

File No. 121127

Committee Item No. 9

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date 12/05/2012

Board of Supervisors Meeting

Date _____

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | Ordinance |
| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget and Legislative Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Youth Commission Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form (for hearings) |
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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Preliminary Official Statement |
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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Official Notice of Sale |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Bond Purchase Contract |
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Completed by: Victor Young Date November 30, 2012

Completed by: Victor Young Date _____

1 [Wastewater Revenue Bonds Issuance - Public Utilities Commission - Not to Exceed
2 \$670,000,000]

3 **Resolution approving the issuance of wastewater revenue bonds to be issued by the**
4 **Public Utilities Commission of the City and County of San Francisco in aggregate**
5 **principal amounts not to exceed \$250,000,000 to refund outstanding wastewater**
6 **revenue bonds pursuant to the Charter of the City and California Government Code**
7 **Sections 53580 et seq., and not to exceed \$420,000,000 to finance capital projects**
8 **benefiting the Wastewater Enterprise pursuant to amendments to the Charter of the**
9 **City and County of San Francisco enacted by voters on November 5, 2002, as**
10 **Proposition E; affirming covenants contained in the indenture pursuant to which the**
11 **wastewater revenue bonds are issued; authorizing the taking of appropriate actions in**
12 **connection therewith; and related matters.**

13
14 WHEREAS, Pursuant to Section 9.109 of the Charter of the City (the "Charter") and
15 California Government Code Sections 53580 et seq., the Board of Supervisors of the City (the
16 "Board") is authorized to provide for the issuance of bonds of the City for the purpose of
17 refunding any revenue bonds (including other evidence of indebtedness) of the City then
18 outstanding without voter approval, provided that such refunding is expected to result in net
19 debt service savings to the City on a present value basis; and

20 WHEREAS, At a duly called and held revenue bond election on November 5, 2002, a
21 majority of voters voting on the measure approved Proposition E ("Proposition E of 2002") to
22 authorize the Commission to issue its revenue bonds, including notes, commercial paper or
23 other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of
24 the Board, for the purpose of reconstructing, replacing, expanding, repairing or improving
25 water and clean water facilities under the jurisdiction of the Commission; and

1 WHEREAS, On March 30, 2010, the Board passed by a two-thirds vote Ordinance No.
2 68-10 ("Ordinance No. 68-10"), signed by the Mayor of the City on April 8, 2010, approving
3 the issuance and sale of wastewater revenue bonds pursuant to Proposition E of 2002 to
4 finance various capital projects benefiting the Wastewater Enterprise, as well as paying the
5 costs of issuance and other incidental costs relating thereto, in an aggregate principal amount
6 not to exceed \$282,400,000; and

7 WHEREAS, On April 27, 2010, the Board passed by a two-thirds vote Ordinance No.
8 93-10 ("Ordinance No. 93-10"), signed by the Mayor of the City on May 3, 2010, approving the
9 issuance and sale of wastewater revenue bonds pursuant to Proposition E of 2002 to finance
10 various capital projects benefiting the Wastewater Enterprise, as well as paying the costs of
11 issuance and other incidental costs relating thereto, in an aggregate principal amount not to
12 exceed \$297,756,235, which ordinance became effective on June 3, 2010; and

13 WHEREAS, The Commission has not previously issued any wastewater revenue
14 bonds, pursuant to Ordinance No. 93-10, and an aggregate principal amount not to exceed
15 \$297,756,235 remains authorized by the Board and unissued by the Commission; and

16 WHEREAS, On June 8, 2010, pursuant to Ordinance No. 68-10 and Proposition E of
17 2002, the Commission issued \$47,050,000 Public Utilities Commission of the City and County
18 of San Francisco Wastewater Revenue Bonds, 2010 Series A and \$192,515,000 Public
19 Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds,
20 2010 Series B (Federally Taxable – Build America Bonds – Direct Payment); and

21 WHEREAS, On June 12, 2012, the Board passed by a two-thirds vote Ordinance No.
22 115-12 ("Ordinance No. 115-12") approving the issuance and sale of wastewater revenue
23 bonds by the Commission pursuant to Proposition E of 2002, in an aggregate principal
24 amount not to exceed \$522,810,000, to finance capital projects benefiting the Wastewater
25 Enterprise, which ordinance became effective on July 12, 2012; and

1 WHEREAS, The Commission has not previously issued any wastewater revenue
2 bonds, pursuant to Ordinance No. 115-12, and an aggregate principal amount not to exceed
3 \$522,810,000 remains authorized by the Board and unissued by the Commission; and

4 WHEREAS, On August 28, 2012, the Commission passed Resolution No. 12-0154
5 declaring its intention, for federal tax purposes, to issue up to \$570,000,000 of wastewater
6 revenue bonds; and

7 WHEREAS, Proposition E of 2002 (Section 8B.124) allows for the issuance of revenue
8 bonds and other forms of indebtedness, subject to the provision of certain certifications of an
9 independent engineer retained by the Commission and certain certifications by the San
10 Francisco Planning Department, which certifications make the findings and determinations set
11 forth in Section 8B.124; and

12 WHEREAS, Certificates intended to meet the requirements set forth in Section 8B.124
13 have been presented for review by this Board (the "Certificates"), the Certificates are on file
14 with the Clerk of the Board in File No. ____ and are on file with the Clerk of the Commission in
15 File No. ____, and this Board finds such Certificates fully compliant with Section 8B.124; and

16 WHEREAS, The Commission, pursuant to the terms of Resolution No. 12-0210
17 adopted by the Commission on October 23, 2012 (the "Commission Resolution"), has
18 authorized: (A) the issuance of: (i) Public Utilities Commission of the City and County of San
19 Francisco Wastewater Revenue Bonds in an aggregate principal amount not to exceed
20 \$250,000,000 for the purpose of refunding outstanding wastewater revenue bonds (including
21 certain outstanding State Revolving Fund loans used to finance various capital projects
22 benefiting the Wastewater Enterprise), funding reserve accounts, if any, and paying costs of
23 issuance and other incidental costs therefor, with the title and series designations to be
24 determined by the General Manager of the Commission, provided that the applicable
25 requirements of the policies and procedures of the Commission and Charter of the City and

1 California Government Code Sections 53580 et seq., are satisfied (the "Refunding Bonds");
2 and (ii) Public Utilities Commission of the City and County of San Francisco Wastewater
3 Revenue Bonds in an aggregate principal amount not to exceed \$420,000,000 for the purpose
4 of financing or refinancing (through the retirement of commercial paper notes) various capital
5 projects benefiting the Wastewater Enterprise (including reimbursing the Commission for
6 certain capital costs previously paid with the proceeds of wastewater commercial paper notes
7 or from other moneys), funding reserve accounts, if any, funding capitalized interest, and
8 paying costs of issuance and other incidental costs therefor, with the title and series
9 designations to be determined by the General Manager of the Commission (the "New Money
10 Bonds" and together with the Refunding Bonds, the "Bonds"); (B) the form of one or more
11 Supplemental Indentures (the "Supplemental Indentures"), by and between the Commission
12 and U.S. Bank National Association, as trustee (the "Trustee"), which supplements the
13 Indenture dated as of January 1, 2003, as amended and supplemented (collectively with the
14 Supplemental Indentures, the "Indenture") by and between the Commission and the Trustee;
15 and other related actions and matters necessary to provide for the issuance of the Bonds; and

16 WHEREAS, The Commission Resolution, among other things, establishes a maximum
17 rate of interest for the Bonds of twelve percent (12%) per annum; now, therefore, be it

18 RESOLVED, By the Board of Supervisors of the City and County of San Francisco, as
19 follows:

20 Section 1. Recitals. All of the recitals herein are true and correct.

21 Section 2. Approval and Authorization of Bonds. The Board further authorizes and
22 approves the issuance by the Commission of the Refunding Bonds, in an aggregate principal
23 amount not to exceed \$250,000,000, in one or more series and on one or more dates, at a
24 maximum rate or rates of interest not to exceed twelve percent (12%) per annum, provided
25 that each such Refunding Bond issue is permitted under the applicable policies and

1 procedures of the Commission and authorized by Section 9.109 of the Charter and California
2 Government Code Sections 53580 et seq; and provided the Refunding Bonds achieve at least
3 3% present value debt service savings. The Refunding Bonds may be issued as tax-exempt
4 bonds or taxable bonds, or any combination thereof; and such Refunding Bonds may be sold
5 on a competitive or negotiated basis as the Commission acting through its General Manager
6 shall determine is in its best financial interest.

7 The Board hereby authorizes and approves the issuance by the Commission of New
8 Money Bonds, in an aggregate principal amount not to exceed \$420,000,000, in one or more
9 series and on one or more dates, pursuant to Proposition E of 2002, Ordinance 93-10 and
10 Ordinance No. 115-12, at a maximum rate or rates of interest not to exceed twelve percent
11 (12%) per annum. The New Money Bonds may be issued as tax-exempt bonds or taxable
12 bonds, or any combination thereof; and such New Money Bonds may be sold on a competitive
13 or negotiated basis as the Commission acting through its General Manager shall determine is
14 in its best financial interest.

15 The forms of the Bonds, in substantially the forms presented to the Board, as set forth
16 in the exhibits to the Supplemental Indentures, are hereby approved. The General Manager
17 of the Commission or the designee of either, and the Controller of the City or any deputy
18 thereof, are hereby authorized and directed to approve and to execute the Bonds by manual
19 or facsimile signature, with such changes, additions, amendments or modifications therein
20 which he or she may approve with the advice of the City Attorney, such approval to be
21 conclusively evidenced by the execution and delivery of the Bonds.

22 Section 3. Affirmation of Existing Bond Covenants. The Board hereby confirms
23 Section 5.01(c) of the Indenture which sets forth the disposition of Revenues (as defined in
24 the Indenture) applicable to the Bonds and covenants with the holders of the Bonds that the
25 Revenues shall be appropriated and expended as set forth in Section 5.01(c) of the Indenture.

