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Case Study of the Cebu and Muntinlupa Bonds

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I. SUMMARY

The non-defunct Presidential Decree (P.D.) 752 of 1975 vested all Local Government Units (LGUs) with the authority to avail of credit financing by way of schemes and financial instruments allowed by the Decree, especially bond issues. Although this statute had been law for over fifteen years, no LGU actually attempted to use bond financing until very late in the life of this Decree. These are the cases of the province of Cebu and municipality of Muntinlupa. An analysis and evaluation of each of the cases present several issues worth noting and resolving if the future LGU bond market under the 1991 Local Government Code is to be developed.

The first and foremost deficiency identified in the experiences of Cebu and Muntinlupa was the policy framework of P.D. 752. The provisions in the P.D. did not clearly distinguish the bond as either general obligation or revenue. This major problem forced each LGU to deviate from some of the requirements of P.D. 752 as in Cebu's case or virtually kill an initiative as happened to Muntinlupa.

Other issues that surfaced were: a) the need to rationalize the approval process for LGU bonds and design it according to the type, b) the need to educate the market, primarily the fund sources, of the opportunities in investment in LGU bonds, c) the need to upgrade the capabilities of the LGU bureaucracy in regard to financial and capital markets, and last but not least, d) the need to establish in the future the infrastructure for secondary market trading of LGU bonds.

Although the New Local Government Code (LGC) of 1991 replaces PD 752 and has addressed most of its deficiencies there are significant measures still absent before a meaningful development of the LGU bond industry can occur. Next steps under the 1991 LGC should, therefore, concentrate on areas where changes are called for. Both the private sector and the government must initiate and maintain a dialogue in effecting the desired structure and environment through any appropriate legislative amendments, administrative reforms, and constructive programs.

This paper should be read in the context of the observations offered by Dr. Cesar Saldaña in his "LGU Financing Through the Securities Market," which is also a part of this Stage I Study. Section I of that paper is particularly relevant to the background and observation presented here.

II. THE CEBU EQUITY BOND UNITS

1. Cebu's Traditional Independent Mentality

The island province has not been spared by Manila's attitude in terms of central government revenue transfers in spite of the fact that Cebu is the biggest province contributor to the country's tax collection efforts outside the National Capital Region. Annex A shows that for the period the Cebu 1989-1990 internal revenue allotment has drastically shrunk compared to its local revenue sources. Similar to other local government experiences, Cebu has had to continuously rely on insufficient local revenues, the bulk of which is derived from its real property taxes. This mainly goes to the financing of the province's infrastructure and other socio-economic programs and projects, a number of which have been shelved due to past funding constraints.

Over the past five years, however, Cebu has been the only major province which successfully pursued a well-diversified economic development policy engaged in all sectors (agriculture, manufacturing and services). With growth rates consistently much higher than the whole nation, an economic boom was soon gripping the province. The provincial government attempted to sharpen its capitalist instincts under this favorable environment. In 1988, Gov. Emilio M. R. Osmeña surprised the business community with the announcement that the local government had awarded the bid for the 24-hectare Club Filipino de Cebu golf course property to a group of developers from Manila led by Ayala Corporation. Officials would later watch amazed how in a year, the said property's value multiplied when real estate fever spilled into the province, thereby boosting tax collection revenues for the capitol.

As plans to sell other provincial properties were announced, Cebu officials began to wonder whether they could realize higher returns if they first installed some improvements near and within the sites to be auctioned off. Roads, sewage, electricity would definitely improve the attractiveness of each area.

Cebu's technocrats, in an astute reading of the situation, feared how their march to prosperity could be ambushed by lack of infrastructure. Faced with a severe budget crunch, the national government could not be counted for help. Gov. Osmeña felt that hoping for national government funds for infrastructure upgrading might be a wait for eternity. Equally time consuming were sources from the Official Development

Assistance (ODAs) and private investors which still had to go through their respective drawing boards and decision processes. The province obviously needed the funds immediately for its list of priority projects (see attached prospectus Annex B).

Today, just how bullish Cebu can be about its economic prospects is notable in projects now being lined up. The biggest is the planned industrial complex on the foreshore of Mactan where a supercontainer port will also rise. Named the Cordova Industrial Park, it will be built on 1,600 hectares of reclaimed land. The others include water systems via the construction of three dams; a state-of-the-art telecommunication system, including cellular telephones; and an expanded cargo airport near the former Lahug airport.

Gov. Osmeña estimated that he would need at least Pesos 1 billion to put his various priority infrastructure projects in an irreversible implementation mode which would translate to a reliable stream of revenues. He also felt that the conventional way of asset sale, particularly the province's prime real estate, to raise cash might not be the optimum. There was, therefore, a need to devise a better financing alternative.

2. Behind the C-E-B-U Deal

On February 3, 1990 the Cebu Provincial Government awarded the Development Bank of the Philippines (DBP) the mandate to act as exclusive financial advisor and lead underwriter in connection with the province's objective to raise approximately Pesos 1 billion to finance various infrastructure projects. In accordance with the said mandate, DBP retained the services of the Bank of the Philippine Islands (BPI) as co-advisory and co-underwriter in all phases of the engagement.

Under its development plans the Cebu provincial government required about Pesos 1 billion over the next two years, Pesos 300 million of which would be needed in the first semester of 1990. For this requirement, they offered the Lahug airport and other prime properties as assets for whatever financial undertaking that might be available to them.

The February 1990 mandate called for a financial engagement in three phases: Phase 1 involved a "Best Land Use" proposal for the properties the provincial government wants to privatize; Phase 2 contained the design of an appropriate financial package in connection with the privatization; and Phase 3 was the implementation of the proposed financial package.

In complying with the requirements of Phase 1 of the mandate, the services of Ayala Land, Inc. (ALI) to act as real estate consultant for the preparation of a Best Land Use plan was selected and engaged out of three options. On March 12, 1990, ALI submitted an initial proposal for the Best Land Use involving the Lahug property.

The proposal was accepted by the Cebu Provincial Board and was forwarded to the City Planning Board for further confirmation. Although the proposal had been accepted, it was still tentative and would be subjected to review by the recipient subsidiary corporation's Board of Directors as to its final viability.

With the best land use proposal accepted by the Provincial Board, Phase 1 of the engagement was completed and the report thereon submitted to the Cebu Provincial Government.

That report had to be reviewed against the general objective of the Cebu provincial government which was and is to optimize its financial returns with regard to its real estate properties. More specifically, its objectives were and are to:

a. Raise approximately Pesos 1 billion for the provincial government over the period 1990-1992; P300 million by the first semester of 1990, the balance thereafter.

b. Provide the investing public with a financial package perceived to be financially sound, creditworthy and offering a fair return on their investment.

c. Enhance Cebu's image as an investment center.

In the course of designing an appropriate package suitable to attaining the above, several factors were evaluated vis-a-vis possible options available.

1. The easiest way would be to evaluate traditional methods for raising funds. An outright sale of the properties would have been the most expedient, as all it required would be for the Cebu provincial government to conduct a public bidding for the properties it wanted to dispose of. The main advantage would be an immediate inflow of funds for the value of the properties sold. The main trade-off here, however, would be the lost opportunity of asset appreciation. The provincial government definitely did not need all the funds immediately. Even if it disposed of the properties piece by piece, the potential appreciation in real estate prices (this was a near certainty in view of the recent trends in Cebu real estate prices) would be foregone.

2. A straightforward municipal/provincial bond issue as provided for in the Presidential Decree No. 752, was also considered. Under this concept, the provincial government would issue bonds collateralized by real estate properties. The advantage here would be that the provincial government would be able to obtain the needed funds without necessarily disposing of the assets, as these would be held for collateral purposes. There were,

however, two disadvantages in this option. Firstly, being instruments of indebtedness, the bonds would have to carry an interest rate that approximated prevailing market rates. Of immediate comparison would be Treasury Bills issued by the national government which at that time carried rates of about 22% per annum for 91 days maturities and 23% per annum for one year maturities. Rates could even increase by an additional 2% to 3% per annum as evidenced by past trends. This would definitely entail a high level of borrowing cost for the provincial government. Secondly, there was no liquidity mechanism for servicing interest and principal payments for the bonds unless the provincial government sourced this from tax collections and other regular income sources. However, these traditional sources of repayment might not be allowed by the Department of Finance as the bond issue would invariably have to obtain a national government guaranty in case of payment default.

3. Critical to the success of the financial package would be investor acceptance. The major concern by the investing public was who the principals would be. By itself, the Cebu provincial government as sole principal proponent might not be sufficient. It would be an advantage to source a joint venture partner from the private sector for several reasons:

   a. The private sector partner could provide additional resources, in terms of financial resources, i.e., cash needed for development of the properties, as well as expertise in real estate development.

   b. The general investing public is traditionally wary of "purely government issues" or projects being run by the government. The entry of a reputable private sector partner could go a long way in dispelling this doubt and would entail a higher degree of investor acceptance for the package or project being proposed.

   c. In terms of the national government's privatization objective, it would be better for the provincial government to take on a private sector partner at the outset in order to emphasize its intention of slowly divesting itself from the proposed project.

3. <u>The Financing Package</u>

In the light of the above objectives, the Sangguniang Panlalawigan of Cebu favorably reviewed the financing package formulated by its financial advisors. The key features of that package are described below. Details of the package are covered in the attached copy of the Prospectus.

3.1. Formation of a Subsidiary Corporation

The Cebu Provincial Government will form a subsidiary corporation using the following properties as equity contribution:

- Former Lahug Airport, consisting of 236,973 sq.m. valued at Pesos 2,700/sq.m. or a total value of Pesos 639,627,000.

- Gorordo Avenue property beside the Lahug Elementary School, consisting of 9,703 sq.m. valued at Pesos 5,000/sq.m. or a total value of P48,515,000.

- Fuente Osmeña property, consisting of 4,772 sq.m. valued at Pesos 12,500/sq.m. or a total value of Pesos 59,650,000.

The total value (based on DBP's appraisal last March 22, 1990 and confirmed by the private appraiser Cuervo Appraiser, the Provincial Appraisal Committee, and the Commission on Audit) of the properties to be contributed amounts to Pesos 747.99 million.

Based on the legal counsel's opinion, the basis for the formation of a provincial subsidiary corporation was found in Sec. 5, Art. X of the Philippine Constitution which mandates a rule of local autonomy and Sec. 12 of Batas Pambansa Blg. 337, otherwise known as the old Local Government Code.

As a first step, DBP-BPI extended the necessary technical assistance to secure the endorsements/approval of the National Economic Development Authority, Department of Local Government and the Department of Finance. Approval from the Department of Justice (DOJ) to form a subsidiary corporation was also obtained. The position of the DOJ was confirmed by the Commission on Audit as evidenced by a letter of their Chairman instructing the Director of COA's regional office to inform the Provincial Government of Cebu of COA's concurrence to the DOJ opinion. The endorsements upheld the right of the Province of Cebu to organize/create a subsidiary corporation to be capitalized by the patrimonial land.

The name of the subsidiary corporation is the CEBU PROPERTY VENTURES AND DEVELOPMENT CORPORATION (CPV).

The CPV has an authorized capital of Peso 1.0 Billion. Considering that the properties contributed by the Cebu Provincial Government are worth only Pesos 747.99 million (equivalent to 747.99 million shares based on a Peso 1.00 per share par value), the financial advisers, by virtue of their mandate, are required to underwrite/sell the remaining 252.01 million shares to a third party investor.

In evaluating the possible partner of the Cebu Provincial Government in the CPV, the financial advisors established a set of criteria to guide them in their evaluations. These were:

1. Expertise/Track Record the prospective partner must possess a record of successful real estate projects.

2. Financial capability the prospective partner must be able to generate funds from its own internal operations as well as to have access to external financial resources.

3. Human Resources the prospective partner must be able to draw from its manpower complement the needed expertise to support the subsidiary corporation during its initial years.

4. Name/Stock Performance the prospective partner should have exhibited an impeccable performance in the stock market as shown by investors confidence in its stock and its price level vis-a-vis its projected earnings, net asset value, etc. The entry of the prospective partner should also result in the same investor confidence thus assuring capital appreciation of the CPV shares later on.

5. Long Term Commitment the prospective partner must have exhibited a long term commitment not only in terms of national development but as well as towards the development of the province of Cebu.

After consideration of the above criteria, the financial advisors recommended that Ayala Land, Inc. (ALI) be selected by the Cebu Provincial Government as its investor/partner, developer and manager of Cebu Property Ventures Corporation.

Ayala Land, Inc. is the former real estate division of Ayala Corporation. In 1989, in order to streamline its operations, Ayala Corporation spun off that division into a separate company, Ayala Land, Inc.

Ayala Corporation was founded in 1834 as a partnership between the Roxas and Ayala families. As of December 31, 1989, assets of Ayala Corporation stood at P4.8 Billion.

Under the terms of the province Ayala Land Inc. (ALI) agreement ALI was to subscribe to the Pesos 252.01 Million needed for CPV's P1.0 Billion capitalization. ALI gave a formal notice of their interest in joining CPV as an investor/developer/manager. ALI also agreed to subscribe to the remaining capital stock and will initially invest/pay up 25% of their total subscriptions as provided for in the Corporation Code of the Philippines.

Various other features of the Agreement included the Incorporators and the initial Board of Directors will have seven members with the Cebu Provincial Government having five nominees and ALI with two nominees. The five nominees of the Cebu Provincial Government will include the Governor, the Vice Governor, the Chairman of the Committee on Finance, and one representative each from BPI and DBP. The presence of representatives from BPI and DBP will, hopefully, ensure the successful implementation of the financial package for the Cebu Provincial Government and will also protect the investing public against major adverse deviations from the proposed financial package.

As General Manager, ALI may provide office facilities and personnel adequate to manage the corporation's day-to-day operations. This may include, but will not be limited to, the following: maintenance of the books and records of the corporation, preparation of its income tax returns, management of the working capital fund and investment of its idle cash balances in securities approved by the corporation's Board of Directors, preparation of financial information for the corporation's proxy statements and reports to stockholders, preparation of the corporation's reports to the SEC, and referral of shareholder inquiries to the corporation's officers or Transfer Agent. The General Manager may also be allowed to collaborate with outside professional organizations for investment research or other related services with respect to any or all of the corporation's liquid funds.

Depending on separate negotiations between the provincial government and ALI, and subject to ratification by the Board of Directors of the Corporation, a management contract will be drawn up to cover: 1) the pertinent services to be rendered, 2) the fees to be charged, and 3) the term of the management contract between ALI and the subsidiary corporation.

As Project Developer, ALI, or its subsidiaries or affiliates will be given the exclusive right to develop real estate projects that the corporation shall undertake. In its capacity as the Project Developer, ALI is expected to draw upon its real estate management expertise and development experience in proposing projects to the Company's Board of Directors in accordance with the company's stated investment objectives, policies and limitations. A General Development Contract will be formulated to this effect. Subsequent specific contracts will be executed on a "per project" basis taking into account the distinct parameters of each project and the fees involved. The General Development Agreement is consistent with the primary purpose clause of the Company's Articles of Incorporation which provides that Ayala or any of its subsidiaries engaged in real estate development shall be the exclusive developer of the Company's real estate projects.

The subsidiary corporation (CPV) will be involved in the following:

Land Banking - This activity involves the acquisition of large tracts of prime raw land, which, after a specific holding period, will be developed for sale.

Property Development/Rental - This activity involves the purchase of existing buildings or investments in the construction and/or improvement of prime commercial/residential and/or shopping centers/commercial districts/residential areas from which lease/rental income will be derived by the company.

Buying and Selling of Real Properties - This activity includes the acquisition of prime properties (such as land, buildings, townhouses, condominium units) for capital appreciation and their eventual sale for a profit.

Tentative projects of CPV are:

a) The development of the former Lahug Airport into a multi-purpose (commercial, residential, office, tourism) area. Once horizontal development of the Lahug property has been accomplished, the company can then sell some portions of the property and/or initiate vertical development on the areas which it will retain.

b) The construction of a commercial/residential condominium on the Gorordo Avenue property.

The present Lahug Airport site is a 23.7 hectare provincial government-owned parcel of land located about 1.5 kilometers from Cebu Business Park (formerly Club Filipino site), a project of Cebu Holdings, Inc. (CHI), an affiliate of ALI, Santiago Land Development Corp., A. Soriano Corp. and the Kuok group. The Lahug site is composed of several parcels of grassy land situated on both sides of the mid portion of the 40 meter-wide runway. At present, the runway is being used by privately-owned planes. However, the present airport facilities will be transferred to the Mactan International Airport to pave the way for the development of the property.

Estimated horizontal development cost of the Lahug property is Pesos 75 million to Pesos 100 million while the selling price of developed lots is projected to be Pesos 10,000 per square meter.

The Gorordo Avenue property is currently being used as a depot of the Department of Public Works and Highways. The Cebu provincial government has given assurances that the property will be vacated as soon as it is needed.

The Fuente Osmeña property is currently occupied by residences of judges. The Cebu Provincial Government has also given assurances that the property will be vacated as the residences of the judges will be transferred to the Maria Luisa Subdivision.

3.2. Flotation of Equity-Bond Units

In order to meet the first tranche of the financial requirements of the Cebu Provincial Government, i.e., Pesos 300 Million, the flotation of Cebu Equity-Bond Units (the "units") will be undertaken. These units are quasi-equity financial instruments which will be secured by "A" shares of stocks in CPV. The Cebu Provincial Government will pledge a sufficient amount of their holdings in CPV as security for the units. The Cebu Equity-Bond Units are also found in the attached prospectus (Annex B).

