bond certificates. In such event, such Series 2005 Bonds will be transferable in accordance with subsection (f) of this Section 13.04. DTC may determine to discontinue providing its services with respect to the Series 2005 Bonds at any time by giving written notice of such discontinuance to the Authority or the Trustee and discharging its responsibilities with respect thereto under applicable law. In such event, the Series 2005 Bonds will be transferable in accordance with subsection (f) of this Section 13.04. Whenever DTC requests the Authority and the Trustee to do so, the Trustee and the Authority will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of all certificates evidencing the Series 2005 Bonds then Outstanding. In such event, the Series 2005 Bonds will be transferable to such securities depository in accordance with subsection (f) of this Section.

13.04, and thereafter, all references in this Supplemental Indenture to DTC or its nominee shall be deemed to refer to such successor securities depository and its nominee, as appropriate.

(d) Notwithstanding any other provision of this Supplemental Indenture to the contrary, so long as all Series 2005 Bonds Outstanding are registered in the name of any nominee of DTC, all payments with respect to the principal of and premium, if any, and interest on each such Series 2005 Bond and all notices with respect to each such Series 2005 Bond shall be made and given, respectively, to DTC as provided in the Representation Letter.

(e) The Co-Trustee is hereby authorized and requested to execute and deliver the Representation Letter and, in connection with any successor nominee for DTC or any successor depository, enter into comparable arrangements, and shall have the same rights with respect to its actions thereunder as it has with respect to its actions under this Supplemental Indenture.

(f) In the event that any transfer or exchange of Series 2005 Bonds is authorized under subsection (b) or (c) of this Section 13.04, such transfer or exchange shall be accomplished upon receipt by the Registrar from the registered owner thereof of the Series 2005 Bonds to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee, all in accordance with the applicable provisions of Sections 2.03 and 2.04 of the Indenture. In the event Series 2005 Bond certificates are issued to Holders other than Cede & Co., its successor as nominee for DTC as holder of all the Series 2005 Bonds, another securities depository as holder of all the Series 2005 Bonds, or the nominee of such successor securities depository, the provisions of Sections 2.03 and 2.04 of the Indenture shall also apply to, among other things, the registration, exchange and transfer of the Series 2005 Bonds and the method of payment of principal of, premium, if any, and interest on the Series 2005 Bonds.

ARTICLE XIV

ISSUANCE OF SERIES 2005 BONDS; APPLICATION OF PROCEEDS

SECTION 14.01 Issuance of Series 2005 Bonds. At any time after the execution and delivery of this Supplemental Indenture, the Authority may sell and execute and the Registrar for the Series 2005 Bonds shall authenticate and, upon the Order of the Authority, deliver Series 2005 Bonds in an aggregate principal amount not to exceed \$101,175,000.

SECTION 14.02 Application of Proceeds of Series 2005 Bonds and Other Moneys; Defeasance of Series 2005 Certificates. (A) A portion of the net proceeds received by the Authority from the sale of the Series 2005 Bonds in the amount of \$86,838,263.18 shall be deposited with the Co-Trustee, who shall forthwith apply such proceeds in the following manner, as directed by a Request of the Authority:

(1) the Co-Trustee shall deposit in the Bond Reserve Fund an amount which, together with any funds received from the Certificate Trustee pursuant to subsection (C)(1) of this Section 14.02, brings the total amount on deposit therein to \$7,707,793.76; and

(2) the Co-Trustee shall transfer to the Series 2005 Construction Account Depository, for deposit pursuant to an Order of the Authority, the balance of such proceeds.

(B) A portion of the net proceeds received by the Authority from the sale of the Series 2005 Bonds in the amount of \$16,190,775.24 shall be deposited with the Certificate Trustee, who shall forthwith apply such funds as instructed in the Escrow Agreement.

(C) On the date of original issuance of the Series 2005 Bonds, the Authority shall deliver to the Certificate Trustee a request that the Certificate Trustee deposit certain funds as follows:

(1) to transfer to the Depository for deposit in the Bond Reserve Fund the entire balance in the Debt Service Reserve Fund and the Certificate Fund established pursuant to the Certificate Indenture;

(2) to transfer to the Series 2005 Construction Account Depository, for deposit in the Series 2005 Construction Account, the entire unencumbered balance in the Acquisition Fund established pursuant to the Certificate Indenture and, for deposit pursuant to an Order of the Authority, the entire balance in the Insurance Reserve Account established pursuant to the Certificate Indenture; and

(3) to transfer to the Authority the entire balance of any other fund or account established pursuant to the Certificate Indenture, if any.

ARTICLE XV

TAX COVENANTS

SECTION 15.01 2005 Rebate Account.

(A) The Trustee, as Depository for the Revenue Fund, shall establish and maintain within the Rebate Fund a separate subaccount designated as the "2005 Rebate Account." There shall be deposited in the 2005 Rebate Account from amounts in the Operation and Maintenance Fund or other lawfully available moneys such amounts as are required to be deposited therein pursuant to the Tax Certificate delivered by the Authority in connection with the issuance of the Series 2005 Bonds. All money at any time deposited in the 2005 Rebate Account shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement for the Series 2005 Bonds (as defined in such Tax Certificate), for payment to the United States of America, and the United States of America is hereby granted a first lien on such money until such payment. All amounts required to be deposited into or on deposit in the 2005 Rebate Account shall be governed exclusively by this Section and by such Tax Certificate (which is incorporated herein by reference).

In the event that the amount in the 2005 Rebate Account exceeds the Rebate Requirement for the Series 2005 Bonds, upon the Request of the Authority, the Trustee shall transfer the excess from the 2005 Rebate Account to the Revenue Fund.

(B) Notwithstanding any provisions of this Section, if the Authority shall provide to the Trustee an opinion of Bond Counsel that any specified action required under this Section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on any Series of Bonds, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of this Section, and, notwithstanding Article IX of the Indenture, the covenants hereunder shall be deemed to be modified to that extent.

SECTION 15.02 Tax Covenants for Series 2005 Bonds. (A) The Authority intends that interest on the Series 2005 Bonds be excluded from gross income for federal income tax purposes; that the Series 2005 Bonds and the interest thereon be exempt from taxation by any state or political subdivision or the District of Columbia and that interest on the Series 2005 Bonds not be treated as a specific preference item for purposes of the federal individual and corporate alternative minimum


taxes. The Authority reserves the right to determine the desired tax status of any additional Series of Bonds.

(B) The Authority shall not use or permit the use of any proceeds of the Series 2005 Bonds or any other funds of the Authority, directly or indirectly, to acquire any securities or obligations, and shall not use or permit the use of any amounts received by the Authority in any manner, and shall not take or permit to be taken any other action or actions, which would cause any such Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code or to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(C) The Authority shall at all times do and perform all acts and things permitted by law and this Indenture which are necessary or desirable in order to assure that interest paid on the Series 2005 Bonds (or on any of them) shall be excluded from gross income for federal income tax purposes and that interest paid on the Series 2005 Bonds shall not be treated as a specific preference item for purposes of the federal individual and corporate alternative minimum taxes.

IN WITNESS WHEREOF, the GUAM WATERWORKS AUTHORITY has caused this Supplemental Indenture to be signed in its name by its duly authorized officers; and BANK OF GUAM and U.S. BANK NATIONAL ASSOCIATION, in token of their acceptance of the respective trusts created hereunder, has caused this Supplemental Indenture to be signed in their respective corporate names by one of their authorized officers, and the Trustee and the Co-Trustee have each caused their respective corporate seals to be hereunto affixed, all as of the day and year first above written.

GUAM WATERWORKS AUTHORITY

By 
Chairperson of the Board

By 
General Manager

BANK OF GUAM, as Trustee

By 
Title:

U.S. BANK NATIONAL ASSOCIATION, as Co-Trustee

By _____
Title:

IN WITNESS WHEREOF, the GUAM WATERWORKS AUTHORITY has caused this Supplemental Indenture to be signed in its name by its duly authorized officers; and BANK OF GUAM and U.S. BANK NATIONAL ASSOCIATION, in token of their acceptance of the respective trusts created hereunder, has caused this Supplemental Indenture to be signed in their respective corporate names by one of their authorized officers, and the Trustee and the Co-Trustee have each caused their respective corporate seals to be hereunto affixed, all as of the day and year first above written.

GUAM WATERWORKS AUTHORITY

By _____
Chairperson of the Board

By _____
General Manager

BANK OF GUAM, as Trustee

By _____
Title:

U.S. BANK NATIONAL ASSOCIATION, as Co-Trustee

By Mart. Moya
Title: Assistant Vice President

The undersigned U.S. BANK NATIONAL ASSOCIATION, hereby accepts and agrees to perform the duties and obligations of Registrar and Paying Agent under this Supplemental Indenture.

U.S. BANK NATIONAL ASSOCIATION, as Co-Trustee

By *Marta Mays*
Title: Assistant Vice President

EXHIBIT A
FORM OF BOND

No. R-_____

\$ _____

GUAM WATERWORKS AUTHORITY
WATER AND WASTEWATER SYSTEM REVENUE BOND,
SERIES 2005

| | | | |
|----------------------|----------------------|-------------------|--------------|
| <u>INTEREST RATE</u> | <u>MATURITY DATE</u> | <u>DATED DATE</u> | <u>CUSIP</u> |
|----------------------|----------------------|-------------------|--------------|

July 1,

December 7, 2005

Registered Owner:

Principal Sum: Dollars

The GUAM WATERWORKS AUTHORITY, a duly organized public corporation of the government of Guam (herein called the "Authority"), for value received, hereby promises to pay (but only out of the Revenues and other assets pledged therefor as hereinafter mentioned) to the registered owner identified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter mentioned), the principal sum specified above in lawful money of the United States of America; and to pay interest thereon, in like lawful money and solely from said Revenues and assets, from the Interest Payment Date next preceding the date of authentication of this Bond unless this Bond is authenticated as of a day during the period from the Record Date preceding any Interest Payment Date to the Interest Payment Date, inclusive, in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or before December 15, 2005, in which event it shall bear interest from its date of delivery, until payment of such principal sum shall be discharged as provided in the indenture hereinafter mentioned, at the interest rate specified above per annum, payable on January 1 and July 1 in each year, commencing January 1, 2006; provided, however, that if, at the time of authentication of this Bond, interest is in default hereon, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment. The principal (or redemption price) hereof is payable upon surrender hereof at the Principal Office of U.S. Bank National Association (herein called the "Paying Agent") in Los Angeles, California, and the interest hereon is payable by check or draft mailed by first class mail to the person in whose name this Bond is registered at the close of business on the fifteenth day of the month immediately preceding an interest payment date, at such person's address as it appears on the bond registration books of U.S. Bank National Association (herein called the "Registrar"). Upon the written request of a registered owner of \$1,000,000 or more in aggregate principal amount of Series 2005 Bonds, payment of interest on and principal (including redemption price) of such Bonds will be made by wire transfer as provided in the Indenture; provided that any such principal payment shall nevertheless be subject to prior surrender of the Series 2005 Bonds with respect to which such payment is made.

This Bond is one of a duly authorized issue of bonds of the Authority designated as the "Guam Waterworks Authority Water and Wastewater System Revenue Bonds" (herein called the "Bonds"), unlimited in aggregate principal amount, except as otherwise provided in the laws of the United States of America and the government of Guam and in the Indenture hereinafter mentioned, which issue of Bonds consists or may consist of one or more Series of varying dates, maturities, interest rates, and redemption and other provisions, all issued or to be issued pursuant to Article 2, Chapter 14 of Title 12 of the Guam Code Annotated, as amended, and that certain Indenture, dated as of December 1, 2005 (herein called the "Indenture"), by and between the Authority, Bank of Guam, as trustee (herein called the

"Trustee") and U.S. Bank National Association, as co-trustee (herein called the "Co-Trustee"). This Bond is also one of a duly authorized series of Bonds additionally designated "Series 2005" (herein called the "Series 2005 Bonds"), in the aggregate principal amount of One Hundred One Million One Hundred Seventy-Five Thousand Dollars (\$101,175,000), all issued under the provisions of the Indenture and a Supplemental Indenture, dated as of December 1, 2005, by and between the Authority, the Trustee and the Co-Trustee. Reference is hereby made to the Indenture (a copy of which is on file at said office of the Trustee) and all indentures supplemental thereto for a description of the rights thereunder of the registered owners of the Bonds, of the nature and extent of the security and provisions for payment of the Bonds, of the rights, duties and immunities of the Trustee and other fiduciaries and of the rights and obligations of the Authority thereunder, to all the provisions of which Indenture the registered owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds and the interest thereon (to the extent set forth in the Indenture) are payable solely from Revenues (as that term is defined in the Indenture) and other assets pledged as provided in the Indenture. Subject only to the provisions of the Indenture permitting the application thereof for or to the purposes and on the terms and conditions set forth therein, said Revenues are pledged under the Indenture to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture and the payment of Credit Agreement Payments and Parity Payment Agreement Payments in accordance with their terms.

The Series 2005 Bonds are subject to redemption on any date prior to their respective stated maturities, as a whole, or in part so that the reduction in Annual Debt Service for the Series 2005 Bonds for each Bond Year after such redemption shall be as nearly proportional as practicable, from and to the extent of proceeds received by the Authority due to a governmental taking of the System or portions thereof by eminent domain proceedings, if such amounts are not used for additions, improvements or extensions to the System, under the circumstances and upon the conditions and terms set forth in the Indenture, at the greater of par or Amortized Value, plus accrued interest. "Amortized Value" means on any Interest Payment Date, the then current value of the Series 2005 Bond, amortizing the original issue premium over the period ending on the first call date using the constant yield method.

The Series 2005 Bonds maturing on or after July 1, 2016 are subject to redemption prior to their respective stated maturities, at the option of the Authority, from any source of available moneys, on any date on or after July 1, 2015, as a whole, or in part by such maturities or portions of maturities as shall be determined by the Authority (or by lot within a maturity in the absence of such a determination), at a redemption price equal to the principal amount of each Series 2005 Bond called for redemption plus interest accrued to the date fixed for redemption, without premium.

The 2005 Bonds maturing on July 1, 2016, July 1, 2025 and July 1, 2035 are subject to redemption prior to their stated maturity in part, by lot, on July 1 of each year, commencing July 1, 2014, July 1, 2017 and July 1, 2026, respectively, at a redemption price equal to their principal amount, plus accrued interest thereon to the date fixed for redemption, without premium.

Notice of any redemption, identifying the Bonds or portions thereof to be redeemed, shall be given by the Registrar not less than 30 nor more than 60 days before the date fixed for redemption by first class mail to each of the registered owners of Bonds designated for redemption at their addresses appearing on the bond registration books of the Registrar on the date the Bonds to be redeemed are selected. Receipt of such notice by such registered owners shall not be a condition precedent to such redemption.

If this Bond is called for redemption and payment is duly provided herefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

The Series 2005 Bonds are issuable only in fully registered form in denominations of \$5,000 or any integral multiple thereof. Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, this Bond may be exchanged, at the Principal Office of the Registrar, in Los Angeles, California, for a new fully registered Bond or Bonds, of the same Series, maturity and tenor and of any authorized denomination or denominations and for the aggregate principal amount of this Bond then remaining outstanding.

This Bond is transferable by the registered owner hereof, in person or by its attorney duly authorized in writing, at said office of the Registrar, but only in the manner, subject to the limitations and upon payment of the charges, if any, provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer a new registered Bond or Bonds, of the same Series, maturity and tenor and of any authorized denomination or denominations and for the same aggregate principal amount of this Bond then remaining outstanding, will be issued to the transferee in exchange therefor. The Registrar shall not be required to register the transfer of this Bond during the period established by the Trustee for the selection of Bonds for redemption or at any time after selection of this Bond for redemption.

The Authority, the Trustee, the Paying Agent and the Registrar may treat the registered owner hereof as the absolute owner hereof for all purposes, and neither the Authority, the Paying Agent nor the Registrar shall be affected by any notice to the contrary.

The Indenture and the rights and obligations of the Authority, the registered owners of the Bonds, the Trustee, the Registrar and other fiduciaries may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, provided that no such modification or amendment shall (i) extend the fixed maturity of this Bond, or extend the time for making any Mandatory Sinking Account Payments, or reduce the rate of interest on this Bond, or extend the time of payment of interest, or reduce the amount of principal of this Bond, or reduce any premium payable on the redemption hereof, without the consent of the registered owner hereof, or (ii) reduce the percentage of the principal amount of Bonds the consent of the registered owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues (including additional Bonds hereafter issued) prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture upon such Revenues (except as expressly provided in the Indenture), without the consent of the registered owners of all Bonds then outstanding, all as more fully set forth in the Indenture. There is no provision in the Indenture for the acceleration of amounts due on the Bonds upon the occurrence of an event of default thereunder.

The Bonds are limited obligations of the Authority and are not a lien or charge upon the funds or property of the Authority, except to the extent of the pledge and assignment herein described. Neither the faith and credit of the government of Guam nor the faith and credit of the United States of America or any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Registrar.

It is hereby certified and recited that any and all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond exist, have happened and have been performed in due time, form and manner as required by the laws of the United States of America and the government of Guam, and that the amount of this Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by such laws, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

IN WITNESS WHEREOF, the GUAM WATERWORKS AUTHORITY has caused this Bond to be executed in its name and on its behalf by the manual or facsimile signature of the Chairman of the Consolidated Commission on Utilities and the Chief Financial Officer of the Authority, all as of

GUAM WATERWORKS AUTHORITY

By _____
Chairman of the Board of Directors

By _____
Chief Financial Officer

[FORM OF] CERTIFICATE OF AUTHENTICATION AND REGISTRATION .

This is one of the Bonds described in the within-mentioned Indenture, which has been registered as of ____.

U.S. BANK NATIONAL ASSOCIATION, as
Registrar

By _____
Authorized Officer

[FORM OF] ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto the within-mentioned registered Bond and hereby irrevocably constitute(s) and appoint(s) attorney, to transfer the same on the books of the Registrar with full power of substitution in the premises.

Dated: _____

NOTICE: The signature on this Assignment must correspond with the name as it appears on the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever.

Signature Guaranteed:

Social Security Number, Taxpayer Identification Number or other Identifying Number of Assignee:

Notice: Signature must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

Note: Transfer fees must be paid to the Registrar in order to transfer or exchange this bond as provided in the within-mentioned Indenture.

Preliminary Official Statement

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2013 Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful under the securities laws of such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 6, 2013

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS: (See "RATINGS" herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2013 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Bond Counsel, interest on the 2013 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that, under 48 U.S.C. Section 1423a, interest on the 2013 Bonds is exempt from taxation by the government of Guam, or by any State or Territory or any political subdivision thereof or by the District of Columbia. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2013 Bonds. See "TAX MATTERS" herein.

\$173,985,000*

GUAM WATERWORKS AUTHORITY Water and Wastewater System Revenue Bonds Series 2013

Dated: Date of Delivery

Due: July 1, as shown on the inside front cover

The Guam Waterworks Authority Water and Wastewater System Revenue Bonds, Series 2013 (the "2013 Bonds"), mature on the dates and in the amounts and will bear interest at the rates per annum listed on the inside front cover. Interest on the 2013 Bonds will be payable on January 1 and July 1 of each year, commencing July 1, 2014.

The 2013 Bonds are subject to mandatory, optional and extraordinary optional redemption prior to maturity, as described herein.

The issuance, sale and delivery of the 2013 Bonds have been approved by the Board of Directors of the Guam Economic Development Authority and by the Consolidated Commission on Utilities, the governing board of the Guam Waterworks Authority (the "Authority"). The issuance, terms and conditions of the 2013 Bonds have been approved by the Legislature of Guam. The 2013 Bonds are authorized to be issued pursuant to Chapter 14 of Title 12 of the Guam Code Annotated, as amended (the "Act"), and pursuant to an indenture, dated as of December 1, 2005 (the "General Indenture"), by and among the Authority, and Bank of Guam as Trustee and as Depository, and U.S. Bank National Association, as Co-Trustee and Paying Agent, as supplemented, including as supplemented by a third supplemental indenture dated as of December 1, 2013 (the "Third Supplemental Indenture" and, together with the General Indenture and the previous supplements, the "Indenture"). The terms of the Indenture and the amounts and terms of the 2013 Bonds are subject to approval by the Guam Public Utilities Commission.

The Authority is issuing the 2013 Bonds to (i) fund capital improvements to the Authority's water and wastewater systems (collectively, the "System"); (ii) provide for capitalized interest; (iii) fund a deposit to the Bond Reserve Fund; and (iv) pay costs incurred in connection with the issuance of the 2013 Bonds.

The Bonds (as herein defined, including but not limited to the 2013 Bonds) are limited obligations of the Authority payable solely from and secured by a pledge of Revenues (as defined in the Indenture and more particularly described herein) consisting primarily of all gross income and revenue received by the Authority from the ownership or operation of the System, all as more fully described herein, subject to the provisions of the Indenture permitting the application of Revenues for or to the purposes (including payment of Operation and Maintenance Expenses) and exclusive of certain surcharges described herein.

The Bonds are not a legal or equitable pledge, charge, lien or encumbrance upon any property of the Authority or upon any of its income, receipts or revenues except the Revenues pledged to the payment thereof as provided in the Indenture. Neither the Government of Guam (the "Government") nor any political subdivision thereof is obligated to pay the principal of, Redemption Price, if applicable, or interest on the Bonds, except from such Revenues, and neither the Authority, the Government nor any political subdivision thereof has pledged its faith or credit to the payment of the principal of, Redemption Price, if applicable, or interest on the 2013 Bonds.

The 2013 Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the 2013 Bonds. Individual purchases of the 2013 Bonds will be made in book-entry form only. The 2013 Bonds will be issued only in denominations of \$5,000 or any integral multiple thereof. Payments of principal of, Redemption Price, if applicable, and interest on the 2013 Bonds are to be made to purchasers by DTC through DTC participants. See Appendix G - "BOOK-ENTRY ONLY SYSTEM." Purchasers will not receive physical delivery of 2013 Bonds purchased by them.

Investment in the 2013 Bonds involves risks which may not be appropriate for certain investors. Therefore, only persons with substantial financial resources who understand the risks of investment in the 2013 Bonds should consider such an investment. See the section in this Official Statement entitled "CERTAIN INVESTMENT CONSIDERATIONS" for a discussion of certain factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the 2013 Bonds. This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision. Capitalized terms not defined on this cover page are defined inside.

The 2013 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by Samuel J. Taylor, counsel for the Authority, and for the Underwriters by their counsel, Hawkins, Delafield & Wood LLP, Portland, Oregon. It is expected that the 2013 Bonds in book-entry form will be available for delivery through the DTC book-entry system, on or about December __, 2013.

Citi

Barclays Capital

_____, 2013

* Preliminary, subject to change.

MATURITY SCHEDULE

\$173,985,000* GUAM WATERWORKS AUTHORITY Water and Wastewater System Revenue Bonds Series 2013

\$10,480,000* Serial Bonds

| <u>Due (July 1)*</u> | <u>Amount*</u> | <u>Interest Rate</u> | <u>Yield†</u> | <u>CUSIP Number‡</u> |
|--------------------------|----------------|--------------------------|---------------|--------------------------|
| 2020 | \$2,410,000 | % | % | 40065FA__ |
| 2021 | 2,545,000 | | | 40065FA__ |
| 2022 | 2,690,000 | | | 40065FA__ |
| 2023 | 2,835,000 | | | 40065FA__ |

\$163,505,000* Term Bonds

\$16,855,000* ____% Term Bond due July 1, 2028*; Yield ____%†; CUSIP Number‡ 40065FA__

\$22,795,000* ____% Term Bond due July 1, 2033*; Yield ____%†; CUSIP Number‡ 40065FA__

\$123,855,000* ____% Term Bond due July 1, 2043*; Yield ____%†; CUSIP Number‡ 40065FA__

* Preliminary, subject to change.

† Prices or yields certified by the Underwriters. The Authority takes no responsibility of the accuracy thereof.

‡ Copyright 2013, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. The CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard and Poor's. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with either the Authority or GEDA and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity or maturities are subject to change after the issuance of the 2013 Bonds. None of the Authority, GEDA or the Underwriters takes responsibility for the accuracy of the CUSIP numbers, and no representation is made as to their correctness on the applicable 2013 Bond certificates or in this Official Statement.

CONSOLIDATED COMMISSION ON UTILITIES

Simon A. Sanchez II
Chairman

Benigno M. Palomo
Vice Chairman

Eloy P. Hara
Vice Chairman

Joseph T. Duenas
Secretary

Pedro S.N. Guerrero
Treasurer

John Benavente, P.E.
General Manager for Consolidated Utility Services

GUAM WATERWORKS AUTHORITY

Martin Roush
General Manager of the Authority

Greg P. Cruz
Chief Financial Officer

Thomas F. Cruz
Chief Engineer

Paul J. Kemp
Assistant General Manager,
Compliance and Safety

GOVERNMENT OF GUAM

Edward J. B. Calvo
Governor

Raymond S. Tenorio
Lieutenant Governor

GUAM ECONOMIC DEVELOPMENT AUTHORITY

Henry Taitano
Administrator

Mana Silva Taijeron
Deputy Administrator

Lester L. Carlson, Jr.
Manager, Public Finance Division

SPECIAL SERVICES

Bond Counsel
Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Trustee and Depositary
Bank of Guam
Hagåtña, Guam

Consulting Engineer
Brown and Caldwell
Hagåtña, Guam

Co-Trustee and Paying Agent
U.S. Bank National Association
Los Angeles, California

Independent Auditors
Deloitte & Touche LLP

Dissemination Agent
Digital Assurance Certification, L.L.C.
Winter Park, Florida

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2013 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2013 Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT ARE NOT INTENDED TO REFLECT HISTORICAL FACTS BUT ARE ESTIMATES AND "FORWARD-LOOKING STATEMENTS." NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE EXPECTATIONS OR FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS "ESTIMATE," "PROJECT," "FORECAST," "ANTICIPATE," "EXPECT," "ASSUME," "INTEND," "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINION, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. THE AUTHORITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO SUCH FORWARD-LOOKING STATEMENTS OR WHEN ITS EXPECTATIONS OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED DO OR DO NOT OCCUR.

The information set forth in this Official Statement has been furnished by the Authority and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The information and expressions of opinion stated herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information or opinions stated herein or in the affairs of the Authority since the date hereof.

THE 2013 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2013 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2013 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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\$173,985,000*
GUAM WATERWORKS AUTHORITY
WATER AND WASTEWATER SYSTEM REVENUE BONDS
SERIES 2013

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the inside cover page, the table of contents and appendices hereto (collectively, the "Official Statement"), is to provide information in connection with the offering by the Guam Waterworks Authority (the "Authority") of the \$173,985,000* Guam Waterworks Authority Water and Wastewater System Revenue Bonds, Series 2013 (the "2013 Bonds").

This Introduction is not a summary of this Official Statement, but is only a brief description of, and is qualified by, more complete and detailed information contained in this Official Statement. The Introduction should not be relied upon to provide all of the information necessary to make an informed decision about purchasing the 2013 Bonds. A full review should be made of the entire Official Statement. The offering of 2013 Bonds to potential investors is made only by means of the entire Official Statement.

Capitalized terms used herein that are not otherwise defined shall have the meanings set forth in APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

The 2013 Bonds

The Authority is issuing the 2013 Bonds (i) to fund capital improvements to the System; (ii) to provide for capitalized interest on the 2013 Bonds through September 30, 2015; (iii) to fund a deposit to the Bond Reserve Fund; and (iv) to pay costs of issuing the 2013 Bonds.

The 2013 Bonds are authorized to be issued pursuant to the Act and pursuant to an indenture, dated as of December 1, 2005 (the "General Indenture"), as supplemented, including as supplemented by a third supplemental indenture, to be dated as of December 1, 2013 (the "Third Supplemental Indenture" and together with the General Indenture and the prior supplemental indentures, the "Indenture"), each by and among the Authority, Bank of Guam, as trustee (the "Trustee") and Depositary for the Revenue Fund, and U.S. Bank National Association, as co-trustee (the "Co-Trustee"). The 2013 Bonds are the third series of Bonds to be issued under the Indenture, the others being the Authority's Water and Wastewater System Revenue Bonds, Series 2005 and Series 2010 (the "2005 Bonds" and "2010 Bonds," respectively, and together, the "Prior Bonds"), of which \$207,310,000 aggregate principal amount remain outstanding as of October 1, 2013. The Prior Bonds and the 2013 Bonds, together with any additional bonds that may be issued pursuant to, and outstanding at any given time under, the Indenture, are herein referred to as "Bonds."