1 The Board also hereby declares that the City will comply with all of the terms, provisions and
2 covenants contained in the Indenture, as the same may be amended from time to time,
3 including the covenants to establish, fix, prescribe and collect rates, fees and charges
4 sufficient to enable the Commission to comply with the terms, conditions and covenants of the
5 Indenture.

6 Section 4. Approval of Financing Documents. In accordance with the authorization
7 contained in Ordinance 93-10 and Ordinance No. 115-12, the forms of Supplemental
8 Indentures for the Refunding Bonds and the New Money Bonds, Official Notices of Sale,
9 Notices of Intention, Bond Purchase Agreements, Official Statements for the Refunding Bonds
10 and the New Money Bonds, Escrow Agreements and Continuing Disclosure Certificates
11 relating to the Bonds, submitted to this Board and on file with the Clerk of the Board, are
12 hereby approved. Any of the Controller, the Treasurer, the City Attorney and the officers of
13 the Commission authorized by resolution of the Commission, and their designees, are hereby
14 authorized to execute, attest, publish and deliver (as appropriate) each such document, with
15 such changes thereto as the officer executing or publishing the same shall approve with the
16 advice of the City Attorney, such approval to be conclusively evidenced by the execution and
17 delivery, or the publication, as applicable, of such document.

18 Section 5. Proposition P. Pursuant to Proposition P, approved by the voters of the City
19 in November 2002, this resolution and the Bonds (excluding the Refunding Bonds) are subject
20 to, and incorporate by reference, the provisions of Section 5A.30 et seq. ("Public Utilities
21 Revenue Bond Oversight Committee") of Chapter V of the San Francisco Administrative Code
22 (the "Proposition P Requirements"). Pursuant to the Proposition P Requirements, to the
23 extent permitted by law, one-twentieth of one percent (0.05%) of the gross proceeds of the
24 Bonds (excluding the Refunding Bonds) shall be deposited in a fund established by the
25 Controller's Office and appropriated by the Board at the direction of the Public Utilities

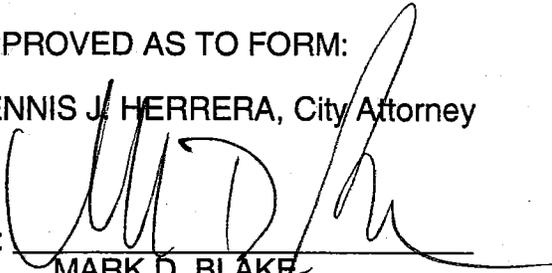
1 Revenue Bond Oversight Committee established by Proposition P Requirements to cover the
2 costs of said committee.

3 Section 6. General Authority. The Controller of the City, the Treasurer of the City, the
4 City Attorney, and all other appropriate officers, employees, representatives and agents of the
5 City, the Commission, and all other appropriate officers, employees, representatives and
6 agents of the Commission are hereby authorized and directed to do everything necessary or
7 desirable to provide for the issuance and sale of and security for the Bonds, including, but not
8 limited to, approval of one or more Preliminary Official Statements and one or more Official
9 Statements for the Refunding Bonds and the New Money Bonds, and executing and
10 delivering such other certificates and other documents as they may deem necessary or
11 advisable, including without limitation any custody agreements or filing agent agreements
12 required by the Trustee.

13 APPROVED AS TO FORM:

14 DENNIS J. HERRERA, City Attorney

15
16
17 By:


18 MARK D. BLAKE
19 Deputy City Attorney
20
21
22
23
24
25

Item 9 File 12-1127	Department: Public Utilities Commission (PUC)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objective</p> <p>The proposed resolution would (a) approve San Francisco Public Utilities Commission's (PUC) issuance of Wastewater Revenue Bonds in a total not-to-exceed amount of \$670,000,000, including (1) \$250,000,000 to refund outstanding Wastewater Revenue Bonds pursuant to the Charter of the City and California Government Code Sections 53580 et seq., and (2) \$420,000,000 to finance various capital projects under the PUC Sewer System Improvement Program (SSIP), (b) affirming covenants contained in the indenture pursuant to which the Wastewater Revenue Bonds are issued; and (c) related matters.</p> <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The PUC's Wastewater Annual Capital Improvement Program (CIP) identifies and prioritizes capital and renewal and replacement needs. The Wastewater Enterprise is now in the process of completing the \$386.3 million CIP and is in the beginning stages of the \$6.9 billion Sewer System Improvement Program (SSIP). • The Board of Supervisors has previously authorized the PUC to issue up to \$820,566,235 in Wastewater Revenue Bonds. However, the Wastewater Revenue Bond issuance in the proposed resolution would be the first such issuance under this authority. • The proposed resolution would authorize the issuance of up to \$250,000,000 in Wastewater Revenue Refunding Bonds ("2013A Refunding Bonds"), which the PUC would use to refinance outstanding Wastewater Revenue Bonds and State Revolving Fund loans at a lower interest rate, generating an estimated a net total present value savings of \$30,470,560. • The proposed resolution would also authorize the issuance of up to \$420,000,000 in Wastewater Revenue Bonds ("2013B New Money Bonds"), which the PUC would use for the purpose of financing or refinancing, through the retiring of commercial paper, various CIP and SSIP projects. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The PUC estimates that the debt service for 2013A Refunding Bonds would total an estimated \$222,873,102 over a 13-year period, including \$192,215,000 in principal and \$30,658,102 in interest. This new debt service would reduce the average single-family's residential wastewater bill by \$0.60 per month over the repayment period. The PUC would fully repay the 2013A Refunding Bonds in FY 2025-26. • Debt service for the up to \$420,000,000 Wastewater Revenue Bonds issuance would total an estimated \$750,909,805 over 30 years, including \$355,060,000 in principal and \$395,849,805 in interest. The PUC estimates the average annual debt service for the Refunding Bonds would be \$25,156,875 per year for 30 years. According to Mr. Brown, 2013B New Money Bonds would increase the average single-family's residential wastewater bill by \$5.03 per month over the 30-year repayment period. These projected costs are already assumed in adopted sewer rates through FY 2013-14 and projected rates included in the PUC's 10-Year Financial Plan. 	

- The PUC has proposed delaying repayment of the principal on the 2013B New Money Bonds for the first 10 years of the repayment period, paying only the interest. The purpose of this repayment structure is to create smaller, stabilized rate increases for San Francisco residential and commercial ratepayers through the SSIP period financing period. According to the PUC's financial analyst, delaying repayment of the principal on the 2013B New Money Bonds will result in an additional total cost of approximately \$58 million over the 30-year life of the bonds, saving the average single-family's residential wastewater bill \$0.71 per month in the first 10 years of bond repayment, but costing \$1.03 per month more in the final 18 years of repayment.

Recommendation

- Approve the issuance of the \$250,000,000 2013A Refunding Bonds, affirming covenants contained in the indenture pursuant to which the Water Revenue Bonds are issued, and related matters.
- Because the \$420,000,000 proposed 2013B New Money Bond repayment structure stabilizes wastewater utility rates while increasing the overall debt service, approval of the 2013B New Money Bond issuance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT & BACKGROUND

Mandate Statement

Under Section 9.109 of the City Charter and California Government Code Sections 53580 et seq., the Board of Supervisors is authorized to approve the issuance of bonds for the purpose of refunding any outstanding revenue bonds without voter approval, provided that such refunding is expected to result in net debt service savings to the City on a present value basis.

Under San Francisco Charter Section 8B.124 (Proposition E, November 5, 2002), the PUC is authorized to issue revenue bonds, including notes, commercial paper or other forms of indebtedness for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities, subject to approval by two-thirds of the Board of Supervisors. The Board of Supervisors authority to authorize an issuance of debt under Charter Section 8B.124 is subject to (a) certification from an independent engineer that (i) the projects to be financed by such debt meet utility standards and (ii) estimated net revenue will be sufficient to meet operating, maintenance, debt service coverage and other indenture or resolution requirements, and (b) certification by the San Francisco Planning Department that facilities under the PUC's jurisdiction that are to be funded by the debt will comply with the California Environmental Quality Act (CEQA).

Background

The PUC's Wastewater Enterprise is responsible for the operations, maintenance, capital improvements and repair/replacement of the following wastewater facilities and assets:

- Four Water Pollution Control Plants including: Southeast Treatment Plant, Oceanside Treatment Plant, North Point Wet-Weather Facility, and Treasure Island Treatment Plant;
- 27 Pump Stations in San Francisco and 29 on Treasure Island;
- Eight Transport/Storage Facilities for combined sewage;
- Three Bay/Ocean Outfalls off of San Francisco;
- One Outfall off of Treasure Island;
- 36 combined Sewer Discharge Structure;
- 50 stormwater outfalls on Treasure and Yerba Buena Islands;
- 993 miles of Sewers, Tunnels, and Force Mains; and
- The Southeast Community Facility.

The PUC's Wastewater Annual Capital Improvement Program (CIP) identifies and prioritizes capital and renewal and replacement needs. The CIP also includes the development of Wastewater Enterprise asset management objectives, standards, policies, and procedures. The Wastewater Enterprise is now in the process of completing the \$386.3 million CIP and is in the beginning stages of the Sewer System Improvement Program (SSIP), which will be constructed from 2011 through 2040 at an estimated cost of \$6.9 billion

As is noted in the Mandate Statement section above, on November 5, 2002, San Francisco voters approved Proposition E, authorizing the PUC to issue revenue bonds and other forms of financing for water and clean water facilities and services, subject to approval by two-thirds of the Board of Supervisors. The Wastewater Revenue Bond debt is financed from sewer fees charged by the PUC to San Francisco's residents and businesses.