The Department of Finance approved the issuance of the financial instruments by the Cebu Provincial Government inasmuch as there is no burden on the National Government (in terms of guarantees or budget allocation). The principal repayments and interest payments on the Equity-Bonds are dependent on the proceeds of the sale of the holdings of the Cebu Government in its subsidiary corporation. Incorporated in the Department's approved issuance of the Equity-Bond issue was the selling program of the Cebu Government with regard to their holdings in the subsidiary corporation.

The power/authority of provincial governments to float financial instruments is expressed in Section 6 of Presidential Decree No. 752, as amended by Presidential Decree No. 1195, which provides the guidelines under which the provinces and cities may issue financial instruments.

3.3. Secondary Share Sale Program

To finance the other Pesos 700 Million requirement of the Cebu Provincial Government, shares of stock in the subsidiary corporation initially owned by the province will be gradually sold to the public as the need arises.

Hopefully, by the time the Cebu Government will have to sell their holdings in the subsidiary corporation, the value of the stock would have already appreciated. The sale of the shares will be done via the stock markets.

The proposed selling program of the unpledged shares will be the following:

October 1990 -	200 Million "B" shares via a secondary sale to the general public. This will enable the corporation to list its shares in the stock market. A valuation of the shares will be done by August in order to arrive at the offering price of the stock to the public. The proceeds will cover interest payments on the Equity-Bonds and will fund the other pending projects of the Cebu Government.
1st Sem. 1991 -	60 million "A" shares and 90 million "B" shares
1st Sem. 1992 -	Whatever shares are held by the Cebu Government (including the unconverted and unpledged balance of the "A" shares).

4. <u>Advantages of Proposed Financial Package</u>

As can be seen, the proposed financial package adopts a three-pronged approach: 1) Formation of a subsidiary corporation with ALI as joint venture partner; 2) Flotation of Equity-Bond units to address the first Pesos 300 million requirement; and 3) a Secondary Share Sale program which allows the province to finance the balance of Pesos 700 million. Following are the attendant advantages of the package:

1. The creation of a subsidiary corporation whose stocks are to be listed in the stock exchanges provides the provincial government with the opportunity for potential capital appreciation of their assets (in this case, real properties converted into CPV shares). The prospects for capital appreciation are even made stronger with the choice of ALI as equity-partner and developer of CPV's real estate projects.

2. The use of the stock market provides the Cebu provincial government with a mechanism for gradually divesting of its holdings through a public forum where anybody can buy CPV shares. There is therefore no need to conduct a public bidding for the shares disposal.

3. As a listed company, CPV will be the vehicle for projecting Cebu's image as a worthwhile investment center.

4. The equity-bonds will enable the provincial government to obtain its first Pesos 300 million requirement without the need to dispose of CPV shares prematurely, thereby increasing the prospects for capital appreciation.

5. Investor yield from the equity-bonds would be a combination of the tax-free interest rate and the sharing from the capital appreciation of CPV shares. The relatively low interest rate of 16% per annum minimizes the cost of borrowing for the provincial government. For the investor, the relatively low rate is compensated by the potential capital upswing resulting from CPV shares increasing in market price.

6. Since the principal of the equity-bonds is paid via shares of stock in CPV, there is no pressure upon the provincial government to obtain cash by dumping its shares in the stock market. Likewise, there may be some investors who would hold on to the shares and just unload at a later date. Because of this, the market price of CPV shares would be insulated from a sudden drop resulting from the dumping.

7. There is already a built-in privatization structure contained in the financial package. While the provincial government holds about 75% ownership in Cebu Property Ventures Development Corp., there is a provision for two directors, one from BPI and one from DBP, to be taken from the provincial government's allocation. This will hopefully ensure protection for the investing public in the course of implementing the stages of the plan. When the voting trust agreement (for the CPV shares pledged to secure the equity bonds) is set in place, this will now result in increased representation for the private sector as the provincial government would have to yield a portion of their control in CPV to proxy(ies) nominated by the equity-bond holders.

5. <u>Implementation Timetable</u>

The original timetable of the foregoing financial package was set as follows:

April 90	-	Approval of the financial package by the Cebu Provincial Board
May	-	Incorporation of Cebu Property Ventures Corporation

July	-	Public offering of the Cebu Equity-Bond Units
August	-	Listing of Cebu Equity-Bond Units in the stock exchanges
	-	Submission to SEC of application for secondary public offering of shares in CPV
October	-	Secondary public offering of CPV shares
December	-	Listing of CPV shares in the stock exchanges

The actual public offering and listing in the stock exchanges of the Cebu Equity Bond-Units was moved to the first quarter of 1991 in view of super typhoon Ruping which devastated the province of Cebu in September 1990. This adversely affected market perceptions and therefore compelled the local government to bring the whole economy of the province back on its feet. Fortunately, under the able leadership of Gov. Osmeña, the province was able to swiftly recover in less than six months.

III. THE MUNTINLUPA BONDS

1. Financial Condition of Muntinlupa

Annex A presents an 8 year consolidated revenue history for the municipality starting in 1983 up to 1990. In view of a fairly consistent revenue pie structure during the time span, an eight year average was derived as follows:

As a percentage of Total Revenues

LOCAL SOURCES	85.88
Business Taxes	20.51
Real Property Taxes	49.86
Non-Tax Revenues	15.52
CENTRAL SOURCES	14.12
TOTAL	100.00

It is quite evident that the municipality's posture in terms of its capability to draw resources internally far outweighs allocations it derives from Central sources by a margin of 6:1.

While Muntinlupas total revenue level has grown remarkably well by almost 400% (gross of inflation), from Pesos 26 million in '83 to Pesos 105.4 million in '90, the sharing in terms of revenue sources remained basically intact.

Comparatively speaking, in terms of the consolidated LGU experience for the same duration which shows a 2.2:1 ratio, it would seem safe to state that Muntinlupa has shown positive and impressive signs of self-reliance vis-a-vis the entire LGU sector taken as a whole.

To further strengthen this notion of self-reliance, the municipality has never borrowed from any financial institution unlike many of its colleagues who have ventured into a creditor-debtor relationship with government financial institutions. This is a policy which the local government appeared happy about given the widespread failure of any LGUs in keeping their accounts current with the banks. It is in fact observed (and based on the table presented) that Muntinlupa only started availing of the NALGU fund in 1989, but which was in existence since 1986.

The municipality, based on remarks by Treasurer Alon, takes pride in the manner by which they have managed their financial affairs which they aptly characterize as "living within their means." While such a management approach can be labeled as a prudent one, the rapidly changing environment raises the question of whether it is enough vis-a-vis the ever growing demands of the municipality for more infrastructure, more basic services. To further stress the point the municipality's books may appear very strong and healthy, not to mention the Treasurer garnering the top collection award for 1990, but many of the needed basic services remain pathetically underdeveloped.

In essence, an LGU's character is largely influenced by the kind of leadership that it has. In the person of Mayor Bunyi of Muntinlupa, he has been successful in stirring his local organization into something more dynamic and responsive. An investment banker by profession before coming into office, he has allowed his creative skills to give life to an otherwise "status quo" driven setup. Granting that the bond initiative has been held in abeyance due to some legal technicality, the Mayor has clearly made a statement that bureaucracy can and should break away from its ineffective ways of the past and move up to a new horizon of bold initiatives which the law permits.

2. <u>The Alabang Diversion Road Project - A Must</u>

This was a project long conceived by Mayor Bunyi. It arose from the dire need to address the severe traffic congestion at the Alabang Expressway Junction brought about by rapid growth of the municipality in terms of residential, commercial and industrial expansion.

Under the plans, the diversion road was to start from the South Expressway passing through the Alabang Stock Farm and finally exiting at the Alabang Zapote Road. The road, including its shoulders, would not exceed 7.3 meters in width and 684.0 meters in length. It was to be constructed close to a creek and other boundaries to minimize wastage of land that would eventually be isolated. Concrete to be used in this road would be class "A" Portland cement.

Since the proposed diversion road would traverse the pasture area of the Alabang Stock Farm, both sides of the road would be well fenced with interlink wire or if possible, better fencing materials. Duration of the project would be one hundred fifty (150) calendar days.

3. Project Financing: Old and New Ways

The project cost was estimated at Pesos 11.0 Million, to be sourced from the following:

- P6.0 Million - NALGU allotment
  (National Assistance to Local Government Units)

- P5.0 Million - Bond Flotation

NALGU are funds formerly available (before adoption of the Local Government Code of 1991) in the General Appropriations Act (GAA) intended as grants-in-aid to local government units (LGUs) to provide them with additional funds to support local services and development. Under the 1986 and 1987 GAA, three fund types under the NALGU were administered through the Department of Local Government: the BALGU as earlier described, the Barangay Development Fund (BDF) and the Schoolbuilding Fund (SB). In the 1988 GAA, only two fund types were administered through the DLG: NALGU and BDF.

Under the NALGU, funds were used to finance barangay infrastructure projects such as water systems, wharfs, small irrigation, farm to market roads/bridges, barangay halls/markets and multi-purpose centers. These could also be used to support livelihood projects such as the purchase of tools and equipment, livestock dispersal, and manpower/skills training.

Funds under NALGU were released directly to town/city/province/municipality in which the project was located. These could also be used to augment the LGU budget in cases of financial dislocation.

Bond flotation, by contrast, rested upon more developmentally oriented and LGU self-support principles.

The Muntinlupa leadership believes that its citizenry can play a more active role in community building by directly participating and have a stake in the project. Potential bond subscribers are reportedly very upbeat about their involvement. These comprise teachers, homeowners, students, and even retirees all of whom basically represent a retail base market for such an issue. Hence, the attractiveness of the instrument is higher than normal savings instruments on a virtually risk-free investment which is strategically pitched to the needs of such a potential market.

Given the project's test case features, it was designed to serve as a model for a series of projects that could be funded, either partially or wholly, through this non-traditional bond issue approach. Furthermore, should it have proven successful, other municipalities were eagerly waiting to follow suit to do their own creative bond floats.

In a much broader context, such a move jibed also with the National Government's policy of decentralization as a critical vehicle towards countryside development. The less dependent the LGUs become on Manila's bureaucratic jungle and tight funding capability in pushing for worthwhile, BOT-based projects, this would certainly go a long way in better serving the people.

The Alabang diversion road project was designed to be self-liquidating. A toll fee of Peso 0.50 for every vehicle entering the diversion road would be charged (public utility vehicles not allowed to enter). The municipality would then use the toll revenues to pay the debt service and other operating expenses related thereto in maintaining such a toll arrangement. Toll revenues were projected to average Pesos 1.0 Million a year. Further, portion of the income was to be earmarked for a sinking fund that would be used to cover the interest charges and principal repayments on the bonds. (See Annex B for the financial projections.)

Far East Bank Investments Inc., the investment banking arm of Far East Bank and Trust Co., was enlisted to handle professional packaging and management of the bond float. It could also act as underwriter of same subject to the final approval of its Executive Committee. In view of the then effective P.D. No. 752 (Decree on Credit Financing for Local Governments), terms and conditions as recommended by FEBII were subject to the pre-clearance of the Secretary of Finance, the Monetary Board, and NEDA. Final approval for the authority to issue rested with the President upon recommendation of mentioned agencies. (See Annex C for bond features.)

5. P.D. 752's Legal Technicality

While originally programmed to be launched before the inauguration of the Alabang diversion road set last April 19, 1991, the bond scheme encountered a major obstacle in view of an opinion handed down by the Department of Justice disqualifying the Municipality of Muntinlupa to issue such bonds. The Department of Justice ruled that the then operative Presidential Decree 752 authorized only chartered cities and provincial governments to contract and issue bonds. This ruling stopped plans to issue the bonds.

Notwithstanding the above, the municipality has since submitted an appeal and has expressed willingness to convert the issuer's personality from the municipality to the MMA (Metro Manila Authority) which by its charter is defined as the provincial government having responsibility over Metro Manila.

At the same time, the municipality built the road anyway. The diversion road is now almost complete save for a few lighting fixtures and some fencing work. It is already being fully utilized as a bypass route from the Expressway to the Zapote road without having to pass through the main intersection. As expected, the bypass has eased the traffic tremendously. The municipality absorbed the costs which Treasurer Alon admitted caused some dislocation in the regular and budgeted allocation of their funds. They Have, somehow, managed to stretch their financial resources if only to complete the project.

The municipal Treasurer is, however, still very optimistic that they will be able to issue the bonds. This will be done under the new Local Government Code of 1991 which authorizes municipalities to go into such forms of official borrowings. Work on that effort will take place after the elections of May 1992. The municipal treasurer is confident the issue can be sold and the returns used to replenish the municipal coffers. The replenished municipal funds can then be used to support other development projects.

IV. P.D. 752, CEBU, MUNTINLUPA: AN EVALUATION

1. Framework for Analysis

Local government finance through the use of securities has two commonly accepted classifications: 1) those securities which are general obligations (GO) of a state or local government; and 2) those which are in a broad category called revenue bonds. The former are secured by a pledge of the full faith and credit (taxing powers) of the issuer while the latter are principally secured by user fees or service charges paid by users of a particular government service. Revenue bonds are normally outside the liability sheet of the local government in which they are located. Moreover, they may come in variations or hybrid forms. The GO bond is a financing vehicle for non-income-generating projects or predominantly subsidized ventures such as school-buildings, urban/rural roads, and even capitol structures. The revenue bond is a major source of funds for providing revenue-producing public services such as housing, electric power, toll highways, water, airports, ports, among others.

Credit analysis of local government securities differs substantially from that of corporate securities. The credit worthiness of the local government issuer depends on a whole range of complicated legal, financial, economic and administrative factors as well as political considerations that are simply not encountered in the corporate world.

The elements of a GO bond credit analysis may be grouped into: (1) information related to the LGU's current and future debts as well as legal or financial debt limits, (2) information related to the LGU budget particularly executive powers over it, elements of public services, accounting history, and potential threat of taxpayer revolts, (3) revenue information as to nature of the issuer's specific types and amounts of revenue, and (4) economic factors of the local community covering real estate values and trends, construction activities, population, employment and investments as this impacts on the fiscal picture. While these factors put together are important indicators of bond quality, each provides, if taken separately, only a single isolated factor not in itself sufficient for full-scale analysis. Investors, therefore, must carefully review all these indicators so as to arrive at a judicious credit conclusion concerning the degree of risk involved in purchasing an issuer's GO bonds.

Revenue bond credit analysis, in contrast, encompasses a closed system with a fixed and limited number of variables, which are more amenable to simple quantification and comparison. A revenue bond security almost always involves an enterprise whose debt is related to its earnings. The earnings are dependent on consumer usage of the community benefit/service the enterprise provides. Central to the analysis is the demand for the given services and the legal protection for the bondholder in case the user demand declines. The legal protections, thus become far more important for revenue bonds than for GO bonds. Revenue bonds can have the backing of the taxing power if properly designed and supported by LGU leaderships.

2. Constraints

The now defunct Presidential Decree (P.D.) 752 provided the legal framework within which both the Cebu and Muntinlupa bonds were formulated and issued. The drawbacks and limitations of this Decree are described in the Llanto and Saldaña papers which form a part of this overall study.

The Cebu case already foresaw the limitations set by P.D. 752. For one, the formula in determining the amount of bond issue would realistically not yield the initial Pesos 300 million the province required. Additionally, the national government has steadily signaled its reluctance to grant guarantees on bond issues in view of its bloated annual budget deficits. It was for these principal reasons that a deviation from P.D. 752, while maintaining adherence to the spirit of the law was called for. The Muntinlupa case, on the other hand, opted to pursue a bond flotation via the P.D. 752 guidelines. All of P.D. 752's requirements were met. Certain features were also suggested by the financial advisor (Far East Bank Investments) to enhance the bond's attractiveness to both the issuer and buyer. The Muntinlupa municipal government viewed the bond issue as more of a promotion of the capital markets among its constituents rather than meeting an immediate financing need.

Both bond issues went through, basically, the same approval procedure starting with their respective local government boards. The exception is Muntinlupa where the prospective bond issue was aborted at the Finance Department level when the legal technicalities under the then applicable P.D. 752 began to surface. Cebu's case, however, had an extended process since it first had to establish the legal feasibility of creating a joint venture corporation with the private sector. Thus, clearances from the government agencies earlier mentioned were secured. Inasmuch as this was the first bond issue ever evaluated by the Bureau of Local Government Finance (BLGF) and a variation at that, it took some time to refine and finalize the terms and conditions of the financial instrument. Items such as setting of interest rates which is acceptable to both the province and BLGF as well as creating an initial cash reserve instead of the usual sinking fund for debt servicing were lengthily discussed.

In regard to technical capabilities, both Cebu and Muntinlupa local governments' bureaucracies were plunged into an intensive learning process. Most if not all the initiatives in pursuing the projects were limited to the two local chief executives. It was likewise a learning experience for the financial advisors of the two local governments given the precedence in getting consensus about a whole lot of things not only from the issues themselves but also from national government agencies.

3. <u>Strengths</u>

An obvious key factor in both bond flotation exercises was the leadership of the two local governments. Leaders at Cebu and Muntinlupa had the business sense to determine the need for a bond issue. Both demonstrated the ability to mobilize people and organizations from the private and public sectors in order to hurdle problems and seize opportunities along the way. Cebu Gov. Osmeña directly made personal representations with the various heads of national government agencies in order to explain and resolve issues attending the preparation of the bond issue. Mayor Bunyi, prior to the passing of the new Local Government Code of 1991, vigorously appealed to the Justice Department to reverse its earlier opinion barring municipalities from issuing bonds.

The role of the financial advisors was also instrumental in the completion or non-completion of the bond issue. Although mainly engaged for the financial aspect, DBP-BPI's responsibility also spanned all corporate, legal, promotions, and even administrative preparations. As the overall packager, DBP-BPI had to ensure that before anything and everything was documented, loopholes particularly in terms of consistency with status as well as working relationships were tightly covered.