The CCU has approved the issuance, sale and delivery of the 2013 Bonds. The board of directors of the Guam Economic Development Authority ("GEDA") has approved the issuance and sale of the 2013 Bonds. The Legislature of Guam has approved the issuance, terms and conditions of the 2013 Bonds. The terms of the Indenture and the aggregate principal amount and terms of the 2013 Bonds are subject to approval by the PUC.

See "PLAN OF FINANCE—Authorization" and "—Purposes of the 2013 Bonds."

Security and Sources of Payment for the 2013 Bonds

The Bonds, including the 2013 Bonds, are limited obligations of the Authority payable solely from and secured solely by a pledge of Revenues (as defined in the Indenture and described herein) consisting primarily of all

* Preliminary, subject to change.

gross income and revenue received by the Authority from the ownership or operation of the System, subject to the provisions of the Indenture permitting the application of Revenues for or to the purposes (including payment of Operation and Maintenance Expenses) and on the terms and conditions set forth therein. The Bonds are not a legal or equitable pledge, charge, lien or encumbrance upon any property of the Authority or upon any of its income, receipts or revenues except the Revenues pledged to the payment thereof as in the Indenture.

The Indenture prohibits the issuance of any bonds or obligations payable from Revenues or secured by a pledge, lien or charge upon Revenues superior to the Bonds, and permits issuance of obligations on a parity with the Bonds only in accordance with the Indenture.

Neither the Government of Guam (the "Government") nor any political subdivision thereof is obligated to pay the principal of, redemption price, if applicable, or interest on the Bonds, except from such Revenues, and neither the Authority, the Government nor any political subdivision thereof has pledged its faith or credit to the payment of the principal of, redemption price, if applicable, or interest on the Bonds.

See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Pledge of Revenues" and "Allocation of Revenues" and "REGULATORY ENVIRONMENT – Regulation of Ratemaking."

The Authority and the System

The island of Guam is located in the western Pacific Ocean approximately 3,800 miles west-southwest of Honolulu, Hawaii, 1,550 miles south-southeast of Tokyo, Japan and 1,600 miles east of Manila, Philippines, and is the westernmost territory of the United States of America. Guam is about 30 miles long and varies from four to nine miles wide, with a total land area of approximately 212 square miles.

Guam's annual rainfall averages 85 inches in the western coastal area to 110 inches in the highest mountain locations in the south. Three quarters of the total annual rainfall occurs between the months of June and December. Rain is the only source of fresh water for the island. Potable water is derived from groundwater in the northern portion of Guam and primarily from surface water in the southern portion. The source of water has been stable and is foreseen to be adequate for the foreseeable future. There has been no need for use of desalination on the island.

In 2002, the Authority was converted from a government agency to a Guam public corporation organized and existing under Chapter 14 of Title 12 of the Guam Annotated Code, as amended (the "Act"). The Authority is authorized to operate and maintain the water and wastewater systems (collectively and as further described herein, the "System") for the island of Guam. During Fiscal Year 2012, the Authority served an average of 41,316 water customers and an average of 25,426 wastewater customers.

The Authority is governed by the Consolidated Commission on Utilities (the "CCU"), which acts as the governing board of the Authority and the Guam Power Authority ("GPA"). The CCU was created in 2002 and consists of five elected members. The CCU makes decisions regarding policies, management, budgeting and financing of the Authority's operations. Certain actions, however, such as issuing bonds for financing utility capital projects, still require the approval of the Legislature of Guam and the Guam Public Utilities Commission (the "PUC"). In addition, ratemaking by the CCU is subject to the approval of the PUC, as the regulatory ratemaking body. The Authority may not enter into any contractual agreements or obligations which could increase rates and charges without the prior written approval of the PUC.

The Authority's goals are directed towards providing more efficient and reliable service to its customers and operating as a self-supporting utility while meeting regulatory requirements. The Authority is subject to federal and Guam regulations governing water supply and wastewater treatment. The drinking water standards promulgated in the federal Safe Drinking Water Act, as amended (the "SDWA"), are the primary requirements for water supply. Wastewater treatment and disposal must comply with the water quality standards in the federal Clean Water Act, as amended (the "CWA"). Historically, the Authority has experienced difficulty in complying with SDWA and CWA regulations. Failure to meet all of the SDWA and CWA standards resulted in a number of issues with the United States Environmental Protection Agency (the "USEPA") over a 15- to 20-year period and to meet certain deadlines for compliance led to the filing with the United States District Court of Guam (the "District Court") on June 5, 2003

of a Stipulated Order for Preliminary Relief, which was subsequently amended in 2006 (collectively, the “2003 Stipulated Order”). The 2003 Stipulated Order required the Authority to make specified improvements to the System and to undertake certain planning measures by specific dates. The Authority did not meet all of the deadlines in the 2003 Stipulated Order, and the USEPA required it to pay fines totaling approximately \$389,000.

In 2010, the USEPA requested that the District Court order the Authority to address the then-incomplete items in the 2003 Stipulated Order, as well as certain additional actions or improvements. On November 10, 2011, the District Court issued an Order for Preliminary Relief Re: Deadlines for Outstanding Projects Under the Amended Stipulated Order (the “2011 Court Order”) establishing deadlines for such projects and superseding the 2003 Stipulated Order and all prior orders. The Authority has made compliance with the 2011 Court Order a top priority and has, by and large, complied with the timelines set forth in the 2011 Court Order, meeting 53 of 54 EPA deadlines during the first year of the 2011 Court Order and completing the 54th item early in the second year. In November 2012, the USEPA issued to the Authority a notice of Findings of Significant Deficiencies under the SDWA identifying several deficiencies in the Authority’s water system, and in May 2013, the USEPA issued to the Authority under the CWA a Request for Information identifying several findings in respect of the Authority’s wastewater system. The Authority has addressed many of the items identified in both the Findings of Significant Deficiencies and the Request for Information and is continuing to work to address others.

To help meet its goals of providing more efficient and reliable service to its customers and operating as a self-supporting utility while meeting regulatory requirements, including those specified in the 2011 Court Order and in the Findings of Significant Deficiencies and the Request for Information, the Authority has developed a six-year capital improvement program (the “Capital Improvement Program” or the “CIP”) focused on rehabilitation and upgrade of the System. The total estimated capital improvement need for Fiscal Years 2013-2018 is approximately \$457.5 million.

See “THE AUTHORITY,” “REGULATORY ENVIRONMENT,” “THE SYSTEM” and “FUTURE SYSTEM CAPITAL REQUIREMENTS – Capital Improvement Program.”

Consulting Engineer’s Report

To assist the reader with an independent review of the Authority’s operations, Brown and Caldwell (“Brown and Caldwell”) has been retained as the Consulting Engineer to provide a Consulting Engineer’s Report (the “Consulting Engineer’s Report” or the “Report”) in connection with the issuance of the 2013 Bonds. The Report is included in this Official Statement as APPENDIX A. The Report includes, among other things, a description of the facilities of and an evaluation of the condition of the System, an assessment of System compliance with regulatory and permit requirements, a summary of the capital projects anticipated to be financed by the Authority and an assessment of the Authority’s projected financial operating results. No assurance can be given that the projections and expectations discussed in the Report will be achieved or that the assumptions upon which the projections and conclusions are based will be realized. There may be differences between the projections and actual results, and such differences may be material. The financial projections in the Report are based upon certain information and assumptions that were provided or reviewed with and agreed to by the Authority. In the opinion of Brown and Caldwell, these assumptions provide a reasonable basis for the projections set forth in the Report. The Report is an integral part of this Official Statement and should be read in its entirety. The Report has not been revised subsequent to its date of publication (November 6, 2013) to reflect the final terms of the 2013 Bonds. See “REPORT OF THE CONSULTING ENGINEER” and APPENDIX A.

Brown and Caldwell has been providing consulting and engineering services for municipal water utilities for over 66 years. Since May 2004, Brown and Caldwell has been engaged by the Authority to provide engineering services, including development of the Water Resources Master Plan (2004-2007) and provision of Program Management Office services. Authority staff generated the CIP with minimal input from Brown and Caldwell, in connection with its provision of Program Management Office services. Brown and Caldwell does not have a company interest in the CIP, is not paid in proportion to the CIP and does not have a direct input to increase the CIP. The term of Brown and Caldwell’s contract of engagement for Program Management Office services currently extends through February 2017, but may be extended for two additional two-year terms through February 2021. See “FUTURE SYSTEM CAPITAL REQUIREMENTS – Capital Improvement Program.”

Investment Considerations

There are important investment considerations and risks associated with the purchase of the 2013 Bonds. See "CERTAIN INVESTMENT CONSIDERATIONS" for a discussion of some of these considerations and risks. Any one or more of the considerations and risks discussed, and others, could lead to a decrease in the market value and/or the liquidity of the 2013 Bonds. Potential purchasers of the 2013 Bonds are advised to review this Official Statement carefully.

Continuing Disclosure

The Authority will covenant for the benefit of the holders and beneficial owners of the 2013 Bonds to provide annually certain financial information and operating data and to provide notice of certain enumerated events to assist the Underwriters in complying with the Securities and Exchange Commission's Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"). See "CONTINUING DISCLOSURE" below and the proposed form of Continuing Disclosure Agreement included herein as APPENDIX F.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "forecast," "project" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information in the forepart of this Official Statement under the headings "CERTAIN INVESTMENT CONSIDERATIONS," "THE AUTHORITY," "THE SYSTEM," "FUTURE SYSTEM CAPITAL REQUIREMENTS" and "HISTORICAL AND PROJECTED OPERATING RESULTS" and in APPENDIX A - "CONSULTING ENGINEER'S REPORT."

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Authority does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, change.

Miscellaneous

Brief descriptions of the 2013 Bonds, the Authority and Guam are provided below. Such descriptions do not purport to be comprehensive or definitive. All references to the 2013 Bonds and the Indenture are qualified in their entirety by reference to the forms thereof, which are available for inspection at the Administration Office of the Guam Waterworks Authority, 578 N. Marine Corps Drive, Tamuning, Guam 96913 during normal business hours, Monday through Friday, excluding holidays.

The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made with respect hereto shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the System since the date hereof.

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of any of the 2013 Bonds.

PLAN OF FINANCE

Authorization

The 2013 Bonds are authorized to be issued pursuant to the Act and are being issued pursuant to the Indenture. The CCU has approved the issuance, sale and delivery of the 2013 Bonds. The board of directors of GEDA has approved the issuance and sale of the 2013 Bonds. The Legislature of Guam has approved the issuance,

terms and conditions of the 2013 Bonds. The terms of the Indenture and the aggregate principal amount and terms of the 2013 Bonds are subject to approval by the PUC.

Purposes of the 2013 Bonds

The Authority is issuing the 2013 Bonds (i) to fund capital improvements to the System; (ii) to provide for capitalized interest on the 2013 Bonds through September 30, 2015; (iii) to fund a deposit to the Bond Reserve Fund; and (iv) to pay costs of issuing the 2013 Bonds.

The Authority has developed its six-year Capital Improvement Program to assist the Authority in meeting its goals of providing more efficient and reliable service to its customers and operating as a self-supporting utility while meeting regulatory requirements, including those specified in the 2011 Court Order and in the Findings of Significant Deficiencies and the Request for Information, as more fully discussed below under "REGULATORY ENVIRONMENT-Environmental Regulations."

The capital cost of implementing the entire CIP for Fiscal Years 2013-2018 has been estimated at approximately \$457.5 million. The Authority expects to finance the CIP from, among other sources, proceeds of the 2013 Bonds. The Authority expects to fund the rest of the Capital Improvement Program with two series of Additional Bonds to be issued in 2015 and 2017 and expected to provide CIP funding in the amounts of approximately \$128 million and \$72 million, respectively, and from the Authority's operating revenues, USEPA State Revolving Fund grants, System Development Charge revenues and other grants.

The portion of the Capital Improvement Program to be funded with proceeds of the 2013 Bonds is set forth in Table 1 below:

Table 1
Capital Improvements to be Funded with Proceeds of 2013 Bonds
(Dollars in thousands)

| | |
|---|------------------|
| Water Production, Treatment, Distribution and Storage | \$95,130 |
| Wastewater Collection and Treatment | 33,300 |
| Electrical, Including Monitoring and Control | 5,395 |
| General Plant and Miscellaneous | 5,500 |
| Total | \$139,325 |

For a more complete description of the CIP and sources of funding, see "FUTURE SYSTEM CAPITAL REQUIREMENTS" and APPENDIX A – "CONSULTING ENGINEER'S REPORT."

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2013 Bonds are expected to be applied as shown below:

Sources:

| | |
|---------------------------------------|-----------|
| Principal Amount of 2013 Bonds | \$ |
| Net Original Issue Premium/(Discount) | _____ |
| Total Sources | \$ |

Uses:

| | |
|---|-----------|
| Deposit to 2013 Construction Account | \$ |
| Deposit to Bond Reserve Fund | _____ |
| Costs of Issuance ⁽¹⁾ | _____ |
| Deposit to 2013 Capitalized Interest Account ⁽²⁾ | _____ |
| Total Uses | \$ |

⁽¹⁾ Includes Underwriters' discount, Trustee and Co-Trustee fees, legal fees and expenses, rating agency fees, printing costs and other miscellaneous costs of issuance.

⁽²⁾ Interest on the 2013 Bonds will be paid from bond proceeds until September 30, 2015.

THE 2013 BONDS

General

When issued, the 2013 Bonds will be dated their date of delivery and will bear interest at the rates per annum and mature, subject to prior redemption, on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Interest on the 2013 Bonds will be payable on January 1 and July 1 of each year, commencing July 1, 2014 (each an "Interest Payment Date"). Interest will accrue on the 2013 Bonds on the basis of a 360-day year of twelve 30-day months. Each 2013 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, except that: (1) 2013 Bonds authenticated during the period from the Record Date immediately preceding an Interest Payment Date to such Interest Payment Date, inclusive, will bear interest from such Interest Payment Date; and (2) 2013 Bonds authenticated on or prior to the Record Date for the first Interest Payment Date for the 2013 Bonds will bear interest from their date of delivery; provided, however, that if interest on the 2013 Bonds then Outstanding shall be in default at the time of authentication of any 2013 Bond, such 2013 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the 2013 Bonds then Outstanding. The 2013 Bonds will be issued in denominations of \$5,000 and integral multiples thereof.

The 2013 Bonds when issued will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2013 Bonds. Individual purchases may be made only in book-entry form, and purchasers will not receive certificates representing their interest in the 2013 Bonds purchased. Except as described below under "TAX MATTERS," so long as Cede & Co. is the registered owner of the 2013 Bonds, as nominee of DTC, references herein to "Bondholders" or to "registered owners" of the 2013 Bonds mean Cede & Co. and not the Beneficial Owners of the 2013 Bonds. In this Official Statement, the term "Beneficial Owner" means the person for whom a DTC participant acquires an interest in the 2013 Bonds.

So long as DTC, or its nominee Cede & Co. (or such other nominee as an authorized officer of DTC may request), is the registered owner of all 2013 Bonds, all payments of principal of, Redemption Price, if applicable, and interest on the 2013 Bonds are to be made directly to DTC, which, in turn, is to remit such amounts to the Direct and Indirect Participants for subsequent distribution to the Beneficial Owners of the 2013 Bonds. See APPENDIX G – "DTC AND ITS BOOK-ENTRY ONLY SYSTEM."

Redemption of the 2013 Bonds*

Optional Redemption. The 2013 Bonds maturing on or after July 1, 20__ are subject to redemption prior to their respective stated maturities, at the option of the Authority, from any source of available moneys, on any date on or after July 1, 20__, as a whole, or in part by such maturities or portions of maturities as shall be determined by the Authority (or by lot within a maturity in the absence of such a determination), at a redemption price equal to the principal amount of each 2013 Bond called for redemption plus interest accrued to the date fixed for redemption, without premium.

* Preliminary, subject to change.

Mandatory Sinking Account Redemption. The 2013 Bonds maturing on July 1, 2028 are subject to redemption prior to their stated maturity in part, by lot, on July 1 of each year from Mandatory Sinking Account Payments, commencing July 1, 2024, at a redemption price equal to their principal amount, plus accrued interest thereon to the date fixed for redemption, without premium, in the years and in the amounts, as set forth below:

| 2028 Term Bond | |
|-------------------|---------------|
| <u>Year</u> | <u>Amount</u> |
| 2024 | \$2,990,000 |
| 2025 | 3,170,000 |
| 2026 | 3,360,000 |
| 2027 | 3,560,000 |
| 2028 [†] | 3,775,000 |

—[†] Maturity

The 2013 Bonds maturing on July 1, 2033 are subject to redemption prior to their stated maturity in part, by lot, on July 1 of each year from Mandatory Sinking Account Payments, commencing July 1, 2029, at a redemption price equal to their principal amount, plus accrued interest thereon to the date fixed for redemption, without premium, in the years and in the amounts, as set forth below:

| 2033 Term Bond | |
|-------------------|---------------|
| <u>Year</u> | <u>Amount</u> |
| 2029 | \$4,005,000 |
| 2030 | 4,265,000 |
| 2031 | 4,540,000 |
| 2032 | 4,835,000 |
| 2033 [†] | 5,150,000 |

—[†] Maturity

The 2013 Bonds maturing on July 1, 2048 are subject to redemption prior to their stated maturity in part, by lot, on July 1 of each year from Mandatory Sinking Account Payments, commencing July 1, 2034, at a redemption price equal to their principal amount, plus accrued interest thereon to the date fixed for redemption, without premium, in the years and in the amounts, as set forth below:

| 2043 Term Bond | |
|-------------------|---------------|
| <u>Year</u> | <u>Amount</u> |
| 2034 | \$5,485,000 |
| 2035 | 5,855,000 |
| 2036 | 6,250,000 |
| 2037 | 6,670,000 |
| 2038 | 7,120,000 |
| 2039 | 7,600,000 |
| 2040 | 8,115,000 |
| 2041 | 23,935,000 |
| 2042 | 25,550,000 |
| 2043 [†] | 27,275,000 |

—[†] Maturity

Extraordinary Optional Redemption. The 2013 Bonds are subject to redemption on any date prior to their respective stated maturities, as a whole, or in part so that the reduction in Annual Debt Service for the 2013 Bonds for each Bond Year after such redemption shall be as nearly proportional as practicable, from and to the extent of proceeds received by the Authority due to a governmental taking of the System or portions thereof by eminent domain proceedings, if such amounts are not used for additions, improvements or extensions to the System, under the circumstances and upon the conditions and terms set forth in the Indenture, at the greater of par or

Amortized Value (in the case of 2013 Bonds, if any, issued at an original issue premium), plus accrued interest to the date fixed for redemption, without premium. "Amortized Value" means on any Interest Payment Date, the then current value of the 2013 Bond, amortizing the original issue premium over the period ending on the first call date using the constant yield method.

Selection of 2013 Bonds for Redemption. If less than all of the 2013 Bonds of any maturity are to be redeemed at any one time, the 2013 Bonds or portions thereof to be redeemed shall be selected by the Authority or, in the absence of such a selection by the Authority, by the Registrar by lot in such manner that the Registrar may determine.

Notice of Redemption. Notice of redemption (except as otherwise provided in the Indenture) is required to be given, not less than 30 nor more than 60 days before the date fixed for redemption, by first class mail to each of the registered owners of 2013 Bonds designated for redemption at their addresses appearing on the Bond registration books of the Registrar on the date the 2013 Bonds to be redeemed are selected. Each notice of redemption is required to state the redemption date, the place or places of redemption, the Series and maturities to be redeemed, and, if less than all of any such maturity, the numbers of the 2013 Bonds of such maturity to be redeemed and, in the case of 2013 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed, and is required also to state that on said date there will become due and payable on each of said 2013 Bonds the Redemption Price thereof or of said specified portion of the principal thereof in the case of a 2013 Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and is also to require that such 2013 Bonds be then surrendered, with a written instrument of transfer duly executed by the registered owner thereof or by such registered owner's attorney duly authorized in writing. No defect in or failure to give such mailed notice of redemption shall affect the validity of proceedings for the redemption of such 2013 Bonds. Each notice of redemption shall also state the CUSIP number, date of issue and interest rate on each 2013 Bond, or portion thereof, to be redeemed, and shall include the redemption agent name and address; provided, however, that failure to include any of such information in any redemption notice, or any inaccuracy in any such information, shall not affect the sufficiency of the proceedings for redemption of any 2013 Bonds.

The Authority may, at its option, prior to the date fixed for redemption in any notice of redemption, rescind and cancel such notice of redemption.

Trustee, Co-Trustee, Registrar and Paying Agent

The Bank of Guam has been appointed to act as the Trustee for the Bonds, including the 2013 Bonds, and U.S. Bank National Association has been appointed to act as Co-Trustee, registrar (the "Registrar") and paying agent (the "Paying Agent") for the 2013 Bonds.

Book-Entry System

The 2013 Bonds will be delivered in fully registered form only, and when delivered will be registered in the name of Cede & Co., as nominee of DTC. DTC acts as securities depository for the 2013 Bonds. Ownership interests in the 2013 Bonds may be purchased in book-entry only form, in the denominations set forth above. The Indenture provides that, so long as DTC acts as securities depository for the 2013 Bonds, the Authority, the Trustee, the Co-Trustee, the Registrar and the Paying Agent may treat DTC as the absolute owner of such 2013 Bonds for all purposes and that none of the Authority, the Trustee, the Co-Trustee, the Registrar and the Paying Agent shall have any liability with respect to (1) the accuracy of the records of DTC or any Participant with respect to any beneficial ownership interest in the 2013 Bonds, (2) the delivery to any Participant, any Beneficial Owner or any other person, other than DTC, of any notice with respect to the 2013 Bonds, (3) the payment to any Participant, any Beneficial Owner or any other person, other than DTC, of any amount with respect to principal or redemption price of or interest on the 2013 Bonds, (4) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the 2013 Bonds or (5) any consent given or other action taken by DTC as Holder of the 2013 Bonds. See APPENDIX G – "DTC AND ITS BOOK-ENTRY ONLY SYSTEM."

DEBT SERVICE SCHEDULE

Table 2 sets forth the debt service schedule for all Bonds to be Outstanding upon the issuance of the 2013 Bonds.

Table 2
Debt Service Schedule

| Fiscal Year Ending September 30, | Prior Bonds | 2013 Bonds ⁽¹⁾ | | Total Debt Service ⁽²⁾ |
|--|---------------|---------------------------|----------|--------------------------------------|
| | | Principal | Interest | |
| 2014 | \$14,221,693 | - | \$ | \$ |
| 2015 | 15,274,193 | - | | |
| 2016 | 15,272,068 | - | | |
| 2017 | 15,272,793 | - | | |
| 2018 | 15,272,856 | - | | |
| 2019 | 15,271,931 | - | | |
| 2020 | 15,274,331 | \$2,410,000 | | |
| 2021 | 15,272,381 | 2,545,000 | | |
| 2022 | 15,270,468 | 2,690,000 | | |
| 2023 | 15,272,243 | 2,835,000 | | |
| 2024 | 15,271,543 | 2,990,000 | | |
| 2025 | 15,272,506 | 3,170,000 | | |
| 2026 | 15,274,006 | 3,360,000 | | |
| 2027 | 15,273,543 | 3,560,000 | | |
| 2028 | 15,271,281 | 3,775,000 | | |
| 2029 | 15,271,062 | 4,005,000 | | |
| 2030 | 15,271,456 | 4,265,000 | | |
| 2031 | 15,271,050 | 4,540,000 | | |
| 2032 | 15,274,187 | 4,835,000 | | |
| 2033 | 15,272,850 | 5,150,000 | | |
| 2034 | 15,270,568 | 5,485,000 | | |
| 2035 | 15,270,618 | 5,855,000 | | |
| 2036 | 15,270,968 | 6,250,000 | | |
| 2037 | 15,272,625 | 6,670,000 | | |
| 2038 | 15,272,437 | 7,120,000 | | |
| 2039 | 15,273,437 | 7,600,000 | | |
| 2040 | 15,273,375 | 8,115,000 | | |
| 2041 | - | 23,935,000 | | |
| 2042 | - | 25,550,000 | | |
| 2043 | - | 27,275,000 | | |
| Total ⁽²⁾ | \$411,302,469 | \$173,985,000 | \$ | \$ |

⁽¹⁾ Preliminary, subject to change.

⁽²⁾ Totals may not add due to rounding.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge of Revenues

The Bonds are limited obligations of the Authority and are payable solely from, and secured solely by a lien on and pledge of, the Revenues. Pursuant to the Indenture, the Authority has pledged all of the Revenues, subject only to the provisions of the Indenture permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Indenture, to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture and the payment of Credit Agreement Payments and Parity Payment Agreement Payments in accordance with their terms. The Indenture provides that such pledge constitutes a lien on and security interest in the Revenues and will attach, be perfected and

be valid and binding from and after delivery of the first Series of Bonds issued under the General Indenture, without any physical delivery of such Revenues or further act.

As defined in the Indenture, "Revenues" include all gross income and other amounts received or receivable by the Authority as revenues of any kind from the ownership or operation of any part of the System, including all rates, fees and charges (including ground water, surface water and treated water charges and all wastewater service charges), received by the Authority for providing water and wastewater services (but excluding development charges and assessments and hook-up fees and other special charges such as penalties and fines), all Payment Agreement Receipts, and all proceeds of insurance or grants covering business interruption loss (and related losses and expenses) relating to the System, and all other income and revenue howsoever derived by the Authority from the ownership or operation of, or arising from, the System, together with all interest, profits or other income derived from the investment of amounts in the Revenue Fund, but not including: (1) amounts received as insurance proceeds (except as described above) or from the sale, transfer or other disposition of, or upon the taking by or under the threat of eminent domain of, all or any part of the System (which moneys shall be received and disposed of pursuant to the provisions of the Indenture); (2) proceeds from any securities issued by the Authority or proceeds from loans obtained by the Authority; (3) the proceeds of any court or arbitration award or settlement in lieu thereof received by the Authority; (4) amounts received by the Authority as gifts or as grants (except as described above), whether restricted or unrestricted; and (5) other amounts (except as described above), the use of which is restricted by the donor or grantor.

The Authority has covenanted in the Indenture that, so long as any Bonds are outstanding, the Authority will not issue any bonds or obligations payable from Revenues or secured by a pledge, lien or charge upon Revenues prior to or on a parity with the Bonds, any Parity Agreement Payments and any Credit Agreement Payments (other than Additional Bonds, Parity Agreement Payments and Credit Agreement Payments).

The ability of the Authority to pay principal of and interest on the Bonds will depend upon the receipt by the Authority of sufficient Revenues. If Revenues and amounts available in the funds and accounts under the Indenture are insufficient to pay the principal of and interest on the Bonds, no other source of repayment exists. The Authority has no taxing power.

The Indenture currently provides that the pledge of Revenues to secure and pay the Bonds is subject also to the provisions of that certain Consent Decree, dated April 24, 2003, and the related Order, dated May 9, 2003, relating to a lawsuit filed by the Navy against the Government and the Authority (collectively, the "Settlement") and that the allocation of Revenues as described below is subject to the prior payment of any amounts due under the Settlement for which revenues from the Navy/GPA surcharge (as defined below) are not available to pay. Pursuant to a Satisfaction of Judgment, entered on July 19, 2012 (the "Satisfaction of Judgment"), the Authority's obligations in respect of the Settlement have been satisfied and the Navy/GPA surcharge has been discontinued. The Authority has included in the 2013 Supplemental Indenture amendments to certain provisions of the General Indenture to delete references to the Settlement and the Navy/GPA Surcharge. See "—Amendments to the General Indenture" and APPENDIX D - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—MODIFICATION OR AMENDMENT OF THE INDENTURE—Amendments to the Indenture in the 2013 Supplemental Indenture" for a complete description of the description of such amendments.