The Board of Supervisors approval of appropriation and bond issuance legislation related to the proposed resolution is summarized in Table 1, below. As shown in Table 1 above, the Board of Supervisors has previously authorized the PUC to issue up to \$820,566,235 in Wastewater Revenue Bonds. However, according to Mr. Mike Brown, Capital Finance Analyst for the PUC, the wastewater bond issuance proposed in the subject resolution would be the first such issuance under this authority.

Furthermore, to date the SFPUC has been able to take advantage of its \$300 million Wastewater Commercial Paper program to provide interim financing at an average financing cost of approximately 1% per year. That program will continue, but refunding of the Wastewater Commercial Paper is now needed to provide encumbrance capacity for other approved and appropriated sewer projects.

Table 1. Relevant Wastewater Capital Improvement Program and Sewer System Improvement Program Appropriation and Debt Issuance Legislation Previously Approved by the Board of Supervisors

Item No.	Approval Date	Summary of Board Action	Amount
Appropriation Authority			
10-0339	4/27/2010	Appropriation of \$348,064,054 to fund wastewater capital improvements in FY 2010-11 and FY 2011-12	\$297,756,235
11-0284	3/29/2011	Approval of the City's Ten Year Capital Expenditure Plan, including PUC Wastewater Capital Projects	N/A
11-0626	7/26/2011	Approved Citywide Consolidated Budget and Annual Appropriation Ordinance, including \$30,000,000 for bond-funded wastewater capital improvements.	30,000,000
12-0428	6/12/2012	Appropriation of \$587,756,000 to fund wastewater capital improvements in FY 2012-13 and FY 2013-14	587,756,000
Total Appropriation Authority			\$915,512,235
Bond Issuance Authority			
10-0340	4/27/2010	Authorization for the PUC to issue \$297,756,235 in Wastewater Revenue Bonds for wastewater capital improvements.	\$297,756,235
12-0469	6/12/2012	Authorization for the PUC to issue \$522,810,000 in Wastewater Revenue Bonds for wastewater capital improvements.	522,810,000
Total Revenue Bond Issuance Authority			\$820,566,235

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (a) approve San Francisco Public Utilities Commission's (PUC) issuance of Wastewater Revenue Bonds in a total not-to-exceed amount of up to \$670,000,000, including (1) up to \$250,000,000 to refund outstanding Wastewater Revenue Bonds pursuant to the Charter of the City and California Government Code Sections 53580 et seq., and (2) up to \$420,000,000 to finance various capital projects under the PUC Capital Improvement Program (CIP) and Sewer System Improvement Program (SSIP), (b) affirming covenants contained in the indenture pursuant to which the Wastewater Revenue Bonds are issued; and (c) related matters.

The proposed resolution would authorize the issuance of up to \$250,000,000 in Wastewater Revenue Refunding Bonds ("2013A Refunding Bonds"), which the PUC would use to refinance

(refund) outstanding Wastewater Revenue Bonds and State Revolving Fund loans¹ at a lower interest rate, generating savings. Any issuance of Wastewater Revenue Refunding Bonds would need to meet the City's minimum refunding bond standards of 3% savings at the time of sale. At this time, the PUC's objective is to use Wastewater Revenue Refunding Bonds to refinance the PUC's outstanding Series 2003A Wastewater Revenue Bonds and State Revolving Fund loans, in an amount totaling up to \$250,000,000, including costs of issuance. The PUC estimates it will be able to achieve more than the 3% required savings by refunding the Series 2003A Wastewater Revenue Bonds and State Revolving Fund loans, as discussed in the Fiscal Impacts section below.

The proposed resolution would also authorize the issuance of up to \$420,000,000 in Wastewater Revenue Bonds, which the PUC would use for the purpose of financing or refinancing, through the retiring of commercial paper, various CIP and SSIP projects. These capital projects were previously approved by the Board of Supervisors under the four pieces of appropriation authorization shown in Table 1 above (Files 10-0339, 11-0284, 11-0626, and 12-0428). A list of the individual projects and costs is shown in Attachment I to this report.

As is noted in the Mandate Statement section above, the Board of Supervisors authority to authorize an issuance of debt under Charter Section 8B.124 is subject to (A) certification from an independent engineer that (i) the projects to be financed by such debt meet utility standards and (ii) estimated net revenue will be sufficient to meet operating, maintenance, debt service coverage and other indenture or resolution requirements, and (B) certification by the San Francisco Planning Department that facilities under the PUC's jurisdiction that are to be funded by the bonds will comply with the California Environmental Quality Act (CEQA). According to Mr. Brown, these documents will have been filed with the Clerk of the Board prior to the December 5, 2012 Board of Supervisors Budget and Finance Committee meeting.

FISCAL IMPACTS

The proposed resolution would approve San Francisco Public Utilities Commission's (PUC) issuance of Wastewater Revenue Bonds in a total not-to-exceed amount of up to \$670,000,000, including (a) up to \$250,000,000 in Wastewater Revenue Refunding Bonds ("2013A Refunding Bonds") and (b) up to \$420,000,000 in new Wastewater Revenue Bonds ("2013B New Money Bonds").

Series 2013A Refunding Bonds

The 2013A Refunding Bonds would enable the PUC to refund up to \$250,000,000 of Wastewater Revenue Bonds and State Revolving Fund loans, including bond issuance and related costs, if market rates were favorable to such an exchange. According to PUC Deputy Chief Financial Officer Mr. Charles Perl, the PUC estimates that the refunding of the outstanding 2003A Bonds would allow for an average annual debt service savings of \$2,980,047, and a net

¹ The PUC used State Revolving Fund loans to finance various capital projects benefiting the Wastewater Enterprise.

total present value savings of \$30,470,560, as shown in Attachment II. Although the PUC's estimates are based on a borrowing cost of 5.0%, according to Mr. Perl, the PUC estimates that its borrowing cost will be closer to 2.0% on the Series 2013A Refunding Bonds.

As is shown in Attachment II, the PUC estimates that the debt service for 2013A Refunding Bonds would total an estimated \$222,873,102 over a 13 year period, including \$192,215,000 in principal and \$30,658,102 in interest. According to Mr. Brown, this new debt service would reduce the average single-family's residential wastewater bill by \$0.60 per month over the repayment period. The PUC would fully repay the 2013A Refunding Bonds in FY 2025-26.

Series 2013B New Money Bonds

The PUC proposes to sell up to \$420,000,000 in 2013B New Money Bonds in mid-to late January 2013, after the sale of the 2013A Refunding Bonds. Proceeds from the 2013B New Money Bond sale would be used to fund in Wastewater Capital Projects previously approved by the Board of Supervisors (Files 10-0339, 11-0284, 11-0626, and 12-0428), plus bond issuance and related costs. The proceeds will also be used to reimburse the PUC's Wastewater Enterprise for allowable expenditures as authorized by the Reimbursement Resolution approved by the PUC Commission on August 28, 2012. Although the PUC's estimates are based on a borrowing cost of 5.0%, according to Mr. Perl, the PUC estimates that its borrowing cost will be closer to 4.0% on the Series 2013B New Money Bonds.

As is shown in Attachment III, debt service for the up to \$420,000,000 Wastewater Revenue Bonds issuance would total an estimated \$750,909,805 over 30 years, including \$355,060,000 in principal and \$395,849,805 in interest. The PUC estimates the average annual debt service for the Refunding Bonds would be \$24,222,897 per year for 30 years. According to Mr. Brown, the 2013B New Money Bonds would increase the average single-family's residential wastewater bill by \$5.03 per month over the 30-year repayment period.

Proposed Delay in Repayment of Principal for 10 Years

The PUC has proposed that the 2013B New Money Bonds would be structured in such a way that reduces the initial impact on ratepayers, but that will ultimately cost more over the 30-year borrowing period. As is shown in the "Principal" column in Attachment III, the PUC has proposed delaying repayment of the principal for the first 10 full years of the Bonds, paying only the interest on the 2013B New Money Bonds until 2024, rather than beginning to repaying the principal immediately. As a result, gross debt service for the first 10 full years of repayment of the 2013B New Money Bonds would be \$17,553,700, increasing to more than \$27,000,000, on average, from 2024 to 2041, and increasing again to \$41,394,625 in 2042 and 2043, the final two years of repayment. Additional discussion of the structure of the 2013B New Money Bonds is considered in the Policy Considerations section, below.

Debt Service Reserve Fund Savings

According to Mr. Perl, refunding all of the PUC's outstanding 2003A Bonds will legally allow the PUC to re-calibrate the debt service reserve fund (DSRF) requirement for all wastewater revenue bonds, which will provide ongoing savings to PUC ratepayers. The PUC's financial advisors have indicated that the PUC can issue the proposed 2013A Refunding Bonds and the proposed 2013B New Money Bonds with zero DSRF, which would result in an estimated savings of \$13,500,000, including approximately \$1,600,000 of the \$30,470,560 estimated savings from the 2013A Refunding Bonds, and an additional \$11,900,000 in savings for the proposed 2013B New Money Bonds.

POLICY CONSIDERATION**As Proposed, the PUC Would Not Begin Paying Down the Principal on the \$420,000,000 2013B New Money Bonds Until the 11th Year of Repayment**

As is noted above and shown in Attachment III, the PUC has proposed that the 2013B New Money Bonds would be structured in such a way that reduces the initial impact on residential and commercial ratepayers, but that will ultimately cost more over the 30-year borrowing period. As is shown in the "Principal" column in Attachment III, the PUC has proposed delaying repayment of the principal for the first 10 full years of the Bonds, paying only the interest on the 2013B New Money Bonds until 2024, rather than beginning to repay the principal immediately. By delaying repayment of the principal, the 2013B New Money Bonds will incur more interest expense over the lifetime of repayment. According to the PUC's financial analyst, delaying repayment of the principal on the 2013B New Money Bonds will result in an additional total cost of approximately \$58 million over the 30-year life of the bonds, saving the average single-family's residential wastewater bill \$0.71 per month in the first 10 years of bond repayment, but costing \$1.03 per month more in the final 18 years of repayment, than repaying the principal immediately.