The successful flotation of the Cebu bonds is also attributable to the nature of the project financed. The three common investment yardsticks of yield, liquidity and risk were adequately met by the package as earlier described. Complementing this was the generally favorable business environment in Cebu. It was launched at the time when Cebu was believed to have established its track record in revenue generation (local tax collections, IRAs, and asset sale) which boosted investor confidence and has proven its dependability after overcoming the economic difficulties resulting from typhoon Ruping. The market timing was further enhanced when interest rates from alternative investment outlets such as government treasury bills were already comparable to Cebu bonds.

4. Lessons Learned

There is no standard formula in ensuring a successful bond issue. The right combination of both internal and external factors and how these will interplay with one another is crucial. the first and foremost ingredient is the policy framework. The BLGF admitted that P.D. 752 was not really promoted and at the same time carried provisions not responsive to local government requirements. Under the new provisions of the new Local Government Code of 1991 and its implementing rules and regulations of February 24, 1992 it will, therefore, be contingent on the initiatives of each local government to innovate the type of financing appropriate to its needs.

Second, each local government must have a clear understanding of the project financing needs. This should enable the local government to subsequently determine the amounts and possible sources of funds. The contracting of a financial advisor at this point is advisable. The scope of engagement, however, will depend on the local government's capabilities and how much it will take on as responsibilities or would rather pass on to the financial advisor. Although the technical aspects is best left to the financial advisor, certain parameters and milestones should be set and agreed upon to maintain the objectives of the local government. The financial advisor may or may not be the underwriter of the issue.

Last, but not least, is to bring on board at the outset the proper personnel from within the local government organization. This should allow for the possible technology transfer during the whole process of financial instrument packaging thereby preserving whatever gains the local government will have attained. Since the Sanggunian is a major policy maker on future bond issues under the new Local Government Code of 1991, their members should be fully informed and trained at all times.

V. RECOMMENDATIONS
(See Overall Summary of High Priority Recommendations)

1. Reform Areas

Most of the deficiencies of P.D. 752 have been overcomed in The Local Government Code of 1991. The experiences of the two bond issue attempts gave the framers of the new local government code valuable insights in improving and making more relevant the provisions for local government credit finance. The new Code no longer carries limitations on amounts of bond issue and prohibitions for municipalities to float bonds. The implementing rules and regulations of of February 24, 1992 are also very supportive of bond issues. There remain a number of potential hindrances to the full development of the local government bond industry. Among those items worth considering are:

1.1. The possibility of expanding the bond issuance coverage to include general obligation bonds given the new taxing powers of the local government units. The present provision speaks only of revenue bonds or those related to financing self-liquidating or income-producing development or livelihood projects.

The operative principle should be that LGUs can resort to debt financing precisely to spend on capital outlay which could result in increased investments flow, productivity, and income over the succeeding years. This would then directly increase the LGU tax collection contribution to the national government thereby favorable generating more funds from its higher share of the IRA.

1.2. The extension of the term of the bond, whether G.O. or revenue type, from five years to about twenty or even twenty-five years will allow for major financing of basic infrastructure projects such as toll roads, power generators, water systems, etc. Congress, the Central Bank, DILG, and other national and LGU agencies will have to develop mechanisms and practices to ensure that the credit discipline and responsibility of local governments will transcend terms of administrations.

1.3. Both government financial institutions or private banks and investment houses must be encouraged to act as financial advisors and/or underwriters to bond issues. Similar to the lending provisions, this should quickly open the doors of opportunity to the financial and capital markets. This must be explicitly stated in procedural and incentive follow-ups on the implementing rules and regulation.

2. Bond Development Frameworks

Three broad frameworks of future operations are now available for consideration by local government units. These are the following:

2.1. Framework A

A number of LGU's are fortunate to own real estate assets whose values have increased tremendously over the years. These properties could very well serve as an income-generating project by itself and simultaneously be used as security to whatever debt instrument the LGU will be issuing to finance non-income-generating projects. Repayment of the borrowing may be sourced from the potential revenues to be generated from the income generating project. Such is the case of the Cebu bonds.

2.2. Framework B

Again, for income-generating projects, the LGU may directly issue the certificate/note of indebtedness or even shares of stocks or asset participation certificates to investors within and outside the location of the project. The cash generated from such issue could be used to finance the establishment and operation of the project which in turn will be the source of repayment. The Muntinlupa bonds has this format.

2.3. Framework C

In case the LGU is regarded as a high growth area general obligation bonds with a medium to long term maturity period might be issued to investors, with the repayment chargeable against the LGU's future internal revenue allocations. As an attraction to investors, a guarantee from the national government or its instrumentalities may be an added feature. A caution here would be that such a guarantee will probably impose national government clearance/approvals of considerable complexity. This framework however, would be on a selective basis and would depend substantially on the strong growth potentials of province, city or municipality as the case may be.

3. Research and Training

A number of special studies will be necessary in order to improve the local government bond industry. The private sector must be encouraged to participate on this. Experiences of other countries and states should be looked into and studied for possible replication in the Philippines.

Training of selected local government staff in the areas of project finance, investment/merchant banking, and securities trading must sustain the decentralization efforts of the government especially in the field of public finance. The objective must be to provide key local government staff a working knowledge of capital markets mechanics thereby allowing easier and faster interaction with the whole financial community.

The DILG, DOF-BLGF, COA, and NEDA organizations must also be exposed to the aforementioned disciplines. Additionally, their capabilities and knowledge in areas of LGU credit analysis must be upgraded to make them more responsive and dynamic, thereby complementing initiatives that may be triggered by LGUs or the financial community.

4. Bond Ratings

Eventually, over the medium- to long-term policy attention should be addressed to whom and in what ways various agencies like the BLGF, the Securities Exchange Commission, the Credit Information Bureau, Inc., etc. should set up rating systems and systems of analysis for local government bonds trading. Corollary to this, the private sector should be encouraged to establish securities rating agencies and systems of analysis which will also cover local government bonds.

ANNEX A

CONSOLIDATED REVENUE FOR LGUs
(In P Millions)

	1983	1984	1985	1986	1987	1988	1989	1990
LOCAL SOURCES	4,245.00	4,902.00	5,373.00	5,706.00	6,067.00	6,717.00	9,412.00	9,717.00
Revenue from Taxation	2,493.00	2,907.00	3,155.00	3,524.00	3,665.00	4,144.00	5,418.00	6,394.00
Business Taxes	1,540.00	1,875.00	1,951.00	2,258.00	2,375.00	2,670.00	3,618.00	4,310.00
Real Property Taxes	953.00	1,032.00	1,204.00	1,266.00	1,290.00	1,474.00	1,800.00	2,084.00
Non-tax Revenue	1,752.00	1,995.00	2,218.00	2,182.00	2,402.00	2,573.00	3,994.00	3,323.00
Receipts from Econ. Ent.	564.00	632.00	591.00	788.00	822.00	911.00	1,276.00	1,310.00
Fees, Charges and Others	1,188.00	1,363.00	1,527.00	1,394.00	1,580.00	1,662.00	2,718.00	2,013.00
CENTRAL SOURCES	2,884.00	3,082.00	3,735.00	3,740.00	3,594.00	4,488.00	4,969.00	6,915.00
BIR Allotments	2,519.00	2,678.00	3,205.00	3,299.00	3,142.00	3,974.00	4,343.00	6,175.00
National Aids	365.00	400.00	530.00	441.00	452.00	514.00	626.00	740.00
T O T A L	7,129.00	7,984.00	9,108.00	9,446.00	9,661.00	11,205.00	14,381.00	16,632.00

PERCENT OF TOTAL REVENUES

	1983	1984	1985	1986	1987	1988	1989	1990
LOCAL:								
Business Taxes	21.60	23.48	21.42	23.90	24.58	23.83	25.16	25.91
Real Property Taxes	13.37	12.93	13.22	13.40	13.35	13.15	12.52	12.53
Non-Tax Revenues	24.58	24.99	24.35	23.10	24.86	22.96	27.77	19.98
Sub Total	59.55	61.40	58.99	60.41	62.80	59.95	65.45	58.42
CENTRAL	40.45	38.60	41.01	39.59	37.20	40.05	34.55	41.58
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Bureau of Local Government

CEBU EQUITY-BOND UNITS

300,000,000 Units

Par Value: ₱1.00

Offering Price: ₱1.00

PROSPECTUS

NEW ISSUE

REPUBLIC OF THE PHILIPPINES
PROVINCE OF CEBU
CEBU EQUITY-BOND UNITS

₱ 300,000,000.00

The Cebu Equity-Bond Units (the" Units") will be issued as registered instruments. The interest payments due shall be paid on maturity dates to all registered unitholders. Principal payments due unitholders are payable upon presentation of the Unit Certificates to the Development Bank of the Philippines (the "Servicing Bank").

The Units will be sold to investors through a public offering to commence 10 a.m. of MAR 01 1991 and to end at 5:00 p.m. of MAR 21 1991. The Units will be sold at 100% of its par value. Minimum purchase is P10,000.00 or 10,000 Units.

Each Unit shall be secured by a pledge of 1.25 Class "A" shares of Cebu Property Ventures and Development Corporation (CPVD), a newly incorporated firm whose shares of stock are intended to be listed in the local stock exchanges. The principal due on the Units shall be paid through the delivery to the Unitholders of Class "A" shares of CPVD. A conversion formula has been developed to allow the Servicing Bank as well as the Unitholders to determine the number of shares that will correspond to maturing principal amounts. The conversion formula is set out on pages 15 & 16 of this Prospectus.

A fixed interest of 16% p.a. is due on the Units and this shall be paid in cash and semi-annually in arrears. Based on approvals secured from various government agencies, the interest due on the Units shall be tax-free.

Proceeds from the sale of the Units shall be used to finance various infrastructure projects of the Provincial Government of Cebu.

Prospective investors are urged to read this Prospectus in its entirety, giving particular attention to the matters referred to under the caption "Risk Factors." They may also inspect all pertinent documents at the Cebu Provincial Capitol, Cebu City, or at the Servicing Bank , Makati, Metro Manila.

	Price to the Public	Fees and Commissions	Proceeds to Cebu Province*
Per Share	₱ 1.00	₱ 0.05	₱ 0.95
Total	₱ 300,000,000.00	₱ 15,000,000.00	₱ 285,000,000.00

* Excluding reimbursement of out- of-pocket expenses.

NO DEALER OR SALESMAN, OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION WITH RESPECT TO THE CEBU EQUITY-BOND UNITS WHICH IS NOT CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE PROVINCIAL GOVERNMENT OF CEBU OR BY THE UNDERSIGNED ISSUE MANAGERS. THE INFORMATION IN THIS PROSPECTUS IS SUBJECT TO CHANGE AND NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY MADE AFTER ANY SUCH DELIVERY SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE SINCE THE DATE OF THIS PROSPECTUS. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF ANY OFFER TO BUY. THERE SHALL BE NO SALE OF ANY CEBU EQUITY-BOND UNITS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION, OR SALE.

THE READER OF THIS PROSPECTUS SHOULD CONSULT HIS STOCKBROKER, BANKER, LEGAL COUNSEL, ACCOUNTANT OR OTHER PROFESSIONAL ADVISOR WITH RESPECT TO HIS ACQUISITION OF THE SECURITIES DESCRIBED HEREIN.

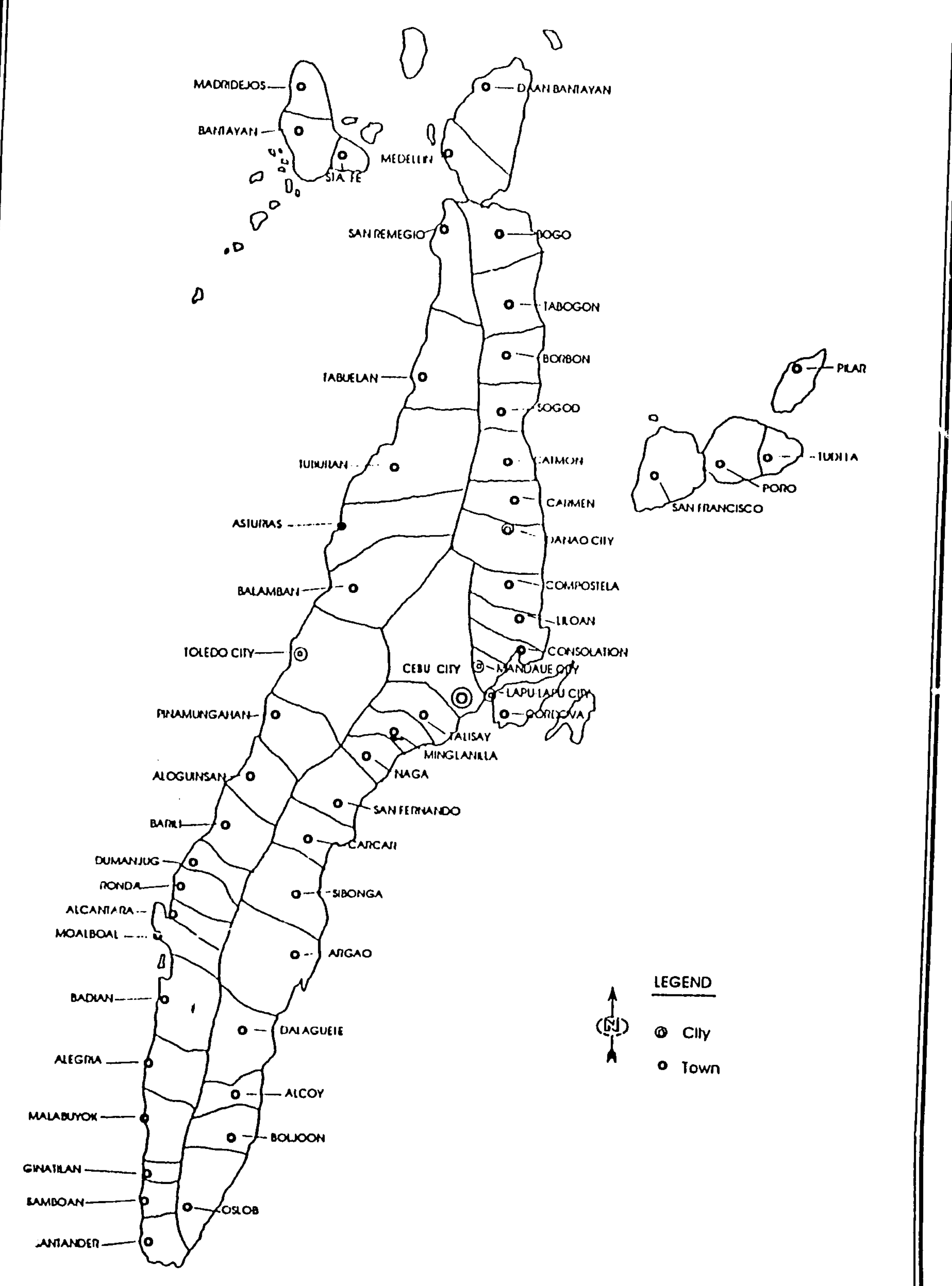
BY VIRTUE OF SUBSECTION 1 OF SECTION 5 OF BATAS PAMBANSA BLG.178 OTHERWISE KNOWN AS THE REVISED SECURITIES ACT, THE OFFERING OF THE CEBU EQUITY-BOND UNITS TO THE PUBLIC IS EXEMPT FROM THE REQUIREMENT OF REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION.

THE FEATURES OF THE CEBU EQUITY-BOND UNITS HAVE BEEN APPROVED BY THE DEPARTMENT OF FINANCE, THE MONETARY BOARD OF THE CENTRAL BANK OF THE PHILIPPINES AND THE OFFICE OF THE PRESIDENT OF THE REPUBLIC OF THE PHILIPPINES. HOWEVER, THEIR APPROVAL OF THE CEBU EQUITY-BOND UNITS DOES NOT CONSTITUTE A RECOMMENDATION OR ENDORSEMENT FOR THE SALE OF THE EQUITY-BOND UNITS TO THE PUBLIC.

THE INFORMATION CONTAINED IN THIS PROSPECTUS HAS BEEN OBTAINED FROM AND/OR SUPPLIED BY SOURCES DEEMED RELIABLE. NO REPRESENTATION OR WARRANTY, EXPRESSED OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED HEREIN IS MADE BY THE UNDERSIGNED. THE INFORMATION IN THIS PROSPECTUS IS BEING SUBMITTED TO INVESTORS IN CONNECTION WITH THE OFFERING DESCRIBED HEREIN AND MAY NOT BE REPRODUCED, IN WHOLE OR IN PART, FOR ANY OTHER PURPOSE.

DEVELOPMENT BANK OF THE PHILIPPINES | **BANK OF THE PHILIPPINE ISLANDS**

MAP OF THE PROVINCE OF CEBU



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THE PROVINCE OF CEBU

Cebu is one of the oldest known trading centers in the Pacific rim and is now the fastest growin economy in the area.

GEOGRAPHY

Cebu is geographically situated at 10°27' latitude and 123°54' longitude. The province is locatec at the center of the Philippine Archipelago and has a total land area of 5,088.4 sq. kms. (508,84(has.).

CLIMATE

Average Annual Rainfall	1,638.2mm
Minimum Rainfall	50.4mm
Maximum Rainfall	206.5mm
Mean Temperature Range	26.4 - 28.7 deg. Celsius
Minimum Temperature	22.6 deg. Celsius
Maximum Temperature	33.1 deg. Celsius

Like the rest of the country, Cebu enjoys two seasons, the wet season from May to November and the dry season from December to April. It ranks as the 3rd province least visited by tropical cyclones.