Allocation of Revenues

The Indenture requires the Authority to deposit all Revenues upon receipt in the Revenue Fund held by the Depositary. The Indenture provides that on or before the fifth day of each calendar month, the Depositary is required to transfer from the Revenue Fund (to the Trustee as necessary) for deposit into one or more of the following respective separate funds, the following amounts in the following order of priority, the requirements of each such fund or account (including the making up of any deficiencies in any such fund or account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied, and the results of such satisfaction being taken into account, before any transfer is made to any fund subordinate in priority:

(A) into the Operation and Maintenance Fund, an amount equal to the amount of Operation and Maintenance Expenses budgeted by the Authority, pursuant to the budget, as revised, filed in accordance with the Indenture, to be paid from Revenues during the next succeeding calendar month (including any amount to be

held as a reserve for transfer to the Rebate Fund) plus the amount of any Other Credit Agreement Payments then due and payable or to become due and payable during such month not otherwise included in such amount;

(B) into the Debt Service Fund held by the Co-Trustee, an amount equal to the amount necessary to increase the amount in the Debt Service Fund to the aggregate amount for all Outstanding Bonds of all unpaid interest, principal and Mandatory Sinking Account Payments and for all Outstanding Parity Payment Agreements of all Parity Payment Agreement Payments with respect thereto and for all Outstanding Credit Agreements of all Credit Agreement Reimbursement Payments due and payable to the extent not otherwise included in such amount which shall be required to have been transferred to the Debt Service Fund on the basis of the following transfer requirement rules (after taking into account amounts transferred and to be transferred from any Construction Account to pay Capitalized Interest):

(1) an amount equal to the amount of interest payable on each Bond on a current un compounded basis on any Interest Payment Date shall be transferred in equal monthly amounts over the Interest Accrual Period for such Bond ending on such Interest Payment Date (or in the case of Variable Rate Bonds 110 percent of the amount of interest accrued during the next preceding calendar month less any excess deposited for the next preceding calendar month); provided that to the extent that a Qualified Counterparty is obligated to make payments to the Authority on or prior to such Interest Payment Date pursuant to an Outstanding Payment Agreement Related to any Bonds, an amount equal to the amount of any such payment obligation shall be transferred from the Revenue Fund to the Debt Service Fund on the date such payment is due and the amount of each monthly transfer with respect to such Bonds as described in this subparagraph (1) during the Interest Accrual Period (or portion thereof) over which such payment obligation accrues shall be reduced by an amount equal to the amount of such Qualified Counterparty's payment obligation accruing during the next preceding calendar month;

(2) the amount of interest payable on each Bond on a deferred compounded basis on any Interest Payment Date shall be transferred in substantially equal monthly amounts over the period during which such interest accrues on such basis;

(3) the amount of the principal of each Bond shall be transferred in equal monthly amounts over the Principal Payment Period for such Bond ending on the maturity date for such Bond;

(4) the amount of each Mandatory Sinking Account Payment for Bonds shall be transferred in equal monthly amounts over the Principal Payment Period for such Bonds ending on the date such Mandatory Sinking Account Payment is due;

(5) the amount of any Parity Payment Agreement Payment payable on any Payment Agreement Payment Date shall be transferred (a) in the case of such payments calculated based on a fixed rate, in equal monthly installments over the Payment Agreement Payment Accrual Period for such Payment Agreement Payment ending on such Payment Agreement Payment Date and (b) in the case of such payments calculated based on a variable rate, in monthly installments equal to 110 percent of the amount of such obligation accrued during the next preceding calendar month less any excess deposited for the next preceding calendar month; and

(6) to the extent not otherwise included in amounts described in subparagraphs (1) through (5) above, the amount of any Credit Agreement Reimbursement Payment due and payable is to be transferred;

(C) into the Bond Reserve Fund held by the Co-Trustee, the amount, if any, needed to increase the amount in the Bond Reserve Fund to the Bond Reserve Fund Requirement (equal to the Maximum Annual Debt Service for the then current or any future Fiscal Year on all Outstanding Bonds) as of the date of such transfer;

(D) into the Subordinate Securities Fund (and any accounts therein), the amount, if any, needed to increase the amount in such Fund and each such account to its requirement (including any requirements for reasonable debt service reserves and requirements related to Payment Agreements that constitute Subordinate

Securities (including Termination Payments)) established by each resolution, indenture or other instrument pursuant to which Subordinate Securities are issued and outstanding;

(E) into the Operation, Maintenance, Renewal and Replacement Reserve Fund, the amount, if any, needed to increase the amount in the Operation, Maintenance, Renewal and Replacement Reserve Fund to an amount equal to one-fourth (1/4) of the sum of the amounts of Operation and Maintenance Expenses and Renewal and Replacement Costs budgeted by the Authority, pursuant to the budget, as revised, filed in accordance with the Indenture, for the then current Fiscal Year;

(F) into the Rate Stabilization Fund, the amount specified for such month in a Certificate of the Authority which also certifies that such amount is consistent with the annual budget established by the Authority pursuant to the Indenture; and

(G) into the Capital Improvement Fund, the balance remaining in the Revenue Fund after the deposits described above.

The Indenture provides that, in the event that the amount in any Fund or Account is insufficient for the purposes for which such Fund or Account was established, the Trustee, the Co-Trustee or the Depositary upon the direction of the Trustee, is required to transfer to such Fund or Account the amount of such deficiency by withdrawing said amount from subordinate Funds and Accounts in reverse order of the priority described above and prior to any other claims upon such Funds and Accounts, subject only to the limitation that amounts in the Bond Reserve Fund shall only be used as provided in the Indenture.

See APPENDIX D - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" for definitions of the capitalized terms used above and descriptions of certain of the Funds and Accounts referenced above.

Rate Covenant

The Authority has covenanted in the Indenture to at all times fix, prescribe and collect rates, fees and charges in connection with the services furnished by the System which will be sufficient to yield the sum of Net Revenues during each Fiscal Year equal to at least 1.25 times the Aggregate Annual Debt Service for such Fiscal Year and to yield Revenues during each Fiscal Year equal to at least the aggregate amount of all transfers required to be made pursuant to the provisions of the Indenture described above in (A) through (E) under "Allocation of Revenues" (collectively, the "Rate Covenant").

"Net Revenues" is defined in the Indenture to mean, for any particular period, (a) the sum of (i) all of the Revenues (other than Payment Agreement Receipts) received during such period plus (ii) the aggregate amount of all transfers from the Rate Stabilization Fund to the Revenue Fund during such period, less (b) the sum of (x) all Operation and Maintenance Expenses incurred during such period plus (y) the amount of all transfers from the Revenue Fund to the Rate Stabilization Fund during such period.

The Indenture provides that if at the end of a Fiscal Year, (i) the sum of Net Revenues for such Fiscal Year were less than 1.25 times Aggregate Annual Debt Service for such Fiscal Year, or (ii) Revenues were less than the aggregate amount of all required transfers described above in (A) through (E) under "Allocation of Revenues" for such Fiscal Year, the Authority is required to promptly employ a Consulting Engineer to make recommendations as to a revision of rates, fees and charges or the methods of operation of the System, and promptly upon its receipt of such recommendations, to revise such rates, fees and charges or methods of operation and to take such other actions as will be in conformity with such recommendations, subject to applicable requirements or restrictions imposed by law and subject to a good faith determination of the Board that such recommendations, in whole or in part, are in the best interests of the Authority, the Owners and each Credit Provider, if any. The Indenture provides that if the Authority complies in all material respects with the reasonable recommendations of the Consulting Engineer with respect to said rates, fees, charges and methods of operation or collection, or makes a good faith determination that such recommendations are not in the best interests of the Authority, the Authority will be deemed to have complied with the Rate Covenant for such Fiscal Year; provided, that Net Revenues are in no event less than Aggregate Annual Debt Service for such Fiscal Year.

In Fiscal Years 2008 and 2009, the Authority did not generate Net Revenues sufficient to satisfy the Rate Covenant. As required by the Indenture, the Authority hired a Consulting Engineer (the "2009 Consulting Engineer") to make recommendations as to a revision of rates, fees and charges or the methods of operation of the System in order to provide sufficient Net Revenues to satisfy the Rate Covenant and to meet the Authority's other goals. The 2009 Consulting Engineer reviewed the Authority's 2009-13 Rate Plan discussed below and determined that the Authority would satisfy the Rate Covenant if the plan was implemented. See "THE SYSTEM - Debt Service Coverage."

See APPENDIX D - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—DEFINITIONS" for definitions of the capitalized terms used above and "—CERTAIN COVENANTS—Rate Covenant."

For discussions of additional requirements relating to rate-setting, see "REGULATORY ENVIRONMENT—Regulation of Ratemaking" below.

Bond Reserve Fund

The Indenture establishes the Bond Reserve Fund to be used and withdrawn by the Co-Trustee solely for the purpose of paying debt service on the Bonds (including Payment Agreement Payments to the extent provided in any Supplemental Indenture) in the event of a deficiency in the Debt Service Fund, in the manner and to the extent set forth in the Indenture. So long as the Authority is not in default under the Indenture, any amount in the Bond Reserve Fund in excess of its Bond Reserve Fund Requirement is to be transferred to the Revenue Fund.

"Bond Reserve Fund Requirement" is defined in the Indenture to mean, as of any particular date of calculation, an amount equal to the Maximum Annual Debt Service for the then current or any future Fiscal Year on all Outstanding Bonds; provided, however, that if upon issuance of a Series of Bonds, such amount would require moneys to be credited to the Bond Reserve Fund from such Bond proceeds in an amount in excess of the maximum amount permitted from tax-exempt bond proceeds under the Code, the Bond Reserve Fund Requirement shall mean an amount equal to the sum of the Bond Reserve Fund Requirement immediately preceding issuance of such Bonds plus the maximum amount permitted under the Code to be deposited therein from the proceeds of such Bonds, as specified by Certificate of the Authority.

At the time of delivery of the 2013 Bonds, the Bond Reserve Fund Requirement is \$ _____, \$ _____ of which the Authority expects to fund with proceeds of the 2013 Bonds. The balance of the Bond Reserve Fund Requirement has been funded with proceeds of Prior Bonds. See "PLAN OF FINANCE—Purposes of the 2013 Bonds" and "ESTIMATED SOURCES AND USES OF FUNDS."

If and to the extent provided by a Supplemental Indenture, the Bond Reserve Fund Requirement may be wholly or partially satisfied by a Credit Facility. Notwithstanding anything to the contrary contained in the Indenture, such Supplemental Indenture may provide that a draw on such Credit Facility is to be made only after all cash in the Bond Reserve Fund been withdrawn and that if a drawing or other claim on such Credit Facility is honored, amounts available for deposit pursuant to the provisions of the Indenture relating to allocation of Revenues to the Bond Reserve Fund will be applied by the Co-Trustee to reimburse, as soon as practicable, the amount of each payment honoring such drawing or other claim.

See APPENDIX D - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—REVENUES AND FUNDS—Application of Bond Reserve Fund."

Additional Bonds

The General Indenture permits the Authority to issue Additional Bonds secured on a parity with the Outstanding Bonds, including the 2013 Bonds, upon the satisfaction of the requirements set forth in the Indenture, including, among other things, the filing of the documents described below, as applicable, with the Trustee.

If and to the extent that a Series of Additional Bonds is being issued to provide moneys for deposit in a Construction Account, the following certificates and reports are to be filed:

(A) a certificate of a Consulting Engineer setting forth (I) the projected Date of Completion for the Project or Projects for which such Series of Additional Bonds is being issued and for any other uncompleted Projects, and (II) an estimate of the cost of construction of such Projects;

(B) a written report of a Consulting Engineer setting forth for each Fiscal Year from the then current Fiscal Year through the later of (I) the first Fiscal Year commencing at least five years after the date of original issuance of such additional Series, or (II) the first Fiscal Year commencing at least three years after the Date of Completion projected by the Consulting Engineer in the certificate described in (A) above, estimates of Revenues, Operation and Maintenance Expenses and Net Revenues; and

(C) a certificate of the Authority (I) setting forth (a) the estimates of Revenues, Operation and Maintenance Expenses, and Net Revenues, as set forth in the written report of a Consulting Engineer described in subparagraph (B) above, for each of the Fiscal Years covered by such report, and (b) the Aggregate Annual Debt Service and Capitalized Interest for each of such Fiscal Years, including Annual Debt Service and Capitalized Interest on all future Series of Bonds, if any, which such Certificate of the Authority shall estimate (based on the estimate of the Consulting Engineer of the cost of construction of such Projects) are required to complete payment of the cost of construction of such Projects, and (II) demonstrating that for each of such Fiscal Years (a) Revenues are projected to be at least equal to the aggregate amount of all transfers required to be made pursuant to the provisions of the Indenture described above in (A) through (E) under "—Allocation of Revenues", and, to the extent applicable, otherwise required to provide for the payment of all obligations of the Authority to be paid from Revenues, and (b) Net Revenues are projected to be at least equal to 1.25 times Aggregate Annual Debt Service.

(D) In lieu of the certificates and reports required by the provisions of the Indenture summarized in subparagraphs (A), (B) and (C) above, the Authority may deliver to the Trustee a Certificate of the Authority to the effect that for the last complete Fiscal Year or any period of 12 consecutive calendar months out of the 18 calendar months next preceding the original issuance of such Additional Bonds, Net Revenues for such Fiscal Year or 12-month period equaled at least 1.25 times the Maximum Annual Debt Service on all Bonds then Outstanding plus the Series of Additional Bonds being issued.

In addition, a Series of Bonds may be issued for the sole purpose of depositing in a Construction Account the amounts necessary to complete any one or more Projects without filing with the Trustee the certificates and reports required by the provisions of the Indenture summarized in subparagraphs (B) and (C), if such certificates and reports demonstrating compliance with such provisions of the Indenture were filed in connection with the issuance of the prior Series of Bonds for each of such Projects and if the principal amount of such Additional Bonds to be issued for completion purposes does not exceed ten percent (10%) of the principal amount of Bonds previously issued for and allocable to such Projects.

The General Indenture also provides that if and to the extent that a Series of Additional Bonds is being issued for the purpose of refunding Bonds, the Authority is required to file with the Trustee either (i) a certificate of an Independent Certified Public Accountant that Aggregate Annual Debt Service for each Fiscal Year thereafter will be less than or equal to Aggregate Annual Debt Service for each such Fiscal Year in the absence of such refunding, or (ii) the certificates and reports described in subparagraphs (A) (if any one or more of the Projects for which the Bonds being refunded is not then completed), (B) and (C) above; provided that in lieu of the certificates and reports described in subparagraphs (A), (B) and (C), the Authority may deliver to the Trustee the certificate described in subparagraph (D) above.

See APPENDIX D - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—ISSUANCE OF BONDS; ISSUANCE OF A SERIES OF BONDS; PARITY PAYMENT AGREEMENTS—Issuance of Additional Series of Bonds" and "—Proceedings for the Issuance of a Series of Bonds; Parity Payment Agreements."

Parity Payment Agreements

The Authority is permitted under the General Indenture to enter into one or more Parity Payment Agreements, the Authority payments of which are secured by a lien upon and pledge of Revenues equal to and on a parity with the lien and pledge securing the Bonds, provided the Authority complies with certain provisions of the Indenture. The Authority is not a party to any Parity Payment Agreements, nor does the Authority have any current plans to enter into any Parity Payment Agreements.

See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—ISSUANCE OF BONDS; ISSUANCE OF A SERIES OF BONDS; PARITY PAYMENT AGREEMENTS—Additional Parity Payment Agreements” and “—Proceedings for the Issuance of a Series of Bonds; Parity Payment Agreements.”

Subordinate Obligations

The Indenture does not prevent the Authority from issuing or incurring any additional indebtedness with a lien or charge on Revenues that is junior and subordinate to the lien and charge of the Bonds.

In 2010, the Authority entered into a loan agreement, dated June 15, 2010 (the “Loan Agreement”), with the Bank of Guam (the “Bank”) pursuant to which the Authority took out two loans in the aggregate principal amount of \$30,000,000 (collectively, the “Subordinate Loan”) to pay a portion of the costs of certain projects to increase the capacity of the wastewater collection system serving the Tumon Bay area, to fund deficiencies in the Authority’s Operation, Maintenance, Renewal and Replacement Reserve Fund and Operations and Maintenance Fund and to pay up to \$5,000,000 of accounts payable and to pay other expenses of the Authority. In connection with the execution of the Loan Agreement, the Authority and the Bank entered into a pledge and assignment, dated June 15, 2010 (the “Pledge”), pursuant to which the Authority pledged to the Bank the Revenues on basis subordinate to the pledge of the Bonds. The Authority’s obligation to repay the Subordinate Loan is evidenced by two Promissory Notes, one in the initial principal amount of \$5,000,000 (“Note 1”) and one in the initial principal amount of \$25,000,000 (“Note 2”), each dated as of June 15, 2010, bearing interest at the rate of 7.75 percent per annum, payable as to principal and interest in monthly installments and maturing on June 15, 2015. As of September 30, 2013, Note 1 is outstanding in the principal amount of \$1,968,183.93 and Note 2 is outstanding in the principal amount of \$18,838,786.10. Note 2 is being amortized over ten years, with \$15,000,000 balloon payment in principal coming due at maturity, which the Authority intends to refinance Note 2 at or prior to maturity.

The Loan Agreement and the Pledge require that the Authority obtain the written consent of the Bank prior to issuing any Additional Bonds. The Bank has consented to the issuance of the 2013 Bonds.

The remedies available to the Bank in the event of a default under the Loan Agreement or the Pledge include, among other things, the ability to declare the outstanding balance of the Subordinate Loan to be immediately due and payable. Upon such acceleration, the Subordinate Loan would continue to be payable solely from amounts transferred to the Subordinate Securities Fund as described above under “—Allocation of Revenues.”

The Subordinate Loan is guaranteed also by the Government of Guam and is entitled to the full faith and credit of the Government of Guam.

Events of Default and Remedies; No Acceleration

The Indenture specifies a number of Events of Default and related remedies. The remedies granted to the Trustee and the Bondowners under the Indenture do not include any right to accelerate the payment of the Bonds, including the 2013 Bonds. The Trustee is authorized to take certain actions upon the occurrence of an Event of Default, including proceedings to enforce the rights of the Bondowners. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—EVENTS OF DEFAULT AND REMEDIES OF BONDOWNERS” for descriptions of the Events of Default and remedies under the Indenture.

Depositories for Funds and Accounts

The Co-Trustee has been appointed to act as Depositary for the Debt Service Fund and the Bond Reserve Fund, as well as for the 2013 Construction Account and the 2013 Capitalized Interest Account within the Construction Fund. The Trustee has been appointed as Depositary for the Revenue Fund, the Operation and Maintenance Fund, the Subordinate Securities Fund, the Operation, Maintenance, Renewal and Replacement Reserve Fund, the Capital Improvement Fund, the Rate Stabilization Fund and the Rebate Fund. The Authority may enter into a Supplemental Indenture from time to time to provide for a different or additional Depositary for any fund or account established under the Indenture.

Amendments to the General Indenture

The 2013 Supplemental Indenture includes amendments to certain provisions of the General Indenture to delete references to the Settlement with the Navy and the related Navy/GPA Surcharge, as the Authority's obligations under the Settlement have been satisfied. These amendments will become effective upon the execution of the 2013 Supplemental Indenture. See "—Pledge of Revenues" and APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—MODIFICATION OR AMENDMENT OF THE INDENTURE—Amendments to the Indenture included in the 2013 Supplemental Indenture" for complete descriptions of the proposed amendments to the General Indenture.

THE AUTHORITY

General

In 1950, the Guam Legislature passed Public Law 1-12 assigning responsibility for the public water supply to the Guam Department of Public Works. In 1952, the Guam Legislature passed Public Law 1-88 creating the Public Utility Agency of Guam (the "PUAG"), which consisted of telephone, power, water and wastewater utilities. The PUAG remained responsible for the island's water and wastewater systems for the next 44 years. In 1996, the Authority was established as a new semiautonomous, self-supporting agency responsible for the island's water and wastewater utilities, and began operations on February 1, 1997. In 2002, by virtue of the passage of Public Law 26-76, the Authority converted to a public corporation and is organized and exists as a Guam public corporation under Chapter 14 of Title 12 of the Guam Code Annotated and is authorized to operate and maintain the System for the island of Guam.

The Authority's System provides water to all of the civilian population of Guam and also provides sewer service to a large percentage of the civilian population, Andersen Air Force Base and several smaller Navy facilities. There is, however, a significant civilian population, particularly in the northern area of the island, that does not have sewer service. In addition, there are also two major military installations, Andersen Air Force Base and the Guam Naval Station, which occupy large areas on the island. Both of these military installations have their own water and wastewater systems. The Authority purchases some of its water supply from the Navy and a very small portion from the Air Force. The wastewater collected from Andersen Air Force Base is discharged into the Authority's System and treated at its Northern District Treatment Plant. This service is a revenue source for the Authority. During Fiscal Year 2012, the Authority served an average of 41,316 water customers and an average of 25,426 wastewater customers.

The Authority's goals are directed towards providing more efficient and reliable service to its customers, and operating as a self-sufficient utility while meeting all USEPA requirements.

The Authority currently has two Operations and Maintenance divisions — Water Operation and Maintenance and Wastewater Operation and Maintenance. In 2007, the Authority entered into a Performance Management Contract ("PMC") with Veolia Water Guam ("Veolia") to manage operations and maintenance of the Authority's wastewater treatment plants and wastewater collection system. Because the PMC with Veolia expires in early January 2014, the Authority has recently re-assumed the management of the operation and maintenance of its wastewater treatment facilities and is currently in the process of procuring a PMC for wastewater collections.

Consolidated Commission on Utilities

The Authority is governed by the CCU, a five-member board elected in a general election that is also charged with oversight of the GPA. The CCU was created in 2002 and consists of five elected members. The CCU makes decisions regarding policies, management, budgeting and financing of the Authority's operations. Certain actions, however, such as issuing bonds for financing utility capital projects, still require the approval of the Legislature of Guam and the Guam Public Utilities Commission (the "PUC"). In addition, ratemaking by the CCU is subject to the approval of the PUC, as the regulatory ratemaking body. The Authority may not enter into any contractual agreements or obligations which could increase rates and charges without the prior written approval of the PUC. See "REGULATORY ENVIRONMENT—Regulation of Ratemaking" below.

Upon taking office in January 2003, the original members of the CCU were faced with more than \$25 million in debt and pending federal lawsuits for violations of water quality and environmental standards that had accumulated over the past several decades. Since 2003, a number of changes have been made to move the Authority's operations towards a self-supporting economic model and environmental compliance. Currently, both the CCU and Authority staff are focused on meeting the requirements of the 2011 Court Order by refurbishing facilities to meet regulatory standards, to improve reliability, and to implement operational systems and procedures consistent with current utility practices in the continental United States. See "REGULATORY ENVIRONMENT" below.

The current members of the CCU are:

Simon A. Sanchez II, Chairman. Elected to the CCU and chairman since January 2003. Former Senator, Former Vice Chairman, Public Utilities Commission (PUC) 1988-94. Vice President/General Manager Guam Dry Cleaners since 1988. Served on numerous government and civic organization boards including the Guam Chamber of Commerce, the Guam Visitors Bureau, the Guam Hotel and Restaurant Association and the Guam Memorial Hospital. Graduated from Harvard University (1980 – MA, City and Regional Planning), and Stanford University (1978-BA, History).

Benigno M. Palomo, Vice Chairman. Elected to the CCU and member since January 2003. Mr. Palomo, has served the Government of Guam for over thirty (30) years, he was an Organization and Methods Examiner, of the Management Section, Department of Finance, Government of Guam. He was also Deputy Executive Director then Executive Director for the Guam Housing and Urban Renewal Authority. General Manager of the Port Authority of Guam, it was during his time as General Manager, that the Port made a profit by improving productivity and reducing expenses. Former Senator of the 13th, 14th and 15th Guam Legislature. Founding president of the Guam Jaycees, and served as Vice-President for the Jaycee International, and also was a founding member of the Chamorro Cultural Association. Graduated from Belmont Abbey College with a BA, attended DePaul College of Law, Chicago, Illinois, and numerous workshops and seminars on effective management.

Eloy P. Hara, Vice Chairman. Elected to the CCU and member since January 2007, Mr. Hara is the president and chief executive officer of International Technology, Incorporated., d/b/a ITI – Power Savers, which he co-founded. Mr. Hara's career in government includes serving as Assistant General Manager of Administrations for GPA, Executive Director of the Guam Civil Service Commission and Administrator for Guam Memorial Hospital, Member of the Executive Management Committee for the American Public Power Association, Member of the Guam Public Utilities Commission, Vice President of the Statehood Task Force for the Guam Decolonization Commission, and Cabinet Member under Governor Joseph Ada and Governor Carl T.C. Gutierrez. Mr. Hara had a career in the Navy spanning over 20 years. Mr. Hara attended Father Duenas Memorial Seminary (FDMS) for two years and graduated from East Texas State University with a BBA.

Joseph (Joey) T. Duenas, Secretary. Elected to the CCU and member since January 2009, Mr. Duenas's government and community service includes serving as Finance Officer for the Archdiocese of Hagåtña, Director of the Guam Department of Revenue & Taxation, President of the Guam Housing Corporation, Vice Chairman of the Guam Election Commission, PUC Chairman, Board of Directors Chairman for the American Red Cross, Vice Chairman of the Board of Trustees for Guam Community College, and former

President of the Rotary Club of Guam. Mr. Duenas has a BA in Business Management from the Chaminade University of Honolulu.

Pedro S.N. Guerrero, Treasurer. Elected to the CCU and member since January 2013, Mr. Guerrero has over 39 years of industry experience in utilities engineering and management, theoretical applications and instruction, and resources consultation and operations within the federal, local, and private sectors in Guam. Mr. Guerrero's experience includes, among other things, serving as Residential Energy Manager, Andersen Air Force Base, Electrical Superintendent, 36th Civil Engineering Squadron, Andersen Air Force Base, Deputy Chief of Operations, 36th Civil Engineering Squadron, Andersen Air Force Base (retired 2006), as well as serving as an adjunct professor at Guam Community College. Mr. Guerrero completed an apprenticeship with the United States Navy Public Works Center in 1973 and completed training as a High Voltage/Power Plant Electrician at the United States Navy Public Works Center in 1978.

Following is a brief résumé of the General Manager of Consolidated Utility Services for the CCU.

General Manager of Consolidated Utility Services -- John Benavente P.E. Mr. Benavente was appointed to his current position in June 2005 to oversee the Authority and the GPA. Mr. Benavente has over 35 years of technical, engineering and management experience in power and water related fields both in the government and private sectors. He served as acting General Manager of the Authority for approximately one year prior to the appointment of the current General Manager. Mr. Benavente worked at GPA for 25 years, including 14 years as General Manager. Mr. Benavente is experienced in all aspects of utility operations, including strategic planning, succession planning, rate proceedings before the PUC, legislative hearings, bond ratings and issuance, environmental permitting, plant construction, transmission and distribution construction, budgeting, collections, typhoon and earthquake recoveries. Mr. Benavente has a BS in Mechanical Engineering from the University of Dayton and an MS in Engineering Management from the University of Missouri-Rolla and is a registered professional engineer.

Key Management Personnel

Following are brief résumés of key management personnel of the Authority.

General Manager of the Authority -- Martin Roush P.E. Martin Roush is the Authority's General Manager and was previously its Chief Engineer. He possesses over twenty years of experience in leadership positions in the public sector in the areas of public works, water utilities, and wastewater utilities. Mr. Roush holds a Bachelors of Science in Electrical Engineering and a Masters of Science in Civil Engineering, both from the University of Arizona. Mr. Roush also holds professional engineering licenses in both civil and electrical. Prior to joining the Authority, Mr. Roush was the City Manager for the City of Benson, Arizona, and Public Works Director and Utility Director for the Town of Sahuarita in Arizona. Mr. Roush is experienced in development review and public works infrastructure planning and engineering, financing, design, engineering review, project management, and construction management. In the 1990's Mr. Roush also worked for Tucson Water, a public water utility and department of the City of Tucson, Arizona, that serves over 600,000 customers. Mr. Roush also holds operator certifications in Wastewater Collections, Wastewater Treatment, Water Distribution, and Water Treatment.

Chief Financial Officer -- Greg P. Cruz -- Mr. Cruz has over 25 years of experience in the accounting profession. This includes over 15 years in a management capacity. Prior to joining the Authority, Mr. Cruz had held positions in the telecommunications industry, public accounting and various Government of Guam agencies. Mr. Cruz's background includes operating his own business serving clients primarily in the non-profit industry. Mr. Cruz earned a BA in Accounting from Western Washington University in Bellingham, Washington, and is a Certified Public Accountant and licensed to practice in Guam.

Assistant General Manager, Compliance -- Paul Kemp -- Mr. Kemp has 49 years of experience in managing and teaching water quality chemistry for natural (ground and surface) waters, drinking water, water for industrial applications (e.g. manufacturing, food and dairy processing), ultra high purity water, wastewater treatment, water recovery for reuse, and environmental and safety compliance and training. Mr. Kemp has been Assistant General Manager of Compliance at the Authority since 2003. Prior to joining the Authority,

he held engineering and management positions in private laboratory, research and manufacturing companies as well as teaching and research positions in higher education. Mr. Kemp is currently a member of the Joint Editorial Board of *"Standard Methods for the Examination of Water and Wastewater"* (AWWA), Technical Director of the Sunset Terrace Homeowners Association (upgrading its wastewater treatment system) and Hawaii Section of the American Waterworks Association Member of Past Chairs Advisory Committee. Mr. Kemp is educated as an analytical chemist specializing in spectroscopic methods and water analysis, and he received a BS degree in Chemistry from Iowa State University and an MS in Analytical Chemistry from Oregon State University. He also undertook postgraduate studies at the University of Hawaii.