Mr. Brown provided the following explanation for the 2013B New Money Bond repayment structure:

"To minimize pressure on Wastewater ratepayers, the SFPUC is recommending that the 2013B bonds be structured so that principal repayment begins after year 10 when there's a falling off of overall debt service. Deferring principal will result in more level overall debt service going forward. Although this will result in a higher TIC (true interest cost) for the 2013B Bonds due to the back loading of principal in the later years where interest rates are higher, given the very low interest rate environment, this would be a prudent time to execute this capital financing strategy. This is commonly done by other utilities for the financing of their large, long-term capital programs, and was done for the same reason by the SFPUC's Water Enterprise in the recently-issued 2012A and 2012B Water Bonds.

"The Wastewater Enterprise is about to embark on a large capital improvement program - Phase 1 of the Sewer System Improvement Program (SSIP) is \$2.7B alone. Leveling the Enterprise's overall

debt profile allows for predictable and smaller rate increases through the SSIP financing period, and provides generational rate relief to future ratepayers who will also be asked to pay for these long-life capital assets.”

Because the City’s proposed 2013B New Money Bond repayment structure stabilizes wastewater utility rates while increasing the overall debt service, approval of the proposed resolution is a policy matter for the Board of Supervisors.

RECOMMENDATION

1. Approve the issuance of the \$250,000,000 2013A Refunding Bonds, affirming covenants contained in the indenture pursuant to which the Water Revenue Bonds are issued, and related matters.
2. Because the proposed \$420,000,000 2013B New Money Bond repayment structure stabilizes wastewater utility rates while increasing the overall debt service, approval of the 2013B New Money Bond issuance is a policy matter for the Board of Supervisors.

Project Category	Project Code	Project Description	Budget
Fiscal Year 2010-11			
ICIP	CENMSCIC23	SUNNYDALE SEWER IMPROVEMENTS	\$7,000,000
ICIP	CENMSCIC31	SEWPCP 620 & 680 DIGESTER COMPRESSOR	180,000
ICIP	CENMSCIC34	FOLSOM ST SEWER REPLACEMENT	70,000
ICIP	CENMSCIC36	WWE FACILITY SECURITY/EMERGENCY RESPONSE	3,750,000
ICIP	CENMSCIC37	WWE FACILITY RELIABILITY IMPROVEMENTS	11,609,200
ICIP	CENMSCIC38	SEP SOLIDS HANDLING IMPROVEMENTS	2,625,000
ICIP	CENMSCIC39	OCEANSIDE SOLIDS HANDLING IMPROVEMENTS	11,671,815
ICIP	CENMSCIC40	MARIPOSA/NORTHSHORE RELIABILITY	5,904,100
ICIP	CENMSCIC42	SWOO STABILIZATION EMERGENCY WORK	215,000
ICIP	CENMSCIC43	RICHMOND DRAINAGE PH. 2	465,000
ICIP	CENMSCIC44	CESAR CHAVEZ PH. 2	100,000
ICIP	CENMSCIC48	CHANNEL PUMP STATION PH. 3	5,405,385
ICIP	CENMSCIC50	AS-NEEDED SEWER REPLACEMENT CONTRACT #1	3,116,012
ICIP	CENMSCIC51	SPOT SEWER REPAIR CONTRACT #25	4,310,000
ICIP	CENMSCIC53	DOWNTOWN DISTRICT SEWER REPAIR	840,000
ICIP	CENMSCIC55	CHURCH ST/DUBOCE SEWER REPLACEMENT	1,035,000
ICIP	CENMSCIC56	POWELL/MASON SEWER REPLACEMENT	510,000
ICIP	CENMSCIC57	SEWER STAFF FACILITY IMPROVEMENTS	376,400
ICIP	CENMSCIC58	VACTOR WASTE STAGING AREA	198,600
ICIP	CENMSCIC59	SPOT SEWER REPAIR #26	4,230,718
ICIP	CENMSCICSR	SEWER REPAIR (Sunnydale Sewer Improvement Project)	2,242,270
ICIP	CENMSCICTF	TREATMENT FACILITIES IMPROVEMENTS	9,367,500
OCIP	CENMSCSP06	CLEAN WATER MASTER PLAN	6,212,000
OCIP	CWP11001	TREASURE ISLAND CAPITAL IMPROVEMENTS	3,000,000
SSIP	CWWBAE01	BIOFUEL ALTERNATIVE ENERGY PROJECT	2,560,000
SSIP	CWWLID00	LOW IMPACT DESIGN PROJECT	29,019
SSIP	CWWLID01	LOW IMPACT DESIGN PROJECT	1,970,981
R&R	CWWRNRC504	VARIOUS SEWER LOCATIONS #1	468,000
R&R	CWWRNRC522	BAKER/BLAKE/COOK-SEWER REPAIR/CPFRNR	277,000
R&R	CWWRNRC523	AUBURN ST SEWER REPLACEMENT	170,300
R&R	CWWRNRC525	21ST/23RD/24TH-HAMPSHIRE/YORK	2,762,000
R&R	CWWRNRC526	BALBOA ST SEWER REPLACEMENT	340,000
R&R	CWWRNRC527	SOMA ALLEY SEWER IMPROVEMENTS	238,000
R&R	CWWRNRC528	18TH ST EMERGENCY SEWER REPAIR	839,000
R&R	CWWRNRC529	BUCHANAN/PIERCE/FILBERT/ MARINA	2,047,182
R&R	CWWRNRC530	VARIOUS LOCATIONS SEWER REPL#3	1,685,518
R&R	CWWRNRC531	POST ST EMERGENCY SEWER REPAIR	680,000
R&R	CWWRNRCOI01	OUTFALL INSPECTION/RECEIVING WATER	3,192,000
SSIP	CWWSIPPL01	PROGRAM MANAGEMENT	5,413,000
Fiscal Year 2010-11 Subtotal			\$107,106,000
Fiscal Year 2011-12			
ICIP	CENMSCICSR	SEWER REPAIR	\$37,261,000
ICIP	CENMSCICTF	TREATMENT FACILITIES IMPROVEMENTS	52,050,000
OCIP	CWP11001	TREASURE ISLAND CAPITAL IMPROVEMENTS	3,000,000
SSIP	CWWBAE00	BIOFUEL ALTERNATIVE ENERGY PROGRAM	2,000,000
SSIP	CWWLID00	LOW IMPACT DESIGN PROJECT	1,500,000
R&R	CWWRNRC500	WWE RNR COLLECTION SYSTEM	7,445,550
OCIP	CWWRNROI01	OUTFALL INSPECTION/RECEIVING WATER	3,500,000
SSIP	CWWSIPCT00	CENTRAL BAYSIDE SYSTEM IMPROVEMENTS	15,000,000
SSIP	CWWSIPDP00	BIOSOLIDS/DIGESTER PROJECT BUDGET	13,000,000
SSIP	CWWSIPNC00	NORTHSHORE TO CHANNEL FORCE MAIN	15,000,000
SSIP	CWWSIPPL00	SSIP PLANNING PROJECT	8,300,000
SSIP	CWWSIPPS00	BAYSIDE & WESTSIDE PUMP STATIONS	1,020,000
SSIP	CWWSIPRB00	RICHMOND BASIN IMPROVEMENTS	1,000,000
SSIP	CWWSIPUW00	URBAN WATERSHED ASSESSMENT PROJECT	4,000,000
Fiscal Year 2011-12 Subtotal			\$164,076,550
Fiscal Year 2012-13			
OCIP	CWWFAC-01	WWE COLLECTION SYSTEM DIVISION FACILITIES CONSOLIDATION	\$ 20,000,000
OCIP	CWWFAC-02	SECF IMPROVEMENTS	\$ 2,500,000
SSIP	CWWSIPPRPC	SSIP PROGRAM WIDE PROGRAM MANAGEMENT	\$ 9,000,000
R&R	CWWRNRCSCA	WWE R&R COLLECTION SYSTEM COND ASSESSMENT	\$ 3,000,000
R&R	CWWRNRCSSR	WWE R&R COLLECTION SYSTEM SEWER IMPRVMNTS	\$ 40,323,000
R&R	CWWRNRCSSS	WWE R&R COLLECTION SYSTEM SPOT SEWER RPR	\$ 8,000,000
R&R	CWWRNRTF00	WWE R&R TREATMENT PLANT IMPROVEMENTS	\$ 8,595,000
Fiscal Year 2012-13 Subtotal			\$ 91,418,000
PROJECT COST SUBTOTAL			\$362,600,550
Estimated Issuance Costs			\$57,399,450
COMBINED TOTAL			\$420,000,000

San Francisco Public Utilities Commission
 Wastewater Revenue Bonds, 2013 Series A & B
 Summary of Debt Service and Savings by Fiscal Year