POPULATION

Cebu had a population of 2.3 million in 1988. Its population by the end of 1990 is projected at 2.6 million and is expected to reach 4.2 million by the year 2000 based on an annual growth rate of 5%. Based on the geometric progression method, population density per municipality was computed at 636 persons in 1990 and is estimated to grow to 824 persons in 2000.

Of the total population as of January 1990, 1,579,000 were 15 years old and above. Of this figure, 991,000 were in the labor force. 95% of the labor force were either fully or partially employed. More than one-half, or 571,000, were employed in the non-agricultural sector while the rest of the labor force was accounted for by the agricultural sector.

POLITICAL ADMINISTRATION

Under the Philippine context, a province is considered the largest political subdivision. Provinces are created by law as public corporations endowed with certain powers to be exercised by and through their respective provincial governments.

Each province is administered by a Provincial Governor and assisted by a Vice-Governor, both duly elected by the people. Aside from being the Chief Executive of the province, the Governor is also the presiding officer of the Provincial Board, otherwise known as the Sangguniang Panlalawigan, which acts as the legislative arm of the provincial government.

The component cities and municipalities of the province are each headed by a Mayor and Vice-Mayor, both duly elected by the electorate. The Mayor is also the presiding officer of the city or municipal legislative council, as the case may be, known as the Sangguniang Panglungsod in the case of the city, or Sangguniang Bayan in the case of a municipality. The legislative council is composed of elected members tasked to pass ordinances subject to the approval of the Sangguniang Panlalawigan.

The cities and municipalities are further subdivided into barangays, the smallest political unit. These are administered by the Barangay Captain and the Barangay Council. The Barangay Captain and the members of the Barangay Council are likewise duly elected by their respective constituents.

The Province of Cebu is politically divided into local government units (LGU) consisting of forty-eight municipalities and five chartered cities. The municipalities are Alcantara, Alcoy, Alegria, Aloguinsan, Argao, Asturias, Badian, Balamban, Bantayan, Barili, Bogo, Boljoon, Borbon, Carcar, Carmen, Catmon, Compostela, Consolacion, Cordova, Daanbantayan, Dalaguete, Dumanjug, Ginatilan, Lilo-an, Madriedejos, Malabuyoc, Medellin, Minglanilla, Moalboal, Naga, Oslob, Pilar, Pinamungahan, Poro, Ronda, Samboan, San Fernando, San Francisco, San Remegio, Santa Fe, Santander, Sibonga, Sogod, Tabogon, Tabuelan, Talisay, Tuburan, and Tudela. The cities are Cebu, Mandaue, Toledo, Danao and Lapu-Lapu. Cebu City is the most urbanized.

The present political leadership of the province of Cebu is composed of the following:

Emilio M. R. Osmena - Governor
Presiding Officer - Sangguniang Panlalawigan
Chairman:
- Regional Development Council - Region 7
- Central Visayas Regional Projects Board
- Cebu Provincial Development Council
- Cebu Resource Management Program Board
- Cebu Peace & Order Council

Enrique P. Rama - Vice- Governor
Acting Presiding Officer - Sangguniang Panlalawigan
Chairman - Committee on Education, Youth Development & Sports

Members of the Sangguniang Panlalawigan

		Committee(s) headed:
George J. Aznar	-	Cultural & Historical Affairs
Fermin Celestial	-	Public Affairs & Information
Antonio V. Garcia y Escano	-	Committee on Finance
Winston F. Garcia	-	Laws, Good Government, Investigation and Provincial/ Municipal Properties
Ribomapil S. Holganza	-	Human Rights & Labor
Castro Belme Mabuyo	-	Barangay Basic Services
Roldan Mangubat	-	International Matters and Cultural Minorities

Crisologo R. Monteclar	-	Barangay Affairs & Rural Development and Ways and Means
Gregorio G. Sanchez	-	Public Works, Highways & Infrastructure, Public Safety, Peace & Order
Nerissa Corazon Soon	-	Public Health & Social Welfare
Roberto Ybanez	-	Agriculture, Industry & Tourism

AGRICULTURE

Cebu is basically not an agricultural province due to the island's mountainous and rugged terrain. However, inspite of this, Cebu has managed to produce some crops for local consumption. Cebu, therefore, is not totally dependent on other provinces for its basic agricultural needs such as rice, corn, vegetables and fruits.

The average share of Cebu agriculture's gross value added to the region's gross domestic product from 1985 to 1988 was 22.78% at constant prices. The average annual growth rate was 3.60%.

In 1988, Cebu produced 9,724 metric tons of palay representing an increase of 4% as compared to 1987. Ricelands cover approximately 2,980 hectares with 2,424 hectares of paddy rice irrigated and 556 hectares of paddy rice non-irrigated. Paddy rice is extensively grown in Talisay, Minglanilla, Carcar, Argao, San Fernando, Naga, Pinamungahan, Toledo City, Balamban, Asturias, Catmon and Lilo-an.

Corn production was posted at 164,360 metric tons in 1988. Other crops like coconut, sugarcane, banana, root crops and vegetables are also produced.

Another important agricultural industry of Cebu is livestock and poultry. Cebu is the top producer of livestock and poultry in the Visayas region. Livestock production is predominantly a backyard-type (25 heads or less) of industry. In 1988, the population of carabao, hog, goat and cattle aggregated 86,950 heads. Of this total, 98% were raised through backyard farming. Backyard production of cattle is seen to intensify in the absence of extensive grassland areas which make ranch-type development inappropriate in Cebu.

NATURAL RESOURCES

Cebu has three existing national parks and a wildlife sanctuary: the Mainit- Mabugnaw National Park, the Sudlon Park, the Central Cebu National Park, and the Danao Wildlife Sanctuary. To solve forest denudation, the Provincial Government of Cebu in coordination with the Bureau of Forest Development has launched three major reforestation projects, namely : the Osmena Reforestation Project covering 2,170 hectares, the Cebu City Reforestation Project covering 7,236 hectares and the Southern Cebu Reforestation Project covering 20,516 hectares.

The waters surrounding Cebu are rich in various species of fish making fishing a major industry in the rural area whose towns and barangays are situated along the coastline. On the other hand, Cebu's mineral resources include copper, gold, silver, guano, clay, coal, limestone, fedspar, silica, salt, pyrite and phospate for fertilizer. Construction materials such as pebbles, gravel, sand and stones also abound in almost all areas of Cebu. Cebu contributes quite a big share of the country's export production of copper, silver and other non-metallic minerals such as cement. Its copper exports alone accounted for US$84.5 Million representing 22% of the Philippines' total exports for the year 1989 .

INFRASTRUCTURE

Power - The National Power Corporation is the major supplier of electric power in the province. Its power plants have generated a total of 175 megawatts as of mid-1990. For the next 10 years the province is projecting an average annual growth rate of fifteen percent (15%) in power demand.

NPC has the following expansion programs to meet the projected demand:

- an additional 30-mw gas turbine power barge and two land-based gas turbines with a total generating capacity of 55 mw in 1990.

- the repair of the 50-mw Naga II Diesel Plant by1992.

- the 80-mw connection from Negros' Palimpinon Geothermal Plant by 1993.

- the 250-mw connection from Leyte's Tongonan Geothermal Plant by 1996.

- the additional 250-mw cable connection of Leyte's Tongonan Geothermal Plant by 1999.

By year 2000, power supply is expected to reach 890 mw as against projected demand of 627 mw.

Water Supply - The Metro Cebu Water District is currently producing 86,000 cubic meters per day as against the demand of 216,000 cu. m./day. The gap between supply and demand is being handled by the private sector.

For the next ten years, the increase in demand is projected to be at an average annual growth rate of 5%. To augment production, several expansion projects will be implemented:

- in 1992, Nest of Wells will be constructed to generate an additional daily water supply of 74,000 cubic meters.

- in 1993, construction of Maghaway Well will generate an additional daily water supply of 33,000 cu.m.

- in 1997, construction of Mananga Dam to generate 60,000 cu. m./day.

- in 1999, development of Inabanga Watershed will generate an additional daily water supply of 200,000 cu. m.

Communication - The Provincial Telephone System Program involves the installation of a public phone system in all 48 municipalities to be inaugurated by December 1990. This program will make Cebu the first province in the Philippines to have a complete telephone system.

In addition, the Philippine Long Distance Telephone Co. (PLDT) is also expanding its X-5 telephone program. This will allow the metropolitan areas to use the X-5 Plus Telephone System adding 28,100 lines to the existing 39,700 lines by the year 1992.

The province has also granted a franchise to the ISLA Communication Corporation for the establishment of a mobile cellular telephone system with the potential to add other phones into the system by the year 1991.

The breakdown of the communication facilities in the province is shown below:

Communication Facilities	Total Number
Telephone Relay Stations	5
Telephone Toll Services	25
Telex Services	13
Facsimile Carriers	4
Radio Telephone Operators	73
AM Radio Stations	12
FM Radio Stations	5
Local Dailies	4
Messengerial Services	25
Post Offices	74

Road Network - The province has a total of 935 kms. of provincial roads and 2,427 linear meters of bridges. An inventory of these roads and bridges reveals that 70% need improvement and restoration. Because of this, the provincial government in coordination with the Department of Public Works and Highways embarked on a road development project worth P1.5 billion over a period of 10 years covering a total distance of 1,643.34 km. In 1989, there were some 68,136 vehicles plying the existing road networks.

Airport - The steady rise of air transportation traffic to and from Cebu affirms its increasing popularity as a major tourist attraction and business center. Philippine Airlines (PAL) has six daily direct flights from Cebu's Mactan International Airport which link the province to Metro Manila and 20 other key cities within the country. Currently, there is the Cebu Link which connects Cebu with several key foreign cities such as Hongkong, Singapore and Tokyo.

The Cebu Provincial Government has lined up several infrastructure projects within the next three (3) years to upgrade its airport facilities. Within the next 18 months it expects to complete the expansion of the Mactan International Airport Terminal at a total cost of almost P100 million. By 1993, it will undertake a further expansion of the terminal airport facilities and runway at a cost of P2.1 billion to be funded from Official Development Assistance sources. Also in the year 1991, four (4) new airports will be constructed and completed in the municipalities of Santa Fe, San Francisco, Moalboal and San Remegio.

Seaport - Cebu has one of the best harbors in the country making the province a major port of trade and commerce outside Manila. Almost all shipping lines operating in the country make Cebu one of their major ports of destination. The existing container port has a draft of 40 feet. By 1993, it shall be expanded by an area of 200 hectares with a draft of 60 feet.

Financial Institutions - Like Manila, Cebu is host to a number of banking institutions as shown in the tabulation below:

	No. of Banks	No. of Branches	Total Outlets
Commercial Banks	25	86	111
Savings Banks	5	4	9
Government Banks	4	8	12
Rural Banks	26	0	26

Health Facilities - These consist of hospitals, clinics, rural health units/stations and health centers.

	Number	Bed Capacity
Government Hospitals	24	1,280
Private Hospitals	23	1,694
Private Clinics	545	0
Rural Health Clinics	58	0
Barangay Health Stations	320	0
Main Health Centers	5	0

Accommodation Facilities - These consist of hotels, pension houses and resorts.

	Number	Rooms	Beds
Hotels	20	1,489	3,704
Pension Houses	20	487	884
Resorts	47	1,230	3,075

ECONOMIC INDICATORS

The leading economic indicators for 1988-1989 as published by pertinent government agencies such as the Department of Trade and Industry, Board of Investments , Bureau of Internal Revenue, Bureau of Customs, and the Philippine Ports Authority , among others, reflected the robust performance of the economy of Cebu during the period in review. Although it is difficult to arrive at Cebu's gross domestic product because of a very large underground economy, its economic growth still is evident as shown by certain facts and figures described in the following paragraphs.

Investors' confidence remained high as total capital invested in new business establishments expanded by 53.3% from P531.1 million in 1988 to P814.2 million in 1989. On the other hand, the equity of BOI-registered firms increased by 22.4% from P1.65 billion to P2.02 billion during the same period generating some 20,000 new jobs.

In the Mactan Export Processing Zone (MEPZ) where foreign based manufacturing firms operate, 13 new plants were added in 1989. This brought to 29 the number of firms operating inside the zone with P570 million in investments. In 1987, there were only 10 firms with a total invested capital of P4.5 million. This increased to 16 firms in 1988. The firms included high- tech industries such as Sony, Fujitsu, NEC and TMX Philippines. To accommodate more factories in the zone with about 10 firms already under waitlisted category, MEPZ will be expanded through the planned reclamation project in the northern portion of the island. Priority industries are aircraft assembly and manufacturing; aircraft rebuilding and refurnishing; electronic components assembly; semi-conductors manufacturing; food processing; pharmaceuticals; precision equipment; plastic products; toys; communications equipment; and packaging materials.

Because of the brisk business activity , the province's contribution to the national coffers continued to go up. Total collections of the Bureau of Internal Revenue and Bureau of Customs reached P2.6 billion in 1989 from P1.8 billion the previous year. The collections manifested a steadily increasing trend since 1986 when total collections amounted to P1.16 billion and which increased to P1.44 billion in 1987.

Another indication of vigorous economic activity was the number of calls posted during the period from local and foreign sources. Despite the bottlenecks in existing communication facilities, there were some 3.3 million calls successfully transmitted in 1989, reflecting an increase of 21% over the previous year.

The province also experienced a construction boom as reflected in the volume of cement bags consumed during the period. Cement consumption levels increased by 40% to 11 million bags of cement in 1989.

The presence of an international airport and seaport has become a strategic advantage for the province. In 1989, the airport, on the one hand, registered 917,000 inbound and 910,000 outbound passengers reflecting an increase of 14% from the previous year. To further facilitate international trade and commerce, the Philippine Airlines will expand coverage of its Cebu Link, to include the major cities in the Middle East and Western Europe.

On the other hand, the Cebu seaport which is the second most important Philippine port of entry recorded 4.78 million inbound and outbound passengers in 1989 from 4.74 million the previous year. In terms of shipcalls, Cebu had a total of 13,600 local and foreign shipping vessels passing through the port. Domestic and international cargo likewise grew. Six (6) million tons of domestic cargo and 900,000 tons of international cargo were registered in 1989, reflecting an increase of 17% and 200%, respectively, over the previous year's volume. The marked increase in international cargo can be attributed to the significant growth of Cebu's export volume.

The Cebu port and MEPZ recorded total export value of US $527.97 million in 1989 reflecting an increment of 16% over 1988 figures. Non-traditional exports comprised the bulk or 75% of total export value. Cebu's non-traditional exports included electronic timepieces, rattan, furniture, semi-conductors, marine products (seaweeds, canned tuna & frozen sea products), handicrafts, among others. On the other hand, the leading traditional export was copper concentrates accounting for the major portion or 20% of total exports.

INFRASTRUCTURE PROJECTS TO BE FUNDED

On March 13, 1990, a resolution was passed by the Regional Development Council (RDC) of Region 7 endorsing the early funding and implementation of the infrastructure projects of Cebu. The said projects were given priority status considering that these projects are expected to achieve the following:

1. Connect all the municipalities of the Province of Cebu with concrete roads;
2. Alleviate the poverty situation in the province by the provision of intra-municipal road links and improvement of community-based resource management;
3. Promote local autonomy and self-reliance and strengthen the local government capability.

The following are the infrastructure projects of the Province of Cebu. The proceeds of the Cebu Equity- Bond Units will partially fund these projects:

1. Concreting of the Province of Cebu's Priority Roads

Road Link	Length (Km.)	Estimated Peso Cost
PHASE 2		
1. Aloguinsan-Pinamungahan	8.40	₱ 20,160,000
2. Pinamungahan-Toledo	6.60	17,820,000
3. Toledo-Tabuelan	63.00	170,100,000
4. Yati-Tayud	12.00	32,400,000
5. Cordova Port Road	2.46	6,642,000
6. Talisay Roads	5.00	13,500,000
7. Curva-Bagay II	3.69	8,856,000
8. Dalaguete-Mantalongon I (With Grade Reduction)	5.00	14,500,000
Sub-total	106.15	283,978,000
PHASE 3		
1. Tabuelan-Lugo	16.00	38,400,000
2. Dalaguete-Mantalongon II (With Grade Reduction)	13.00	37,700,000
3. Badian-Samboan	55.00	132,000,000
4. Maya-Medellin	26.00	62,400,000
5. San Remegio-Tabuelan	21.00	50,400,000
6. Talisay-Carcar	14.00	37,800,000
7. Transcentral Highway (Improvement)	31.00	77,500,000
Sub-total	186.00	459,200,000

2. Cebu Province's Community-Based Resource Management Projects

Upland Agriculture		
Nearshore Fisheries		
Rural Infrastructure		
Other Community-based resource management projects		
Sub-total		500,000,000

3. Concreting of All Municipal Roads in the Province

PHASE 4		
Municipal Roads	180.00	360,000,000
TOTAL		₱ 1,603,178,000

FINANCING PACKAGE FOR THE PROVINCE OF CEBU

In a mandate letter dated January 16, 1990, the Cebu Provincial Government appointed the Development Bank of the Philippines (DBP) as its exclusive financial advisor, with authority to enter into sub-arrangements, in connection with the province's objective to raise approximately P1.0 Billion to finance various infrastructure projects. In turn, DBP appointed the Bank of the Philippine Islands (BPI) as its co-financial advisor for the fund raising projects of the province.