Chief Engineer – Thomas F. Cruz, P.E. – Mr. Cruz started with the Authority in 2006 as a senior engineer supervisor and has moved up the ranks to become the Chief Engineer in August 2011. Mr. Cruz is a licensed Civil Engineer on Guam and has 17 years of engineering experience in projects ranging from roadway design and construction, water distribution and wastewater collection design as well as Construction Management. Mr. Cruz holds a Bachelor of Science (Civil Engineering) from Kansas State University and a Master in Business Administration from the University of Phoenix. As the Chief Engineer, Mr. Cruz's current task objectives are to deliver necessary capital improvements projects for the Authority.

Following is a brief résumé of the Authority's counsel.

Attorney for Authority – Samuel J. Taylor – Mr. Taylor served as the legal counsel to the Superior Court of Guam prior to being selected by the Consolidated Commission on Utilities to act as the legal counsel for the Guam Waterworks Authority. Mr. Taylor also served as the law clerk to the Hon. Alberto Lamorena III, Presiding Judge for the Superior Court of Guam. Mr. Taylor is the past Vice Chairman of the Talofofo Municipal Planning Council. Mr. Taylor's practice has focused on government operations, administrative law, contract law, litigation, criminal law, government financing and labor law. Mr. Taylor is currently licensed to practice before all courts of Guam, and has also been admitted to practice before the United States District Court of Guam, the Ninth Circuit Court of Appeals, as well as the United States Supreme Court. Mr. Taylor has a BA in Political Science and graduated Cum Laude from the University of Oregon and earned his JD from the University of Oregon, School of Law.

REGULATORY ENVIRONMENT

Environmental Regulations

General

The Authority is subject to federal and Guam regulations governing water supply and wastewater treatment. The drinking water standards promulgated in the SDWA are the primary requirements for water supply. Wastewater treatment and disposal must comply with the water quality standards in the CWA. The Guam Environmental Protection Agency (the "GEPA") is the local agency responsible for monitoring Authority operations for compliance. Generally, GEPA regulations are the same as the federal standards, although the agency can implement more stringent requirements if GEPA determines it is necessary. GEPA and the USEPA jointly enforce environmental regulations on Guam, except that GEPA has primacy for establishing and enforcing water quality standards under the SDWA, while the USEPA has retained National Pollutant Discharge Elimination System ("NPDES") permit authority under the CWA.

Historically, the Authority has experienced difficulty in complying with SDWA and CWA regulations. In 2002, the USEPA filed a complaint against the Authority in the District Court seeking to appoint a receiver to address the Authority's inability to comply with the CWA and the SDWA. In response to concerns over continued non-compliance by the Authority, the Guam Legislature created the elected CCU as the governing body of both the Authority and GPA, thereby removing the Authority, as well as GPA, from the direct control of the Government of Guam. Upon taking office in January 2003, the original members of the CCU were faced with more than \$25 million in debt and pending federal lawsuits for violations of water quality and environmental standards that had accumulated over the past several decades.

The 2003 Stipulated Order and the 2011 Court Order

In November 2002, the newly elected members of the CCU met with the U.S. Attorney General and representatives from the USEPA to discuss whether or not the CCU could play a role in the rehabilitation of the Authority. As a result of these discussions, the USEPA and the Authority agreed to enter into the 2003 Stipulated Order, pursuant to which the Authority was afforded the opportunity to comply with federal water and wastewater regulations under the governance of the CCU. The 2003 Stipulated Order required the Authority to make specified improvements to the System and to undertake certain planning measures by specific dates. The Authority began implementing the specified projects, including, among other things, the completion in 2007 of the Water Resources Master Plan ("WRMP") to serve as the basis for the Authority's long-term planning. The Authority did not meet all of the deadlines in the 2003 Stipulated Order, however, and the USEPA required it to pay fines in the aggregate amount of \$389,750 through 2010.

In 2010, the USEPA requested that the District Court order the Authority to address the then-incomplete items in the 2003 Stipulated Order, as well as certain additional actions or improvements, some of which were identified by the Authority. On November 10, 2011, the District Court issued the 2011 Court Order, which established deadlines for such projects and superseded the 2003 Stipulated Order and all prior orders. The 2011 Court Order contains a comprehensive list of management, operations, financial administration, facilities construction and rehabilitation and training requirements to be implemented in accordance with strict schedules. Many of those objectives have been established in the WRMP that was approved by the CCU and the USEPA. The 2011 Court Order is being administered directly by the USEPA through its Region 9 office in San Francisco. The Authority must submit all of the 2011 Court Order deliverables to the USEPA for review, and where noted, comment and approval. The Authority is required to provide a quarterly progress report to the District Court covering all of the stipulated items. The Authority has made compliance with the 2011 Court Order a top priority and has, by and large, complied with the timelines set forth in the 2011 Court Order, meeting 53 of 54 USEPA deadlines during the first year of the 2011 Court Order and completing the 54th project early in the second year. Since the issuance of the 2011 Court Order, the USEPA has not fined the Authority for missed deadlines. The CIP includes projects required under the 2011 Court Order.

Compliance with the SDWA – Water System

General. As of November 6, 2013, treatment of the groundwater obtained by the Authority from its wells and from the Santa Rita spring and surface water from the Ugum WTP complies with SDWA requirements. The Navy has initiated a project to include an additional treatment process at the Fena WTP; once the improvements are in place and the Fena WTP is producing water in compliance with the relevant rule, the Authority will be in compliance with the SDWA with respect to the water purchased from the Navy.

Findings of Significant Deficiencies. On November 1, 2012, the USEPA issued a notice to the Authority pursuant to the SDWA that significant deficiencies (the "Findings of Significant Deficiencies") were found in the Authority's water system based on inspections and sanitary surveys conducted by the USEPA National Enforcement Investigations (the "NEIC"), including, among others, deficiencies in water sources, treatment systems, water quality monitoring, reporting and verification, compliance with the SDWA and water system management, operations and administration. The Authority submitted a formal response to the USEPA in April 2013, which formed the basis of a corrective action plan that is expected to be approved by the USEPA. Of the 40 items identified in the Findings of Significant Deficiencies, 18 have been addressed and no further action is required, 13 are in progress with the next steps scheduled or are part of a long-term, continuous planning process and nine are being addressed under the 2011 Court Order. The CIP includes projects to address items identified in the Findings of Significant Deficiencies.

See "THE SYSTEM – Water System," "FUTURE CAPITAL REQUIREMENTS" and APPENDIX A—"CONSULTING ENGINEER'S REPORT."

Compliance with the CWA – Wastewater System

National Pollutant Discharge Elimination System ("NPDES") Permits. Until recently, the Authority's two largest wastewater treatment plants, the Northern District WWTP and the Hagåtña WWTP

mentioned below, have operated under secondary treatment variances issued by the USEPA under the CWA, which permitted the Authority to discharge primary effluent into the Philippine Sea. Effective as of June 1, 2013, the NPDES permits for the Northern District WWTP and the Hagåtña WWTP include secondary treatment requirements; however, neither wastewater treatment plant is equipped to provide secondary treatment. The Authority estimates that the design and construction necessary to satisfy the secondary treatment requirements will take approximately five years for each plant and estimates the cost of upgrading both treatment plants to satisfy the secondary treatment requirements to be approximately \$279 million. The Authority and the USEPA are currently negotiating secondary treatment compliance schedules for the Northern District WWTP and the Hagåtña WWTP. The CIP does not currently include the secondary treatment upgrade projects as the Authority expects to obtain compliance schedules that will permit the Authority to delay implementation of the secondary treatment requirements until after the provisions and capital requirements of the 2011 Court Order have been satisfied.

In addition, the Agat-Santa Rita WWTP, the Baza Gardens WWTP and the Umatac-Merizo WWTP have been unable to consistently meet the requirements of their respective NPDES permits. Both the 2011 Court Order and the CIP include projects that will help the Authority address these issues.

Request for Information. On May 30, 2013, the USEPA issued to the Authority a request for information under the CWA (the "Request for Information"), based on the inspection conducted by the NEIC in April and May 2012 of the Authority's NPDES-permitted wastewater treatment plants, pumping stations and collection systems. In August 2013, the Authority issued a response to the USEPA indicating that of the 72 findings referenced in the Request for Information, 33 have been addressed and completed and 27 are being addressed under the 2011 Court Order. The Authority expects to discuss the remaining 12 items with the USEPA and to develop a corrective action plan, if necessary. The CIP includes projects to address items identified in the Request for Information.

See "THE SYSTEM – Wastewater System," "FUTURE CAPITAL REQUIREMENTS" and APPENDIX A—"CONSULTING ENGINEER'S REPORT."

Potential GWUDI Designation

Groundwater sources for which there is a possibility that untreated surface water could infiltrate the groundwater near the source may in some instances be designated as "Groundwater Under the Direct Influence of Surface Water ("GWUDI"). In its study of the Northern District aquifer, the United States Geological Survey (the "USGS") determined that most of the wells did not act as GWUDI. The USGS determined, however, that nine of the wells required additional testing, but that it was unlikely that the wells would be found to be GWUDI. Although the Authority and the USGS, the USEPA and other regulatory and scientific entities agree that Guam's groundwater should not be classified as GWUDI, the GEPA believes that some of the wells should be classified as GWUDI. The Authority, GEPA and other regulatory entities continue to meet to discuss whether a GWUDI designation is appropriate, but no assurance can be given as to when a final determination may be made. As there has been no GWUDI designation and the Authority does not expect that there will be a GWUDI designation, the current CIP does not include any related projects. If the entire aquifer were designated as GWUDI, the Authority estimates the costs to implement additional treatment measures to be approximately \$200 to \$300 million.

Other Environmental Regulations

In addition to the water and wastewater regulations discussed above, the Authority must also comply with other applicable environmental requirements, including, but not limited to, air emission standards for standby diesel generators, regulations related to above-ground and underground petroleum storage tanks, and various health and safety regulations regarding work performed by the Authority's employees.

Regulation of Ratemaking

The Authority's ratemaking is regulated by the PUC, which is comprised of a seven member board appointed by the Governor and confirmed by the Guam Legislature. The Authority and the CCU establish water and wastewater rates and charges and present them to the PUC for review and approval. The laws of Guam require that

the PUC set rates that are just and fair and are adequate to provide revenues sufficient to pay for all prudent acts of owning, properly maintaining and operating the System, and may require the Authority's rates to be adjusted upwards or downwards at any time to meet these conditions.

In January 2004, the Authority filed its first rate petition with the PUC, which resulted in a 7.5 percent increase in rates, effective in April 2004. The PUC agreed to continue to review information as it became available relative to the Authority's financing plans and the related costs. The continued review resulted in an additional rate increase of 6.5 percent that took effect in October 2004 and the creation of a rate plan that allows the Authority to incrementally increase rates in anticipation of the debt service associated with System rehabilitation. The PUC also granted an additional surcharge to fund health insurance benefits for the Authority's retirees ("Legislative Surcharge" or, as it is sometimes referred to, the "Retirement Benefits Surcharge"), effective April 1, 2004. See "THE SYSTEM—Other Post-Employment Benefits."

In July 2009, the PUC approved a five-year rate plan (the "2009-13 Rate Plan") developed by the Authority in part to address the findings of the 2009 Consulting Engineer in its 2009 Report. See "SECURITY AND SOURCES OF PAYMENT—Rate Covenant" and "THE SYSTEM—Debt Service Coverage." The 2009-13 Rate Plan included scheduled rate increases through Fiscal Year 2013, subject to annual review and approval by the PUC.

In October 2004, the PUC adopted a policy of providing rates sufficient to ensure that the Authority's debt service coverage ratio would not drop below 1.75x (the "PUC DSCR"). The PUC established the policy to ensure that the Authority would generate Net Revenues sufficient to meet the Rate Covenant and to provide sufficient ongoing equity in the System. For purposes of determining compliance with the PUC DSCR, the Authority is permitted to take into account not only Net Revenues, but also other available funds of the Authority, including amounts on the deposit in the Working Capital Reserve Account to be created in the Capital Improvement Fund. In Fiscal Years 2008, 2009, 2010 and 2011, the Authority did not generate Net Revenues sufficient to satisfy the PUC DSCR set forth in the PUC rate policy; however, the Authority did meet the PUC DSCR in Fiscal Year 2012. See "THE SYSTEM – Debt Service Coverage" and "HISTORICAL AND PROJECTED OPERATING RESULTS."

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Since April 1, 2004, the Authority has adjusted its water and wastewater rates 13 times for various reasons. During this time period, the PUC has granted all of the Authority's rate increase requests, although in some cases, less than the full amount requested. Rate adjustments, their effective dates and principal reasons for such adjustments are set forth in Table 3 below.

Table 3
Historical Rate Adjustments

| Effective Date | Rate Adjustment | | Principal Reason for Adjustment |
|-------------------|-----------------|------------|--|
| | Water | Wastewater | |
| April 1, 2004 | 7.50% | 7.50% | Base rate increase to fund projects required under the 2003 Stipulated Order. |
| October 14, 2004 | 1.37% | 1.37% | PUC increased Legislative Surcharge from 1.89 percent to 2.59 percent. |
| October 14, 2004 | 6.50% | 6.50% | PUC increased rates to fund projects required under the 2003 Stipulated Order. |
| February 1, 2006 | 3.00% | 3.00% | Future financial and legal obligations. |
| February 1, 2006 | 4.13% | 4.13% | PUC increased the Legislative Surcharge from 2.59 percent to 4.13 percent. |
| September 1, 2007 | 14.24% | 14.24% | Debt service for the 2005 Bonds. |
| September 1, 2007 | 8.03% | 8.03% | Navy/GPA Surcharge ⁽¹⁾ decreased from 4.13 percent to 3.49 percent. |
| September 1, 2007 | 3.49% | 3.49% | PUC decreased Legislative Surcharge from 4.13 percent to 3.49 percent. |
| April 1, 2009 | 6.60% | 6.60% | Base rate increase due to increases in power and water purchases costs. |
| August 1, 2009 | 14.00% | 14.00% | Base rate increases to provide sufficient Net Revenues to satisfy PUC DSCR. |
| October 1, 2010 | 8.00% | 8.00% | Base rate increases to cover employee health insurance, cost of living allowance and property insurance. |
| October 1, 2011 | 12.77% | 12.77% | Base rate increases to provide sufficient Net Revenues to satisfy PUC DSCR. |
| February 1, 2013 | 6.10% | 6.10% | Base rate increases to provide sufficient Net Revenues to satisfy PUC DSCR. |

⁽¹⁾ The PUC had previously granted a surcharge rate increase to the Authority (referred to as the "Navy/GPA Surcharge") to enable the payment of a large debt owed to the GPA, amounts owed to the PUC and Guam Telephone Authority, to pay for ongoing regulatory fees to the PUC and, eventually, to pay the debt to the United States Treasury for amounts owed to the Navy. As of July 2012, the Navy/GPA Surcharge was discontinued, as the Authority's obligations to the Navy and GPA had been paid in full.

Source: Consulting Engineer's Report

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In February 2013, the CCU adopted the new five-year rate plan, which includes proposed scheduled rate increases for water and wastewater services for Fiscal Years 2014 through 2018 (the "2014-18 Rate Plan"), as well as rate increases for the Legislative Surcharge. On October 29, 2013, the PUC approved the scheduled rate increases set forth in the 2014-18 Rate Plan. The actual implementation of the annual rate increases is subject to the PUC's annual review and prior approval, based on the Authority's actual financial performance and needs. The proposed rate adjustments in the 2014-18 Rate Plan are set forth in Table 4 below.

Table 4
2014-18 Rate Plan Rate Increases

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| Basic & Non-Lifeline Increase | 15.00% | 14.50% | 16.50% | 7.00% | 4.00% |
| Lifeline Increase | 0.00% | 0.00% | 0.00% | 7.00% | 0.00% |
| Legislative Surcharge | 3.90% | 3.41% | 3.00% | 2.79% | 2.66% |

Source: Consulting Engineer's Report

Pursuant to the 2014-2018 Rate Plan, the next rate adjustment will become effective on November 1, 2013, and is expected to result in an estimated 13.2 percent increase in total operating revenues in Fiscal Year 2014 over those generated for Fiscal Year 2013. The Authority expects that the revenues generated by the rate increases set forth in the 2014-18 Rate Plan will provide additional funds for the Authority to undertake revenue funded capital improvement projects, including projects required under the 2011 Court Order and to address items identified in the Findings of Significant Deficiencies and the Request for Information, to ensure compliance with the Rate Covenant and the PUC DSCR and to allow for more gradual increases in Authority rates in the future, thereby minimizing to the extent possible sudden rate increases for the Authority's ratepayers.

See "HISTORICAL AND PROJECTED OPERATING RESULTS" and APPENDIX A—"CONSULTING ENGINEER'S REPORT."

THE SYSTEM

The Authority has undergone significant transformation and continues to face challenges from the USEPA and other regulatory agencies, as well as from customers to make needed improvements to the System on a timely basis. Considerable capital needs remain between the 2011 Court Order items, capital improvements needed to facilitate growth in the island's population centers, and normal renewals and replacements. Revenues were lower than expected in the past as a result of metering issues (described below under "Meter Replacement Program"), and certain expenses had been higher than planned. Over the last several years, the Authority has worked to improve the management and operation of the System, including, among other things, decreasing expenditures, significantly decreasing leak repair times and implementing a meter replacement system. As result, the Authority's operating results began to improve significantly in Fiscal Years 2011 and 2012. Table 5 below presents selected statistics regarding Authority operations for Fiscal Year 2012, the latest complete Fiscal Year for which audited information is available. Preliminary operating results for Fiscal Year 2013 indicate that improvements are continuing, and projected operating results included in the Consulting Engineer's Report indicate that this pattern is expected to continue in the future. See "HISTORICAL AND PROJECTED OPERATING RESULTS" and APPENDIX A—"CONSULTING ENGINEER'S REPORT."

Table 5
Selected Statistics
Fiscal Year Ended September 30, 2012 ⁽¹⁾

| | |
|--|---------------|
| Average Number of Water Customers | 41,316 |
| Average Number of Wastewater Customers | 25,426 |
| Annual Water Sales (million gallons) | 5,795 |
| Annual Wastewater Collection (million gallons) | 4,103 |
| Operating Revenues ⁽²⁾ | \$67,547,757 |
| Gross Investment in Utility Plant | \$524,085,856 |
| Net Utility Plant Investment | \$277,527,588 |
| Total Equity | \$201,859,012 |
| Net Current Assets | \$9,499,113 |

⁽¹⁾ The latest complete Fiscal Year for which such information is available.

⁽²⁾ Excludes PUC or GPA/Navy Surcharge and SDC revenues.

Source: Consulting Engineer's Report

The Authority currently has two Operations and Maintenance divisions – Water Operation and Maintenance and Wastewater Operation and Maintenance. As mentioned above, the Authority entered into a PMC with Veolia in 2007 to manage operations and maintenance of the Authority's wastewater treatment plants and wastewater collection system. Because the PMC with Veolia expires in early January 2014, the Authority has recently re-assumed the management of the operation and maintenance of its wastewater treatment facilities and is currently in the process of procuring a PMC for wastewater collections. See “—The Wastewater System.”

For more detailed descriptions of the Authority's water system and wastewater system, see APPENDIX A – “CONSULTING ENGINEER'S REPORT.”

The Water System

The Authority's water supply system consists of 120 wells (94 of which are currently operating), one active spring, the Ugum WTP mentioned below, 27 booster pump stations (22 of which are actively used), 21 reservoirs/tanks in service having a total active volume of 25.7 million gallons (“MG”), approximately 386 miles of water distribution pipe lines and approximately 3,376 fire hydrants.

Water Supply

Water sources on Guam are groundwater, surface water and springs, all of which are replenished by rainfall on Guam. Trade winds blow over Guam throughout the year and are responsible for significant rainfall and a relatively constant temperature near 80 degrees throughout all seasons. Annual rainfall averages 85 inches in the western coastal area to 110 inches in the highest mountain locations in the south. Three quarters of the total annual rainfall occurs between the months of June and December. Rain is the only source of fresh water for the island.

Topographic features divide Guam into northern and southern areas. Because of the island's topography, potable water comes from groundwater in the northern portion of the island and primarily surface water in the southern portion of the island.

In the north a limestone plateau, bordered by steep cliffs, slopes southwesterly from an elevation of 600 feet to less than 100 feet at the midsection of the island. The plateau surface is generally flat and is interrupted by just three hills: Barrigada Hill (El 665 ft.), composed of a limestone dome, and Mount Santa Rosa (El 858 ft.) and Mataguac Hill (El 630 ft.) both composed of volcanic rock. There are no perennial streams within the northern area due to the permeability of the limestone. The main groundwater source is located under the plateau. The rainfall percolates through the limestone and forms a freshwater “lens” that floats at approximately sea level above deeper, higher density brackish and salt water. Previous studies of the Guam aquifers have concluded that the freshwater lens under the northern part of the island can provide a sustainable water supply of up to 80 million gallons per day (“MGD”). The Authority currently pumps approximately 36 MGD of groundwater daily, or about 45 percent of the

sustainable yield, and the U.S. Air Force and other users currently pump approximately 6 MGD of groundwater daily, indicating total groundwater extraction of approximately 42 MGD, or 53 percent of the sustainable yield. The U.S. Geological Survey (the "USGS") is currently conducting a study of Guam's groundwater resources to determine the impacts of drought conditions on sustainable yield, as well as to assess the potential impact of increased pumping to accommodate the proposed military build-up, as further discussed under "FUTURE CAPITAL REQUIREMENTS—Proposed Military Relocation and Installations." Although the study is not scheduled to be completed until December 2013, preliminary results indicate that the groundwater resource can be managed to provide up to 46.5 MGD to meet future island-wide demand, including as a result of the proposed military build-up.

The Authority's groundwater wells provided approximately 86 percent of the Authority's water supply. The Authority owns 120 wells, of which 94 are currently operating, six of which are in standby mode and 20 of which are inactive. The inactive wells are not considered necessary to meet the Authority's daily water needs, as they constitute only approximately 13 percent of the Authority's 40.1 MGD of permitted well capacity. Most of the Authority's wells are drilled to below sea level to "tap" the basal aquifer; the basal aquifer is fresh water lens that extends below sea level. The capacity of individual basal aquifer wells averages approximately 230 gallons per minute ("gpm") to avoid localized over-pumping of the aquifer. The Authority recently completed an assessment of all 120 wells and identified several recommended improvements, including well and pump upgrades, safety equipment upgrades, new chlorination equipment, electrical improvements and site work. The CIP includes these upgrades, as well the replacement of some wells and the construction of three new wells.

The Authority has two production springs located in the southern and central areas of the island. The Authority currently obtains water from one operating spring in Santa Rita, which generates approximately 0.24 MGD, or less than one percent of the Authority's total water supply. The Authority's CIP includes the rehabilitation of the currently inactive Asan spring.

The southern portion of Guam is of volcanic origin and mountainous. A nearly continuous mountain ridge parallels the coastline from Piti (mid-island on the west side) to Guam's southern tip. Several peaks in the ridge top 1,000 feet, with Mount Lamlam being the highest at 1,332 feet. Generally, surface water resources are available in the southern portion of Guam. The southern portion has more than 40 streams draining into the sea. The only large surface impoundment on the island for potable water, known as the Fena Valley Lake Reservoir, is located approximately 2.5 miles southeast of Santa Rita.

The Authority currently operates the Ugum Water Treatment Plant (the "Ugum WTP"), which treats surface water collected from the Ugum River in southern Guam and supplies approximately six percent of the Authority's total water supply. The rated capacity of the Ugum WTP is four MGD; however, the Ugum WTP cannot always operate at full capacity when flows in the Ugum River are low or there is high turbidity in the Ugum River due to heavy rainfall. Although the Authority has recently upgraded some of the systems at the Ugum WTP, additional upgrades are needed. The CIP includes some of the contemplated upgrades, including construction of an additional finished water storage tank.

To help supply its customers on the southern part of Guam, the Authority also purchases water from the United States Navy (the "Navy") pursuant to the terms of a Memorandum of Agreement under which the Authority is permitted to purchase up to 4.39 MGD of water. After 2009, however, the Navy requested that the Authority work to reduce the total purchases to a maximum of 3.5 MGD. Although the Memorandum of Agreement has expired, the Authority and the Navy continue to operate in accordance with its provisions. The Navy collects surface water in the Fena Valley Lake Reservoir and obtains spring water from the Almagosa and Bona Springs. The surface water and spring water is then treated at the Fena Water Treatment Plant (the "Fena WTP") owned and operated by the Navy. Due in part to the Authority's aggressive leak detection and repair programs and meter replacement program described below, the Authority has been able reduce the amount of water purchased from the Navy over the past three Fiscal Years. In Fiscal Year 2012, the Authority purchased approximately 3.1 MGD of water from the Navy, or approximately seven percent of the Authority's total demand, as compared to approximately 4.38 MGD, or approximately 10.2 percent of the Authority's total demand, in Fiscal Year 2010.

The actual average supply requirement for the Authority's System during Fiscal Years 2008 through 2012 is approximately 42.7 MGD; however, actual water consumed in the System during the same period, based on the

Authority's average water sales, is approximately 16.77 MGD, meaning unaccounted for (or non-revenue) water in the System during this time period is approximately 61 percent of the water delivered to the System. The difference between supply and consumption is due to leakage, malfunctioning meters, and water used for line flushing, fighting fires, and similar activities. Since 2012, the Authority has implemented an initiative to reduce its response time to identified leaks in the water supply system. The Authority estimates that as of February 2012, these efforts have saved 0.91 MGD of water relative to past practices. In addition, in August 2012, the Authority implemented a program to replace defective meters, which has resulted in more accurate metering of water and a decrease in the non-revenue water pumped into the System, resulting in a decrease of non-revenue water in the System from 61 percent in January 2012 to 54 percent in August 2013. See "—Leak Detection Program and Leak Repair Program" and "—Meter Replacement Program."

Water Distribution System

The Authority's water distribution system includes an extensive network of approximately 386 miles of transmission and distribution pipeline (excluding some 2-inch distribution lines), comprised of ductile iron, polyvinyl chloride ("PVC"), cast iron, asbestos cement and galvanized steel pipe, 27 booster pump stations, 22 of which are currently active, and 21 reservoirs/tanks in active use and having a total capacity of 25.71 million gallons ("MG"), and approximately 3,376 fire hydrants. The Authority has an additional 12 reservoirs for which the Authority is required by the 2011 Court Order to take further action. The Authority expects to repair, replace, or relocate five of these reservoirs by the end of 2014.

The Authority recently completed an assessment of all water booster pump stations and has nearly completed a structural assessment and hydraulic analysis of all of its reservoirs. The CIP includes projects to improve the booster pump stations to increase efficiencies and to decrease operating and maintenance costs, as well as to repair, replace or relocate components of the water distribution system, as required by the 2011 Court Order.

Wastewater System

Unlike the Authority's water system, which serves essentially all of the civilian population of Guam, there is a significant percentage of the population that is not served by the Authority's wastewater system. This is particularly true in the northern area of Guam, where many homes rely on individual septic tanks or other on-site disposal systems. Comparing the number of water customers with wastewater customers indicates that there are nearly 15,500 customers, or approximately 38 percent of water system customers, that do not have sewer service.

The Authority provides wastewater services for Guam's general population, as well as for Anderson Air Force Base. The main U.S. Naval base is served by its own wastewater collection and treatment system. For planning purposes, Guam is divided into seven wastewater districts based on population distribution and the topography of the island: Northern District, Hagåtña, Agat-Santa Rita, Umatac-Merizo, Inarajan, Baza Gardens and Pago Socio. The Authority's wastewater system includes wastewater treatment plants and extensive collection systems in each of these districts.

As mentioned above, Veolia has been managing Authority staff in the operation and maintenance of the Authority's wastewater treatment plants and wastewater collection system since 2007 pursuant to the PMC. Under the PMC, Veolia has provided training, introduced current utility practices for system maintenance and standardized approaches to safety practices.

Wastewater Collection Systems

The Authority's wastewater collection systems consist of approximately 314 miles of gravity sewers and force mains (pressure sewers) that collect sewage from the communities and transport it to the seven wastewater treatment plants. There are 76 wastewater pump stations in the collection systems.