Series 2013A, SRF Loan & Series 2003A Refundings

Fiscal Year	Current Principal	Current Interest	Current Receipts	Current Net Debt Service	New Principal	New Interest	Projected Debt Service After Refunding	Cash Flow Savings	Present Value Savings
6/30/2013	\$ 1,442,136	\$ 5,000,960	\$ (1,442,136)	\$ 5,000,960	\$ -	\$ 1,210,277	\$ 1,210,277	\$ 3,790,682	\$ 3,781,292
6/30/2014	32,587,094	9,602,393		42,189,486	33,125,000	6,076,100	39,201,100	2,988,386	2,946,337
6/30/2015	31,476,004	8,068,671		39,544,675	31,285,000	5,275,575	36,560,575	2,984,100	2,905,475
6/30/2016	32,162,012	6,503,518		38,665,529	31,350,000	4,336,050	35,686,050	2,979,479	2,865,704
6/30/2017	15,254,991	5,386,459		20,641,450	14,075,000	3,584,300	17,659,300	2,982,150	2,834,940
6/30/2018	14,137,178	4,708,168		18,845,345	12,815,000	3,046,500	15,861,500	2,983,845	2,798,129
6/30/2019	14,922,481	3,983,252		18,905,733	13,405,000	2,522,100	15,927,100	2,978,633	2,756,648
6/30/2020	15,774,098	3,216,466		18,990,564	14,035,000	1,973,300	16,008,300	2,982,264	2,724,080
6/30/2021	16,662,066	2,405,147		19,067,214	14,690,000	1,398,800	16,088,800	2,978,414	2,684,997
6/30/2022	15,835,000	1,567,213		17,402,213	13,760,000	829,800	14,589,800	2,815,313	2,496,528
6/30/2023	15,005,000	796,213		15,801,213	12,685,000	300,900	12,985,900	2,814,100	2,466,004
6/30/2024	2,610,000	359,100		2,969,100	110,000	45,000	155,000	2,814,100	2,431,933
6/30/2025	2,745,000	231,919		2,976,919	120,000	40,400	160,400	2,816,519	2,401,445
6/30/2026	3,510,000	83,363		3,593,363	760,000	19,000	779,000	2,814,363	2,367,498
6/30/2027									
6/30/2028									
6/30/2029									
6/30/2030									
6/30/2031									
6/30/2032									
6/30/2033									
6/30/2034									
6/30/2035									
6/30/2036									
6/30/2037									
6/30/2038									
6/30/2039									
6/30/2040									
6/30/2041									
6/30/2042									
6/30/2043									
Total	\$ 214,123,059	\$ 51,912,840	\$ (1,442,136)	\$ 264,593,762	\$ 192,215,000	\$ 30,658,102	\$ 222,873,102	\$ 41,720,660	\$ 38,461,011

Average Annual Debt Service Savings \$ 2,980,047

PV of savings from cash flow 38,461,011
 Less: DSRF Release (7,993,813)
 Plus: Refunding funds on hand 3,362
 Net Present Value Savings \$ 30,470,560

**San Francisco Public Utilities Commission
Wastewater Revenue Bonds, 2013 Series A & B
Summary of Debt Service and Savings by Fiscal Year**

Series 2013B, New Money					
Fiscal Year	Principal (No DSRF Scenario)	Interest (No DSRF Scenario)	Gross Debt Service (No DSRF Scenario)	Capitalized Interest (No DSRF Scenario)	Net Debt Service (No DSRF Scenario)
6/30/2013	-	\$ 2,633,055	\$ 2,633,055	\$ 2,633,055	-
6/30/2014	-	17,553,700	17,553,700	17,553,700	-
6/30/2015	-	17,553,700	17,553,700	17,553,700	-
6/30/2016	-	17,553,700	17,553,700	8,776,850	\$ 8,776,850
6/30/2017	-	17,553,700	17,553,700		17,553,700
6/30/2018	-	17,553,700	17,553,700		17,553,700
6/30/2019	-	17,553,700	17,553,700		17,553,700
6/30/2020	-	17,553,700	17,553,700		17,553,700
6/30/2021	-	17,553,700	17,553,700		17,553,700
6/30/2022	-	17,553,700	17,553,700		17,553,700
6/30/2023	-	17,553,700	17,553,700		17,553,700
6/30/2024	\$ 9,770,000	17,358,300	27,128,300		27,128,300
6/30/2025	10,160,000	16,959,700	27,119,700		27,119,700
6/30/2026	9,995,000	16,506,625	26,501,625		26,501,625
6/30/2027	11,305,000	15,974,125	27,279,125		27,279,125
6/30/2028	11,885,000	15,394,375	27,279,375		27,279,375
6/30/2029	12,495,000	14,784,875	27,279,875		27,279,875
6/30/2030	13,135,000	14,144,125	27,279,125		27,279,125
6/30/2031	13,810,000	13,470,500	27,280,500		27,280,500
6/30/2032	14,520,000	12,762,250	27,282,250		27,282,250
6/30/2033	15,265,000	12,017,625	27,282,625		27,282,625
6/30/2034	16,050,000	11,234,750	27,284,750		27,284,750
6/30/2035	16,870,000	10,411,750	27,281,750		27,281,750
6/30/2036	17,730,000	9,546,750	27,276,750		27,276,750
6/30/2037	18,640,000	8,637,500	27,277,500		27,277,500
6/30/2038	19,600,000	7,681,500	27,281,500		27,281,500
6/30/2039	20,600,000	6,676,500	27,276,500		27,276,500
6/30/2040	21,660,000	5,620,000	27,280,000		27,280,000
6/30/2041	22,770,000	4,509,250	27,279,250		27,279,250
6/30/2042	38,415,000	2,979,625	41,394,625		41,394,625
6/30/2043	40,385,000	1,009,625	41,394,625		41,394,625
Total	\$ 355,060,000	\$ 395,849,805	\$ 750,909,805	\$ 46,517,305	\$ 704,392,500
Average Annual Debt Service		\$ 24,222,897		\$ 25,156,875	



AGENDA ITEM

Public Utilities Commission

City and County of San Francisco



DEPARTMENT Financial Services AGENDA NO. 10
 MEETING DATE November 13, 2012

Wastewater Bond Sale Authorization: Regular Calendar
Project Manager: Charles Perl

Authorize the Issuance of Refunding Wastewater Revenue Bonds of up to \$250,000,000 to Refinance Wastewater Enterprise Revenue Bonds, Series 2003A and State Revolving Fund Loans (SRF) to Achieve Ratepayer Savings, and the Issuance of up to \$420,000,000 in new Wastewater Revenue Bonds under Proposition E to fund Wastewater Capital Projects

Summary of Proposed Commission Action:	<p>Discussion and possible action to authorize the issuance of up to \$250,000,000 of Refunding Wastewater Revenue Bonds to refinance outstanding Wastewater Enterprise Revenue Bonds, Series 2003A and State Revolving Fund Loans (SRF), to achieve ratepayer savings, and the issuance of up to \$420,000,000 in New Money Wastewater Revenue Bonds under Proposition E to fund previously authorized Wastewater capital projects, in one or more series of bonds and subject to the further approval of the Board of Supervisors; approving the form and authorizing the execution and delivery of related documents; authorizing the General Manager to sell in one or more series of bonds on either a competitive or negotiated basis, as the General Manager determines is in the best financial interest of the San Francisco Public Utilities Commission (SFPUC); delegating to the General Manager authorization to award each series of bonds to the highest bidder (lowest cost); authorizing the General Manager to submit a resolution to the Board of Supervisors authorizing the issuance of not-to-exceed \$420,000,000 aggregate principal amount of new money Wastewater Revenue Bonds; provided the issuance of such Revenue Bonds shall be subject to the terms of Proposition E (approved by the voters in November 2002).</p>
Background:	<p><i>Refunding Series 2013A Bonds:</i> The refunding bonds (the "2013A Bonds") are planned to be sold in January 2013, as the 2003A bonds are eligible for current refunding as of January 1, 2013 and issued pursuant to San Francisco City Charter Section 9.109 which authorizes the issuance of refunding bonds that generate savings.</p> <p>Based on the current interest rate environment, a refunding of the remaining outstanding 2003A Bonds and State Revolving Fund loans (SRF), with a total par amount not-to-exceed \$250,000,000, is projected to result in significant economic benefit to the SFPUC's retail ratepayers. A refunding of these bonds is projected to meet or exceed the City Policy of at least 3% present value savings. Estimated present value savings</p>

APPROVAL: _____
 COMMISSION SECRETARY Donna Hood

based on current market conditions is 14% or \$31M.

Another significant benefit to the issuance of the Series 2013A Refunding Bonds is that by refunding all of the outstanding 2003A Bonds, the SFPUC will have the flexibility of re-calibrating the debt service reserve fund requirement to further provide current and future savings to SFPUC ratepayers for all wastewater revenue bonds (including the Series 2013A Refunding Bonds). Given the SFPUC's strong credit rating and performance, our financial advisors have indicated that the bond rating would not be adversely affected by implementing a zero-based debt service reserve. Prevailing market conditions and preferences indicate that the SFPUC can issue the Series 2013A Refunding Bonds and, once in effect, the series 2013B New Money Bonds, with no debt service reserve fund, which would represent a significant economic benefit to the SFPUC and ratepayers. The savings resulting from implementing this on the 2013B new money bonds on a present value basis is \$11.9M alone. The savings on the 2013A refunding bonds is \$1.6M of the \$31M present value savings previously noted.

New Money Series 2013B Bonds: The new money bonds (the "2013B Bonds") are planned to be sold in mid-to late January 2013, after the sale of the 2013A Refunding Bonds, and will be used to fund previously approved Wastewater Capital Projects budgeted in Fiscal Years 2010-11, 2011-12, and 2012-13. The proceeds will also be used to reimburse the Enterprise for allowable expenditures as authorized by the Reimbursement Resolution approved by the Commission on August 28, 2012.

The New Money bonds will be issued pursuant to Proposition E of 2002, approved by the voters of the City and County of San Francisco on November 5, 2002, and codified as Article VIIIB of the Charter of the City, which among other things, authorized the San Francisco Public Utilities Commission of the City to issue revenue bonds when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors, for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities, or combinations of water and clean water facilities, under the jurisdiction of the Commission. The Board of Supervisors previously authorized the issuance of bonds under Proposition E through two ordinances with a combined not-to-exceed amount of \$820,566,235: Ordinance 93-10 approved on May 3, 2010 and Ordinance 115-12 approved on June 18, 2012.