In compliance with the mandate given, the financial advisors of the province (DBP and BPI) presented last April 23, 1990 for approval by the Sangguniang Panlalawigan of Cebu a financial package with the following salient features:

1. **Formation of a Subsidiary Corporation** - The Cebu Provincial Government in joint partnership with Ayala Land, Inc. (ALI) will form a corporation with P1 Billion authorized capital stock to be named "Cebu Property Ventures Corporation". Upon incorporation, the subsidiary corporation was named Cebu Property Ventures and Development Corporation (CPVD). The Province of Cebu will contribute the following patrimonial properties, all located in prime areas, as their equity contribution in CPVD:

a) Former Lahug Airport Site, consisting of 236,973 sqm. valued at P2,700/sqm. or a total value of P639,827,000.

b) Gorordo Avenue Property beside the Lahug Elementary School, consisting of 9,703 sqm. valued at 5,000/sqm. or a total value of P48,515,000.

c) Fuente Osmena Property, consisting of 4,772 sqm. valued at P12,500/sqm. or a total value of P59,650,000.

The total value of the above properties is P747,992,000. In exchange for the properties, the Province of Cebu will get 747,992,000 shares (par value of P1 per share) of stock in CPVD consisting of 448,795,200 Class "A" shares and 299,196,800 Class "B" shares.

ALI, on the other hand, will contribute cash amounting to P252,008,000. This will correspond to 252,008,000 shares consisting of 151,204,800 Class "A" shares and 100,803,200 Class "B" shares. The cash contribution will be used to develop the properties owned by CPVD.

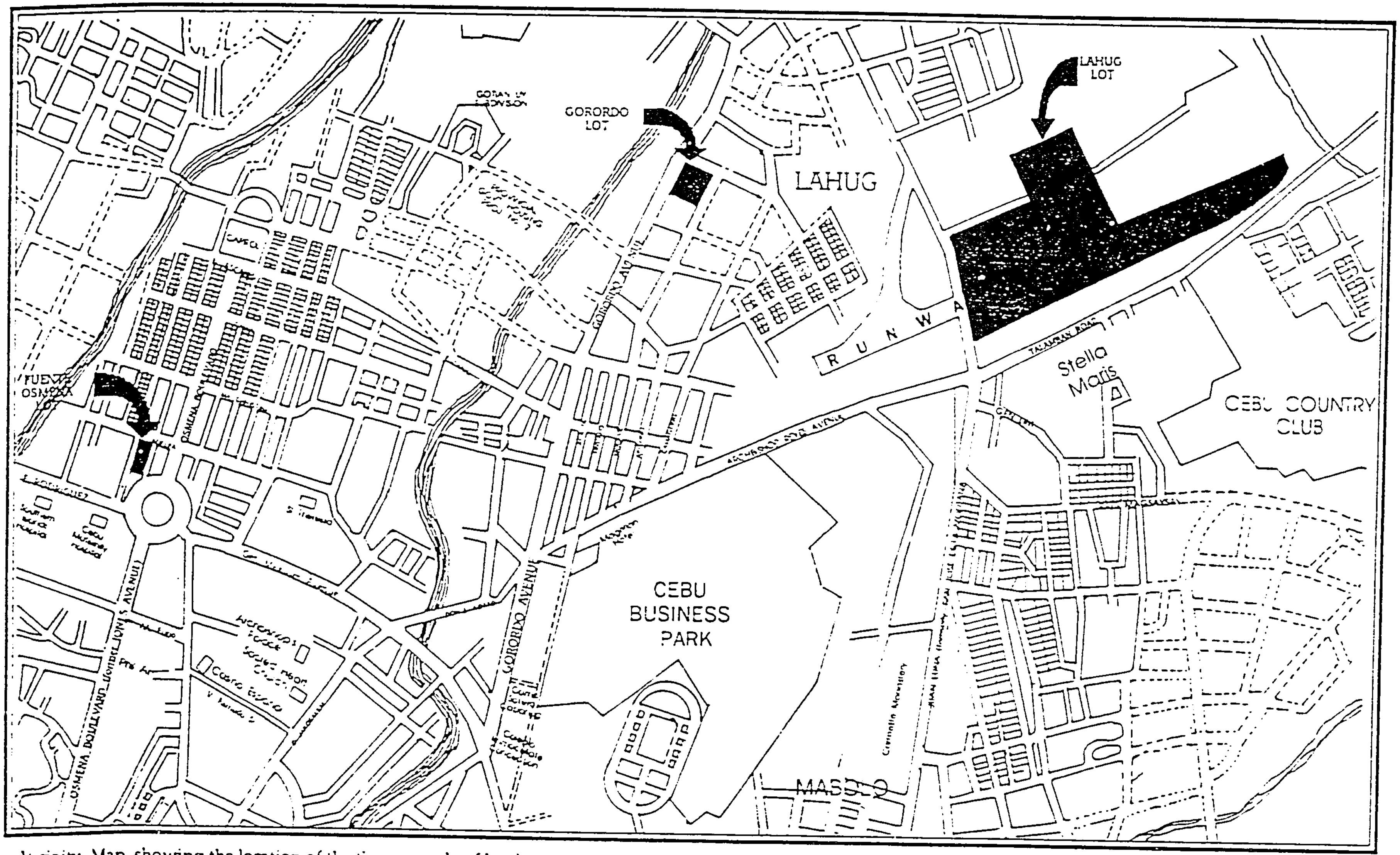
2. **Flotation of the Cebu Equity-Bond Units** - To meet the first tranche of financial requirements of the Cebu Provincial Government, i.e., P300 Million **In 1991**, the flotation of Cebu Equity-Bond Units (the "Units") will be undertaken. The principal repayments of the Cebu Equity-Bond Units will be in the form of Class "A" shares in CPVD at a pre-determined formula while the interest will be paid in cash.

3. **Secondary Share Sale Program** - To finance the other P700 Million requirement of the Cebu Provincial Government, the remaining shares of stock in CPVD will be gradually sold to the public via a secondary public offering through the local stock exchanges based on the following tentative schedule:

1991 - 10 Million Class "A" shares and 190 Million Class "B" shares. A valuation will be undertaken prior to the public offering to determine the offering price to the public.

1992 - 50 Million Class "A" shares and 100 Million Class "B" shares.

1993 - Whatever shares are still held by the Cebu Provincial Government.



Vicinity Map showing the location of the three parcels of land contributed by the Province of Cebu.

CEBU EQUITY-BOND UNITS

The Cebu Provincial Government will need about P1 billion in funds over the next two years, P300 million of which will be needed in 1991. To meet the first tranche of financial requirements of the Cebu Provincial Government, i.e., P300 Million in 1991, the flotation of Units will be undertaken. These Units are quasi-equity financial instruments which will be secured by Class "A" shares of CPVD, a corporation owned 75% by the Cebu Provincial Government and 25% by ALI. The Units will have the following features:

PRICE : P1.00 per unit

INSTRUMENT : In registered form constituting direct obligations of the Province of Cebu.

ISSUE DATE : APR 0 1 1991

TERM : Three years

INTEREST : 16% p.a., tax free, payable in cash semiannually in arrears. The interest which shall be computed based on actual number of days shall accrue from and include the first day of each interest period up to, but not including, the last day of such interest period.

PRINCIPAL PAYMENTS : The Units shall be paid in five (5) equal semi-annual amortizations commencing at the end of the second semester from Issue Date, as follows:

End of Semester From Issue Date	% of Original Principal Amount
1	0.0
2	20.0
3	20.0
4	20.0
5	20.0
6	20.0

PRINCIPAL : Principal is payable in Class "A" shares of CPVD. On Determination Date (D Date) which is 15 calendar days prior to each maturity date, the Servicing Bank shall determine the amount of shares to be paid to each unitholder in accordance with the following formula:

$$\text{No. of shares} = \frac{MPA}{RV + ((AMP - RV) * 0.50)}$$

Where MPA = Maturing Principal Amount

RV = Reference Value of the stock. At the time of flotation of the Units, the reference value of the stock shall be P1.00.

AMP = Average Market Price of the stock based on the closing price of the stock for the previous 10 trading days immediately preceding D Date.

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0.50 = Represents the sharing ratio between the Cebu Provincial Government and the unitholders in terms of the stock's capital appreciation.

By virtue of the sharing formula in the capital appreciation, ((AMP - RV) * 0.50), a unitholder has the potential to recover not only his principal but also a portion of the expected capital appreciation of the stock. If we are to compare the divisor, which is the product of RV + ((AMP - RV) * 0.50), with AMP, the divisor will always be lower than AMP, as long as there is an upward movement in the price of a stock in CPVD. In effect, a unitholder would obtain more CPVD shares (and thus realize his capital appreciation) by buying the Units as compared to directly buying CPVD shares from the stock market at the then prevailing price.

Should there be any stock dividends/splits to be declared which would then alter the Reference Value of a share of stock in CPVD, the new Reference Value will be computed in accordance with the following formula:

$$\text{New RV} = \frac{\text{Old RV}}{1 + \%\ \text{Stock Dividend/Split}}$$

Should the market value of Class "A" shares of CPVD be less than its par value, the number of shares to be given to a unitholder shall be computed based on the following formula:

$$\text{No. of shares} = \frac{\text{MPA}}{\text{AMP}}$$

Where MPA = Maturing Principal Amount
AMP = Average Market Price of the stock based on the closing price of the stock for the previous 10 trading days immediately preceding D Date.

The foregoing formula is applicable only to the extent of the number of shares, i. e., 1.25 shares, pledged per Unit.

If AMP cannot be determined (i.e., stock not yet listed), then the Net Asset Value (NAV) of CPVD will be determined based on the average appraised value of CPVD as conducted by two independent appraisers appointed by CPVD 45 days prior to each principal maturity date. The NAV will be divided by the issued and outstanding number of shares to arrive at the per share price. This per share price will serve as the AMP.

On each maturity date of a maturing principal amount, ownership of the shares of stock shall be transferred to unitholders on record as of D Date through a special block sale in the stock market. Considering that the transaction will be coursed through the stock market, the Cebu Provincial Government will shoulder the commission and transaction tax on the sale of the stocks while the unitholders will shoulder the commission on the purchase of the stocks. Should the conversion into shares of a maturing principal amount result in a unitholder getting a fraction of a share, then said fraction will be paid in cash. To determine the cash payment, the fractional share will be multiplied by the AMP. The commission on the shares due from the unitholders will be deducted first from the cash equivalent of the fractional share. If this is not sufficient, then the balance will be deducted from the interest earned on the Units.

DEFAULT : If the Cebu Provincial Government fails to pay the interest, or to deliver the shares of stock of CPVD when due, or to perform any of its obligations under the Application to Purchase or the pledge, then the unitholders representing 66 2/3% of the outstanding Units may, by written notice to the Cebu Provincial Government, declare the entire unpaid principal amount of the Units then outstanding, all interest accrued and unpaid thereon, and all other amounts payable hereunder and under the pledge to be forthwith due and demandable, whereupon all such amounts shall become forthwith due without presentment, protest or further notice of any kind, all of which are hereby expressly waived by the Cebu Provincial Government. The unitholders shall, upon such declaration, have the option to foreclose on the pledge or demand immediate delivery of the Class "A" shares of CPVD from the trustee under the pledge and the Servicing Bank which is hereby authorized by the Cebu Provincial Government to deliver the shares pledged to secure the Units upon such demand. The determination of the number of shares of CPVD to be delivered to the unitholders shall be subject to the same formula and to the same terms and conditions specified above. The average market price of the shares to be used under the formula shall be the closing price of the shares for the previous ten (10) trading days immediately preceeding the notice of acceleration by the unitholders. All obligations outstanding, including accrued interest, shall be satisfied through the delivery of the proceeds of foreclosure or the delivery of the shares.

SECURITY : The Units shall be secured by a pledge of Class"A" shares of CPVD. The shares of stock shall be held in trust by Development Bank of the Philippines, the trustee appointed by the Cebu Provincial Government. One Peso worth of Units will be secured by 1.25 Class "A" shares of CPVD.

VOTING TRUST ARRANGEMENT: The unitholders or their nominees shall be given the right to vote the shares pledged to secure the Units. The Unitholders may, at their option, appoint the Issue Managers as proxy to vote the said shares.

REGISTRATION OF UNIT HOLDERS: All sales and/or purchases of Cebu Equity - Bond Units have to be registered with the Servicing Bank.

TERMS OF THE OFFERING

The Offer

Under the terms and conditions set forth in this Prospectus, the Cebu Provincial Government hereby offers for sale to the general public 300,000,000 units of Cebu Equity-Bond Units.

Eligible Investors

Purchase of the Units shall be limited to Filipino citizens and corporations at least 60 % of the outstanding capital of which is owned by Filipinos.

Offering Price

The Units are being offered at P1.00 per unit.

Payment Terms

The purchase price for the Units is payable in full upon submission of a duly accomplished application form.

Offering Period

The offering period shall have a duration of 21 calendar days commencing on [illegible] 1 1991 and expiring on [illegible] 1 1991, 5 p.m., Philippine Standard Time, unless extended. The Issue Managers reserve the right to extend the offering period or to terminate it at any time prior to the above expiry date whenever all the Units offered herein shall have been fully purchased.

Allocation of Units

A minimum purchase of ten thousand (10,000) Units is being imposed per purchaser, equivalent to a minimum purchase price of P10,000.00. Thereafter, purchase shall be in multiples of 10,000 Units or P 10,000.00. The Issue Managers reserve the right to allocate available Units in the event that the Units offered hereby are insufficient to satisfy the applications received.

Application to Purchase

Purchase by the public may be accomplished through the submission of duly-executed Application-to-Purchase forms to the Issue Managers. Application-to-Purchase forms must reach any of the Issue Managers prior to the expiration of the offering period.

Acceptance of Application

Application-to-Purchase forms are subject to the confirmation as to the amount of Units accepted for purchase and approval of the Issue Managers, acting for and on behalf of the Cebu Provincial Government.

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Refunds

Refunds, in whole or in part, of the payments for any application not accepted shall be made without interest as soon as practicable, after the end of the offering period. Each refund check will be made out in favor of the respective applicant and crossed "Payee's Account Only" and mailed or delivered to the address specified by the applicant in his Application to Purchase form.

Delivery of Certificates

Certificates evidencing ownership of Units shall be issued by the Servicing Bank. The purchasers can claim their certificates from the Servicing Bank 60 days after the end of the offering period. The certificates will be released to the purchasers only upon their presentation of the accepted Application-to-Purchase forms and the corresponding official receipt.

Government Approval

All approvals regarding the issuance of the Cebu Equity-Bond Units have been secured from the government agencies concerned.

No Implied Waiver

No waiver of a breach of any term or condition hereof or any extension of time to pay the purchase price of the Units shall be deemed a waiver of any or all other rights, powers and remedies of the Province of Cebu, its successors and assigns, or any other term or condition hereof nor a waiver of any subsequent breach of the same or of any other term or condition.

Venue

Venue of any action arising out of or in connection with this Application to Purchase shall be in the appropriate courts of Cebu City or Metro Manila.

CEBU PROPERTY VENTURES & DEVELOPMENT CORPORATION

1. STATEMENT OF OBJECTIVES

CPVD is the joint venture corporation formed by the Cebu Provincial Government and ALI in accordance with the financial package proposed by DBP and BPI. The Cebu Provincial Government approved the formation of CPVD on June 14, 1990. By virtue of a Deed of Exchange dated June 15, 1990, the Cebu Provincial Government transferred three parcels of prime patrimonial land located in Cebu City in exchange for equal value of shares of stock in CPVD.

The principal investment objective of CPVD is to achieve long-term capital appreciation of investments in real properties and real estate development projects that have been identified as having good profit potential. A secondary objective is to generate income from the buying and selling of real estate properties, rentals of real estate interests, and temporary cash placements in prime and high-yielding securities.

2. RATIONALE

CPVD was established as a vital component of the financial package to raise approximately P1 Billion for the Province of Cebu.

3. THE COMPANY

CPVD was incorporated on August 2, 1990 with principal office at Cebu City. Its primary purpose is to acquire, hold and dispose of by purchase or sale, exchange, mortgage, lease or in any other manner, conditionally or absolutely, real estate whether improved or unimproved or any interest therein; to cause ALI or any of the subsidiaries of Ayala Corporation engaged in real estate development as exclusive developer of CPVD's real estate projects; to improve, develop or manage any real estate or interest therein so acquired; or to erect or cause to be erected on any real estate held or acquired by CPVD, buildings, plants or other similar structures with their appurtenances.

As envisioned, CPVD's real estate operations will include, among others, the following activities:

Land Banking - This activity involves the acquisition of large tracts of prime raw land, which after a specific holding period will be developed by ALI or any of its subsidiaries for sale.

Property Development and Rental - This activity involves the purchase of existing buildings and investment in the construction or improvements of buildings located in the shopping centers, commercial districts and residential areas owned and operated by Ayala Corporation and/or any of its subsidiaries from which lease/rental income will be derived by CPVD.

Buy & Sell - This activity includes the acquisition of prime real estate properties (such as land, buildings, townhouses, condominiums) for capital appreciation and their eventual sale for a profit.

The Province of Cebu subscribed to 75% of the total equity of CPVD. ALI subscribed to 25% of the total equity of CPVD and as of October 31,1990, ALI paid in cash for 25% of its subscription.

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4. <u>AYALA LAND, INC.</u>

The choice of ALI as a joint venture partner in CPVD was made on the basis of Ayala Corporation's experience in real estate development. ALI is a wholly-owned subsidiary of Ayala Corporation. Originally a real estate division, ALI was spun off from Ayala Corporation in 1988 when the latter was transformed into a holding company concentrating on identifying and engaging in new business opportunities, monitoring investments and allocating resources among its subsidiaries.

The restructuring of Ayala Corporation into a holding company resulted in the transfer to ALI of all real estate properties of Ayala Corporation and its equity in subsidiaries engaged in real estate-related activities.