The sewer pipe construction includes PVC, concrete, cast iron, epoxy coated ductile iron and high density polyethylene plastic. Most of the recent gravity sewer construction is PVC pipe. Some of the older sewer lines, such as those in Agat, are vitrified clay and are reportedly in poor condition. The pressure sewers (force mains)

discharging from the pumping stations are epoxy coated ductile iron. The Air Force installed techite pipe to deliver wastewater from Andersen Air Force Base to the Northern District wastewater treatment plant.

The Authority is preparing Infiltration and Inflow ("I/I") Analyses and Sewer System Evaluation Surveys for the majority of the Authority's wastewater collection network to provide a current assessment of the wastewater collection system and to identify any areas of concern regarding capacity, condition and necessary improvements. The Authority has already been able to identify some areas of high I/I.

The CIP includes projects to rehabilitate or replace parts of the collection system to reduce high flow impacts to the wastewater treatment plants and the risk of system overflows, as well as improvements to the wastewater pump stations.

Wastewater Treatment Plants

The Northern District and Hagåtña wastewater treatment plants (the "Northern District WWTP" and the "Hagåtña WWTP," respectively) are the Authority's largest wastewater treatment plants and serve the northern and the central areas of Guam, respectively, and currently provide primary treatment.

The Northern District WWTP is designed for an average flow of 12 MGD, representing approximately 46 percent of Guam's wastewater flow, but is currently permitted by the USEPA to discharge only 6 MGD. Upon the satisfaction of certain conditions under the 2011 Court Order, the Authority may request flow up to 9 MGD. In December 2012, the Authority completed upgrades to provide interim treatment improvements at the Northern District WWTP, and as of January 2013, the Northern District WWTP is in compliance with the 2011 Court Order.

The Hagåtña WWTP is also designed for an average flow of 12 MGD, or approximately 46 percent of Guam's wastewater flow. In June 2013, the Authority completed certain interim treatment improvements required under the 2011 Court Order. Additional improvements to provide for chemically enhanced primary treatment are currently in progress and are expected to be completed in early 2014.

The Northern District WWTP has an ocean outfall, constructed in 2009, consisting of large diameter pipe extending approximately 2,600 feet away from shore to discharge the treated effluent into the Philippine Sea at a depth of approximately 140 feet. The Hagåtña WWTP also has an ocean outfall, constructed in 2008, consisting of large diameter pipe extending approximately 2,120 feet away from shore to discharge the treated effluent into the Philippine Sea at a depth of approximately 275 feet. As discussed above, until recently, the Authority operated the Northern District WWTP and the Hagåtña WWTP under secondary treatment variances issued by the USEPA, which permitted the Authority to discharge primary effluent into the Philippine Sea. Effective as of June 1, 2013, however, the NPDES permits for both plants include secondary treatment requirements. Neither plant is equipped to provide secondary treatment, and the Authority estimates that the design and construction necessary to satisfy the secondary treatment requirements will take approximately five years for each plant and estimates the cost of upgrading both treatment plants to satisfy the secondary treatment requirements to be approximately \$279 million. The Authority and the USEPA are currently negotiating secondary treatment compliance schedules for the Northern District WWTP and the Hagåtña WWTP. The CIP does not currently include the secondary treatment upgrade projects as the Authority expects to obtain compliance schedules that will permit the Authority to delay implementation of the secondary treatment requirements until after the provisions and capital requirements of the 2011 Court Order have been satisfied. See "REGULATORY ENVIRONMENT—Environmental Regulations—Compliance with the CWA—Wastewater System."

The remaining wastewater treatment plants are smaller plants that serve villages or platted subdivisions on other areas of Guam. As mentioned above, the Agat-Santa Rita WWTP, the Baza Gardens WWTP and the Umatac-Merizo WWTP have been unable to consistently meet the requirements of their respective NPDES permits. Both the 2011 Court Order and the CIP include projects to address these issues. See "FUTURE SYSTEM CAPITAL REQUIREMENTS" and APPENDIX A—"CONSULTING ENGINEER'S REPORT."

The Authority's Largest Customers

Tables 6 and 7 below show the Authority's ten largest water customers and wastewater customers, respectively, for the Fiscal Year ended September 30, 2013.

Table 6
Guam Waterworks Authority
Ten Largest Water Customers
for Fiscal Year 2013⁽¹⁾

| <u>CUSTOMER NAME</u> | <u>ANNUAL REVENUE</u> | <u>PERCENT OF ANNUAL GROSS REVENUE</u> |
|--|---------------------------|--|
| 1. Hotels of the Marianas Inc. (Hilton) | \$876,828 | 2% |
| 2. Pacific Islands Club | 722,245 | 2% |
| 3. MDI Guam Corporation (Leo Palace Hotel) | 718,063 | 2% |
| 4. Sheraton Laguna Guam Resort | 550,030 | 1% |
| 5. Hotel Nikko Guam | 539,689 | 1% |
| 6. Hyatt | 537,828 | 1% |
| 7. Guam Marriott Resort and Spa | 521,235 | 1% |
| 8. MDI Guam Corporation (Westin Hotel) | 435,949 | 1% |
| 9. Onward Beach Resort Guam Inc. | 340,571 | 1% |
| 10. Guam International Airport Authority | 258,273 | 1% |
| Total | \$5,500,711 | 12% |

⁽¹⁾ Based on preliminary information for the Fiscal Year Ended September 30, 2013.
Source: Guam Waterworks Authority

Table 7
Guam Waterworks Authority
Ten Largest Wastewater Customers
for Fiscal Year 2013⁽¹⁾

| <u>CUSTOMER NAME</u> | <u>ANNUAL REVENUE</u> | <u>PERCENT OF ANNUAL GROSS REVENUE</u> |
|--|---------------------------|--|
| 1. Anderson Air Force Base | \$2,346,342 | 9% |
| 2. Navy | 1,508,758 | 6% |
| 3. Hotels of the Marianas Inc (Hilton) | 873,873 | 3% |
| 4. Sheraton Laguna Guam Resort | 548,571 | 2% |
| 5. Hotel Nikko Guam | 537,540 | 2% |
| 6. Hyatt | 535,383 | 2% |
| 7. Guam Marriott Resort & Spa | 519,051 | 2% |
| 8. MDI Guam Corporation (Westin Hotel) | 433,864 | 2% |
| 9. Onward Beach Resort Guam Inc. | 388,959 | 1% |
| 10. Guam International Airport Authority | 237,588 | 1% |
| Total | \$7,929,929 | 30% |

⁽¹⁾ Based on preliminary information for the Fiscal Year Ended September 30, 2013.
Source: Guam Waterworks Authority

New Water and Sewer Installations; System Development Charge

Tables 8 and 9 below summarize the new water installations and new sewer installations, respectively, for the Fiscal Years ended September 30, 2008 through 2013.

Table 8
Guam Waterworks Authority
New Water Installations
Fiscal Years 2008-2013

| Customer Type | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 ⁽¹⁾ |
|---------------|------|------|------|------|------|---------------------|
| Residential | 489 | 620 | 522 | 412 | 587 | 289 |
| Irrigation | 0 | 0 | 0 | 0 | 0 | 2 |
| Hotel | 0 | 0 | 0 | 0 | 0 | 0 |
| Government | 4 | 3 | 5 | 6 | 2 | 1 |
| Federal | 0 | 0 | 0 | 0 | 0 | 0 |
| Commercial | 20 | 39 | 53 | 58 | 45 | 51 |
| Golf Course | 2 | 0 | 0 | 0 | 0 | 0 |
| Agricultural | 10 | 16 | 23 | 13 | 18 | 21 |
| Total | 525 | 678 | 603 | 489 | 652 | 364 |

⁽¹⁾ Based on preliminary information for the Fiscal Year Ended September 30, 2013.
Source: Guam Waterworks Authority

Table 9
Guam Waterworks Authority
New Sewer Installations
Fiscal Years 2008-2013

| Customer Type | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 ⁽¹⁾ |
|---------------|------|------|------|------|------|---------------------|
| Residential | 282 | 380 | 202 | 209 | 159 | 74 |
| Irrigation | 0 | 0 | 0 | 0 | 0 | 0 |
| Hotel | 0 | 0 | 0 | 0 | 0 | 0 |
| Government | 2 | 4 | 4 | 0 | 0 | 1 |
| Federal | 0 | 0 | 0 | 0 | 0 | 0 |
| Commercial | 12 | 11 | 20 | 15 | 24 | 13 |
| Golf Course | 0 | 0 | 0 | 0 | 0 | 0 |
| Agricultural | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 296 | 395 | 226 | 224 | 183 | 88 |

⁽¹⁾ Based on preliminary information for the Fiscal Year Ended September 30, 2013.
Source: Guam Waterworks Authority

Guam law required the Authority to develop and implement a Water and Sewer System Development Charges (the "SDCs"). After approval by the CCU and the PUC, the SDCs were implemented in March 2010. The SDCs are one-time fees assessed on each user connecting property to the Authority's water or wastewater systems, as applicable, for the first time or on each builder if the density of development on an existing connection is increased. The SDCs are payable at the time of construction permitting, however, certain qualified residential customers are allowed to amortize the SDCs over a specified time period. Although the SDCs may vary depending on water meter size, a typical combined water and wastewater SDC for a new residential connection is \$5,600. The revenues generated by the SDCs are not included in the Revenues pledged under the Indenture, but are to be applied to the costs associated with the construction, expansion, upgrading and repair of water and wastewater facilities resulting from such connections or to pay the principal of, interest on and other financing costs related to, debt obligations incurred by or on behalf of the Authority to pay such costs. In Fiscal Years 2010, 2011 and 2012, the Authority received revenues from the SDCs in the amounts of \$794,128, \$1,626,879 and \$1,142,025, respectively. The Authority expects to finance a portion of the CIP with revenues generated from the SDC.

See "FUTURE SYSTEM CAPITAL REQUIREMENTS," APPENDIX A – "CONSULTING ENGINEER'S REPORT" and APPENDIX C – "FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011," Note 15.

Meter Replacement Program

To address historic problems with identifying and reading meters, irregular meter locations and aging meter stock, the Authority initiated the automated meter reading program. The Authority purchased radio read meters that can be read remotely based on a signal sent out from a transmitter attached to the meters and began meter installation in 2005. However, the Authority began to experience problems with these meters as early as 2007. The Authority began replacing meters in late 2007, and then in 2008 became aware that the reliability of the new meters of all sizes was substantially less than expected. In September of 2009, the Authority established a meter task force to fix the problem. In late 2011, the Authority's General Manager determined that the solution was to replace the meters.

In August 2012, the Authority began replacing the defective meters with new Badger meters. As of August 2013, the Authority had replaced 26,275, or 81 percent, of the defective meters. The Authority expects to replace the remaining 4,905 meters in early 2014. The meter replacement program has resulted in significant increases in the Authority's operating revenues in Fiscal Years 2011, 2012 and 2013. With over 26,000 Badger meters installed since August 2012, the successful electronic read percentage has consistently been maintained above 95 percent. The data logging features provided by the new Badger meters also allow for improved and more timely customer service.

Billing, Collections and Enforcements

Table 10 shows a comparison of the Authority's typical combined monthly water and wastewater bills for selected residential, commercial and large commercial usage levels to bills charged by other public and private water and wastewater utilities.

Table 10
Typical Combined Monthly Water and Wastewater Bills
As of October 1, 2013

| | Customer Class | | |
|--|----------------|------------|------------------|
| | Residential | Commercial | Large Commercial |
| The Authority ⁽¹⁾ | \$89.82 | \$435.83 | \$20,798.75 |
| American Samoa | 54.32 | 161.27 | 5,042.62 |
| City and County of Honolulu | 145.94 | 438.09 | 12,575.06 |
| Commonwealth Utilities Commission – Saipan | 99.71 | 373.92 | 14,709.55 |
| County of Hawaii | 79.65 | 274.70 | 9,108.05 |
| County of Kauai | 120.06 | 337.98 | 14,769.38 |
| County of Maui | 102.65 | 400.96 | 15,075.55 |

⁽¹⁾ Authority rates based on monthly rates effective from February 2013.
Source: Consulting Engineer's Report

The Authority has historically had a large number of delinquent accounts (accounts that are more than 90 days old) due to the past absence of a consistent and rigorous enforcement of a disconnection policy. Bringing the delinquent accounts under control was a tremendous challenge during the early years of CCU governance, both because of the sheer number of delinquent accounts and difficulties in locating the meters. The Authority has made considerable progress in the last several years; however, there is still work to be done to bring the receivable accounts into compliance with industry best practices.

The Authority implemented an online and telephone payment system on October 1, 2010, which provides its customers with the option of paying their bills using a credit card. By September 30, 2013, there had been over 80,134 transactions totaling over \$5,818,374 in online payments. The Authority has also implemented a late payment collection program. Under the program, all bills are due 15 days after the billing date. The Authority may discontinue service for non-payment upon providing advance written notice at least ten (10) days prior to the termination date. The program requires the Authority to make all reasonable efforts to collect all past due bills, including employing a collection agency.

The Authority has nearly completed the process of replacing defective water meters, as required by the 2011 Court Order, which has resulted in more accurate and timely meter reads for monthly billing. See “—Meter Replacement Program” above.

As of September 30, 2012 (the most recent complete Fiscal Year for which audited information is available), Accounts Receivable were approximately \$27.6 million, about 56.1 percent of which are doubtful for collection. The allowance for doubtful receivables for Fiscal Year 2012 includes approximately \$6.5 million in accrued receivables for service to fire hydrants because no governmental agency is tasked to pay for such service. See APPENDIX C – “FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS’ REPORT FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011,” Notes 2 and 4.

Table 11 below sets forth the collection data for the Authority for Fiscal Years 2009 through 2013.

Table 11
Guam Waterworks Authority
Collection Data
Fiscal Years 2009 through 2013

| | 2009 ⁽¹⁾ | 2010 ⁽¹⁾ | 2011 ⁽¹⁾ | 2012 ⁽¹⁾ | 2013 ⁽²⁾ |
|------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Cash Received from Customers | \$52,702,684 | \$65,758,523 | \$64,887,819 | \$67,011,385 | \$70,314,968 |
| Total Revenues | \$54,217,663 | \$64,400,198 | \$65,688,324 | \$68,370,500 | \$73,933,505 |
| Collection Ratio | 97% | 102% | 99% | 98% | 95% |

⁽¹⁾ Based on the Authority’s audited financial statements for the Fiscal Years ended September 30, 2009 through 2012. Does not include SDCs and bad debt recovery.

⁽²⁾ Based on preliminary information for the Fiscal Year Ended September 30, 2013.

Source: *Guam Waterworks Authority*

Debt Service Coverage

As discussed above, the Authority has covenanted in the Indenture to at all times fix, prescribe and collect rates, fees and charges in connection with the services furnished by the System which will be sufficient to yield the sum of Net Revenues during each Fiscal Year equal to at least 1.25 times the Aggregate Annual Debt Service for such Fiscal Year. In Fiscal Years 2008 and 2009, Net Revenues were less than 1.25 times the Aggregate Annual Debt Service (the “Debt Service Coverage Ratio”).

As required by the Indenture, the Authority hired the 2009 Consulting Engineer to make recommendations as to a revision of rates, fees and charges or the methods of operation of the System in order to provide sufficient Net Revenues to satisfy the Rate Covenant and to meet the Authority’s other goals. The 2009 Consulting Engineer provided its report in August 2009 (the “2009 Report”) to the Authority, when the Authority then filed with the Trustee in accordance with the Indenture. The 2009 Report identified several reasons the Authority was unable to generate Net Revenues sufficient to satisfy the Debt Service Coverage Ratio, including the unreliability of the Authority’s then-new meters, increased operating costs reflecting significant increases in power and purchased water expenses, the challenges of implementing the many capital improvements to the System on a timely basis, and the depletion of certain reserve funds required under the Indenture, as discussed below under “—Funding of Required Reserves.” The Authority worked with the CCU and the PUC to develop a financial plan to comply with the recommendations outlined in the 2009 Report, including development of the 2009-13 Rate Plan, repair or replacement of failing water meters, continuation of the Leak Detection Program mentioned below, implementation

recommendations from a consultant assisting the Authority with reducing operational inefficiencies and improving managerial practices, and funding the Authority's reserve funds at required levels, as described below under "Funding of Required Reserves." In Fiscal Years 2010, 2011 and 2012, the Authority generated Net Revenues sufficient to satisfy the Debt Service Coverage Ratio required under the Indenture. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Rate Covenant" and "HISTORICAL AND PROJECTED OPERATING RESULTS."

As discussed above, in October 2004, the PUC adopted a policy of providing rates sufficient to ensure that the Authority's debt service coverage ratio would not drop below the PUC DSCR. The Authority did not generate Net Revenues sufficient to satisfy the PUC DSCR in Fiscal Years 2008, 2009, 2010 and 2011; however, the Authority did satisfy the PUC DSCR in Fiscal Year 2012 and expects to do so in Fiscal Year 2013. See "REGULATORY ENVIRONMENT—Regulation of Ratemaking" and "HISTORICAL AND PROJECTED OPERATING RESULTS."

Funding of Required Reserves

The Authority covenants under the Indenture to maintain two funds: the Operation and Maintenance Fund, available for working capital purposes, which as of September 30, 2013, has a required balance of \$8.3 million, and the Operation, Maintenance, Renewal and Replacement Reserve Fund, available for emergency renewals, replacements and other contingency items, which as of September 30, 2013, has a required balance of \$14.75 million. At various times during Fiscal Years 2008 and 2009, the balances of those funds were lower than as required under the Indenture, and the Authority did not have sufficient Revenues to replenish them at the rate required under the Indenture. To address this issue, the Authority applied a portion of the proceeds received from the Subordinate Loan incurred in June 2010 to fill these two funds to the required levels. Since June 2010, the Authority has maintained both of these funds at the required levels. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Subordinate Obligations."

Leak Detection Program and Leak Management System

Historically, one of the Authority's most challenging problems has been the amount of water that is unaccounted for by the Authority and for which the Authority is not compensated. One of the main sources of non-revenue water are water leaks in the System, which result in higher operating costs to the Authority because of the need both to purchase more water from the Navy and to pump more water, which results in higher energy bills.

As part of its efforts to reduce non-revenue water within the System, the Authority initiated a Leak Detection Program in May 2004. As part of the Leak Detection Program, a team of Authority employees searched Guam for significant System leaks. In January 2009, the Authority hired another engineering firm to conduct a three-year leak detection study of the Authority's entire water system with definitive targeted goals, including discovering and reporting incidents of water theft, training Authority employees in modern leak detection techniques using state-of-the art equipment, conducting a system audit and transferring the equipment at the conclusion of the contract. The Authority's leak repair crews were tasked with repairing the leaks once discovered and significant resources, both in personnel and equipment, were dedicated to the task. The average leak repair time in Fiscal Year 2011 was 38 days.

In December 2011, the Authority implemented a proactive leak management system ("Leak Management System") substantially reducing the time to repair leaks. Since the implementation of the Leak Management System, an aggregate of 489 leaks have been detected and repaired and the average leak repair time has decreased from 38 days to 3.7 days. The Authority estimates that as of February 2012, these efforts have saved 0.91 MGD of water relative to past practices. The Authority estimates that repairing leaks within this smaller time frame can save the Authority approximately \$200,000 per month, or \$2.4 million annually.

Based in part on decreases in non-revenue water resulting from the Authority's Leak Detection Program and Leak Management System, purchases by the Authority of water from the Navy have decreased during Fiscal Year 2013.

For additional information regarding historical and projected water supply requirements and non-revenue water, see Table 13 below in "FUTURE SYSTEM CAPITAL REQUIREMENTS."

Non-Discrimination Policy

In February 2003, the CCU mandated that a disconnection practice be established on a regular and ongoing basis and that all customers, including Government of Guam accounts, be subject to the same disconnection policy. The Authority's disconnection target is to schedule disconnection when a customer becomes 30 days delinquent and to ensure all such customers are disconnected before they become 45 days delinquent.

Security Measures

As required by the 2011 Court Order, the Authority timely completed and filed with the USEPA a vulnerability assessment on all of its public water systems and completed an emergency response plan ("ERP"), which is incorporated into the Guam Emergency Response Plan.

Labor and Employee Relations

The Authority has approximately 334 employees. The majority of the Authority's employees are classified as employees of the Government and have the full protection of the Guam Civil Service System. Certain management positions and key skilled supervisory personnel hold unclassified positions.

The Guam Federation of Teachers ("GFT") has been recruiting non-management employees of the Authority. As of September 30, 2013, 47 of the Authority's 303 employees have joined the union. The GFT recently filed a Petition for Exclusive Representation for the Authority's employees and a vote on the matter is expected to occur soon. The GFT does not have the ability under Guam law to negotiate for wage and benefit adjustments and may engage in a strike only under very limited circumstances. The Authority's management believes that relations with its employees are positive.

Employees' Retirement Plan

The Government of Guam Retirement Fund (the "Retirement Fund") provides retirement annuities and other payments to retired Government employees, including employees of the Authority, and their dependents. Employees hired before September 30, 1995 are members of the Government of Guam Employees Retirement System, a defined benefit pension plan (the "DB Plan"), and employees hired after September 30, 1995 are members of the new Defined Contribution Retirement System (the "DC Plan"). The DB Plan and the DC Plan are administered by the Government of Guam Retirement Fund (the "GGRF"). The GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. As of September 30, 2012, there were a total of 15,752 members in the DB Plan and 7,766 active employees under the DC Plan. As of September 30, 2013, 66 Authority employees were members of the DB Plan and 237 Authority employees were members of the DC Plan.

The DB Plan is a cost-sharing multiple-employer plan to which the Authority contributes based upon a fixed percentage of the payroll for those employees who are members of the DB Plan. A single actuarial valuation is performed annually covering all DB Plan members, and the same contribution rate applies to each employer, including the Authority. Members of the DB Plan are required to contribute a certain percentage of their annual covered salary. The DB Plan member and employer contribution requirements are established, and may be amended, by the GGRF.

Based on the Government of Guam Retirement Fund Actuarial Valuation as of September 30, 2012, which was issued on April 11, 2013 (the "2012 Valuation"), at September 30, 2012 the DB Plan had an actuarial accrued liability of approximately \$2.811 billion, with an unfunded actuarial accrued liability of approximately \$1.483 billion.

Under Title 4, Chapter 8, Section 8137 of the Guam Code Annotated, as amended, the Government of Guam is required to completely fund the unfunded actuarial accrued liability by 2031. The annual actuarial valuations prepared for the DB Plan include actuarial employer contribution rates intended to satisfy this requirement. The actuarial employer contributions rates set forth in the annual valuations apply to the fiscal year beginning one year after the valuation date. Based on the information provided in the 2012 Valuation and in prior valuations, the actuarial employer contribution rates for the fiscal years ended September 30, 2013, 2012 and 2011, were 30.76%, 30.09% and 28.06%, respectively, of covered payroll.

Although the actuarial contributions rates are provided to the Guam Legislature by the Retirement Fund in advance of each Fiscal Year and used for budget preparation, the Guam Legislature is not required to adopt such rates. For the Fiscal Years ended September 30, 2013, 2012 and 2011, employers, including the Authority, funded lower statutory contribution rates of 30.09%, 28.30% and 27.46%, respectively, of covered payroll, based in part on Section 3 of Public Law No. 28-150, which provides that the employer contribution rate to the Retirement Fund are to increase over a five-year period, beginning with Fiscal Year 2007, until it reaches the actuarial recommended contribution rate. The contribution rate for Fiscal Year 2011 was further reduced to 21.44% for the period from June 4, 2011 to September 30, 2011 for most Government agencies. Statutory employee contribution rates for the DB Plan were 9.50% in such Fiscal Year. During the Fiscal Years ended September 30, 2012, 2011 and 2010, the Authority made contributions to the DB Plan in the amounts of \$1,251,402, \$1,331,651 and \$1,321,122, respectively, which were based on the statutory contribution rates for those years.

Based on the information provided in the 2012 Valuation, the actuarial employer contribution rate for the DB Plan the Fiscal Year ending September 30, 2014 is 30.03%. For the Fiscal Year ending September 30, 2014, the Legislature has adopted statutory employer and employee contribution rates of 30.09% and 9.5%, respectively.

Contributions to the DC Plan by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DC Plan. The statutory employer contribution rate for the DC Plan for the years ended September 30, 2012 and 2011 were determined using the same employer statutory contribution rates as the DB Plan. Of such amounts contributed by the employers under the DC Plan, only an amount equal to 5% of the DC Plan member's regular base pay is deposited into the member's individual annuity account; the remaining amount is contributed towards the unfunded liability of the DB Plan. DC Plan members are fully vested upon the completion of five years of government service.

For the years ended September 30, 2012, 2011 and 2010, the Authority made contributions to the DC Plan in the amounts of \$2,345,226, \$2,223,307 and \$1,850,779, respectively.

See APPENDIX C - "FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011," Note 6.

Other Post-Employment Benefits

The Government makes certain annual expenditures for certain postretirement healthcare benefits ("OPEBs") to retirees who are members of the Retirement Fund. The Government provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. The Government shares in the cost of these plans with its contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, the Government contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, the Government provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. As of Fiscal Year ended September 30, 2012, the OPEB unfunded actuarial accrued liability for the Government was approximately \$2.1 billion.

The Governor's Executive Budget transmitted to the Guam Legislature typically includes provisions to appropriate sums from the General Fund to accommodate the cost of living allowances, supplemental annuities and the medical and dental benefits (generally, the Government's share of the premiums for the retirees' insurance) for Government of Guam retirees, which the Government is currently paying on a "pay-as-you-go" basis. The Authority is then required to reimburse the General Fund for the OPEB costs of the Authority's retirees. The

Authority applies revenues generated by the Legislative Surcharge to pay these costs. See "REGULATORY ENVIRONMENT—Regulation of Ratemaking."

For the years ended September 30, 2012 and 2011, the Authority made contributions in the amounts of \$2,262,583 and \$2,244,032, respectively, to reimburse the Government for the OPEB costs of the Authority's retirees.

See APPENDIX C – "FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011," Note 6.

FUTURE SYSTEM CAPITAL REQUIREMENTS

Capital Improvement Program

The Authority's Capital Improvement Program for Fiscal Years 2013 through 2018, in compliance with the 2011 Court Order, is described below. The capital cost of implementing the entire CIP for Fiscal Years 2013-2018 has been estimated at approximately \$457.5 million. The Authority expects to finance the CIP with a combination of proceeds of the 2013 Bonds and two series of Additional Bonds to be issued in 2015 and 2017, Authority operating revenues, the USEPA State Revolving Fund grants, System Development Charge revenues and other grants. Because the size of the Capital Improvement Program for Fiscal Years 2013 through 2018 is substantially larger than in past years, the Authority intends to enter into contracts with qualified construction management firms to manage most of the CIP projects being funded with the 2013 Bonds. See "CERTAIN INVESTMENT CONSIDERATIONS – Implementation of the Capital Improvement Program."

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Table 12 sets forth the allocation of CIP project costs among (i) water production, treatment, distribution and storage, (ii) wastewater collection and treatment, (iii) electrical, and (iv) general plant and miscellaneous, as well as the projected sources of funding for such projects.

Table 12
Capital Improvement Program and Sources of Funds
Fiscal Years Ended September 30, 2013 through 2018
(\$000)

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Capital Improvement Program | | | | | | | |
| Water Production, Treatment, Distribution and Storage | \$ 25,785 | \$58,695 | \$45,500 | \$35,250 | \$47,000 | \$51,250 | \$263,480 |
| Wastewater Collection and Treatment | 24,935 | 16,171 | 26,400 | 41,500 | 26,400 | 28,000 | 163,406 |
| Electrical, Including Monitoring and Control | 600 | 2,470 | 2,925 | 500 | 4,500 | 1,000 | 11,995 |
| General Plant and Miscellaneous | 2,344 | 5,500 | 4,000 | 3,000 | 800 | 3,000 | 18,644 |
| Totals | \$53,664 | \$82,836 | \$78,825 | \$80,250 | \$78,700 | \$83,250 | \$457,525 |
| Sources of Funds | | | | | | | |
| Proceeds of the 2010 Bonds | \$34,545 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 34,545 |
| Proceeds of the 2013 Bonds | - | 66,000 | 73,325 | - | - | - | 139,325 |
| Proceeds of the 2015 Bonds | - | - | - | 65,250 | 63,200 | - | 128,450 |
| Proceeds of the 2017 Bonds | - | - | - | - | - | 72,250 | 72,250 |
| USEPA State Revolving Fund Grants | 15,376 | 10,536 | - | - | - | - | 25,912 |
| SDCs | - | 4,300 | 500 | 500 | 500 | - | 5,800 |
| Other Grants | 3,243 | - | - | - | - | - | 3,243 |
| Internally Funded CIP | 500 | 2,000 | 5,000 | 14,500 | 15,000 | 11,000 | 48,000 |
| Totals | \$53,664 | \$82,836 | \$78,825 | \$80,250 | \$78,700 | \$83,250 | \$457,525 |

Source: Guam Waterworks Authority

Major water production, treatment and distribution projects in the CIP include construction of additional reservoirs to increase water storage capacity, completion of the meter replacement program, replacement of failing, leaking and aging pipelines, possible adjustment of pressure zones, and development of new water production wells. Major wastewater collection and treatment projects in the CIP include construction of new wastewater treatment facilities that will incorporate provisions for redundancy to improve reliability, meet existing and future flow capacity and/or reliably achieve regulatory compliance. The CIP also includes electrical control and monitoring upgrades to the System and other miscellaneous improvements.