Analysis of Financing Alternatives: SFPUC Finance staff analyzed the financing requirements for the capital projects of the Wastewater Enterprise, as well as ways to make the Wastewater Enterprise's outstanding debt portfolio more cost-effective and efficient. SFPUC staff have determined that both new money and refunding bond issuances at this time would be necessary and advantageous to meet contract award and construction schedules as well as maximize ratepayer affordability by minimizing borrowing costs and generating significant savings through refundings.

SFPUC Finance staff continually conduct market analysis for funding of each enterprise's capital program, taking into consideration capital program funding needs and timing, available financing alternatives, market conditions and impacts on our ratepayers. For each financing, SFPUC Finance staff examine pay-as-you-go (revenue, or cash, funding) versus debt financing, short-term versus long-term debt financing, variable-rate versus fixed-rate debt financing, public versus private borrowing, availability of State (SRF) loans, grants and other sources.

SFPUC Finance staff have concluded, and recommend, that this phase of the Wastewater Enterprise's capital program should be primarily funded through revenue bonds. Given the continuing historically low interest rate environment, this continues to be an excellent time to lock in very low interest rates to fund projects, as well as lock in refunding savings on outstanding bonds to benefit ratepayers.

Schedule: In order for the 2013B Bonds to be issued with no debt service reserve fund requirement, the Series 2013A Refunding Bonds need to be issued first. Consequently, the plan of finance is to sell and close the Series 2013A Refunding Bonds in early-to-mid January 2013, followed by a sale and closing of the 2013B New Money Bonds approximately two weeks later, in mid-to-late January, 2013 .

Bond Documents: The Commission is being asked to approve the form and authorize the execution of documents relating to the bond sale. These documents are described below.

- 1) Second and Third Supplemental Indentures – The Indenture is the bond document providing both the legal structure and security for the bonds, including pledge of revenues, covenants, default and remedy provisions, flow of funds (priority for use of pledged revenues) and provisions to issue additional debt. The Supplemental Indentures set forth the terms of each individual series of bonds, including maturities, interest rates and terms of early redemption.
- 2) Official Statements (Preliminary/Final) – Primary disclosure document for bidders, rating agencies, and investors regarding terms of bonds, security, risk factors, financial and operating results and projections and background information. The document is substantially final (except for certain pricing information and projection updates that may occur prior to sale) and through this resolution the General Manager is permitted to make such changes as are necessary to update the document.
- 3) Official Notice of Sale – Document inviting bids, if sold on a competitive bid basis, and describing details of the bonds, including the method of delivering bids, the date, time and place of bid opening, and the basis for determining the winning bid.
- 4) Notice of Intention to Sell – Brief document published up to 15 days prior to sale date alerting prospective investors and bidders of sale.
- 5) Continuing Disclosure Certificate – Document containing commitments to providing annual financial and operating data disclosure, and interim disclosure in the event of certain enumerated events, for the benefit of bondholders.
- 6) Bond Purchase Contract – In the event that the bonds need to be sold on a negotiated basis, the document between the SFPUC and the underwriter(s) providing the terms of the bond sale.
- 7) Escrow Agreement – Agreement used with bond refundings to outline the role and responsibility of the trustee to pay debt service on refunded bonds.

Result of Inaction:

A delay or denial in approving this agenda item will adversely impact the SFPUC's ability to realize sewer ratepayer savings through bond refundings and proceed with the timely implementation of the Wastewater Enterprise's Capital Program.

<p>Description of Scope of Services:</p>	<p>SFPUC Finance staff has analyzed the capital requirements of the Wastewater Enterprise, financing alternatives, and ways to achieve savings for ratepayer through the refunding of outstanding bonds and loans, and determined that the issuance of refunding and new money bonds at this time would be both necessary and advantageous to maximize savings as well as meet anticipated contract award dates and construction schedules, in a cost-effective manner to promote ratepayer affordability.</p> <p>SFPUC Finance worked collaboratively with outside financial advisors, as well as the City Attorney’s Office and outside bond and disclosure counsel, to develop all aspects of the documents associated with the sale of water revenue bonds, including all attachments. The individuals and firms working with the SFPUC on this financing are as follows:</p> <ul style="list-style-type: none"> • City Attorney of the City and County of San Francisco • Disclosure Counsel: Jones Hall, A Professional Law Corporation • Co-Bond Counsel: Sidley Austin LLP and Curls Bartling P.C. • Co-Financial Advisors: PRAG and Kitahata & Company • Trustee: U.S. Bank National Association
<p>Environmental Review:</p>	<p>On February 28, 2012 the Environmental Review Officer issued a Certificate of the City and County of San Francisco Planning Department granting authority for the issuance of the debt to the Board of Supervisors. By issuance of the Certificate the Environmental Review Officer has concluded the projects to be funded under this debt either comply with applicable requirements of CEQA or are not considered to be projects under CEQA at this time and will undergo CEQA review and compliance if and when they are defined. Additional CEQA Certification is being sought for additional previously authorized projects and it will be completed and filed prior to Board of Supervisor action.</p>
<p>Recommendation:</p>	<p>SFPUC staff recommends that the Commission adopt the attached resolution.</p>
<p>Attachments:</p>	<ol style="list-style-type: none"> 1) SFPUC Resolution – Bond Authorization 2) Form of Corresponding Board of Supervisors Resolution 3) Form of Preliminary Official Statement (POS) 4) Form of Second and Third Supplemental Indentures 5) Form of Official Notice of Sale 6) Form of Notice of Intention to Sell 7) Form of Continuing Disclosure Certificate (see POS Appendix) 8) Form of Bond Purchase Agreement 9) Form of Escrow Agreement 10) Wastewater Bonds Presentation

PUBLIC UTILITIES COMMISSION

City and County of San Francisco

RESOLUTION NO. 12-0210

WHEREAS, pursuant to Section 9.109 of the Charter of the City and County of San Francisco (the "City") and California Government Code Sections 53580 et seq., the Board of Supervisors of the City (the "Board") is authorized to provide for the issuance of bonds of the City for the purpose of refunding any revenue bonds of the City then outstanding without voter approval, provided that such refunding is expected to result in net debt service savings to the City on a present value basis; and,

WHEREAS, at a duly called and held election on November 5, 2002, a majority of voters voting on the measure approved Proposition E ("Proposition E of 2002"), codified as Article VIII B of the Charter of the City, which, among other things, authorized the San Francisco Public Utilities Commission (the "Commission") of the City to issue its revenue bonds, including notes, commercial paper or other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board, for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities, or combinations of water and clean water facilities under the jurisdiction of the Commission; and,

WHEREAS, on March 30, 2010, the Board passed by a two-thirds vote its Ordinance No. 68-10, signed by the Mayor of the City on April 8, 2010, approving the issuance and sale of wastewater revenue bonds pursuant to Article VIII B of the Charter of the City to finance various capital projects benefiting the Wastewater Enterprise, as well as paying the costs of issuance and other incidental costs relating thereto, in an aggregate principal amount not to exceed \$282,400,000; and,

WHEREAS, on April 27, 2010, the Board passed by a two-thirds vote its Ordinance No. 93-10, signed by the Mayor of the City on May 3, 2010, approving the issuance and sale of wastewater revenue bonds pursuant to Article VIII B of the Charter of the City to finance various capital projects benefiting the Wastewater Enterprise, as well as paying the costs of issuance and other incidental costs relating thereto, in an aggregate principal amount not to exceed \$297,756,235; and,

WHEREAS, the Commission has not previously issued any wastewater revenue bonds pursuant to Ordinance No. 93-10, and an aggregate principal amount not to exceed \$297,756,235 remains authorized by the Board and unissued by the Commission; and,

WHEREAS, on June 8, 2010, pursuant to Ordinance No. 68-10 and Article VIII B of the Charter of the City, the Commission issued \$47,050,000 Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series A and \$192,515,000 Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series B (Federally Taxable - Build America Bonds - Direct Payment); and,

WHEREAS, on June 12, 2012, the Board passed by a two-thirds vote its Ordinance No. 115-12, signed by the Mayor of the City on June 18, 2012, approving the issuance and sale of wastewater revenue bonds pursuant to Article VIII B of the Charter of the City to finance various capital projects benefiting the Wastewater Enterprise, as well as paying the costs of issuance and other incidental costs relating thereto, in an aggregate principal amount not to exceed \$522,810,000; and,

WHEREAS, the Commission has not previously issued any wastewater revenue bonds pursuant to Ordinance No. 115-12, and an aggregate principal amount not to exceed \$522,810,000 remains authorized by the Board and unissued by the Commission; and,

WHEREAS, the Board, at the request of the Commission, will consider a resolution on and after the date hereof, to authorize (i) the issuance of not to exceed \$250,000,000 aggregate principal amount of wastewater revenue bonds for the purpose of refunding outstanding wastewater revenue bonds (including certain outstanding State Revolving Fund loans used to finance various capital projects benefiting the Wastewater Enterprise), pursuant to Section 9.109 of the Charter of the City and California Government Code Sections 53580 et seq., and (ii) the issuance of not to exceed \$420,000,000 aggregate principal amount of wastewater revenue bonds for the purpose of financing or refinancing (through the retirement of commercial paper notes) various capital projects benefiting the Wastewater Enterprise (including reimbursing the Commission for certain capital costs previously paid with proceeds of wastewater commercial paper notes or from other moneys), pursuant to Article VIII B of the Charter of the City and Ordinance No. 93-10 and Ordinance No. 115-12; and,