Included in the transfer is the equity in Makati Development Corporation which now functions as the construction arm of ALI.

The 156-year old Ayala Corporation is one of the most enduring institutions of Philippine industry. Founded in 1834 as a partnership between Don Domingo Roxas and Don Antonio de Ayala, the firm has since undergone a transition from distillery operator to that of a widely diversified conglomerate. With assets of over P4.7 billion as of December 31, 1989, Ayala Corporation counts among its leading subsidiaries the following:

Integrated Microelectronics, Inc. - Contract manufacturing services of integrated circuits and other electronic components;

Purefoods Corporation - Food production, processing and marketing;

Ayala Agricultural Development Corporation - Production of hybrid corn, coconut farming and cattle ranching;

Ayala Life Assurance, Inc. - Industrial and ordinary life insurance;

FGU Insurance Corporation - Non-life insurance;

Makati Development Corporation - Vertical and horizontal construction.

Among Ayala Corporation's principal affiliates is the Bank of the Philippine Islands which is the Co-Issue Manager of the Cebu Equity-Bond Units, and Globe-Mackay Cable and Radio Corporation which is principally involved in telecommunications.

Despite the growth of its diversified interests, Ayala Corporation remains first and foremost a real estate company. The development of Makati is its most visible accomplishment.

Makati's 25-year expansion, which commenced after World War II, is considered the leading example of modern community development in Southeast Asia. Starting with the development of Forbes Park as a residential subdivision in 1949, Ayala Corporation continued to develop other exclusive Makati residential villages, i.e., San Lorenzo in 1952, Bel-Air in 1954, Urdaneta in 1957, and Magallanes and Dasmarinas in 1962.

Hand-in-hand with the development of first-class residential subdivisions was the rise of Makati's commercial districts. Developed around Ayala Avenue, the business district of

Makati includes Legaspi and Salcedo Villages, sites of over 80 buildings and 30,000 business firms. Adjacent to the business districts is the 26-hectare complex known as the Makati Commercial Center. Started in 1960, the center is home to two international hotels, five major department stores, four large supermarkets, numerous theaters, restaurants, and a myriad of retail shops and eateries.

Using the experience gained from the development of Makati, Ayala Corporation embarked in 1979 on the development of a 670-hectare area located in Alabang, Muntinlupa into a first-class residential subdivision, known as the Ayala Alabang Village. From 1979, the Ayala Alabang Village has evolved into a self-contained, first-class community complete with commercial, recreational, and educational facilities. As of the end of August 1988, the construction of housing units on over 64% of the lots at Ayala Alabang Village was already completed or about to be completed.

In 1986, Ayala Corporation embarked on its first major real estate project in Quezon City. The initial 145 lot areas of this subdivision project known as Ayala Heights, were sold out in three weeks. In 1987, an additional 192 lots offered were also sold out.

In 1989, in partnership with a select group of investors, ALI bought the former golf course site of the Club Filipino de Cebu. This 44 hectare property will be developed by ALI into an office, commercial and residential site to be called the Cebu Business Park. The site is about 1.5 kilometers away from the Lahug property which the Cebu Provincial Government contributed to CPVD. Groundbreaking of the Cebu Business Park was held last February, 1990.

5. THE COMPANY'S ARTICLES OF INCORPORATION

The Articles of Incorporation of CPVD provides restrictions and special rules on the amendment of the articles of incorporation, ownership and transfer of shares.

Purpose of the Company

The primary purpose of CPVD is to acquire, hold or dispose in any manner real estate or any interest therein, with ALI or any of its subsidiaries being the exclusive developer of projects for CPVD.

Ownership and Transfer of Shares

The subscription, issuance, ownership and transfer of shares in CPVD are subject to the conditions and restrictions contained in the Seventh Article of the Company's Articles of Incorporation. Among these conditions and restrictions are the following:

a) No issuance or transfer of shares of stock or of an interest therein shall be allowed or permitted to be recorded in the books of the Company if such issuance or transfer reduces the stock ownership of Philippine citizens to less than the minimum percentage (the "Minimum Percentage") of the outstanding capital stock required to be owned by such citizens by any applicable provision of law or regulation.

b) Class "A" Common Stock shall be issued or transferred only to Philippine Nationals while Class "B" Common Stock shall be issued or transferred only to foreigners, foreign corporations, foreign partnerships or associations, corporations organized under the laws of the Philippines less than 60% of the outstanding capital stock of which is owned and held by citizens of the Philippines, or Philippine Nationals. "Philippine National" shall mean a citizen of the Philippines, a domestic partnership or association wholly-owned by citizens of the Philippines, or a corporation organized under the laws of the Philippines at least 60% of the outstanding capital stock of which is owned and held by citizens of the Philippines.

c) No liability for damages shall attach to CPVD, its Board of Directors or officers for reason of the refusal to register in the Company's books any issuance, sale or transfer of shares which will reduce the stock ownership of Philippine Nationals to less than the required Minimum Percentage.

d) Each holder of Class "A" Common Stock or Class "B" Common Stock shall enjoy a pre-emptive right to subscribe to or purchase pro-rata issues only of Class "A" Common Stock or Class "B" Common Stock, respectively. In the event that the exercise by holders of each Class of Common Stock of their pre-emptive right to subscribe to any additional issuance of shares will result in the reduction of the percentage of ownership by Philippine Nationals of the outstanding capital to less than the required Minimum Percentage, such stockholders shall have the right to assign pro-rata their right to a qualified party.

Any issuance, sale or transfer of shares made in violation of Article Seven of the Articles of Incorporation shall be null and void and shall not be registrable in the books of CPVD.

6. MANAGEMENT

The members of the Board of Directors and Officers of the Company as of September 1990 are as follows:

Name	Position	Principal Occupation & Other Affiliations
Emilio M. R. Osmena	Chairman	Governor, Province of Cebu
Winston F. Garcia	Director	Chairman, Committee on Laws, Good Government, Investigation and Provincial/Municipal Properties, Province of Cebu
Antonio V. Garcia y Escano	Director	Chairman, Committee on Finance, Province of Cebu
Francisco H. Licuanan III	Vice-Chairman/ President	Senior Vice President, Ayala Corporation; President & Director, Ayala Land, Inc.; Chairman of the Board, Ayala Property Management Corp. and Alabang Realty

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		Sales Corp. and Vice-Chairman, Alabang Commercial Corp. and Makati Development Corp.; Director, Las Pinas Ventures, Inc.
Fernando Zobel de Ayala	Director	Asst. Vice President & Director, Ayala Land, Inc., Director, Ayala Property Mgmt. Corp., Alabang Comm'l. Corp., Alabang Theatre Mgmt. Corp., Cebu Holdings, Inc. Davao Insular Hotel Co.,Inc., among others
Richard O. Barreras	Director	Vice President, Development Bank of the Philippines
Edmundo A. Barcelon	Director	Senior Vice-President, Bank of the Philippine Islands

7. STOCKHOLDERS

As of September 30, 1990, the Company had the following ownership profile:

Stockholders	Nationality	Total Subscription	Class
Cebu Provincial Government	Filipino	448,795,195	A
		299,196,800	B
Ayala Land, Inc.	Filipino	151,204,798	A
		100,803,200	B
* Gov. Emilio M. R. Osmena	"	1	A
* Winston F. Garcia	"	1	A
* Antonio V. Garcia y Escano	"	1	A
** Francisco H. Licuanan III	"	1	A
** Fernando Zobel de Ayala	"	1	A
* Richard O. Barreras	"	1	A
* Edmundo A. Barcelon	"	1	A

* Nominee of the Cebu Provincial Government
** Nominee of ALI

8. CONTRACTS AND ENGAGEMENTS

The Board of Directors and stockholders of CPVD approved the appointment of ALI as the general manager and exclusive developer of the properties of CPVD. The appointment of ALI as exclusive developer of CPVD's properties was made pursuant to CPVD's Articles of Incorporation. The terms and conditions of said appointment are set forth in the Management and General Development Agreement dated October 19, 1990.

In its capacity as developer, ALI is expected to draw upon its real estate management expertise and development experience. CPVD and ALI shall enter into a separate Implementing Development Agreement for each project approved by CPVD's Board of Directors to establish the terms and conditions of ALI's development of such project, including the amount of the fee to be due to ALI.

As general manager, ALI will be responsible for the performance of general administrative services relating to CPVD's real estate projects and day-to-day operations. The services to be provided by ALI include, but are not limited to : management of the working capital of CPVD; investment and re-investment of CPVD's cash balances in accordance with investment policies adopted by CPVD's Board of Directors; accounting, bookkeeping, clerical and other administrative services in the ordinary conduct of CPVD's activities; and repair and maintenance in good order of all real estate projects of CPVD. As general manager of CPVD, ALI will not collect any compensation but will only be reimbursed for its out-of-pocket costs in carrying out its functions. However, upon the privatization of CPVD and the resulting loss of its status as a goverment corporation, ALI and CPVD shall renegotiate a fee structure to compensate ALI for the performance of its services under the Management and General Development Agreement. Any amendment to the said agreement resulting from such renegotiation shall be subject to the approval of CPVD's Board of Directors and stockholders.

ALI is engaged in property management as a specific line of business and provides administrative services for several of its affiliates, some of which are engaged in the real estate business.

9. CAPITALIZATION

The capitalization of the Company as of June 1990 is as follows:

Stockholder's Equity (No. of shares, par value of P 1.00) Common Stock	Cebu	ALI	Others	Total
Class A				
Subscribed	448,795,195	151,204,798	7	600,000,000
Less: Receivable	-	113,403,600	-	113,403,600
Paid-up	448,795,195	37,801,198	7	486,596,400
Class B				
Subscribed	299,196,800	100,803,200	-	400,000,000
Less: Receivable	-	75,602,400	-	75,602,400
Paid-up	299,196,800	25,200,800	-	324,397,000

10. CAPITAL CONTRIBUTION OF THE PROVINCE OF CEBU

The following is a breakdown of the capital contribution of the Province of Cebu in CPVD:

		Appraised Value
a.	A 236,973 sqm. lot formerly used as the Lahug Airport, which on the basis of the appraisal report prepared by the Development Bank of the Philippines (DBP) dated February 22, 1990 was appraised at P2,700/sqm.	₱ 639,827,000.00
b.	A 9,703 sqm. lot located along Gorordo Avenue and beside the Lahug Elementary School, which on the basis of the appraisal report prepared by the Development Bank of the Philippines dated February 22, 1990 was appraised at P5,000/sqm.	48,515,000.00
c.	A 4,772 sqm. lot located near Fuente Osmena, which on the basis of the appraisal report prepared by the Development Bank of the Philippines dated February 22, 1990 was appraised at P12,500/sqm.	59,650,000.00
	Total	₱ 747,992,000.00

11. INVESTMENT POLICY

It is the intended policy of CPVD to maintain as much as practicable a balanced mix of projects in order to achieve satisfactory current income and maximize long-term capital growth for its stockholders. To meet this objective, CPVD shall undertake the following investments:

a) Land Banking
b) Property Development/Rental
c) Buy and Sell

The objective of maintaining a balanced mix of projects is two-fold. The first is to ensure that CPVD shall have a defined income and cash flow stream. The second is to manage the asset allocation as a hedge against cyclical downturns, thus making available for the investor property investments that will be a store of value.

Meanwhile, any excess cash will be invested in high yielding securities, such as but not limited to government securities and commercial papers issued by prime companies, as approved by CPVD's Board of Directors.

12. DIVIDEND POLICY

It is the intended dividend policy of CPVD, to the extent feasible, to declare periodically a portion of its unrestricted retained earnings as dividends either in the form of stock or cash. Management will strive to balance the usual conflict that any corporation faces, between paying out enough cash dividends (to ensure a respectable yield for the investor) and maintaining a level of retained earnings to ensure the continued growth of the business.

13. TENTATIVE PROJECTS

The tentative projects of CPVD are as follows:

a. The development of the former Lahug Airport into a multipurpose ' (commercial, residential, office, tourism) area. Once horizontal development of the Lahug property has been accomplished, CPVD intends to sell some portions of the property and/or initiate vertical development on the areas it will retain.

The Lahug Airport site is a 23.7 hectare property located about 1.5 kilometers from the Cebu Business Park of Cebu Holdings, Inc. (CHI), an affiliate of Ayala Land, Inc., Santiago Land Development Corp., A. Soriano Corp., the Kuok Group, and the Philippine Long-Term Equity Fund. Estimated horizontal development cost of the Lahug property is P100 Million to P150 Million while selling price of the developed lots is projected to be P14,000/ sqm. for regular lots and P 16,000/ sqm. for corner lots.

b. The construction of a commercial and residential condominium on the Gorordo Avenue property.

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REAL ESTATE AND INFRASTRUCTURE SITUATIONER
Province of Cebu

Based on a five-year plan of the province, 1990 will be the year of inauguration and completion of various projects. Aside from the development and marketing efforts to convert the Lahug Airport property in Cebu City into a mixed-use commercial complex, the Cebu Provincial Government has lined up several infrastructure projects for 1990 - 1991, as follows:

1. The Cebu Trans-Central Highway (otherwise known as Col. Emilio V. Osmena, Sr. M. D. Highway). It will link the eastern coast of the island where Metro Cebu is located to the western coast which will soon be industrialized with mostly manufacturing and processing firms such as Atlas Consolidated Mining and Development Corp. and Atlas Fertilizer Corp. in the area.

2. The construction of a parallel bridge to the existing Mactan Bridge which links Cebu mainland and Mactan Island.

3. The completion of the expansion of the Mactan International Airport Terminal. Total project costs amount to almost P2.1 Billion. Domestic airports will also be built in Cebu's two other satellite islands, Bantayan and Camotes.

4. The completion of the installation of a telephone communication system in all 4 component cities and 48 municipalities.

5. Continued concreting of all major and coastal roads, with Cebu Island crossed over four times from east to west. Also, with the fielding of new heavy equipment to 8 engineering districts as part of the scheme to decentralize road projects to the municipalities, all barangays in the province will be linked to every town center with farm to market roads.

6. The implementation of the provincial Water Resource Program worth P500 Million.

7. The construction of 2 new jails on a 20 hectare property behind the Cebu Provincial Capitol compound.

8. The 2000 units housing project within the 50-hectare province-owned lot in the barangay of Busay.

9. The completion of the construction of the Palace of Justice behind the administration building in the Capitol compound.

Aside from the above projects, the provincial government has earmarked seven reclamation projects to develop and, thereby, expand and fully optimize land utilization. Much of the reclamation will be done on a build-operate-transfer or property-sharing scheme with the private sector.

1. Export Oriented Industrial Park.

   This industrial park will be located south of the municipality of Cordova. A 1,600 - hectare strip of reclaimed foreshore area will accommodate a super container port, commercial establishments, industries such as factories and assembly plants in the west coast as well as hotels, resorts and other tourist amenities in the east coast.

2. South Mactan Reclamation Project

   This 200- hectare project will be converted into a containerized port that will service more domestic and international vessels.

3. North Mactan Reclamation Project

   A 120-hectare project that will expand the current prime industrial land occupied by the MEPZ.

4. Cebu City [illegible] Reclamation Project

   This project will cover 400 hectares and a coastal road linking the southern towns to Cebu City, thereby easing the traffic volume in some major roads

5. North Mandaue- Consolacion Project

   A 300- hectare project to be utilized for low-cost housing.

6. Consolacion Port Reclamation Project

   A 100 hectare project to be utilized for commercial and port facilities.

7. Mandaue Reclamation Project

   A 169- hectare parcel of land that will provide for a coastal road connecting Cebu City to Mandaue City and northern towns. Work on the project is being done by Mandaue Realty & Resource Corporation where detailed planning and dredging operations have started during the first quarter of 1990.

The other private sector- led real estate development and construction projects which are either on-going or to be undertaken are:

1. Cebu Business Park - a 44-hectare property to be developed into a modern commercial complex by Cebu Holdings, Inc., a consortium of investors led by ALI.
2. Hotel Shangri-La, Mactan - The Kuok group has already broken ground in February, 1990 to commence construction of the 300-room resort hotel estimated to cost US$20 Million.
3. Shangri-La Hotel and Resort - to be constructed within the Cebu Business Park at an estimated cost of US$43 Million.
4. Shoemart Shopping Complex - to be erected in the reclaimed area south of Cebu City.
5. 300-room hotel - located in Sogod and to be undertaken by Pathfinders Holdings Philippines.
6. A five-star hotel to be located in the Camputhau district of Cebu City and to be undertaken by the Gotianun Group.

MATERIAL LITIGATION

There are no litigations pending or threatened against the Province of Cebu, which in its reasonable opinion, may materially and adversely affect the issuance by the Province of Cebu of the Cebu Equity-Bond Units and the performance by the Province of Cebu of its undertakings under the Cebu Equity Bond Units and the other documents executed in connection therewith.

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RISK FACTORS

The major risk factor involved in buying the Cebu Equity-Bond Units is the possible low yield for the investor or even capital erosion if the market price of CPVD shares goes below par value in the stock market, in which case the unitholder may not be able to fully recover the full value of his investment. This may happen if CPVD does not perform well in the stock market or if the general situation in the stock market deteriorates as a result of poor general economic conditions or political disturbances.

The Cebu Provincial Government as of the present is a major stockholder of CPVD and therefore can actively take a role in the decision making process of CPVD, through its nominees in the Board of Directors. However, the Cebu Provincial Government cannot guarantee the future operations or profitability of CPVD as the Cebu Provincial Government, by the terms of the Units and as discussed in this Prospectus, intends to dispose of its shareholdings in CPVD within a few years time.

LISTING

Subject to the requirements of the stock exchanges in the Philippines and the then prevailing market conditions, the Cebu Provincial Government and the Issue Managers will consider listing the Units in the local exchanges at the appropriate time.