The CIP does not include (i) upgrade projects to address the secondary treatment requirements under the NPDES permits for Northern District WWTP and the Hagåtña WWTP; (ii) any projects related to the proposed military build-up described below under “—Proposed Military Relocation and Installations”; or (iii) any projects that might be required to address groundwater treatment if the Northern District aquifer is classified as GWUDI. See “REGULATORY ENVIRONMENT—Environmental Regulations.”

Authority staff generated the CIP with minimal input from Brown and Caldwell, in connection with its provision of Program Management Office services. Brown and Caldwell does not have a company interest in the CIP, is not paid in proportion to the CIP and does not have a direct input to increase the CIP.

Table 13 below shows by sources and uses the Authority's historical water requirements for Fiscal Years 2008 through 2012, estimated water requirements for Fiscal Year 2013 and projected water requirements for Fiscal Years 2014 through 2018.

Table 13
Historical and Projected Water Requirements
Fiscal Years Ended September 30, 2008 through 2018
(gallons in millions)

| | Historical | | | | | Estimated | | | Projected | | |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Sources | | | | | | | | | | | |
| Purchases | | | | | | | | | | | |
| Navy | 1,317 | 1,304 | 1,597 | 1,510 | 1,124 | 964 | 1,109 | 1,109 | 1,109 | 1,109 | 1,109 |
| Air Force | 55 | --- | 39 | --- | --- | --- | --- | --- | --- | --- | --- |
| Total Purchases | 1,372 | 1,304 | 1,636 | 1,510 | 1,124 | 964 | 1,109 | 1,109 | 1,109 | 1,109 | 1,109 |
| Authority Production | 14,241 | 14,056 | 14,083 | 14,436 | 14,207 | 13,500 | 13,200 | 12,900 | 12,700 | 12,400 | 12,300 |
| Total Sources | 15,613 | 15,360 | 15,719 | 15,946 | 15,331 | 14,464 | 14,309 | 14,009 | 13,809 | 13,509 | 13,409 |
| Uses | | | | | | | | | | | |
| Total Sources | 15,613 | 15,360 | 15,719 | 15,946 | 15,331 | 14,464 | 14,309 | 14,009 | 13,809 | 13,509 | 13,409 |
| Billed Water | 6,446 | 5,979 | 6,395 | 5,991 | 5,795 | 6,188 | 6,432 | 6,587 | 6,648 | 6,709 | 6,772 |
| Non-Revenue Water | 9,166 | 9,382 | 9,324 | 9,955 | 9,536 | 8,276 | 7,877 | 7,422 | 7,161 | 6,800 | 6,637 |

Source: Consulting Engineer's Report

Proposed Military Relocation and Installations

In late July 2010, the Joint Guam Program Office of the Department of the Navy released its Final Environmental Impact Statement (the "EIS") pertaining to the proposed military build-up on Guam, and in September 2010 the Department of Defense ("DoD") issued its Record of Decision pertaining to the EIS. At the time the EIS was released, it was anticipated that the military build-up would have three major parts: relocation of part of the Third Marine Expeditionary Force from Okinawa, Japan, creation of the infrastructure for an aircraft carrier berthing, and installation of an Army Air and Missile Defense Task Force. Together, these were anticipated to add approximately 32,000 permanent residents to the island, and to create a peak population increase of approximately 79,000 people in 2014.

The proposed military build-up subsequently has been delayed and now is not expected to occur until after 2018. In addition, the expected size of the build up has decreased. The Department of Defense is preparing a Supplemental Environmental Impact Statement ("SEIS"), which is expected to be completed in 2014, with a Record of Decision expected to be issued in 2015. See APPENDIX B--"CERTAIN DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE TERRITORY OF GUAM--Military Activity."

The Authority does not currently expect the proposed military build up to materially affect the Authority's future capital requirements and has not included any capital improvements relating to the proposed military build-up in the CIP. Based on the Memorandum of Understanding (the "MOU") entered into in 2010 by the Authority and the DoD, the Authority expects that the DoD will be responsible for all direct and indirect impacts resulting from any build-up in order to avoid rate pressure on the Authority's civilian customers. Although the MOU does not bind either party to any financial commitments, the MOU does reflect that, among other things, the agreed-upon costs associated with meeting DoD requirements will be allocated to and paid for by the DoD through a utility agreement with the Authority.

HISTORICAL AND PROJECTED OPERATING RESULTS

The historical operating results for Fiscal Years 2008 through 2012 and unaudited and projected operating results for Fiscal Years 2013 through 2018 are addressed in this section to allow a projection of debt service coverage in future years. Table 14 below sets forth the Authority's historical operating results and debt service coverage for Fiscal Years 2008 through 2012. Certain immaterial costs relating to waste disposal fees in the amounts of \$294,000 and \$305,000 are excluded from Administrative and General Expenses for Fiscal Years 2010 and 2011, respectively. For a discussion of the Authority's debt service coverage for Fiscal Years 2008 and 2009, see "THE SYSTEM – Debt Service Coverage."

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Table 14
Historical Operating Results and Debt Service Coverage
Fiscal Years Ended September 30, 2008 through 2012
(\$000)

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|----------|----------|----------|----------|----------|
| Operating Revenues: ⁽¹⁾ | | | | | |
| Water Revenues ⁽²⁾ | \$30,219 | \$28,836 | \$35,960 | \$37,026 | \$39,807 |
| Wastewater Revenues ⁽²⁾ | 17,016 | 19,666 | 21,488 | 21,796 | 23,935 |
| Additional Revenues ⁽³⁾ | 1,505 | 1,490 | 1,637 | 1,669 | 3,105 |
| Other Revenues ⁽⁴⁾ | 991 | 972 | 818 | 607 | 701 |
| Total Operating Revenues | \$49,731 | \$50,964 | \$59,902 | \$61,098 | \$67,548 |
| Operating Expenses: ⁽¹⁾ | | | | | |
| Water Purchases | \$4,413 | \$5,168 | \$6,669 | \$6,283 | \$5,263 |
| Power Purchases | 14,632 | 14,971 | 14,344 | 15,192 | 17,016 |
| Salaries and Wages | 15,286 | 15,871 | 18,086 | 18,499 | 18,891 |
| Contractual ⁽⁵⁾ | 3,875 | 3,970 | 3,381 | 3,355 | 3,069 |
| Retiree and Healthcare ⁽⁶⁾ | 1,617 | 1,429 | 1,898 | 2,244 | 2,263 |
| Administrative and General ⁽⁷⁾ | 4,760 | 3,755 | 3,847 | 5,286 | 5,423 |
| Total Operating Expenses | \$44,583 | \$45,164 | \$48,225 | \$50,860 | \$51,924 |
| Amounts Available for Debt Service | | | | | |
| Net Operating Revenues | \$5,148 | \$5,800 | \$11,677 | \$10,238 | \$15,624 |
| Other Income (Expense) ⁽⁸⁾ | 1,393 | 138 | 9 | 11 | 10 |
| Current Revenues Available for Debt Service | \$6,541 | \$5,938 | \$11,686 | \$10,249 | \$15,634 |
| Indenture Debt Service Coverage Test: | | | | | |
| Current Revenues Available for Debt Service ⁽⁹⁾ | \$6,541 | \$5,938 | \$11,686 | \$10,249 | \$15,634 |
| Debt Service on Outstanding Bonds ⁽¹⁰⁾ | \$7,705 | \$7,707 | \$7,704 | \$7,706 | \$7,708 |
| Debt Service Coverage (1.25X) | 0.85 | 0.77 | 1.52 | 1.33 | 2.03 |
| PUC DSCR: | | | | | |
| Current Revenues Available for Debt Service ⁽⁹⁾ | \$6,541 | \$5,938 | \$11,686 | \$10,249 | \$15,634 |
| Debt Service on Outstanding Bonds ⁽¹⁰⁾ | \$7,705 | \$7,707 | \$7,704 | \$7,706 | \$7,708 |
| PUC DSCR (1.75X) | 0.85 | 0.77 | 1.52 | 1.33 | 2.03 |

⁽¹⁾ Derived from audited information provided by the Authority.

⁽²⁾ Based on 2009-13 Rate Plan. Represents amounts billed as Revenue, as defined in the Indenture. Amounts not collected are included in Administrative and General Operating Expenses as bad debt. Amounts shown include amounts collected for certain past retirement benefits. Does not include (i) GPA/Navy Surcharge or (ii) SDCs.

⁽³⁾ Includes Legislative Surcharge revenues.

⁽⁴⁾ Includes miscellaneous fees and charges.

⁽⁵⁾ Includes contractual labor, materials, equipment rental, legal services, testing, PMC management fees, insurance, and miscellaneous fees and expenses.

⁽⁶⁾ Includes supplemental retiree payments and cost of living adjustments.

⁽⁷⁾ Includes bad debt expense.

⁽⁸⁾ Includes interest on Bond Reserve Fund.

⁽⁹⁾ Calculated based on Current Revenues Available for Debt Service divided by Debt Service on Outstanding Bonds.

⁽¹⁰⁾ Amounts shown are net of capitalized interest.

Source: Consulting Engineer's Report

Table 15 below sets forth the Authority's unaudited operating results and debt service coverage for Fiscal Year 2013 and projected operating results and debt service coverage for Fiscal Years 2014 through 2018. The Authority does not as a matter of course make public projections as to future sales, earnings, or other results. However, Brown and Caldwell has prepared the prospective financial information as set forth in Table 15 to provide projected water sales and wastewater revenues, cost of services, and operating results and debt service coverage. The accompanying prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Authority's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the Authority. However, this information

is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information. Neither the Authority's independent auditors nor any other independent accountants have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information. The assumptions and estimates underlying the prospective financial information are inherently uncertain and, though considered reasonable by the management of the Authority as of the date of its preparation, are subject to a wide variety of significant business, economic, and risks and uncertainties that could cause actual results to differ materially from those contained in the prospective financial information, including, among others, risks and uncertainties as set forth in the Report. Accordingly, there can be no assurance that the prospective results are indicative of the future performance of the Authority or that actual results will not differ materially from those presented in the prospective financial information. Inclusion of the prospective financial information in this Official Statement should not be regarded as a representation by any person that the results contained in the prospective financial information will be achieved.

Operating revenues from water sales and wastewater sales for Fiscal Year 2013 are unaudited based on preliminary actual information provided by the Authority. Projected operating results for Fiscal Years 2014 through 2018 are based on the 2014-18 Rate Plan approved by the PUC in October 2013, with the initial rate adjustment becoming effective as of November 1, 2013. Although the rate adjustments included in the 2014-18 Rate Plan have been approved by the PUC, they are subject to annual PUC review prior to implementation and there is no guarantee that the PUC will approve the rates at the times and in the amounts set forth in the 2014-18 Rate Plan.

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Table 15
Unaudited and Projected Operating Results and Debt Service Coverage
Fiscal Years Ended September 30, 2013 through 2018
(\$000)

| | Unaudited ⁽¹⁾ | Projected | | | | |
|--|--------------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Operating Revenues: | | | | | | |
| Water Revenues ⁽²⁾ | \$45,128 | \$45,774 | \$46,794 | \$47,300 | \$47,815 | \$48,341 |
| Wastewater Revenues ⁽²⁾ | 26,186 | 26,561 | 27,153 | 27,446 | 27,745 | 28,051 |
| Additional Revenue ⁽³⁾ | 2,178 | 10,677 | 21,272 | 33,529 | 43,761 | 52,055 |
| Other Revenues ⁽⁴⁾ | 448 | 674 | 843 | 1,073 | 1,362 | 1,722 |
| Total Operating Revenues | \$73,941 | \$83,686 | \$96,062 | \$109,348 | \$120,683 | \$130,169 |
| Operating Expenses: | | | | | | |
| Water Purchases | \$4,571 | \$5,462 | \$5,708 | \$5,965 | \$6,233 | \$6,514 |
| Power Purchases | 17,191 | 17,328 | 17,467 | 17,606 | 17,747 | 17,889 |
| Salaries and Wages | 19,926 | 21,481 | 22,877 | 23,106 | 24,030 | 25,111 |
| Contractual ⁽⁵⁾ | 3,294 | 3,636 | 3,836 | 4,047 | 4,270 | 4,505 |
| Retiree and Healthcare ⁽⁶⁾ | 2,418 | 2,482 | 2,591 | 2,654 | 2,737 | 2,802 |
| Administrative and General ⁽⁷⁾ | 7,278 | 10,631 | 10,827 | 11,011 | 11,154 | 11,266 |
| Total Operating Expenses | \$54,678 | \$61,020 | \$63,306 | \$64,390 | \$66,171 | \$68,087 |
| Amounts Available for Debt Service | | | | | | |
| Net Operating Revenues | \$19,263 | \$22,665 | \$32,755 | \$44,958 | \$54,512 | \$62,082 |
| Other Income (Expense) ⁽⁸⁾ | 35 | 20 | 20 | 20 | 20 | 20 |
| Current Revenues Available for Debt Service | \$19,298 | \$22,685 | \$32,775 | \$44,978 | \$54,532 | \$62,102 |
| Senior Lien Debt Service: | | | | | | |
| 2005 Bonds | \$7,704 | \$7,705 | \$7,703 | \$7,208 | \$7,207 | \$7,208 |
| 2010 Bonds | - | 4,887 | 7,571 | 8,064 | 8,066 | 8,065 |
| 2013 Bonds ⁽⁹⁾ | - | - | - | 8,684 | 11,536 | 11,536 |
| 2015 Bonds ⁽¹⁰⁾ | - | - | - | - | - | 8,750 |
| 2017 Bonds ^{(10),(11)} | - | - | - | - | - | - |
| Total Senior Lien Debt Service | \$7,704 | \$12,592 | \$15,274 | \$23,956 | \$26,809 | \$35,559 |
| Indenture Debt Service Coverage Test: | | | | | | |
| Current Revenues Available For Debt Service | \$19,298 | \$22,685 | \$32,775 | \$44,978 | \$54,532 | \$62,102 |
| Indenture Debt Service Coverage (1.25x) ⁽¹²⁾ | 2.50 | 1.80 | 2.15 | 1.88 | 2.03 | 1.75 |
| PUC Debt Service Coverage Test: | | | | | | |
| Current Revenues Available for Debt Service | \$19,298 | \$22,685 | \$32,775 | \$44,978 | \$54,532 | \$62,102 |
| Capital Improvement Fund Working Capital Reserve ⁽¹³⁾ | - | - | 710 | 7,535 | 7,535 | 11,185 |
| Adjusted Current Revenues Available for Debt Service | \$19,298 | \$22,685 | \$33,485 | \$52,513 | \$62,067 | \$73,287 |
| PUC Debt Service Coverage (1.75x) ⁽¹⁴⁾ | 2.50 | 1.80 | 2.19 | 2.19 | 2.32 | 2.06 |
| Subordinate Loan Debt Service: ⁽¹⁵⁾ | | | | | | |
| 2010 Bank Loan of Guam Loan (\$5M) | \$1,209 | \$1,209 | \$907 | - | - | - |
| 2010 Bank Loan of Guam Loan (\$25M) | 3,600 | 3,600 | 2,700 | - | - | - |
| Bank of Guam \$15M Refinance | - | - | 360 | \$2,160 | \$2,160 | \$2,160 |
| Total Subordinate Lien Debt Service | \$4,810 | \$4,810 | \$3,967 | \$2,160 | \$2,160 | \$2,160 |
| Transfers: | | | | | | |
| Transfers to Bond Reserve Fund | - | (\$147) | \$305 | \$565 | \$126 | \$118 |
| Transfers to Working Capital Reserve Fund | - | (1,000) | (1,000) | (2,050) | (4,450) | (5,000) |
| Changes to Working Capital | (6,630) | (2,208) | (755) | (899) | (751) | 1,861 |
| Transfers to CIP Working Capital Reserve Fund | - | (710) | (6,825) | - | (3,650) | - |
| Backbilling | - | - | - | - | - | - |
| Total Transfers: | (\$6,630) | (\$4,065) | (\$8,276) | (\$2,383) | (\$8,725) | (\$3,021) |
| Interest Income: | \$11 | \$8 | \$8 | \$8 | \$8 | \$8 |
| Amount Available for Capital Improvement: | \$153 | \$1,219 | \$5,258 | \$16,479 | \$16,838 | \$21,362 |
| Internally Funded CIP: | \$449 | \$2,000 | \$6,000 | \$11,000 | \$13,000 | \$16,000 |

⁽¹⁾ Information for Fiscal Year 2013 is unaudited based on preliminary actual information provided by the Authority for Fiscal Year 2013.

⁽²⁾ For Fiscal Year 2013, based on the 2009-13 Rate Plan. For Fiscal Years 2014 through 2018, based on the 2014-18 Rate Plan. Represents amounts billed as Revenue, as defined in the Indenture. Amounts not collected are included in Administrative and General Operating Expenses as bad debt. Amounts shown include amounts collected for certain past retirement benefits. Does not include SDC revenues.

⁽³⁾ Includes Legislative Surcharge revenues.

⁽⁴⁾ Includes revenue derived from miscellaneous fees and charges.

⁽⁵⁾ Includes contractual labor, materials, equipment rental, legal services, testing, PMC management fees, insurance, and miscellaneous fees and expenses.

- (6) Includes supplemental retiree payments and cost of living adjustments.
 (7) Includes bad debt expense.
 (8) Includes interest earnings on the Bond Reserve Fund.
 (9) Represents \$173,985,000 aggregate principal amount of 2013 Bonds bearing interest at a rate of 6.5 percent per annum, with interest capitalized through September 30, 2015.
 (10) Represents \$128,450,000 aggregate principal amount of Additional Bonds and \$72,250,000 aggregate principal amount of Additional Bonds expected to be issued in December 2015 and December 2017, respectively, and assumed to bear interest at a rate of 7.0 percent per annum.
 (11) Payment of debt service on the 2017 Bonds commences in Fiscal Year 2021.
 (12) Calculated based on Current Revenues Available for Debt Service divided by Senior Lien Debt Service.
 (13) For purposes of the PUC DSRC, the Authority is permitted to take into account amounts on deposit in the Working Capital Reserve Fund.
 (14) Calculated based on Adjusted Current Revenues Available for Debt Service divided by Total Senior Lien Debt Service.
 (15) Includes \$5,000,000 evidenced by Note 1 amortized over five years and \$25,000,000 evidenced by Note 2 amortized over ten years with a balloon payment due in 2015. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Subordinate Obligations."

Note: Totals may not add due to independent rounding.

Source: Consulting Engineer's Report

Because power costs represent a significant operating cost with a relatively high degree of uncertainty in future costs per kilowatt-hour (kWh), Brown and Caldwell prepared an analysis using a power cost escalator higher than the cost escalator in the Base Case scenario. The Base Case assumes power costs increase at an average annual rate of just under one percent per year assuming increased pumping efficiencies and reductions in water production. The higher power cost scenario assumes that power costs increase at approximately the same level as historical increases, which are closer to 3.8 percent per year. Table 16 below shows the unaudited and projected debt service coverage, as determined for purpose of complying with the Indenture, for Fiscal Years 2013 through 2018 for the Base Case scenario and the higher power cost scenario.

Table 16
Unaudited and Projected Debt Service Coverage for Two Scenarios
Fiscal Years Ended September 30, 2013 through 2018

| | Unaudited 2013 | 2014 | 2015 | Projected 2016 | 2017 | 2018 |
|--------------------|-------------------|------|------|-------------------|------|------|
| Base Case: | 2.50 | 1.80 | 2.15 | 1.88 | 2.03 | 1.75 |
| Higher Power Cost: | 2.50 | 1.76 | 2.08 | 1.81 | 1.95 | 1.67 |

Source: Consulting Engineer's Report

Assumptions and Conclusions in the Consulting Engineer's Report

In connection with the issuance of the 2013 Bonds, the Authority retained Brown and Caldwell to prepare the Consulting Engineer's Report, included as APPENDIX A to this Official Statement. The Report includes, among other things, a description of the facilities of and an evaluation of the condition of the System, an assessment of System compliance with regulatory and permit requirements, a summary of the capital projects anticipated to be financed by the Authority, an assessment of the Authority's projected financial operating results, including projected debt service coverage through Fiscal Year 2018, and a description of the assumptions upon which such projections were made. The Consulting Engineer's Report is an integral part of this Official Statement and should be read in its entirety, including the assumptions used to prepare the projections made therein and set forth in Tables 15 and 16 above.

Brown and Caldwell has prepared the Consulting Engineer's Report based on the assumption that all contracts, agreements, statutes, rules and regulations which were relied upon by Brown and Caldwell in preparing its Report will be fully enforced and enforceable in accordance with their terms and conditions and will not be changed in any material way. Brown and Caldwell makes no representations or warranties, and provides no opinion concerning the enforceability or legal interpretation of contracts, statutes, rules and regulations.

In preparing the Consulting Engineer's Report, Brown and Caldwell made certain assumptions with respect to the conditions which may exist or events which may occur in the future. In addition, the projections and studies used and relied upon certain information provided by others, including: (i) information contained in the Official Statement; (ii) additional information provided by the Authority, Navy, Air Force, EPA and GEPA; (iii) assumptions regarding interest rates provided by the Underwriters; and (iv) assumptions and analysis provided by the Authority regarding the financing plan for the Authority's CIP and other matters. While Brown and Caldwell believes such

assumptions to be reasonable for the purpose of its Report, such assumptions are dependent upon future events, and no assurance can be given that the projections and expectations discussed in the Consulting Engineer's Report will be achieved or that the assumptions upon which the projections and conclusions are based will be realized. To the extent actual future factors differ from those assumed by Brown and Caldwell or provided to Brown and Caldwell by others, there may be differences between the projections and actual results and such differences may be material. See "CERTAIN INVESTMENT CONSIDERATIONS" for some of the reasons differences could occur.

Brown and Caldwell, based upon the principal considerations and assumptions and upon the studies and analyses as summarized or discussed in the Consulting Engineer's Report, which Report should be read in its entirety in conjunction with the following, is of the opinion that:

- Based on general field observations of the aboveground facilities, discussions with Authority staff, and a review of documents and reports, many of the existing facilities of the Authority system appear to be in need of significant rehabilitation and/or upgrades. The Authority inherited systems in poor condition when the Authority was converted to a public corporation in 2002. The Authority has established, or is establishing, plans for rehabilitating facilities in accordance with the 2011 Court Order. Facilities not subject to the 2011 Court Order or other regulatory actions (e.g., Inarajan WWTP) are in need of rehabilitation but are not scheduled for upgrades due to higher Court-ordered priorities. Those facilities that have recently been upgraded or rehabilitated (e.g., Northern District WWTP, Santa Rita Spring) appear to be in good operating condition. Ugum WTP was recently upgraded but is in fair condition as it needs additional maintenance.
- Authority staff is generally qualified and capable of managing and operating the facilities comprising the Authority System and of planning the proposed and future capital improvements. The Authority has contracted with the PMC and PMO for additional support, training, and knowledge transfer where needs have been identified. The Authority has invested in significant training for staff over the past two years and continued training investments are expected to continue into the future.
- The Authority water system appears to be adequately operated to provide a reliable water supply that meets SDWA requirements. Groundwater wells, transmission and distribution pipelines, reservoirs, and booster pump stations are in need of capital investment to ensure that the Authority continues to provide a safe, reliable drinking water supply to its customers. The Authority is implementing plans for the prioritized replacement or rehabilitation of infrastructure, addressing the most critical needs first.
- The Authority water system experiences above-average water loss due to leaks and improper metering. The Authority has responded by implementing a meter replacement program, meter test bench, and a proactive leakage management system. Based on preliminary results of recent water audits, the Authority appears to have reduced the water loss rate from approximately 61 percent to approximately 54 percent over an 18-month period.
- The Authority wastewater system appears to be adequately operated, but in many cases the existing infrastructure is incapable of achieving regulatory requirements. Wastewater collection systems, pump stations, and WWTPs are generally in need of capital investment to be able to achieve regulatory requirements. Portions of the wastewater collection system experience excessive I/I that impacts WWTP performance. Many of the WWTPs have not been upgraded to achieve changing regulatory standards. The Authority operations staff has demonstrated the capability to operate upgraded infrastructure to achieve the regulatory standards that the infrastructure was designed for at the Northern District WWTP.
- The capacity of the Authority System, taking into account planned upgrades, replacements, and additions, can be reasonably expected to meet the service area needs for the forecast period and meet the regulatory compliance needs of the Authority System. Exceptions to this are the Northern District and Hagåtña WWTPs; the CIP does not currently contain secondary treatment upgrade projects that will be required to comply with the NPDES permit renewals issued in June 2013.

- The proposed military buildup on Guam will not occur before 2020 and may be reduced in size from Department of Defense's 2010 plan.
- During the course of Brown and Caldwell's engineering investigations, nothing has come to Brown and Caldwell's attention that would lead Brown and Caldwell to believe that significant funds will be required for the Authority System improvements identified in the five-year CIP beyond those funds identified in the Consulting Engineer's Report.
- Except as described in the Consulting Engineer's Report, upon issuance of the 2013 Bonds, all water production facilities and wastewater treatment plants of the Authority System will be operating under valid permits issued by the requisite regulatory authorities, and it is anticipated that any expired water use and wastewater permits will be renewed as a matter of course without a material reduction in maximum permitted consumption levels.
- Assuming that the Authority performs the necessary renewals and replacements and operates the Authority System under prudent utility practices, it is anticipated that most of the capital improvements financed with proceeds of the 2013 Bonds will have a useful service life in excess of the term of the 2013 Bonds.
- The Authority's CIP is reasonable, necessary, and adequate for the identified projects that are necessary to meet the requirements of the 2011 Court Order, to provide reliable water and wastewater service to Authority customers, and to provide adequate reserve capacity for anticipated growth in customer connections reflected in the Consulting Engineer's Report.
- The Authority's projected operating results, which include future rate increases and Bond sales, appear reasonable and sufficient to meet the 1.25x debt service coverage requirement under the Indenture.

CERTAIN INVESTMENT CONSIDERATIONS

The following discussion of considerations is not meant to be an exhaustive list of the risks associated with the purchase of the 2013 Bonds and does not necessarily reflect the relative importance of the various risks. Potential purchasers of the 2013 Bonds are advised to consider the following factors, among others, and to review all of the other information in this Official Statement in evaluating whether to purchase the 2013 Bonds. Any one or more of the risks discussed, and others, could lead to a decrease in the market value and/or in the liquidity of the 2013 Bonds. No assurance can be given that other risk factors will not become material in the future. The 2013 Bonds may not be suitable investments for all persons. Prospective purchasers should be able to evaluate the risks and merits of an investment in the 2013 Bonds and should confer with their own legal and financial advisors before considering a purchase of the 2013 Bonds.

General

The principal of and interest on the Bonds, including the 2013 Bonds, is payable pursuant to the Indenture solely from the Revenues. The ability to pay debt service on the Bonds, including the 2013 Bonds, will depend on the receipt of sufficient Revenues, pledged as payment for the Bonds. The Authority's ability to generate Revenues is dependent on a number of factors. To the extent the Authority is unable to make up for Revenue shortfalls, the Authority's ability to pay debt service on the Bonds, including the 2013 Bonds, may be adversely affected.

Limitations on Remedies

The 2013 Bonds are not subject to acceleration under any circumstances or for any reason, including without limitation on the occurrence or continuance of an Event of Default. Upon the occurrence or continuation of an Event of Default, a Bondholder would only be entitled to principal and interest payments on the 2013 Bonds as they come due. Under certain circumstances, Holders of the 2013 Bonds may not be able to pursue certain remedies or enforce covenants contained in the Indenture. The remedies available to the Holders of the 2013 Bonds upon an Event of Default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion

and delay. Under existing law, the remedies specified by the Indenture and the Bonds may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 2013 Bonds (including Bond Counsel's approving opinion) will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors enacted before or after delivery.