WHEREAS, under the authority granted or proposed to be granted under Section 9.109 of the Charter of the City and California Government Code Sections 53580 et seq., and Article VIII B of the Charter of the City and by the ordinances and resolution hereinabove mentioned, it is proposed that the Commission issue (i) one or more series of wastewater revenue bonds, in an aggregate principal amount not to exceed \$250,000,000, for the principal purpose of refunding outstanding wastewater revenue bonds (including certain outstanding State Revolving Fund loans used to finance various capital projects benefiting the Wastewater Enterprise), (the "Refunding Bonds"), and (ii) one or more series of wastewater revenue bonds, in an aggregate principal amount not to exceed \$420,000,000, for the principal purpose of financing or refinancing (through the retirement of commercial paper notes) various capital projects benefiting the Wastewater Enterprise (including reimbursing the Commission for certain capital costs previously paid with the proceeds of wastewater commercial paper notes or other moneys) (the "New Money Bonds" and together with the Refunding Bonds, the "Bonds"), all pursuant to the Indenture, dated as of January 1, 2003 (as amended by the First Amendment to Indenture, dated as of May 1, 2010, and as supplemented by the First Supplemental Indenture dated as of May 1, 2010, the "Indenture"), by and between the Commission and U.S. Bank National Association (formerly doing business as "U.S. Bank, N.A."), as trustee (the "Trustee"), and one or more supplemental indentures as herein provided; and,

WHEREAS, each such refunding of the Commission's outstanding wastewater revenue bonds is proposed to be accomplished by depositing proceeds of the Refunding Bonds and certain other amounts in an irrevocable escrow fund established and held in trust by the trustee for the bonds to be refunded pursuant to an escrow agreement between the Commission and said trustee (each, an "Escrow Agreement"), which moneys and the investment income thereon are to be applied to pay the principal of and the interest and redemption premium, if any, on the bonds to be refunded; and,

WHEREAS, it is proposed that such Bonds be issued as obligations the interest on which is exempt from federal income tax pursuant to one or more supplemental indentures, between the Commission and the Trustee (each, a "Supplemental Indenture"); and,

WHEREAS, it is proposed that such Bonds be sold in a competitive sale pursuant to an official notice of sale (the "Official Notice of Sale") and a notice of intention to sell bonds (the "Notice of Intention"), or a negotiated sale pursuant to a Bond Purchase Contract (the "Bond Purchase Contract"), or in some combination of competitive and negotiated sales; and,

WHEREAS, it is proposed that one or more official statements for the Refunding Bonds and the New Money Bonds (each an "Official Statement" and collectively the "Official Statements") be used in connection with the offering and sale of the Refunding Bonds and the New Money Bonds from time to time; and,

WHEREAS, it is proposed that a continuing disclosure certificate (the "Continuing Disclosure Certificate") be executed and delivered with respect to the Bonds in order to assist the purchasers or underwriters thereof in complying with Securities and Exchange Commission Rule 15c2-12 ("Rule 15c2-12"); and,

WHEREAS, pursuant to Article IX of the Indenture, the Indenture may be amended from time to time upon the compliance with the terms and conditions provided in said Article IX; and,

WHEREAS, the voters of the City approved Proposition P in November 2002, pursuant to which this resolution and the Bonds (excluding the Refunding Bonds) are subject to the provisions of Section 5A.30 et seq. ("Public Utilities Revenue Bond Oversight Committee") of Chapter V of the San Francisco Administrative Code (the "Proposition P Requirements"), including the requirement that, to the extent permitted by law, one-twentieth of one percent (0.05%) of the gross proceeds of the Bonds (excluding the Refunding Bonds) shall be deposited in a fund established by the Office of the Controller of the City (the "Controller's Office") and appropriated by the Board at the direction of the Public Utilities Revenue Bond Oversight Committee to cover the costs of said committee; and,

WHEREAS, the Commission has been presented with and has examined the proposed forms of a Supplemental Indenture for the Refunding Bonds, a Supplemental Indenture for the New Money Bonds, an Official Notice of Sale, a Notice of Intention, a

Bond Purchase Contract, an Escrow Agreement, a Preliminary Official Statement for the Refunding Bonds, a Preliminary Official Statement for the New Money Bonds and a Continuing Disclosure Certificate; and,

WHEREAS, the Commission is duly authorized and empowered, pursuant to each and every requirement of law, to authorize the foregoing transactions and issue the Bonds and to authorize the publication, execution and delivery (as appropriate) of a Supplemental Indenture for each series of Bonds, an Official Notice of Sale, a Notice of Intention, a Bond Purchase Contract, an Official Statement, an Escrow Agreement, a Continuing Disclosure Certificate and related documents for the purposes, in the manner and upon the terms provided herein; and,

WHEREAS, the Commission intends that interest on the Bonds used to finance or refinance the cost of acquisition, construction and equipping of the projects be excluded from gross income for federal income tax purposes; and,

WHEREAS, Section 1.150-2 of the United States Income Tax Regulations (the "Treasury Regulations") provides generally that proceeds of tax-exempt debt used to reimburse an expenditure made prior to the issuance of such debt are treated as expended only if certain procedures are followed, among which is a requirement that (with certain exceptions), prior to the payment of any such expenditure, the issuer declares an intention to reimburse such expenditure; and,

WHEREAS, on August 28, 2012, the Commission adopted Resolution No. 12-0154, declaring its intention to reimburse expenditures made on and after the date of such resolution (the "Expenditures"), in accordance with the Treasury Regulations (the "Reimbursement Resolution"); and

WHEREAS, Article VIII B of the Charter of the City (Section 8B.124) allows for the issuance of revenue bonds and other forms of indebtedness, subject to the provision of certain certifications of an independent engineer retained by the Commission and certain certifications by the San Francisco Planning Department, which certifications make the findings and determinations set forth in Section 8B.124; and

WHEREAS, certificates intended to meet the requirements set forth in Section 8B.124 will be presented for review by the Board (the "Certificates"), and the Certificates will be filed with the Clerk of the Board and the Clerk of the Commission prior to the issuance of the New Money Bonds; now, therefore, be it

RESOLVED by the Public Utilities Commission of the City and County of San Francisco, as follows:

Section 1. Issuance of the Bonds. The issuance of the Refunding Bonds, in one or more series and on one or more dates, in an aggregate principal amount not to exceed \$250,000,000, is hereby authorized and approved by the Commission (subject to Board approval), pursuant to Section 9.109 of the Charter of the City and California Government Code Sections 53580 et seq., and subject to the limitations and conditions provided herein. The Refunding Bonds may be issued for the purpose of: (a) refunding

the Commission's outstanding wastewater revenue bonds (including certain outstanding State Revolving Fund loans used to finance various capital projects benefiting the Wastewater Enterprise), provided that such Refunding Bonds (i) satisfy the applicable requirements of the Indenture and the City's policies and procedures for refunding bonds, and (ii) are authorized to be issued under Section 9.109 of the Charter and California Government Code Sections 53580 et seq. (including any related ordinances and resolutions); and (b) paying costs of issuance of the Refunding Bonds. If determined to be beneficial to the Commission by the General Manager, with the advice of Public Resources Advisory Group and Kitahata & Company (the "Financial Advisors"), the Refunding Bonds may also be issued for the secondary purposes of providing funds for (y) the credit enhancement of any Refunding Bonds (including without limitation bond insurance policies and/or reserve fund surety bonds or insurance policies), and (z) the funding of debt service reserves for the Refunding Bonds, if any.

The issuance of the New Money Bonds, in one or more series and on one or more dates, in an aggregate principal amount not to exceed \$420,000,000, is hereby authorized and approved by the Commission (subject to Board approval), pursuant to Article VIII B of the Charter of the City, Ordinance No. 93-10 and Ordinance No. 115-12 and subject to the limitations and conditions provided herein. The New Money Bonds may be issued for the purpose of (a) financing or refinancing (through the retirement of commercial paper notes) various capital projects benefiting the Wastewater Enterprise (including reimbursing the Commission for certain capital costs previously paid with the proceeds of wastewater commercial paper notes or other moneys), as may be determined by the General Manager, (b) financing capitalized interest and (c) paying costs of issuance of the New Money Bonds. If determined to be beneficial to the Commission by the General Manager, with the advice of the Financial Advisors, the New Money Bonds may also be issued for the secondary purposes of providing funds for (i) the credit enhancement of any New Money Bonds (including without limitation bond insurance policies and/or reserve fund surety bonds or insurance policies), and (ii) the funding of debt service reserves for the New Money Bonds, if any.

The Bonds shall be issued in accordance with this resolution, the Indenture and the Charter. The General Manager is hereby authorized and directed to determine the aggregate principal amount of Bonds to be issued from time to time (subject to the maximum amount and further limitations and conditions set forth herein) and to determine the various titles and series designations of the Bonds. The Bonds may be issued as tax-exempt bonds or taxable bonds, or any combination thereof. The forms of the Bonds, in substantially the forms set forth in the forms of the Supplemental Indentures presented to this meeting, are hereby approved. The General Manager of the Commission is hereby authorized and directed to approve and to execute the Bonds by manual or facsimile signature, and the Secretary of the Commission is hereby authorized and directed to attest, by manual or facsimile signature, with such changes, additions, amendments or modifications thereto which they may approve with the advice of the City Attorney, such approval to be conclusively evidenced by the execution and delivery of the Bonds, subject to the limitations set forth in Section 2 hereof.

Section 2. Sale of the Bonds. The sale of the Bonds, in one or more series and on one or more dates, is hereby authorized and approved by the Commission, subject to Board approval pursuant to the Charter and (in the case of Refunding Bonds, California Government Code Sections 53580 et seq.) and subject to the limitations and conditions provided herein. The Commission hereby delegates to the General Manager the authority to determine, with the advice of the Financial Advisors, whether to sell the Bonds from time to time by negotiated sale or competitive sale, provided that the General Manager shall not approve the sale of the Bonds on a negotiated basis until he determines, upon consultation with the Financial Advisors, that (i) the sale of the Bonds through a negotiated process is likely to enhance the ability of the Commission to timely sell the Bonds or to achieve a lower overall cost to the Commission, or both, and (ii) the requirements of Section VIII of the Commission's Debt Management Policies and Procedures, as the same may have been amended and in effect at the time of such determination, have been satisfied. The interest rate or rates on the Bonds shall not exceed twelve percent (12%) and the final maturity of any Bonds shall not be later than 40 years after the issue date thereof.