LEGAL OPINION

Legal matters in connection with the issuance and sale of the Units offered hereby have been passed upon for the Province by Mr. Benedicto Cobarde, Provincial Attorney, and for the Issue Managers by Sycip, Salazar, Gatmaitan & Hernandez Law Office. All pertinent documents which include the Issue Management Agreement, the Pledge Agreement, the Receiving Bank Agreement, and the Servicing Agreement may be inspected during business hours on any business day at the Cebu Provincial Capitol, Cebu City, or at the Development Bank of the Philippines, Makati, Metro Manila.

ISSUE MANAGERS

The Issue Managers have agreed to firmly manage the offering of the Units, subject to the terms and conditions of the Issue Management Agreement entered into between the Cebu Provincial Government and the Issue Managers on MAR 0 1 1991.

For their commitments, the Issue Managers are to receive the compensation as set forth in the Issue Management Agreement.

ISSUE MANAGERS

Development Bank of the Philippines

4th Floor, DBP Head Office Building
Sen. Gil J. Puyat Ave., cor. Makati Ave.
Makati, Metro Manila
Tel. # 818-95-11, 818-96-11
Fax #881-669

Bank of the Philippine Islands

9th Floor, BPI Head Office Building
Ayala Avenue cor. Paseo de Roxas
Makati, Metro Manila
Tel. # 818-7792; 818-7959; 818-7810
Fax #818-7809

SELLING AGENTS

The Stockbrokers of the Manila Stock Exchange
The Stockbrokers of the Makati Stock Exchange

TYPHOON "RUPING" : AN ASSESSMENT

BACKGROUND

On November 13, 1990, Super Typhoon "Ruping" hit the Visayas, causing extensive damage to the Province of Cebu. Since then, private and public sector groups have exerted efforts to undertake various rehabilitation and restoration work. Below is a brief summary highlighting the impact of the typhoon on selected major economic sectors, as well as information regarding the present status of these sectors, as represented by the National Economic Development Authority (NEDA) and the officials of the Cebu Provincial Government, among others.

IMMEDIATE EFFECTS

The National Economic Development Authority (NEDA) estimated the damage to infrastructure to be about 957.5 million pesos, with the following sectors the hardest hit: transportation (bridges, roads, ports), 357.5 million pesos; schools and public buildings, 242.6 million pesos; and power and electrification facilities, 226.6 million pesos.

Metro Cebu experienced total blackout and the Mactan Export Processing Zone (MEPZ) was completely without power.

Water supply was cut-off in most of the commercial and residential areas of the Province.

Only 21.57% of Philippine Long Distance Telephone Company's (PLDT) 46,346 connections in Metro Cebu remained operational.

About 36 vessels berthed at the piers either capsized or sank, with 18 of these being cargo vessels.

The Mactan-Mandaue Bridge was damaged by a wayward vessel and had to be closed to pedestrian and vehicular traffic. Damage was estimated to be 100 million pesos.

AFTERMATH - RECONSTRUCTION AND RECOVERY

Rehabilitation projects were undertaken by various private and public sector groups.

PLDT was able to repair and reconnect the damaged installations and facilities in Metro Cebu and other parts of the Province. The rehabilitation of the telephone lines was also carried a step further with the implementation of PLDT's X-5 Impact program, through the installation of 20,000 new telephone lines.

Linesmen from the local Visayan Electric Company (VECO), Mactan Electric Company (MECO) and Cebu Electric Company (CEBECO), in coordination with teams from Manila Electric Company (MERALCO), Davao Light and Power Corporation, Angeles Electric Company, Cagayan Electric, Power and Light Corporation (CEPALCO), and American engineers from Subic Base worked to restore the electric service of the Province. By December 30, 1990, 90% of the power in Cebu City was restored. Full restoration was achieved by the end of January 1991. Additional turbine generating units were installed by National Power Corporation (NPC), adding 57 megawatts to the Cebu grid. Furthermore, the maintenance and upgrading of the old units increased capacity by over 50 megawatts, thereby resulting in total additional capacity of over 100 megawatts.

Since all of Cebu's water pumping stations run on electricity, new diesel standby generators were installed in 70% of the stations, thereby ensuring continuous water supply in these stations.

The Mactan-Mandaue Bridge was re-opened to light vehicular traffic on January 15, 1991, in time for the annual "Sinulog" festival. This will be upgraded to full capacity in 6 month's time.

The MEPZ firms have returned to normal operations. In the meantime, an expansion program for additional manufacturing space covering 30 hectares is now made available to answer the increased demand of new firms.

PROVINCE OF CEBU OFFICIAL SEAL

Republic of the Philippines
Province of Cebu
OFFICE OF THE GOVERNOR

VISION OF CEBU IN THE NEXT DECADE

Cebu will be the next economic miracle of Asia.

Cebu is the only major island in the Republic where the majority of its population are engaged in manufacturing and services rather than agriculture, thus, we enjoy an economic growth rate much faster than the nation.

Unlike the rest of the country, our exports far exceed imports.

As more jobs are created, productivity and income levels increased, we benefit from relative industrial peace.

We are fast creating a domestic market, a critical mass that feeds unto itself.

To be able to sustain this growth, we are embarking on a massive infrastructure development program within the first half of this decade.

We are poised to put in place ample water, power, telecommunications, roads as well as world class seaports and airports.

By reclaiming our abundant foreshores, we are creating new land to accommodate new industries and the housing requirements for our population.

As the university center of the South, with a catchment of more than 25 million people, we are producing the necessary human infrastructure essential to our growth.

Being the highest value adding island, Cebu will soon join the league of "Tigers" in the Pacific rim.

We have the necessary ingredients to make this goal come true.

We therefore invite investors to come to Cebu and participate in the unfolding of this vision.

GOV. EMILIO M. R. OSMENA
Province of Cebu

ANNEX C

CONSOLIDATED REVENUE FOR THE MUNICIPALITY OF MUNTINLUPA
(In P Millions)

	1983	1984	1985	1986	1987	1988	1989	1990	8 yr. ave
LOCAL SOURCES	23.097	35.485	25.121	15.039	35.082	26.405	76.291	92.038	41.07
Revenue from Taxation	18.402	21.366	10.237	26.929	29.123	22.272	55.434	65.464	31.15
Business Taxes	3.978	5.389	7.143	6.516	9.648	7.447	13.936	15.602	8.71
Real Property Taxes	14.424	15.977	3.094	20.413	19.475	14.825	41.498	49.862	22.45
Non-tax Revenue	4.694	14.119	14.884	-11.89	5.958	4.133	20.857	26.574	9.92
Receipts from Econ. Enterprises	0.118	5.255	0.756	0.366	1.052	1.176	2.128	3.288	1.77
Fees, Charges and Other Receipts	4.576	8.864	14.128	-12.256	4.906	2.957	18.728	23.286	9.68
CENTRAL SOURCES	3.828	4.119	4.948	5.523	5.009	4.688	3.918	13.362	5.66
BIR Allotments	3.828	4.119	4.948	5.491	5.009	4.688	3.323	7.799	4.90
National Aids	0.000	0.000	0.000	0.032	0.000	0.000	0.495	5.563	0.76
T O T A L	26.925	39.604	30.069	20.562	40.091	31.093	80.109	105.4	46.73

PERCENT OF TOTAL REVENUES	1983	1984	1985	1986	1987	1988	1989	1990	8 yr. ave
LOCAL:									
Business Taxes	14.77	13.61	23.76	31.69	24.07	23.95	17.40	14.80	20.51
Real Property Taxes	53.57	40.34	10.29	99.28	48.58	47.68	51.80	47.31	49.86
Non-Tax Revenues	17.43	35.65	49.50	(57.83)	14.86	13.29	26.04	25.21	15.52
Sub Total	85.78	89.60	83.54	73.14	87.50	84.92	95.23	87.32	85.88
CENTRAL	14.22	10.40	16.46	26.86	12.49	15.08	4.77	12.68	14.12
T O T A L	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	

ANNEX D

The following is a summary of the financial projections of the project:

PROPOSED ALABANG DIVERSION ROAD
Condensed Projected Income Statement

	1991	1992	1993	1994	1995
TOLL REVENUES	900,000	1,890,000	1,984,500	2,083,725	2,187,911
OPERATING EXPENSES	358,460	753,262	793,831	837,818	1,023,997
OPERATING INCOME	541,540	1,136,738	1,190,669	1,245,907	1,163,914
OTHER INCOME	(617,750)	(907,500)	(797,500)	(647,500)	(467,500)
NET INCOME	(76,210)	229,238	393,169	598,407	696,414

PROPOSED ALABANG DIVERSION ROAD
Condensed Projected Income Statement

	1996	1997	1998	1999	2000	2001
TOLL REVENUES	2,297,307	2,412,172	2,532,781	2,659,420	2,792,391	1,466,005
OPERATING EXPENSES	1,075,782	1,132,007	1,193,079	1,259,445	1,331,592	705,028
OPERATING INCOME	1,221,525	1,280,165	1,339,702	1,399,975	1,460,799	760,977
OTHER INCOME	(343,750)	(201,250)	93,750	648,750	953,750	696,250
NET INCOME	877,775	1,078,915	1,433,452	1,868,725	2,414,549	1,457,227

PROPOSED [illegible] DIVERSION ROAD
Projected Income Statement
Per Semester

	1991	1992		1993		1994		1995		1996	
	1	2	3	4	5	6	7	8	9	10	11
TOLL REVENUES											
Toll Fee Per Vehicle *	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	[illegible]	0.75
Ave. No. of Vehicles Per Day											
Per Day	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	[illegible]	7,000
Per Semester	1,260,000	1,260,000	1,260,000	1,260,000	1,260,000	1,260,000	1,260,000	1,260,000	1,260,000	1,260,[illegible]	1,260,000
Total Revenues	945,000	945,000	945,000	945,000	945,000	945,000	945,000	945,000	945,000	945,[illegible]	945,000
OPERATING EXPENSES											
Salaries & Wages of Toll Personnel	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	150,995	160,998	177,998	177,[illegible]	[illegible]	194,897
[illegible]	170,100	[illegible]	170,100	170,100	170,100	170,100	170,100	170,100	170,100	170,[illegible]	170,100
Maintenance & [illegible] of Road	0	0	0	0	0	0	0	69,231	69,231	69,[illegible]	69,231
Power & Electricity	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7,260	7,786	7,935	[illegible]	8,735
[illegible]	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,[illegible]	110,000
Total Operating Expenses	[illegible]	[illegible]	419,136	[illegible]	[illegible]	[illegible]	448,358	534,414	534,414	552,[illegible]	552,922
OPERATING INCOME	[illegible]	[illegible]	[illegible]	511,[illegible]	511,[illegible]	496,642	496,642	410,586	410,586	392,[illegible]	392,077
OTHER INCOME (EXPENSES)											
Interest Expense on Bonds Payable	([illegible])	([illegible])	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,[illegible])	(300,000)
Interest Income on Sinking Fund	[illegible]	[illegible]	80,000	125,000	125,000	230,000	270,000	345,000	410,000	475,[illegible]	490,000
Bond Issuance Costs	(150,000)	0	0	0	0	0	0	0	0	0	0
Premium on Bonds Payable	0	0	0	0	0	0	0	0	0	[illegible]	(41,250)
	(445,000)	(260,000)	(220,000)	(175,000)	(175,000)	(70,000)	(30,000)	45,000	110,000	175,[illegible]	148,750
NET INCOME	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	426,642	466,642	455,586	520,586	567,[illegible]	540,827

* Subject to the approval of the Toll Regulatory Board.

BREAK-EVEN TOLL FEE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.85	0.85	0.90	0.90	[illegible]	0.91
Margin of Safety	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	10.35%	10.35%	[illegible]	18.00%
BREAK-EVEN NO. OF CARS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4,708	4,759	5,351	5,351	[illegible]	5,735
Projected No. of Cars	[illegible]	[illegible]	7,000	7,000	7,000	7,000	7,000	7,000	7,000	[illegible]	7,000
Margin of Safety	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	18.07%

Best Available Document

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PROPOSED ALABANG DIVERSION ROAD
Projected Income Statement
Per Semester

	1997		1998		1999		2000		2001	
	12	13	14	15	16	17	18	19	20	
TOLL REVENUES										
Toll Fee Per Vehicle *	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	
Ave. No. of Vehicles Per Day										
Per Day	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	
Per Semester	1,260,000	1,260,000	1,260,000	1,260,000	1,260,000	1,260,000	1,260,000	1,260,000	1,260,000	
Total Revenues	945,000	945,000	945,000	945,000	945,000	945,000	945,000	945,000	945,000	18,900,000
OPERATING EXPENSES										
Salaries & Wages of Toll Personnel	214,000	214,000	235,717	235,717	251,294	259,000	285,217	[illegible]	313,739	
Cost of Toll Tickets	170,100	170,100	170,100	170,100	170,100	170,100	170,100	70,140	170,100	
Maintenance & Upkeep of Road	65,231	65,231	65,231	65,231	65,231	65,231	65,231	65,231	65,231	
Power & Electricity	9,452	9,453	10,429	10,429	11,457	11,572	12,642	12,642	14,143	
Depreciation Expense	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	
Total Operating Expenses	573,202	572,290	595,677	595,677	620,312	620,312	647,419	[illegible]	677,216	10,735,451
OPERATING INCOME	371,710	372,718	349,323	349,323	324,638	324,638	297,570	297,570	267,782	
OTHER INCOME (CHARGES)										
Interest Expense on Bonds Payable	(270,000)	(240,000)	(210,000)	(180,000)	(150,000)	(120,000)	(75,000)	(60,000)	(25,000)	(1,650,000)
Interest Income on Sinking Fund	510,000	535,000	560,000	595,000	635,000	675,000	725,000	785,000	850,000	5,535,000
Bond Issuance Costs	0	0	0	0	0	0	0	0	0	(150,000)
Premium on Bonds Payable	(41,875)	(42,500)	(43,125)	(43,750)	(44,375)	(45,000)	(41,625)	(18,250)	(46,875)	(449,625)
	198,125	252,500	306,875	371,250	440,625	510,000	587,375	573,750	778,125	
NET INCOME	569,835	624,218	656,198	720,573	765,263	834,638	884,945	871,320	1,045,907	11,466,913

* Subject to the approval of the Toll Regulatory Board.

	12	13	14	15	16	17	18	19	20
BREAK-EVEN TOLL FEE	0.63	0.62	0.74	0.72	0.65	0.65	0.61	0.53	0.53
Margin of Safety	16.63%	18.45%	22.51%	27.70%	31.45%	35.17%	38.77%	42.27%	45.59%
BREAK-EVEN NO. OF CARS	5,955	5,278	5,518	5,001	4,652	4,535	4,222	3,765	3,860
Projected No. Of Cars	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
Margin of Safety	22.42%	26.70%	26.87%	31.13%	33.17%	37.35%	39.11%	13.36%	44.86%

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PROPOSED ALABANG DIVERSION ROAD
Projected Balance Sheet

Per Semester

	1991	1992		1993		1994		1995		1996	
	1	2	3	4	5	6	7	8	9	10	11
ASSETS											
CURRENT ASSETS											
Cash	152,940	58,784	194,028	191,566	188,505	175,147	171,789	187,375	167,961	195,035	195,865
Short-Term Investments	0	0	0	0	0	0	0	0	0	0	0
Total Current Assets	152,940	58,784	194,028	191,566	188,505	175,147	171,789	187,375	167,961	195,035	195,865
SINKING FUND	50,000	500,000	800,000	1,250,000	1,750,000	2,300,000	2,900,000	3,450,000	4,100,000	4,350,000	4,900,000
FIXED ASSETS											
Alabang Diversion Road	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
LESS: DEPRECIATION	110,000	220,000	330,000	440,000	550,000	660,000	770,000	880,000	990,000	1,100,000	1,210,000
NET FIXED ASSETS	10,890,000	10,780,000	10,670,000	10,560,000	10,450,000	10,340,000	10,230,000	10,120,000	10,010,000	9,900,000	9,790,000
TOTAL ASSETS	11,092,940	11,338,784	11,664,028	12,001,566	12,388,505	12,815,147	13,301,789	13,757,375	14,277,961	14,445,035	14,885,865
LIABILITIES & EQUITY											
CURRENT LIABILITIES											
Accounts Payable											
Current Portion of Bonds	0	0	0	0	0	0	0	0	0	500,000	500,000
Total Current Liabilities	0	0	0	0	0	0	0	0	0	500,000	500,000
BONDS PAYABLE	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	4,500,000	4,000,000
ADVANCES FROM MUNICIPAL GOVERNMENT	0	0	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	4,500,000
EQUITY											
Allocation from National Government	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Retained Earnings	92,940	338,784	664,028	1,001,566	1,388,505	1,815,147	2,301,789	2,757,375	3,277,961	3,445,035	4,385,865
	6,092,940	6,338,784	6,664,028	7,001,566	7,388,505	7,815,147	8,301,789	8,757,375	9,277,961	9,445,035	10,385,865
TOTAL LIABILITIES & EQUITY	11,092,940	11,338,784	11,664,028	12,001,566	12,388,505	12,815,147	13,301,789	13,757,375	14,277,961	14,445,035	14,885,865