Consulting Engineer's Report

The Consulting Engineer's Report included as APPENDIX A to this Official Statement contains certain assumptions and forecasts. Actual results are likely to differ, perhaps materially, from those projected. Accordingly, the projections contained in the Consulting Engineer's Report are not necessarily indicative of future performance, and neither Brown and Caldwell nor the Authority assumes any responsibility for the failure to meet such projections. In addition, certain assumptions with respect to future business and financing decisions of the Authority are subject to change. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the amount of Revenues may be materially less than expected and consequently, the ability to make timely payments of principal and interest on the Bonds from Revenues may be materially adversely affected. See APPENDIX A – "CONSULTING ENGINEER'S REPORT."

Uncertainties of Projections and Assumptions

This Official Statement contains certain assumptions, estimates, projections and other forward-looking statements. Demonstration of compliance by the Authority with certain of the covenants contained in the Indenture also may be based upon assumptions, estimates and projections. Actual results, however, may differ, perhaps materially, from those projected. In addition, certain assumptions with respect to future business and financing decisions, including the decision to undertake, or to postpone or cancel, future capital improvements of the System may not occur and are subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the existence of any particular future set of facts or circumstances, and prospective purchasers of the 2013 Bonds are cautioned not to place undue reliance upon any forecasts, estimates, plans or projections or requirements for forecasts or projections. If actual results are less favorable than the results projected or if the assumptions used in preparing projections prove to be incorrect, the ability of the Authority to make timely payment of the principal of and interest on the Bonds, including the 2013 Bonds, may be materially and adversely affected.

Guam Economy; Impact of Tourism and Military Presence

The Authority's ability to generate Revenues depends in large measure, on the local economy, which is heavily dependent on tourism as well as the U.S. military presence. In addition, lower levels of employment tend to reduce the revenue available to the Authority. To the extent the Authority is unable to make up for revenue shortfalls, the ability to pay debt service on the Bonds may be adversely affected. Tourism, particularly from Japan, where approximately 68 percent of visitors to Guam originate, represents a significant share of the economic activity on Guam. A decrease in tourism results in reduced revenues from hotels and other related tourist facilities. In the event of a significant downturn in tourism, including a downturn related to Japanese economic conditions, the Authority could likely suffer a reduction in revenues. For example, following the earthquake and tsunami in Japan on March 11, 2011, the number of tourists visiting Guam from Japan in Fiscal Year 2011 dropped by approximately 7.3% compared to Fiscal Year 2010. Although visitor arrivals from Japan increased in Fiscal Year 2012, increasing 10.2% over Fiscal Year 2011, no assurance can be given that Guam will not experience a similar or greater reduction in the number of visitors from Japan or other visitor markets as a result of other natural disasters or other economic, political or societal conditions.

It is expected that the anticipated relocation of U.S. Marines from Okinawa, Japan, to Guam will generate a significant amount of additional construction activity. Although Guam's construction industry has time to develop its capacity in anticipation of this significant increase in activity, it is possible that much of the work will be awarded to outside developers and project managers. Although the relocation of U.S. Marines to Guam is expected to reap benefits for the Guam economy in the short-term, the long-term benefits are not likely to be as great if the construction activity is largely completed by non-local firms.

The level of Revenues is also affected by the U.S. military presence on Guam. Expansions in the U.S. military presence, such as the expansions expected to occur over the next several years, could have a direct, positive impact on Revenues by spurring new economic activity and attracting visitors to Guam. However, economic, geopolitical, and other influences that are beyond the Government's control might result in a decision by the U.S. government to reduce the existing presence of the U.S. military on Guam or forego some or all of the planned enhancements to its presence on Guam. Significant military spending cuts have been discussed by various federal elected representatives in recent months. In the event that the U.S. military changes its current plans with respect to staffing and other strategic improvements on Guam, the level of Revenues could be adversely affected. In the event that the U.S. military elects to reduce or eliminate its presence on Guam, Revenues could decline.

See APPENDIX B —“CERTAIN DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING GUAM” for more information about the tourism industry and the U.S. military presence.

Adverse Conditions Affecting International Economic and Political Conditions

Historically, the tourism industry, both worldwide and on Guam, has correlated closely with the state of the world's economies and levels of real disposable income. A weak economy, war or the threat of terrorist activity, and regional pandemics, among other influences which are beyond the Authority's control, can adversely affect the tourism industry. Also, currency exchange rates, trade balances, political relationships, and conflicts within and between countries are increasingly important influences on tourism.

Economic growth in Japan and throughout the Pacific Rim, and the resulting effect on overseas travel from these countries, is a major determinant of tourism on Guam. Tourism, particularly from Japan, represents a significant share of the economic activity on Guam. The Japanese government has encouraged international travel as a means of reducing its trade surplus and Guam has benefited directly from this policy. Any change in the policy could affect Authority revenues.

Like that of many destinations, Guam's tourism industry is susceptible to the negative impacts of terrorism and other conflicts on the travel industry in general.

2011 Court Order with the USEPA

The 2011 Court Order, which is being administered directly by EPA through its regional office in San Francisco, contains a comprehensive list of requirements, including management, operations, financial administration, facilities construction and rehabilitation and training requirements to be completed in accordance with a strict schedule. Failure of the Authority to meet the scheduled requirements may result in fines being assessed against the Authority. As of October 1, 2013, the Authority has met substantially all deadlines under the 2011 Court Order and has not been assessed any fines for missed deadlines or received any formal notification regarding any such fines. If the Authority misses any additional deadlines in the future, the USEPA may assess fines.

Typhoons and Earthquakes

Because of its location on the southern end of the Marianas Islands chain, Guam is exposed to periodic typhoons, earthquakes and floods. Typhoons and floods have caused significant damage to the Authority's facilities in the past. Damage to the Authority's System from typhoons and flooding has included sewage spills at pump stations and collection piping, collapse of collection piping, and failure of treatment plant equipment. Damage from floods and typhoons have also damaged facilities of GPA, which provide electric power to the Authority's System. To mitigate weather related service outages due to power interruption, back-up generators have been installed at a majority of the Authority's water and wastewater pump stations. Typhoons and other significant storm events and other natural disasters occur periodically and can cause extensive damage to facilities and infrastructure, including to the Authority's Systems. The Authority has previously reported property losses resulting from storms damage.

Guam has established building codes in Guam that are specifically designed to ensure that structures be able to sustain strong typhoon winds and earthquakes. Existing Authority structures were designed to satisfy the building codes as then in effect; new structures, and existing structures undergoing structural rehabilitation, are designed or

upgraded to comply with Guam's current building codes. The Authority's above-ground facilities are generally housed in concrete buildings designed to withstand typhoon conditions and its underground facilities are rarely affected by high winds or intense rain. Earthquakes have caused minimal damage to Authority facilities in the past, but damage to the underground pipe network may go unnoticed.

Although the United States Federal Emergency Management Agency ("FEMA") has historically provided disaster relief assistance after typhoon damage, there can be no assurance that future typhoons and/or earthquakes will not cause significant damage to the System, or that FEMA will provide disaster relief assistance if significant damage is experienced. There can also be no assurance that, even with FEMA assistance, damage that results from future typhoons or earthquakes will not adversely affect the operation of the System for an extended period of time and, as a result, Revenues.

Rates

The Authority has covenanted in the Indenture to at all times, fix, prescribe and collect rents, fees and charges in connection with the services and facilities funded by the System which will be sufficient to comply with the Rate Covenant. The Indenture provides that if Revenues and Net Revenues in a Fiscal Year are insufficient to satisfy the Rate Covenant for such Fiscal Year, the Authority would be obligated to promptly employ a Consulting Engineer to make recommendations as to a revision of rates, fees and charges or the methods of operation of the System, and to revise such rates, fees and charges or methods of operation and to take such other actions as will be in conformity with such recommendations, subject to applicable requirements or restrictions imposed by law and subject to a good faith determination of the Board that such recommendations, in whole or in part, are in the best interests of the Authority, the Owners and each Credit Provider, if any. The ability of the Authority to increase rates is subject to limitation, including review and approval by the PUC. Rates for water and wastewater services are regulated by the PUC. The 2014-18 Rate Plan approved by the PUC includes scheduled rate increases intended to provide sufficient Revenue to operate and maintain the System efficiently, to finance capital improvements necessary to comply with regulatory requirements, to meet the Authority's financial obligations and to satisfy the Debt Service Coverage Requirement and the PUC DSCR. The scheduled rate increases included in the 2014-18 Rate Plan are subject to annual review and approval by the PUC prior to implementation. Although the PUC has historically approved rate adjustments requested by the Authority, no assurance can be given that the PUC will approve such rate adjustments at the times and in the amounts contemplated in the 2014-18 Rate Plan or approve any other rate adjustments requested by the Authority.

See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Rate Covenant," "REGULATORY ENVIRONMENT—Regulation of Ratemaking" and "THE SYSTEM—Debt Service Coverage."

Self-Insurance

The Authority has historically had a policy of self-insuring potential risks relative to its property, plant and equipment, as well as for general liabilities claims. The Authority, with the assistance of a consultant, has assessed its insurance needs (for liability, property and vehicle) and has obtained such insurance through a competitive bidding process.

Government Regulation

The federal and local governments significantly regulate the operations of the Authority. Regulations and conditions affecting the acquisition, development, ownership and operation of the System could increase the operating expenses of the System or could otherwise have a material adverse effect on the operations and financial condition of the Authority.

Implementation of Capital Improvement Program

The Authority's CIP for the 2013-2018 Fiscal-Year period is estimated to total approximately \$457.5 million. Annual expenditures under the CIP will be significantly greater than the Authority's historical experience. Successful and timely implementation of the CIP will require careful planning and coordination as well as hiring

additional experienced construction management and workers, and other staff and consultants, including off-island personnel and vendors. The Authority intends to enter into contracts with qualified construction management firms to manage most of the CIP projects being funded with the proceeds of the 2013 Bonds.

The estimated costs of, and the projected schedules for, the CIP projects described under "FUTURE SYSTEM CAPITAL REQUIREMENTS" and included in the financial analysis in the Consulting Engineer's Report are subject to a number of uncertainties. The ability of the Authority to complete the CIP projects may be adversely affected by various factors including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, earthquakes or other casualty events, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation and (xi) environmental issues. No assurance can be made that the CIP projects will not cost more than the current budget for these projects. Any schedule delays or cost increases could result in the need to issue Additional Bonds.

Funding for the CIP is expected from various sources, including proceeds of Additional Bonds, USEPA State Revolving Fund grants, SDC revenue, Revenues and other grants. In the event one or more of these funding sources is not available to the Authority in the amount or on the schedule described above under "FUTURE SYSTEM CAPITAL REQUIREMENTS," the implementation of some of the CIP projects may be delayed.

NPDES Permits

The recently issued NPDES permits for the Northern District WWTP and the Hagåtña WWTP include secondary treatment requirements; however, neither wastewater treatment plant is equipped to provide secondary treatment. The Authority estimates that the design and construction necessary to satisfy the secondary treatment requirements will take approximately five years for each plant and estimates the cost of upgrading both treatment plants to satisfy the secondary treatment requirements to be approximately \$279 million. The Authority and the USEPA are currently negotiating secondary treatment compliance schedules for the Northern District WWTP and the Hagåtña WWTP. The Authority has requested schedules that will delay secondary treatment implementation until after the provisions and capital requirements of the 2011 Court Order are satisfied. Although other agencies have successfully negotiated extended compliance schedules for implementing secondary treatment, no assurance can be given that the Authority will be able to successfully negotiate an extended schedule. See "REGULATORY ENVIRONMENT—Environmental Regulation."

Potential GWUDI Designation

Although the Authority and the USGS, the USEPA and other regulatory and scientific entities agree that groundwater from the Northern District aquifer should not be designated as GWUDI, the GEPA believes that some of the wells should be classified as GWUDI. No assurance can be given that the aquifer will not be designated as GWUDI. As there has been no GWUDI designation, the current CIP does not include any related projects. If the entire aquifer were designated as GWUDI, the Authority estimates the costs to implement additional treatment measures to be approximately \$200 to \$300 million. See "REGULATORY ENVIRONMENT—Environmental Regulation."

LITIGATION

No Litigation Relating to the 2013 Bonds

There is no litigation or proceeding pending or, to the knowledge of the Authority, threatened and having merit (either in Guam, state or Federal courts) seeking to restrain or enjoin the execution, issuance, sale or delivery of the 2013 Bonds or the collection, pledge or payment of Revenues by the Authority under the Indenture, or in any way contesting or affecting the legal existence of the Authority or the titles of certain relevant officials of the Authority to their offices or the validity or enforceability of the 2013 Bonds or the Indenture.

Other Litigation Relating to the Authority and the System

There are no pending claims or actions against the Authority arising from the operation and maintenance of the System that, if determinations or settlements were made adverse to the Authority, would have, in the opinion of the Authority's counsel, a material adverse affect on the Authority's financial position.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2013 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Bond Counsel, interest on the 2013 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that, under 48 U.S.C. Section 1423a, interest on the 2013 Bonds is exempt from taxation by the government of Guam, or by any State or Territory or any political subdivision thereof, or by the District of Columbia. A complete copy of the proposed form of Bond Counsel opinion is set forth in APPENDIX E hereto.

To the extent the issue price of any maturity of the 2013 Bonds is less than the amount to be paid at maturity of such 2013 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2013 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2013 Bonds which is excluded from gross income for federal income tax purposes and is exempt from income taxation by any state, territory or possession of the United States or any political subdivision of any of them. For this purpose, the issue price of a particular maturity of the 2013 Bonds is the first price at which a substantial amount of such maturity of the 2013 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2013 Bonds accrues daily over the term to maturity of such 2013 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2013 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity of such 2013 Bonds. Beneficial Owners of the 2013 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2013 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2013 Bonds in the original offering to the public at the first price at which a substantial amount of such 2013 Bonds is sold to the public.

2013 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2013 Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2013 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2013 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2013 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2013 Bonds may adversely affect the value of, or the tax status of interest on, the 2013 Bonds. Accordingly, the

opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2013 Bonds is excluded from gross income for federal income tax purposes and is exempt from income taxation by any state, territory or possession of the United States or any political subdivision of any of them, the ownership or disposition of, or the accrual or receipt of interest on, the 2013 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2013 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration's proposed 2014 budget includes a legislative proposal which, for tax years beginning after December 31, 2013, would limit the exclusion from gross income of interest on obligations like the 2013 Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2013 Bonds. Prospective purchasers of the 2013 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2013 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2013 Bonds ends with the issuance of the 2013 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the 2013 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the 2013 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2013 Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

UNDERWRITING

The 2013 Bonds are to be purchased from the Authority by Citigroup Global Markets Inc. and Barclays Capital Inc. (collectively, the "Underwriters") pursuant to the terms of a Bond Purchase Agreement (the "Bond Purchase Agreement") between the Underwriters and the Authority. The purchase price of the 2013 Bonds is \$_____, representing the aggregate principal amount of the 2013 Bonds (\$_____), plus original issue premium of \$_____, less original issue discount of \$_____ and less Underwriters' discount of \$_____. The Bond Purchase Agreement provides that the Underwriters will purchase all of the 2013 Bonds if any are purchased and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the approval by counsel of certain legal matters.

The Underwriters reserve the right to join with dealers and other Underwriters in offering the 2013 Bonds to the public. The Underwriters intend to offer the 2013 Bonds for sale at the prices or yields set forth on the inside cover page hereof. Such initial public offering prices or yields may be changed from time to time by the

Underwriters without prior notice. The Underwriters may offer and sell the 2013 Bonds to certain dealers, unit investment trusts or money market funds at prices lower than or at yields higher than the public offering prices or yields stated on the inside front cover page.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Authority, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority.

CONSULTING ENGINEER'S REPORT

The Report included herein as APPENDIX A has been prepared by Brown and Caldwell. The Report is included in reliance upon the professional opinion of Brown and Caldwell with respect to the matters stated in the Consulting Engineer's Report. The Report should be read in its entirety for a complete understanding of the assumptions and rationale for the projections.

FINANCIAL STATEMENTS

The financial statements of the Authority for the Fiscal Years ended September 30, 2011 and 2012 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing in APPENDIX C hereto. Reference should be made to the audited financial statements included in APPENDIX C for a complete understanding of the information provided therein. Generally, the audited financial statements for a given fiscal year are not available until approximately six months after the close of the fiscal year.

CERTAIN LEGAL MATTERS

The validity of the 2013 Bonds and certain other legal matters are subject to the approving opinion of Bond Counsel. The form of opinion Bond Counsel proposes to render with respect to the 2013 Bonds is attached as APPENDIX E hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by Hawkins, Delafield & Wood LLP, Portland, Oregon, their counsel.

AVAILABLE INFORMATION

During the initial offering period for the 2013 Bonds, copies of the Authority's audited financial statements are available from the Authority, 578 N. Marine Corps Drive, Tamuning, Guam 96913, and copies of the Indenture may be obtained, upon written request, from the Underwriters.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a division of The MacGraw-Hill Companies, Inc. ("S&P"), and Fitch Ratings ("Fitch") have assigned their ratings of "Ba1," "A-" and "BB", respectively, to the 2013 Bonds. The ratings reflect only the view of the rating agencies assigning such ratings at the time such ratings are given, and the Authority makes no representations as to the appropriateness of such ratings. Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. Certain information and materials not included in this Official Statement were furnished to the rating agencies concerning the 2013 Bonds. Generally, rating agencies base their ratings on such information and materials and on investigation, studies and assumptions by the rating agencies. There is no assurance that the ratings

mentioned above will remain for any given period of time or that any or all of them might not be lowered or withdrawn entirely by any rating agency if in the judgment of any or all rating agencies, circumstances so warrant. Any such downward change in or withdrawal of such ratings might have an adverse effect on the market price for and marketability of the 2013 Bonds.

CONTINUING DISCLOSURE

The Authority will covenant for the benefit of the Bondholders to provide certain financial information and operating data relating to the Authority by not later than 270 days after the end of the Fiscal Year (currently September 30) to which such information pertains, commencing with the Fiscal Year ending September 30, 2013 (the "Annual Report") and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of enumerated events will be filed with the Municipal Securities Rulemaking Board, through its EMMA system. The specific nature of the information to be contained in the Annual Report or the notices of certain enumerated events is described in APPENDIX F – "PROPOSED FORM OF 2013 CONTINUING DISCLOSURE AGREEMENT" attached hereto. These covenants will be made in order to assist the Underwriters in complying with Rule 15c2-12.

In order to provide certain continuing disclosure with respect to the 2013 Bonds in accordance with Rule 15c2-12, the Authority has entered into a Master Continuing Disclosure Agreement, as supplemented, including as supplemented by the Supplemental Continuing Disclosure Agreement relating to the 2013 Bonds (collectively, the "2013 Continuing Disclosure Agreement"), with Digital Assurance Certification, L.L.C. ("DAC") for the benefit of the Holders of the 2013 Bonds under which the Authority has designated DAC as Disclosure Dissemination Agent. The Disclosure Dissemination Agent has only the duties specifically set forth in the 2013 Continuing Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described in the 2013 Continuing Disclosure Agreement is limited to the extent the Authority has provided such information to the Disclosure Dissemination Agent as required by the 2013 Continuing Disclosure Agreement. The Disclosure Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the 2013 Continuing Disclosure Agreement. The Disclosure Dissemination Agent has no duty or obligation to review or verify any information in the annual report, audited financial statements, notice of notice event or voluntary report, 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 Bondholders or any other party. The Disclosure Dissemination Agent has no responsibility for the Authority's failure to report to the Disclosure Dissemination Agent a notice 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 the 2013 Continuing Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Authority at all times.

The Authority has previously entered into continuing disclosure agreements in connection with the 2005 Bonds and the 2010 Bonds (the "Prior Continuing Disclosure Agreements") that require filing of a report (the "Annual Report") containing both the Authority's audited financial statements and certain financial and operating information, to the extent not contained in the audited financial statements. The Annual Report is due within 270 days of the end of the Authority's fiscal year. The Annual Reports for Fiscal Years 2008 and 2009 consisted only of the Authority's audited financial statements, and not all of the requisite financial and operating information was found in the audited financial statements for those fiscal years. The Authority filed with EMMA supplemental Annual Reports for Fiscal Years 2008 and 2009 to bring the Authority current on its continuing disclosure obligations through Fiscal Year 2009. The Authority notes that its Annual Reports for Fiscal Years 2010 and 2011 were made within nine months after fiscal year end rather than within 270 days as required by the Prior Continuing Disclosure Agreements. Other than as described in this paragraph, the Authority has complied in all material respects with its previous continuing disclosure undertakings within the past five years.

MISCELLANEOUS

The attached Appendices are integral parts of this Official Statement and should be read in their entirety. The Authority has reviewed the information contained herein and has approved all such information for use in this Official Statement.

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

GUAM WATERWORKS AUTHORITY

By: _____
Martin Roush
General Manager

CONSOLIDATED COMMISSION ON UTILITIES

By: _____
Simon A. Sanchez II
Chairman

APPENDIX A
CONSULTING ENGINEER'S REPORT

APPENDIX B -
CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE TERRITORY
OF GUAM

APPENDIX C

**GUAM WATERWORKS AUTHORITY
(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)**

**FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

APPENDIX D
SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

APPENDIX E
PROPOSED FORM OF OPINION OF BOND COUNSEL

APPENDIX F

PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX G

DTC AND ITS BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2013 Bonds. The 2013 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 2013 Bond certificate will be issued for each maturity of each series of the 2013 Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

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 The Depository Trust & Clearing Corporation ("DTCC"). DTCC is a holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned and operated 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 Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2013 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2013 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 2013 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 2013 Bonds, except in the event that use of the book-entry system for the 2013 Bonds is discontinued.

To facilitate subsequent transfers, all 2013 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 2013 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2013 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2013 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 2013 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2013 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2013 Bond documents. Beneficial Owners of 2013 Bonds may wish to ascertain that the nominee holding the 2013 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 2013 Bonds within a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series and maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2013 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 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal of, Redemption Price of and interest on the 2013 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Authority or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, Redemption Price or interest on the 2013 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2013 Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor securities depository is not obtained, 2013 Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2013 Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

The preceding information in this APPENDIX G was provided by DTC for inclusion herein, and has not been independently verified by the Authority or the Underwriters. No representation is made by the Authority as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The Authority cannot and does not give any assurances that DTC will distribute to the Participants, or that the Participants or others will distribute to the Beneficial Owners, payments of debt service on the 2013 Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Authority is not responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the 2013 Bonds or any error or delay relating thereto.

Neither the Authority nor the Trustee shall have any responsibility or obligation to any DTC Participant, any beneficial owner or other persons claiming a beneficial ownership interest in the 2013 Bonds under or through DTC or any DTC Participant, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participant with respect to the beneficial ownership interest in the 2013 Bonds; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of and premium, if any, or interest on the 2013 Bonds to any beneficial owner or other person for the 2013 Bonds; or (iii) the delivery to any beneficial owner of the 2013 Bonds, or any other person of any notice which is permitted or required to be given to owners under the Indenture. Neither the Authority nor the Trustee shall have any responsibility with respect to obtaining consents from anyone other than the registered owners.



Findings and Recommendations Relative to Docket GWA 14-01

Petition of the Guam Waterworks Authority to Approve the Issuance of
\$195M in Water and Wastewater Revenue Bonds and to Approve
The Associated Documents

Prepared for:

Guam Public Utilities Commission

Prepared by:

Lummus Consultants International Inc.

November 13, 2013

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1 Executive Summary

1.1 Introduction

Lummus Consultants International Inc. was commissioned by the Guam Public Utilities Commission to review and report on the benefits and risks to customers associated with the proposed FY 2013 petition of the Guam Waterworks Authority (GWA) to approve the issuance of \$195m in water and wastewater revenue bonds and to approve the associated documents.

The purpose of the report is to document the investigation by Lummus Consultants of the petition by GWA and to present the findings and recommendations made to the Guam PUC. The report is organized as follows:

Executive Summary

Overview of GWA Proposal

Ratepayer Impacts

Other Considerations

Findings and Recommendations

1.2 Documents Reviewed

As part of our review and assessment Lummus consultants reviewed each of the following documents that are pertinent to the FY2013 Bonds:

- GWA's petition to the GPUC (Docket No. 14-01) seeking approval to issue a maximum of \$195,000,000 in Revenue Bonds (first in a series of 3 bond issues included in its 5 year Financial Plan).
- Consolidated Commission on Utilities (CCU) Resolution No. 14-01 approving GWA's issuance of the FY2013 Bonds.
- Guam Public Utility Commission's approval of GWA's 5 year Financial and Rate Plan (Rate Decision in GWA Docket 13-0, dated October 29, 2013) and all related documents that were part of that case.
- The Preliminary Official Statement dated November 6, 2013.
- The Consulting Engineer's Report dated November 6, 2013.
- The Bond Purchase Agreement dated October 15, 2013.
- The Supplemental Indenture dated September 19, 2013.
- Consolidated Commission on Utilities (CCU) Resolution No. 17-FY2013 approving GWA's
- Updated Capital Improvement Plan for the Purposes of Planning and Executing Projects in the near term.
- Independent Auditors Report - Audited Financial Statements of GWA FY2011 and FY2012 by Deloitte, dated May 30, 2013.
- Certain Demographic and Economic Information Regarding Territory of Guam.

- Proposed Form of Opinion of Bond Counsel.
- Guam Legislature's Bill No. 181-32 (COR) - An Act to Amend Section 2 of Public Law 30-145, which amended Section 4 of Public Law 28-71, Relative to approving the Terms and Conditions of the Issuance of GWA Revenue Bonds, to Increase the Amount of Bonds the GWA is Authorized to Issue, and to Approve the Terms and Conditions of GWA Revenue Bonds to Refinance Certain GWA Revenue Bonds.
- Guam Economic Development Authority Resolution No. 13-057 - Resolution Approving the Issuance and Sale of GWA Revenue Bonds and approving and Authorizing the Execution of Related Documents, Agreements and Actions.

1.3 Key Findings

The Commission should require GWA to provide updates on all significant factors that could materially impact their decision to approve or not approve the issuance of the FY 2013 Bonds (this includes such factors as the ratings assigned to the FY 2013 Bonds, financial market conditions and specifically the expected interest rate on the Bonds (not to exceed 7.5%), significant changes to the OS from the POS, any significant changes in GWA's financial condition or the condition/operability of its facilities, etc.).

- Table 2 Debt Service Schedule - The POS only lists the principal payments associated with FY2013 Bonds. The POS should show both interest and principal payments annually. The Commission should have GWA's best estimate of the complete DS schedule and how it affects the finances of the 5 year plan before it rules on GWA's petition for approval.
- Additionally, the principal payments now on this table indicate that a large percentage of these payments occur late in the 30 year amortization period, which would indicate relatively high interest payments over the life of the bonds. The rationale behind this and why alternative payback schedules with significantly lower total interest payments were not selected.

Unless there is updated information provided just prior to the Commission's decision in this matter that would have a significant negative impact on GWA or its customers that was not known to us as of the date of this report, we recommend that the Commission approve issuance of these Bonds.

If the Commission approves these Bonds, it should require verification from GWA that the proceeds of the bonds are used for the specific improvements for which they are needed and for which they were designated to be applied to.

2 Overview of GWA's Proposal

2.1 General Description of Bonds

The 2013 Bonds will be dated their date of delivery and will bear interest at the rates per annum and mature, subject to prior redemption, on the dates and in the principal amounts set forth on the inside cover page of the Official Statement. Interest on the 2013 Bonds will be payable on January 1 and July 1 of each year, commencing July 1, 2014. Interest will accrue on the 2013 Bonds on the basis of a 360-day year of twelve 30-day months. The 2013 Bonds will be issued in denominations of \$5,000 and integral multiples thereof. The 2013 Bonds will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2013 Bonds. Individual purchases may be made only in book-entry form, and purchasers will not receive certificates representing their interest in the 2013 Bonds purchased.

2.2 Purposes of the 2013 Bonds

The Authority is issuing the 2013 Bonds (1) to fund capital improvements to the System; (2) to provide for capitalized interest on the 2013 Bonds through September 30, 2015; (3) to fund a deposit to the Bond Reserve Fund; and (4) to pay costs of issuing the 2013 Bonds.

The Authority has developed its six-year Capital Improvement Program to assist the Authority in meeting its goals of providing more efficient and reliable service to its customers and operating as a self-supporting utility while meeting regulatory requirements, including those specified in the 2011 Court Order and in the Findings of Significant Deficiencies and the Request for Information.

The capital cost of implementing the entire CIP for Fiscal Years 2013-2018 has been estimated at approximately \$457.5 million. The Authority expects to finance the CIP from, among other sources, proceeds of the 2013 Bonds. The Authority expects to fund the rest of the Capital Improvement Program with two series of Additional Bonds to be issued in 2015 and 2017 and expected to provide CIP funding in the amounts of approximately \$128 million and \$72 million, respectively, and from the Authority's operating revenues, USEPA State Revolving Fund grants, System Development Charge revenues and other grants.

The portion of the Capital Improvement Program to be funded with proceeds of the 2013 Bonds is set forth below:

| | |
|---|------------------|
| Water Production, Treatment, Distribution and Storage | \$95,130 |
| Wastewater Collection and Treatment | 33,300 |
| Electrical, including Monitoring and Control | 5,395 |
| General Plant and Miscellaneous | <u>5,500</u> |
| Total | <u>\$139,325</u> |

2.3 Financial Projections

An integral part of GWA's 5 year Financial Plan was the development of a financial and rate model that would aid in making projections of all system costs and revenues along with cash flow analysis including debt service payments, debt service coverage ratios and needed rate increases to maintain self-

sufficiency. The main output of that model is a summary table on a spread sheet labeled "Schedule A." This Schedule summarizes all of the financial factors listed above along with many others that together give a detailed picture of the system's financial condition over the next 5 years. The latest version of that schedule which was used as the basis for GWA's approved 5 year plan. This Schedule is repeated here on the next page for ease of reference and to show how the FY2013 Bonds are factored into those projections.

Schedule A GWA Stipulation

| | FY2014 | FY2016 | FY2016 | FY2017 | FY2018 |
|---|---------------|---------------|---------------|---------------|---------------|
| | Stipulation | Stipulation | Stipulation | Stipulation | Stipulation |
| Basic & Non-Lifeline Increase | 15.00% | 14.50% | 18.50% | 7.00% | 4.00% |
| Lifeline Increase | 0.00% | 0.00% | 0.00% | 7.00% | 0.00% |
| Basic & Non-Lifeline Additional Increase | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Legislative Surcharge | 3.90% | 3.41% | 3.00% | 2.70% | 2.65% |
| PUC/GPA/NAVY Surcharge | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Customer Growth | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Demand Growth | 3.00% | 1.50% | 0.00% | 0.00% | 0.00% |
| 1. OPERATING REVENUES | | | | | |
| 2. Water Revenues | \$ 50,804,403 | \$ 58,313,740 | \$ 67,548,407 | \$ 73,080,457 | \$ 78,557,649 |
| 3. Wastewater Revenues | 29,581,650 | 33,911,448 | 38,088,154 | 43,523,256 | 49,060,369 |
| 4. PUC/GPA/NAVY Surcharge | - | - | - | - | - |
| 5. Legislative Surcharge | 2,557,085 | 2,022,450 | 2,702,732 | 2,762,304 | 2,896,569 |
| 6. Other Revenues | 674,159 | 842,698 | 1,073,373 | 1,381,718 | 1,722,145 |
| 7. System Development Charge | 1,104,048 | 1,159,248 | 1,217,210 | 1,278,071 | 1,341,974 |
| 8. | | | | | |
| 9. Total Operating Revenues | 84,901,353 | 96,849,533 | 110,629,876 | 122,025,804 | 131,598,707 |
| 10. | | | | | |
| 11. | | | | | |
| 12. O & M EXPENSES | | | | | |
| 13. Power Purchases | 17,278,135 | 17,445,441 | 17,614,609 | 17,691,697 | 17,765,232 |
| 14. Water Purchases | 5,905,237 | 6,141,565 | 6,387,352 | 6,642,974 | 6,908,827 |
| 15. | 22,181,372 | 23,587,006 | 24,001,969 | 24,334,672 | 24,674,059 |
| 16. | | | | | |
| 17. Salaries and Benefits | 21,112,947 | 21,537,994 | 22,221,283 | 23,006,331 | 24,010,066 |
| 18. Intentionally Left Blank | | | | | |
| 19. Administrative and General Expenses | 10,305,055 | 10,493,006 | 10,884,545 | 10,889,702 | 11,057,999 |
| 20. Intentionally Left Blank | | | | | |
| 21. Regulatory Expense | 306,000 | 312,120 | 318,382 | 324,730 | 331,224 |
| 22. Intentionally Left Blank | | | | | |
| 23. Bad Debt Expense | 10,611 | 21,063 | 25,297 | 20,713 | 17,154 |
| 24. Intentionally Left Blank | | | | | |
| 25. Depreciation Expense | 14,865,080 | 18,029,040 | 21,331,565 | 24,680,021 | 28,031,949 |
| 26. Intentionally Left Blank | | | | | |
| 27. Contractual Expense | 3,838,187 | 4,274,487 | 4,382,383 | 4,462,100 | 4,543,704 |
| 28. Intentionally Left Blank | | | | | |
| 29. Retiree Supplemental Annuities/Health care costs | 2,539,318 | 2,616,180 | 2,698,017 | 2,778,948 | 2,865,089 |
| 30. Total Operating Expenses | 75,816,471 | 80,871,508 | 85,641,412 | 91,067,422 | 96,140,243 |
| 31. | | | | | |
| 32. Earnings (Loss) from Operations | \$,915,482 | 16,977,685 | 24,988,464 | 30,958,382 | 35,458,464 |
| 33. | | | | | |
| 34. Interest Income-Bond Funds | 12,344 | 12,344 | 12,344 | 12,344 | 12,344 |
| 35. Interest Income-Other Funds | 7,702 | 7,702 | 7,702 | 7,702 | 7,702 |
| 36. Interest Expense-Bonds 2005,2010,2013,2015 | (24,391,863) | (24,254,193) | (32,889,832) | (32,536,441) | (37,100,800) |
| 37. Interest Expense-SOG, GPA, NAVY | (1,480,385) | (1,141,305) | (1,112,689) | (1,028,777) | (937,910) |
| 38. AFUDC | 862,257 | 862,257 | 862,257 | 862,257 | 862,257 |
| 39. Amortization of Discount, Premium and Issuance Costs | (159,755) | (159,755) | (159,755) | (159,755) | (159,755) |
| 40. Grants & other contributions | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 |
| 41. Other Expenses/Income/ Prior Year PPP & Merit Bonuses | - | - | - | - | - |
| 42. Recoveries of bad debts/ Miscellaneous Revenue | - | - | - | - | - |
| 43. Net Income (Loss) | (13,251,669) | (5,896,266) | (5,291,711) | 1,113,711 | 1,142,300 |
| 44. | | | | | |
| 45. INCREASE (DECREASE) in Capital | (13,251,669) | (5,896,266) | (5,291,711) | 1,113,711 | 1,142,300 |

Schedule A GWA Stipulation (continued)

| | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 |
|---|----------------|--------------|----------------|--------------|---------------|
| | Stipulation | Stipulation | Stipulation | Stipulation | Stipulation |
| BOND DEBT SERVICE | | | | | |
| Interest | 10,092,593 | 11,544,193 | 24,034,832 | 23,083,441 | 32,128,050 |
| Principal | 2,500,000 | 3,890,000 | 6,117,939 | 6,464,845 | 9,394,038 |
| | 12,592,593 | 15,434,193 | 30,152,771 | 30,148,386 | 41,522,088 |
| DEBT SERVICE COVERAGE CALCULATION - Section 6.12 | | | | | |
| 1. Earnings (Loss) from Operations | 8,915,842 | 15,977,885 | 24,388,484 | 30,959,342 | 36,458,464 |
| 2. Investment Income-Other Funds & Recoveries | 7,702 | 7,702 | 7,702 | 7,702 | 7,702 |
| 3. PUC/GPA/New Surcharge | - | - | - | - | - |
| 4. Legislative Surcharge | (2,557,083) | (2,622,480) | (2,702,732) | (2,782,304) | (2,886,569) |
| 5. Supplemental Annuities/COLA | 2,539,318 | 2,616,180 | 2,696,017 | 2,778,946 | 2,865,089 |
| 6. System Development Charge | (1,104,046) | (1,159,248) | (1,217,210) | (1,278,071) | (1,341,874) |
| 7. Depreciation & Amortization | 14,885,083 | 18,029,040 | 21,331,585 | 24,680,021 | 28,031,549 |
| 8. Balance Available for Debt Service - Section 6.12 | 22,686,842 | 32,848,900 | 45,103,806 | 64,364,676 | 82,134,660 |
| Debt Service Coverage (1.25X) - Section 6.12 | 1.80 | 2.15 | 1.50 | 1.80 | 1.60 |
| DEBT SERVICE COVERAGE CALCULATION - PUC Debt Ratio | | | | | |
| 1. Balance Available for Debt Service | 22,686,842 | 32,848,900 | 45,103,806 | 64,364,676 | 82,134,660 |
| 2. Transfer to Capital Improvement Fund - Working Capital Reserve | (710,000) | (6,825,000) | - | (3,660,000) | - |
| 3. Available for Debt Service - Capital Improvement Fund - Working Capital Reserves | - | 710,000 | 7,535,000 | 7,535,000 | 11,185,000 |
| 4. Balance Available for Debt Service - PUC | 21,976,842 | 26,733,900 | 52,638,806 | 58,249,676 | 73,319,660 |
| 5. Debt Service Coverage (1.25X) - PUC | 1.75 | 1.75 | 1.75 | 1.83 | 1.77 |
| 1. CASH FLOW STATEMENT | | | | | |
| 2. Net Income (Loss) | (13,251,659) | (5,696,265) | (5,281,711) | 1,113,711 | 1,142,300 |
| 3. Depreciation & Amortization | 15,044,635 | 18,183,786 | 21,491,320 | 24,639,776 | 28,191,704 |
| 4. AFUDC | (862,257) | (862,267) | (862,257) | (862,257) | (862,257) |
| 5. Principal Payments - Bonds | (5,811,341) | (6,510,030) | (7,105,241) | (7,586,358) | (10,818,340) |
| 6. Working Capital Change (Increase)/Decrease | (2,207,777) | (755,280) | (898,623) | (781,102) | 1,881,036 |
| 7. Grants and Contributions | (3,030,000) | (3,000,000) | (3,030,000) | (3,000,000) | (3,000,000) |
| 8. Principal Payments-GPA/Novny(PUC Surchg)& BOGS330M CAP 1 | - | - | - | - | - |
| 9. Gross Bond Proceeds | 14,299,100 | 12,670,000 | 8,855,000 | 8,855,000 | 4,974,750 |
| 10. Cost of Issuance, Discount, CAP 1, Debt Service Reserve, O/D | \$ 181,000,000 | \$ - | \$ 161,000,000 | \$ - | \$ 90,450,000 |
| 11. Deposits to Bond Construction Fund | (41,719,039) | - | (32,331,118) | - | (16,183,862) |
| 12. Revenue Funded CAPEX | (139,280,861) | - | (128,868,882) | - | (72,286,334) |
| 13. Bond Reserve Requirement | (2,030,000) | (5,000,000) | (11,000,000) | (13,000,000) | (16,000,000) |
| 14. Bond Reserve Requirement | (145,830) | 304,751 | 585,437 | 125,883 | 117,872 |
| 15. Transfer (to) from Restricted Fund | - | - | - | - | - |
| 16. System Development Charge | (1,104,046) | (1,159,248) | (1,217,210) | (1,278,071) | (1,341,874) |
| 17. Working Capital Reserve Fund | (1,000,000) | (1,800,000) | (2,050,000) | (4,450,000) | (5,000,000) |
| 18. Transfer to Capital Improvement Fund - Working Capital Reserve | (710,000) | (6,825,000) | - | (3,660,000) | - |
| 19. Backfilling | - | - | - | - | - |
| 20. Cash Surplus (Deficit) | (750,080) | (649,534) | (573,285) | 346,592 | (532,809) |
| 21. Beginning Balance | 4,651,279 | 3,801,200 | 3,251,668 | 2,878,401 | 2,024,993 |
| 22. Ending Balance | \$ 3,901,200 | \$ 3,251,666 | \$ 2,678,401 | \$ 2,024,993 | \$ 1,492,184 |

The Approved Stipulation in GWA's Five Year Rate Plan recognized the need to issue additional revenue bonds and considered the potential impact on revenue requirements, debt service coverage ratio, and coverage of debt service.

2.4 GWA's 5 Year Financial Plan

In its petition to the GPUC GWA submitted a five year plan that addressed significant improvements in infrastructure and water quality. The primary reason for the rate increases presented by GWA is that they are necessary to pay debt service on the issuance of approximately \$450M in bonds required to enable GWA to comply with the November 2010 Order of the United States District Court in Civil Case No. 02-00035 ("Order") by upgrading and refurbishing GWA's existing water and wastewater infrastructure as required under the Clean Water Act and the Safe Drinking Water Act. The FY2013 Bonds are the first in a series of three bond issues included in GWA's 5 year financial plan.

The GWA requested an overall increase of 57% over the period from 2014 to 2018, which on a compounded-basis equates to a total increase of 71%. The annual increases are summarized below:

| | |
|---------|-------|
| FY 2014 | 15.0% |
| FY 2015 | 14.5% |
| FY 2016 | 16.5% |
| FY 2017 | 7.0% |
| FY 2018 | 4.0% |

Although the Stipulation Agreement provides for these recommended increases in each of the next five years, GWA and Lummus Consultants explicitly recognize that true-ups will occur in each subsequent year and adjustments will be made as needed and appropriate.

Lummus Consultants team addressed its review of the GWA rate increase as supporting approaches that would reduce losses, increase revenues through alignment with costs for unbundled services, and improve operating efficiency. The five year rate plan is intended to improve the financial position of GWA and the plan recognizes that this improvement will result in lower interest costs. Improved financial position is anticipated to result in the need for a lower reserve in the working capital and cash reserve funds -- reducing needed rate increases.

2.5 Compliance with Legislative, GPUC, and GEDA Requirements

2.5.1 Guam Legislature

The Guam legislature approved the issuance of the FY2014 Bonds in Bill Number 181-32 (COR), subject to the following conditions:

Section 4. Approval of Guam Waterworks Authority Revenue Bonds.

(a) The Guam Legislature, / *Liheslaturan Guåhan*, pursuant to §50103 of Title 12 of the Guam Code Annotated, hereby approves the issuance and sale by the Authority of revenue bonds pursuant to Article 2, Chapter 14, Title 12, Guam Code Annotated (the "Act") in one or more series or issues; provided that the issuance, terms and conditions of the bonds *shall* have been approved by the Guam Public Utilities Commission, and further provided that such bonds shall have a principal amount *not to exceed* Six Hundred Seventy Million Dollars (\$670,000,000), *shall* have a final maturity not later than 2055, *shall* bear interest at such rate or rates and *shall* be sold for such price or prices as *shall* result in a net yield to the bondholders *not exceeding* seven and one-half percent (7.5%) per annum, *shall* be issued and sold in the manner, for the purposes and subject to the requirements and limitations provided in Article 2, Chapter 14, Title 12, Guam Code Annotated, and shall be issued pursuant to an Indenture in substantially the form as attached to this Act as Exhibit A. In order to be able to take advantage of a federally subsidized bond program, net yield to the bondholders shall be calculated by subtracting any interest subsidy amounts to be received from the United States in connection with such bonds from the amount of interest to be paid to bondholders."

Additionally, as part of the same Bill the Legislature finally finds that a 2010 rider, inserted during legislative session, required GWA ratepayers to pay back 20 Million Dollars to the General Fund for a loan that was fully paid off in December 2010, causing an unnecessary burden on ratepayers. Notwithstanding, the provision still remains in Guam law and needs to be repealed to make it clear that

this is no longer a requirement to be placed upon GWA's ratepayers. Thus, the Legislature finds that adding another 20 Million Dollars rate increase onto GWA ratepayers is not in the public interest.

2.5.2 Guam Economic Development Authority

The Guam Economic Development Authority (GEDA) approved the issuance of the FY2014 Bonds in Resolution Number 13-057. The controlling paragraph of that resolution reads as follows:

Section 1. The issuance and sale of the 2013 Bonds in an aggregate amount not to exceed (a) \$195,000,000 for the purpose of financing the Projects, plus (b) with respect to any redemption or retirement of Prior Bonds, an aggregate principal amount sufficient to provide funds for such redemption or retirement of all or a portion of such Prior Bonds, plus related costs of issuance and of such redemption or retirement, are hereby approved in accordance with Section 50103(k), subject to the approval by the Legislature of the terms and conditions of the 2013 Bonds as described above, and subject to the approval by the Guam Public Utilities Commission pursuant to Title 12 of the Guam Code Annotated of the issuance of the 2013 Bonds."

This resolution was signed and dated October 24, 2013.

2.5.3 Guam Public Utilities Commission

The Guam Public Utilities Commission (GPUC) has general oversight and regulatory control over most actions of GWA including rate setting authority and final approval authority of GWA's Bond issues. Before it will consider approval of a proposed bond issue, GWA must seek and obtain approval of the Guam Legislature and the GEDA. Additionally, GWA must demonstrate that the bonds are needed to continue providing safe and reliable service to its customers and that the certain financial criteria are satisfied. As indicated above the other required approvals have been obtained by GWA. Additionally, because the Commission has approved GWA's five year financial and rate plan, they have in general accepted the need for this bond issue and financial implications associated with the FY2013 Bonds. However, specific details of this bond issue and updated information must be considered just before the closing date to insure that conditions have not changed significantly, and to add any conditions or limitations that the GPUC decides are necessary. One financial requirement that the Commission has placed on all bonds issued by the GWA relates to this utility's ability to make debt service payments. This condition requires GWA to maintain a 1.75 Debt Service Coverage Ratio of at least 1.75 times. This is a fairly high ratio given that the Bond Indenture requirement is significantly lower at 1.25 times debt service. As part of its 5 year plan GWA estimates what its DSCR will be in each of the 5 years of the plan. These projections are summarized below.

| | |
|---------|------|
| FY 2014 | 1.75 |
| FY 2015 | 1.75 |
| FY 2016 | 1.75 |
| FY 2017 | 1.93 |
| FY 2018 | 1.77 |

3 Ratepayer Impacts

3.1 Rate Revenue Requirements

In order to produce total revenues to pay for all costs that the Authority is expected to incur in FY 2014 including debt service associated with the FY2013 Bonds, total rate revenues (from water and wastewater charges) will need to be increased to \$80.6 million from about \$70.1 million in FY2013. Assuming all expense and revenue estimates contained in GWA's approved Financial Plan are realized, total rate revenues in the four succeeding years will need to increase to the following levels:

- FY 2015 \$92.2 million
- FY 2016 \$105.6 million
- FY 2017 \$116.6 million
- FY 2018 \$125.6 million

3.2 Rate Increases

In order to produce total rate revenues (\$80.6 million) to pay for all costs that the Authority is expected to incur in FY2014 including any debt service associated with the FY2013 Bonds, the Authority will increase rates and charges for both water and wastewater services on an Across-The-Board (A-T-B) basis by 15% (except for lifeline service levels to residential customers). This specific level of increase for FY2014 has been approved by the Guam Public Utilities Commission (GPUC) in Docket 13-01 (dated October 29, 2013) effective with all bills beginning on November 1, 2013. Assuming all expense and revenue estimates contained in GWA's approved Financial Plan are realized, A-T-B rate increases to all ratepayers in the succeeding 4 years will be as follows:

- FY 2015 14.5%
- FY 2016 16.5%
- FY 2017 7.0%
- FY 2018 4.0%

On a compound basis this represents a 71% increase over the 5 year period. In other words, all else being equal, the rates charged by GWA will, during FY2018, be 71% higher than they were in FY2013. This rate path has been tentatively approved by the GPUC. However, rate increases in each of the four successive years of the 5 year plan are subject to annual true-ups. Thus, if there are significant variances in revenue and/or expense projections, the rates that are approved by the GPUC prior to each successive year would be adjusted accordingly to compensate (either an increase or decrease) for the then expected annual surplus or deficit for the next fiscal year.

3.3 Customer Typical Bill Impacts

The following figure provides the approved stipulation rates to a residential customer that has 7,500 gallons consumption per month. The anticipated impact is a 6.3% increase in 2014 when compared to the rate for this level of consumption in 2012. The monthly bill would increase by \$4.69, and the annual increase assuming consistent consumption patterns across the year would be \$56.28.

ASSUMPTIONS:

1. Customer: Residential
2. Consumption per month: 7,500 gals.

| | FY2012 | CURRENT RATE (per kgal) | | PROPOSED |
|--------------------------|-----------------|-------------------------|------------------|-----------------|
| | Rate | Compressed | Uncompressed | FY2014 Rate |
| Water | | | | |
| Basic Charge | 12.40% | 9.15% | 6.10% | 15.00% |
| Lifeline ≤ 5k gal | 12.40% | 9.15% | 6.10% | 0.00% |
| Non-Lifeline > 5k gal | 12.40% | 9.15% | 6.10% | 15.00% |
| Legislative Surcharge | 5.60% | 2.63% | 4.50% | 3.90% |
| Wastewater Charge | 12.40% | 9.15% | 6.10% | 0.00% |
| Legislative Surcharge | | | | |
| | FY2012 | CURRENT BILL | | PROPOSED |
| | Thru 9/30/12 | Thru 9/30/13 | Eff 10/1/13 | FY2014 Bill |
| Water | | | | |
| Basic Charge | \$ 12.87 | \$ 14.05 | \$ 13.66 | \$ 15.70 |
| Lifeline | 13.70 | 14.95 | 14.54 | 14.54 |
| Non-Lifeline > 5k gal | 18.73 | 18.26 | 17.75 | 20.41 |
| Legislative Surcharge | 1.66 | 0.85 | 1.41 | 1.39 |
| Wastewater Charge | | | | |
| Basic | 25.08 | 27.37 | 26.61 | 26.61 |
| Legislative Surcharge | | | | |
| Total Bill | \$ 70.03 | \$ 75.48 | \$ 73.96 | \$ 78.65 |
| \$\$ Change | | \$ 5.45 | \$ (1.52) | \$ 4.68 |
| % Change | | 7.78% | -2.02% | 6.34% |

4 Other Considerations

This section presents areas of potential concern that should be addressed by GWA as they move forward with the process.

4.1 Key Issues relative to the Preliminary Official Statement (POS)

This section summarizes areas of difference and concern identified in the Lummus Consultants review.

- Table 2 Debt Service Schedule - The POS only lists the principal payments associated with FY2013 Bonds. The POS should show both interest and principal payments annually. The Commission should have GWA's best estimate of the complete DS schedule and how it affects the finances of the 5 year plan before it rules on GWA's petition for approval. Additionally, the principal payments now on this table indicate that a large percentage of these payments occur late in the 30 year amortization period, which would indicate relatively high interest payments over the life of the bonds. The rationale behind this and why alternative payback schedules with significantly lower total interest payments were not selected.
- Table 12-1 is a critical summary table which includes the Overall CIP and the sources and uses of Funds. This table accurately summarizes these key construction and funding levels contained in GWA's 5 year Financial Plan.
- Table 15, which contains summarized key financial projections, does not match the amounts specified on Schedule A. This Table should match the amounts specified on Schedule A when the POS is updated to the final Official Statement.

4.2 Key Issues relative to the Consulting Engineer's (CE) Reports

- Table 1-1 The value shown for the Gross Bond Proceeds does not match the amount listed in Schedule A that summarizes the key financial projections specified in the approved 5 year financial Plan. This Table should match the amounts specified on Schedule A when the report is updated with the final Official Statement.
- Table 6-2 This Table does match the amounts specified on Schedule A from the approved 5 year plan.
- Tables 6-3 and 6-4 do not match the amounts specified on Schedule A. These Tables should match the amounts specified on Schedule A when the report is updated with the final Official Statement.
- Table 7-1 is a critical summary table which includes the Overall CIP and the sources and uses of Funds through FY2010. This table accurately summarizes these key construction and funding levels contained in GWA's 5 year Financial Plan.
- Table 8-3 does not match the amounts specified on Schedule A. This Table should match the amounts specified on Schedule A when the report is updated with the final Official Statement.
- Section 9 Findings and Conclusions - Particularly, for the next 2 or 3 years, we generally agree with the CE's Findings and Conclusions. However, with respect to some of their Findings and conclusions, particularly with respect to the long run, we make the following comments/suggestions:

- Number 2 - Because of the investment in Staff training (both prior and future) and to reduce costs, both the PMC and the PMO should be phased out over time. A reasonable timeframe for accomplishing this would be 3 to 5 years for the PMO and 5 to 10 years for the PMC.
- Number 4 - GWA has committed to reducing system losses to less than 40% by the end of the 5 year period. If the current plan does not include sufficient funds to accomplish this, additional funds should be obtained to insure that this goal is met.
- Number 7 - There is considerable uncertainty associated the possible buildup of the Military presence in Guam. The key point here is if it is accelerated for some reason it is likely that the Federal government will support any additional infrastructure requirements associated with a buildup.
- This is a key finding which supports the need for and the Importance of the FY2013 Bond issue.

While we have no reason to suspect that the use of the PMO company to provide the CER could be a conflict of interest, we do recommend that for all future Bond Issues that a qualified Consulting Engineer be selected that has absolutely no conflict of interest with GWA or even the appearance of a potential conflict of interest. Use of a completely independent Engineering firm also has the advantage of adding another set of experts to evaluate the system and provide their professional opinion as to quality and performance of its facilities and operations.

5 Findings and Recommendations

5.1 Benefits of Restructuring - Analysis and Restructuring

The petition by GWA for approval of the Revenue Bonds has benefits for the customers in that it will allow GWA to fund the Court Ordered and USEPA improvements in the system and to fund additional capital projects in GWA's plan to improve service to customers.

5.2 Findings

- The Proposed FY2013 Bond Issue by GWA was approved by the CCU.
- The Guam Legislature has approved The Proposed FY2013 Bond Issue by GWA.
- The Guam Economic Development Authority has approved The Proposed FY2013 Bond Issue by GWA.
- The Financial Projections contained in the 5 year Financial Plan, (and both the POS and the CE Report) are reasonable and have been accepted as such by the Guam Legislature, the GEDA, the CCU, and the GPUC.
- Some of the data in the CE Report does not match corresponding amounts in the 5 year plan. These amounts should match the amounts specified on Schedule A when the report is updated with the final Official Statement.
- Some of the data in the POS does not match corresponding amounts in the 5 year plan. These amounts should match the amounts specified on Schedule A when the report is updated with the final Official Statement.

- The level of Debt requested for the FY2013 Bonds is needed for system improvements. Moreover, almost all of the FY 2013 total is required to fund the Court Mandates and to satisfy USEPA specified capital improvements.
- The customer impacts of the 5 year plan are high, but not unreasonably so given the magnitude of the required improvements, and they should lessen after the first three years of the plan. The Authority has taken extensive measures to reduce those impacts. The GPUC has agreed that the increases are necessary to upgrade the facilities and over time improve the level and quality of service provided by this utility. The customer impacts resulting solely from the FY2013 Bond issue represent about half of the causes leading to the total rate increases projected in the 5 year plan.
- As of the date of this Report we are not aware of any changed conditions since the 5 year plan was approved that would significantly impact GWA's financial condition or its ability to satisfy all the requirements of the FY 2013 Bond issue.

5.3 Recommendations

The Commission should require GWA to provide updates on all significant factors that could materially impact their decision to approve or not approve the issuance of the FY 2013 Bonds (this includes such factors as the ratings assigned to the FY 2013 Bonds, financial market conditions and specifically the expected interest rate on the Bonds (not to exceed 7.5%), significant changes to the OS from the POS, any significant changes in GWA's financial condition or the condition/operability of its facilities, etc.).

- Table 2 Debt Service Schedule - The POS only lists the principal payments associated with FY2013 Bonds. The POS should show both interest and principal payments annually. The Commission should have GWA's best estimate of the complete DS schedule and how it affects the finances of the 5 year plan before it rules on GWA's petition for approval.
- Additionally, the principal payments now on this table indicate that a large percentage of these payments occur late in the 30 year amortization period, which would indicate relatively high interest payments over the life of the bonds. The rationale behind this and why alternative payback schedules with significantly lower total interest payments were not selected.

Unless there is updated information provided just prior to the Commission's decision in this matter that would have a significant negative impact on GWA or its customers that was not known to us as of the date of this report, we recommend that the Commission approve issuance of these Bonds.

If the Commission approves these Bonds, it should require verification from GWA that the proceeds of the bonds are used for the specific improvements for which they are needed and for which they were designated to be applied to.