PROPOSED ALABANG DIVERSION ROAD
Projected Balance Sheet

Per Semester

	1997		1998		1999		2000		2001
	12	13	14	15	16	17	18	19	20
ASSETS									
CURRENT ASSETS									
Cash	135,729	159,927	176,325	156,698	132,011	175,700	173,665	160,005	160,913
Short-Term Investments	0	0	0	0	0	0	0	0	0
Total Current Assets	135,729	159,927	176,125	156,698	132,011	175,700	173,665	160,005	160,913
SINKING FUND	[illegible]	5,150,000	5,600,000	[illegible]	[illegible]	6,750,000	7,250,000	7,650,000	8,500,000
FIXED ASSETS									
Alabang Diversion Road	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
LESS: DEPRECIATION	[illegible]	1,430,000	1,540,000	[illegible]	[illegible]	1,870,000	1,980,000	2,090,000	2,200,000
NET FIXED ASSETS	[illegible]	9,570,000	9,460,000	[illegible]	[illegible]	9,130,000	9,020,000	8,910,000	8,800,000
TOTAL ASSETS	[illegible]	15,079,927	15,236,125	[illegible]	[illegible]	16,056,700	16,443,665	16,570,005	17,460,915
LIABILITIES & EQUITY									
CURRENT LIABILITIES									
Accounts Payable									
Current Portion of Bonds	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	0
Total Current Liabilities	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	0
BONDS PAYABLE	3,500,000	3,000,000	2,500,000	2,000,000	1,500,000	1,000,000	500,000	0	0
ADVANCES FROM MUNICIPAL GOVERNMENT	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	4,000,000	3,500,000	3,000,000	2,500,000	[illegible]	1,500,000	1,000,000	500,000	0
EQUITY									
Allocation from National Government	[illegible]	6,000,000	6,000,000	[illegible]	[illegible]	6,000,000	6,000,000	6,000,000	6,000,000
Retained Earnings	[illegible]	5,579,927	6,236,125	[illegible]	[illegible]	8,556,700	9,443,665	10,420,005	11,460,913
	[illegible]	11,579,927	12,236,125	[illegible]	[illegible]	[illegible]	15,443,665	[illegible]	17,460,913
TOTAL LIABILITIES & EQUITY	[illegible]	15,079,927	15,236,125	[illegible]	[illegible]	[illegible]	16,443,665	16,920,005	17,460,913

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PROPOSED ALABANG DIVERSION ROAD
Projected Cashflows
Per Semester

	1991	1992		1993		1994		1995		1996	
	1		3	4	5	6	7	8	9	10	11
OPERATING INCOME	537,940	525,344	525,344	511,938	511,938	496,642	496,642	418,586	418,586	392,077	392,077
Less: Bond Issuance Costs	(150,000)	0	0	0	0	0	0	0	0	0	0
Add : Interest Income on Sinking Fund	5,000	40,000	80,000	125,000	175,000	230,000	290,000	345,000	410,000	475,000	490,000
Depreciation Expense	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000
Total Income from Operations	502,940	675,344	715,344	746,938	796,938	836,642	896,642	865,586	930,586	977,077	992,077
INFLOWS FR. Allocated Budget from Gov't	6,000,000	0	0	0	0	0	0	0	0	0	0
Bonds Payable	5,000,000	0	0	0	0	0	0	0	0	0	0
Advances from the Municipal Gov't	0	0	0	0	0	0	0	0	0	0	0
(OUTFLOWS) FR. Alabang Diversion Road Project	(11,000,000)	0	0	0	0	0	0	0	0	0	0
Sinking Fund	(50,000)	(350,000)	(400,000)	(450,000)	(500,000)	(550,000)	(600,000)	(550,000)	(650,000)	(650,000)	(150,000)
CASHFLOW BEFORE DEBT SERVICE	452,940	325,344	315,344	296,938	296,938	286,642	296,642	315,586	280,586	327,077	842,077
DEBT SERVICE											
Interest	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)
Principal Payment	0	0	0	0	0	0	0	0	0	0	(500,000)
Premium	0	0	0	0	0	0	0	0	0	0	(41,250)
Total Debt Service	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(841,250)
NET INFLOWS (OUTFLOWS)	152,940	25,344	15,344	(3,062)	(3,062)	(13,358)	(3,358)	15,586	(19,414)	27,077	827
BEGINNING CASH	0	152,940	178,284	194,628	191,566	188,505	175,147	171,789	187,375	167,961	195,038
ENDING CASH	152,940	178,284	193,628	191,566	188,505	175,147	171,789	187,375	167,961	195,038	195,865

?1.5% of Total Float

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PROPOSED ALABANG DIVERSION ROAD
Projected Cashflows
Per Semester

	1997		1998		1999		2000		2001
	12	13	14	15	16	17	18	19	20
OPERATING INCOME	371,719	371,719	349,321	349,323	324,658	321,538	297,590	297,590	267,732
Less: Bond Issuance Costs	0	0	0	0	0	0	0	0	0
Add : Interest Income on Sinking Fund	510,000	535,000	560,000	595,000	625,000	675,000	725,000	785,000	850,000
Depreciation Expense	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000
Total Income from Operations	991,719	1,016,719	1,019,321	1,054,323	1,059,658	1,103,463	1,132,590	1,192,590	1,227,732
INFLOWS FR. Allocated Budget from Gov't	0	0	0	0	0	0	0	0	0
Bonds Payable	0	0	0	0	0	0	0	0	0
Advances from the Municipal Gov't	0	0	0	0	0	0	0	0	0
(OUTFLOWS) FR. Alabang Diversion Road Project	0	0	0	0	0	0	0	0	0
Sinking Fund	(200,000)	(250,000)	(250,000)	(320,000)	(400,000)	(400,000)	(500,000)	(600,000)	(650,000)
CASHFLOW BEFORE DEBT SERVICE	791,719	766,719	769,321	734,323	659,658	707,468	632,590	592,590	577,732
DEBT SERVICE									
Interest	(270,000)	(240,000)	(210,000)	(180,000)	(150,000)	(120,000)	(90,000)	(60,000)	(30,000)
Principal Payment	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)
Premium	(41,875)	(42,500)	(42,125)	43,250)	(44,375)	(45,000)	(45,625)	(46,250)	(46,875)
Total Debt Service	(811,875)	(782,500)	(752,125)	(723,250)	(694,375)	(665,000)	(635,625)	(606,250)	(576,875)
NET INFLOWS (OUTFLOWS)	(20,156)	(15,781)	16,196	11,073)	(34,717)	41,468	(3,035)	(13,660)	907
BEGINNING CASH	195,025	175,709	159,927	176,123	156,875	122,311	176,730	173,665	160,005
ENDING CASH	175,709	159,927	176,123	156,870	122,311	176,740	173,665	160,005	160,913

?.5% of Total Flows

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[illegible]
AMOUNT: P5,000,000
ASSUMPTIONS: (1) Issued 2nd Semester 1991
(2) Term : Ten Years (20 Semesters)
(3) Period: 20 Semesters
(4) Interest Rate 2/ Fixed at 12.00% (Gross)
(5) Redemption : Beginning 11th Semester

AVERAGE LIFE (Years) : [illegible]

			BEGINNING BALANCE	PRINCIPAL PAYMENT	ENDING BALANCE	INTEREST P.A.	TOTAL INTEREST PAYMENTS	TOTAL DEBT SERVICE	NET REDEMPTION PREMIUM	PESO PREMIUMS	TOTAL	COMPUTATION OF AVERAGE LIFE	
YEAR 1	0	0.00						(5,000,000)			(5,000,000)		(500,000)
YEAR 2	1	0.50	[illegible]	0	5,000,000	12.00%	300,000	300,000			300,000	0	46,375
	2	1.00	[illegible]	0	5,000,000	12.00%	300,000	300,000			300,000	0	46,375
YEAR 3	3	1.50	[illegible]	0	5,000,000	12.00%	300,000	300,000			300,000	0	46,375
	4	2.00	[illegible]	0	5,000,000	12.00%	300,000	300,000			300,000	0	46,375
YEAR 4	5	2.50	[illegible]	0	5,000,000	12.00%	300,000	300,000			300,000	0	46,375
	6	3.00	[illegible]	0	5,000,000	12.00%	300,000	300,000			300,000	0	46,375
YEAR 5	7	3.50	[illegible]	0	5,000,000	12.00%	300,000	300,000			300,000	0	46,375
	8	4.00	[illegible]	0	5,000,000	12.00%	300,000	300,000			350,000	0	46,375
YEAR 6	9	4.50	[illegible]	0	5,000,000	12.00%	300,000	300,000			300,000	0	16,375
	10	5.00	[illegible]	0	5,000,000	12.00%	300,000	300,000			300,000	0	46,975
YEAR 7	11	5.50	[illegible]	500,000	4,500,000	12.00%	300,000	300,000			300,000	0	46,375
	12	6.00	[illegible]	500,000	4,000,000	12.00%	300,000	300,000	16.50%	41,250	841,250	2,750,000	583,125
YEAR 8	13	6.50	[illegible]	500,000	3,500,000	12.00%	270,000	770,000	15.75%	41,875	811,875	3,000,000	
	14	7.00	[illegible]	500,000	3,000,000	12.00%	240,000	740,000	17.00%	42,500	782,500	3,250,000	17.55%
YEAR 9	15	7.50	[illegible]	500,000	2,500,000	12.00%	210,000	710,000	17.25%	43,125	753,125	3,500,000	
	16	8.00	[illegible]	500,000	2,000,000	12.00%	180,000	680,000	17.50%	43,750	723,750	3,750,000	
YEAR 10	17	8.50	[illegible]	500,000	1,500,000	12.00%	150,000	650,000	17.75%	44,375	691,375	4,000,000	
	18	9.00	[illegible]	500,000	1,000,000	12.00%	120,000	620,000	18.00%	45,000	665,000	4,250,000	
YEAR 11	19	9.50	[illegible]	500,000	500,000	12.00%	90,000	590,000	18.25%	45,625	635,625	4,500,000	
	20	10.00	[illegible]	500,000	0	12.00%	30,000	530,000	18.75%	46,875	576,375	5,000,000	
				5,000,000				[illegible]		[illegible]	10,050,625	[illegible]	
							IRR	12.00%			12.71%		
											12.71%		

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PROPOSED ALABANG DIVERSION ROAD
Condensed Projected Income Statement

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	
TOLL REVENUES	945,000	1,890,000	1,890,000	1,890,000	1,890,000	1,890,000	1,890,000	1,890,000	1,890,000	1,890,000	945,000	18,900,000
OPERATING EXPENSES	407,060	838,312	866,123	956,716	1,068,829	1,105,845	1,146,564	1,191,354	1,240,623	1,294,819	677,218	
OPERATING INCOME	537,940	1,051,688	1,023,377	933,284	821,171	784,155	743,436	698,646	649,377	595,181	267,782	8,466,538
OTHER INCOME (CHARGES)	(445,000)	(480,000)	(300,000)	(20,000)	155,000	323,750	450,625	678,125	952,625	1,268,125	773,125	
NET INCOME	92,940	571,688	723,377	913,284	976,171	1,107,905	1,194,061	1,376,771	1,602,002	1,863,306	1,040,907	11,460,913
												1,241,901

PROPOSED ALABANG DIVERSION ROAD
Condensed Balance Sheet

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
CURRENT ASSETS	152,940	194,628	168,505	171,739	167,961	195,845	159,927	156,692	176,700	160,005	160,913
SINKING FUND	50,000	800,000	1,350,000	2,500,000	4,100,000	4,900,000	5,350,000	5,950,000	6,750,000	7,850,000	8,500,000
NET FIXED ASSETS	10,890,000	10,670,000	10,450,000	10,230,000	10,010,000	9,790,000	9,570,000	9,350,000	9,130,000	8,910,000	8,800,000
TOTAL ASSETS	11,092,940	11,664,628	12,220,505	13,901,739	14,277,961	14,885,845	15,079,927	15,456,692	16,056,700	16,920,005	17,460,913
LIABILITIES & EQUITY											
CURRENT LIABILITIES	0	0	0	0	0	500,000	500,000	500,000	500,000	500,000	0
BONDS PAYABLE	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	4,000,000	3,000,000	2,000,000	1,000,000	0	0
TOTAL LIABILITIES	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	4,500,000	3,500,000	2,500,000	1,500,000	500,000	0
EQUITY											
Allocation from National Government	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Retained Earnings	92,940	664,628	1,220,505	2,901,739	3,277,961	4,385,845	5,579,927	6,956,692	8,556,700	10,420,005	11,460,913
TOTAL EQUITY	6,092,940	6,664,628	7,220,505	8,901,739	9,277,961	10,385,845	11,579,927	12,956,692	14,556,700	16,420,005	17,460,913
TOTAL LIABILITIES & EQUITY	11,092,940	11,664,628	12,220,505	13,901,739	14,277,961	14,885,845	15,079,927	15,456,692	16,056,700	16,920,005	17,460,913

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ANNEX TWO

RECOMMENDED BOND FEATURES

Managing Underwriter	:	FEB Investments, Inc.
Selling Agents	:	Commercial Banks Savings and Development Banks Savings and Loan Association Finance Companies, operating in the Municipality of Muntinlupa
Term of the Bond	:	Ten (10) years The bonds shall be redeemable ten years or more from date of issuance as may be determined by the Secretary of Finance or earlier by local government upon approval by a majority of all members of the Sangguniang Bayan. Sec. 6(b)(3)
Coupon Rate	:	12% p.a., Semestral Payments Before the issuance of the bonds, the Secretary of Finance upon consultation with the MB of the CB shall fix the annual rate of interest payable on the bonds, as well as the mode of payments of the interest accruals, thereon. Sec. 6(b)(4)
Tax-Exempt Feature	:	The bond shall be exempt from all taxes levied by the Republic of the Philippines, or by any authority, branch, division or political subdivision thereof, which facts shall be stated upon the face of the bonds. Sec. 6(c)

Principal Amounts Off-Set Vs. Municipal Taxes	:	The principal amount of the Bond may be applied by the bondholders against various municipal taxes: business tax, real property tax, amusement tax and residence tax. The exact taxes against which bond to be identified by the Municipality prior to the Issuance of the Bond.
Total Amount of Float	:	FIVE MILLION PESOS (P´5,000,000.00)
Denomination	:	Bond denomination may vary from: P´500.00 P´1,000.00; and P´5,000,00
Minimum Lot	:	P´500.00
Maximum Lot	:	P´50,000.00
Offering Price	:	100%
Offering Period	:	19 April 1991 (Friday) to 3 May 1991 (Friday) (Ten working days)
Issue Date	:	6 May 1991 (Monday)
Early Redemption/ Call Option	:	The Municipality may redeem the bonds starting on the sixth (6th) year. A call provision will be established whereby a percentage of the outstanding bonds may be redeemed on each call period. The Bonds may be redeemed under the call options at a premium over the face value of the Bond to yield the investors a fair return. The redemption periods will be determined based on the cashflows of the project and the Municipality.

Year	Semester	% to be Redeemed
1	11	10.00%
2	12	10.00%
	13	10.00%
8	14	10.00%
	15	10.00%
9	16	10.00%
	17	10.00%
10	18	10.00%
	19	10.00%
11	20	10.00%
		100.00%

Early Redemption/ Call Price : The Bonds may be redeemed under the call options at a premium over face value given a range which shall be determined based on the cash flows of the municipality.

Year	Semester	Premium Over
1	11	13.50%
7	12	13.75%
	13	14.20%
8	14	14.25%
	15	14.50%
9	16	14.75%
	17	15.00%
10	18	15.25%
	19	15.50%
11	20	15.75%

Full Redemption/ Maturity : All outstanding Bonds must be redeemed by the Municipality at the end of the prescribed life of the Bond.

Redemption Mechanics : Redemption shall be done through the specific agents of commercial banks.

Sinking Fund : The Sangguniang Bayan shall establish a sinking fund for the purpose of redeeming at maturity the bonds issued.

The annual contributions to the sinking fund shall cover in full the principal and interest due on the bonds issued and the local board or council shall set aside in the annual budgets of the local government the corresponding appropriations therefor. The Secretary of Finance may, upon request of the Sangguniang Bayan, determine and fix the amount referred to.

Said sinking fund shall be under the custody of the CB which may invest the same in such manner as the MB may approve. Said sinking fund shall be charged for all expenses incurred in investing the same portions thereof and credited with the earnings and interest income arising investments.

Sec. 6 (e), (f), (g)

Guarantee : The Republic of the Philippines guarantees ghe payment by the Municipal Government of both the principal and interest of the bonds, and shall pay such principal and interest in case the municipal government fails to do so.

Taxes, Licenses and Fees : All municipal taxes, licenses and fees may be paid through the Banking and Finance community operating in and around the municipality. The Muntinlupa based banks may act as the Municipality's collecting agent for the municipal taxes, licenses and fees. The banks may monitor, on behalf of the Muntinlupa Municipality, taxes, fees and other collections.

Application of Proceeds	: Proceeds from the sale of the Bonds shall be earmarked for the construction of the Alabang Diversion Road.
Trustees & Summit Committee	: A committee composed of the Mayor and/or his authorized representative(s) as well as representatives from the financial, business and private sectors shall be established. The committee, the members of which shall be changed annually, shall act as the Trustees of the Fund to be generated by the Bond. The committee shall oversee the proper use of the fund and shall generate a quarterly report which will be made public. FEBII will assist the Municipality in forming the Board of Trustees.
External and Bond Creditors	: External auditors shall be engaged to undertake the audit of the Fund. for and on behalf of the Municipality and the community. This may have to be done in conjunction with the Commission on Audit. All audited reports shall be made public on a quarterly basis.
Fees and Expenses	: All underwriting and selling fees shall be for the account of the Municipality Registration, and printing cost pertaining to the Bond shall be for the account of the Municipality.
Clearance & Approvals	: All approvals and clearances acquired from the proper government agencies shall be obtained by the Municipality.
Documents, Contracts Agreements	: All documents, contracts and pertinent agreements shall be prepared and negotiated by FEBII as the Managing Underwriter.
Others	: All printing and distribution of the certificates and confirmation.

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