Section 3. Escrow Agreements. The proposed form of Escrow Agreement submitted to this Commission, and the terms and conditions thereof, is hereby approved. In order to implement any refunding authorized herein, the General Manager or his designee is hereby authorized to enter into one or more Escrow Agreements with the trustee of the wastewater revenue bonds to be refunded, substantially in the form presented to this meeting and on file with the Secretary of the Commission, with such changes and additions as the General Manager may approve upon consultation with the City Attorney, each such approval to be evidenced conclusively by the delivery to the trustee of such Escrow Agreement. The Secretary of the Commission is directed to file a copy of said form of Escrow Agreement with the minutes of this meeting.

Section 4. Disposition of Revenues; Rate Covenant. Section 5.01(c) of the Indenture, which sets forth the disposition of Revenues (as defined in the Indenture) applicable to the Bonds relating to the Wastewater Enterprise is hereby confirmed by the Commission and the Commission further confirms, pledges and covenants with the holders of the Bonds that the Revenues shall be appropriated and expended in the order of priority set forth in Section 5.01(c) of the Indenture, as the same may be amended from time to time. This Commission also declares that the Commission will comply with all of the terms, provisions and covenants contained in the Indenture, as the same may be amended from time to time, including the covenants to establish, fix, prescribe and collect rates, fees and charges sufficient to enable the Commission to comply with the terms, conditions and covenants of the Indenture.

Section 5. Supplemental Indentures. The proposed forms of Supplemental Indentures for the Refunding Bonds and the New Money Bonds submitted to this Commission, and the terms and conditions thereof, are hereby approved. The General Manager of the Commission or their designees are authorized and directed to execute and deliver and the Secretary of the Commission or the designee thereof is authorized to attest one or more Supplemental Indentures in such forms, with such additions thereto or changes therein which they may approve with the advice of the City Attorney, such

approval to be conclusively evidenced by the execution and delivery of such Supplemental Indentures. The Secretary of the Commission is directed to file a copy of each form of Supplemental Indenture with the minutes of this meeting. Subject to the further limitations hereof, the principal amount, date, maturity date or dates, maximum interest rate or rates, series designation, interest payment dates, forms, registration privileges, place or places of payment, terms of redemption, insurance provisions and other terms of the Bonds shall be as provided in the Indenture.

Section 6. Preliminary Official Statements and Official Statements. The Preliminary Official Statement for the Refunding Bonds (the "Refunding POS") and the Preliminary Official Statement for the New Money Bonds (the "New Money POS" and together with the Refunding POS, the "Preliminary Official Statements"), in substantially the forms submitted to the Commission, are hereby approved, and the General Manager or the General Manager's designee is hereby authorized to certify from time to time, for and on behalf of the Commission, that each Preliminary Official Statement, with such changes, additions and supplements as they may deem necessary or appropriate in the interest of the Commission, in consultation with the City Attorney, is deemed final as of its date, within the meaning of Rule 15c2-12 (except for the omission of certain final pricing, rating and related information as permitted by Rule 15c2-12). The Refunding POS and the New Money POS are hereby authorized to be used from time to time in connection with the marketing of the Refunding Bonds and the New Money Bonds, respectively, and the Official Notice of Sale for the Bonds, if applicable. In connection with the sale of all or a portion of the Bonds, the General Manager is hereby authorized and directed, for and on behalf of the Commission, to execute one or more Official Statements for such Bonds, in substantially the form of the Refunding POS and New Money POS, as applicable, and to cause the delivery of such Official Statement to the purchasers of the Refunding Bonds and the New Money Bonds, respectively.

Section 7. Competitive Sale; Official Notice of Sale. If the General Manager determines to sell all or a portion of the Bonds by competitive sale from time to time, the proposed form of Official Notice of Sale inviting bids for such Bonds, submitted to this Commission, is hereby approved, and the Financial Advisors are hereby authorized and directed to disseminate the Official Notice of Sale to prospective bidders in connection with each sale of Bonds, with such additions, changes and corrections thereto as the General Manager shall approve with the advice of the City Attorney, such approval to be conclusively evidenced by the dissemination thereof to prospective bidders. In a competitive sale, sealed proposals shall be received on such date or dates as shall be selected and changed as necessary by the General Manager for the purpose of the sale of the Bonds, in accordance with the terms and conditions of the applicable Official Notice of Sale. In a competitive sale, the General Manager is hereby authorized to award the Bonds to be sold to the highest responsible bidder, so long as such bid shall provide a true interest cost to the Commission of not to exceed twelve percent (12%) per annum, and the price to be paid to the Commission for such series of Bonds shall not be less than the par value thereof, less a total discount of not to exceed five percent (5%). If such true interest cost and price are acceptable to the General Manager and satisfy the foregoing criteria, the General Manager is hereby authorized and directed to accept, on behalf of the Commission, the best responsive bid for such series of Bonds. The Secretary of the

Commission is directed to file a copy of the proposed form of Official Notice of Sale with the minutes of this meeting.

Section 8. Notice of Intention. The proposed form of Notice of Intention, submitted to this Commission, is hereby approved. If the General Manager determines to sell all or a portion of the Bonds by competitive sale, the General Manager is hereby authorized and directed to cause a Notice of Intention, subject to such corrections, revisions or additions as may be approved by the General Manager (such approval to be conclusively evidenced by the publication thereof), to be published once at least ten (10) days before the date of sale of the applicable series of Bonds in a newspaper of general circulation in the City and the Commission's service area, and in a publication generally circulated throughout the state or reasonably expected to be disseminated among prospective bidders for the Bonds. The Secretary of the Commission is directed to file a copy of said form of Notice of Intention with the minutes of this meeting.

Section 9. Negotiated Sale; Bond Purchase Contract. If the General Manager determines to sell all or a portion of the Bonds by negotiated sale from time to time pursuant to the authority granted in Section 2 hereof, the General Manager is hereby authorized to select and appoint one or more underwriters (each, an "Underwriter" and, collectively, the "Underwriters") from the Commission's or the City's pool of prequalified underwriters in accordance with the City's policies and procedures with respect thereto, subject to the limits on underwriter compensation set forth below. The General Manager is hereby authorized and directed, for and on behalf of and in the name of the Commission, to sell at one or more negotiated sales, Bonds in such aggregate principal amount as the General Manager may determine, subject to the further limitations and conditions hereof. The General Manager or his designee is hereby authorized to enter into a Bond Purchase Contract with one or more of the Underwriters, individually or collectively as the General Manager deems appropriate, substantially in the form presented at this meeting and on file with the Secretary of the Commission, with such changes and additions as the General Manager may approve upon consultation with the City Attorney, such approval to be evidenced conclusively by the execution and delivery of each such Bond Purchase Contract; provided, however, that the total compensation to the Underwriters shall not exceed one percent (1%) of the par value of the Bonds. Bonds sold in a negotiated sale shall be delivered to the Underwriters upon payment of the purchase price agreed upon in the applicable Bond Purchase Contract, together with accrued interest, if any.

Section 10. Continuing Disclosure Certificate. The proposed form of Continuing Disclosure Certificate for the Bonds, submitted to this Commission, is hereby approved. The General Manager or the General Manager's designee is hereby authorized and directed to execute the Continuing Disclosure Certificate for the Bonds from time to time, substantially in the form submitted to this Commission, with such additions, changes and corrections thereto as the General Manager or the designee thereof shall approve with the advice of the City Attorney, such approval to be conclusively evidenced by the execution and delivery of such Continuing Disclosure Certificate. The Secretary of the Commission is directed to file a copy of said form of Continuing Disclosure Certificate with the minutes of this meeting.

Section 11. Proposition P. Pursuant to Proposition P approved by the voters of the City in November 2002, this resolution and the Bonds (excluding the Refunding Bonds) are subject to, and incorporate by reference, the Proposition P Requirements. Pursuant to the Proposition P Requirements, to the extent permitted by law, one-twentieth of one percent (0.05%) of the gross proceeds of the Bonds (excluding the Refunding Bonds) shall be deposited in a fund established by the Controller's Office and appropriated by the Board at the direction of the Public Utilities Revenue Bond Oversight Committee established by Proposition P Requirements to cover the costs of said committee.

Section 12. Reimbursement. Pursuant to the Reimbursement Resolution, the Commission has declared its intent to reimburse itself with the proceeds of the Bonds for the Expenditures. The Commission reasonably expected on the date of the Reimbursement Resolution that it will reimburse the Expenditures with the proceeds of the Bonds. The declaration made in the Reimbursement Resolution is consistent with the intent evidenced in the Consolidated Budget.

Section 13. Expenditures. Each Expenditure was and will be either (a) of a type properly chargeable to a capital account under general federal income tax principles (determined in each case as of the date of the Expenditure), (b) a cost of issuance with respect to the Bonds, (c) a nonrecurring item that is not customarily payable from current revenues, or (d) a grant to a party that is not related to or an agent of the Commission so long as such grant does not impose any obligation or condition (directly or indirectly) to repay any amount to or for the benefit of the Commission.

Section 14. Allocation. The Commission will make a reimbursement allocation, which is a written allocation by the Commission that evidences the Commission's use of proceeds of the Bonds to reimburse an Expenditure, no later than 18 months after the later of the date on which an Expenditure is paid or the capital project to which the Expenditure relates is placed in service or abandoned, but in no event more than three years after the date on which the Expenditure is paid. The Commission recognizes that exceptions are available for certain "preliminary expenditures," costs of issuance, certain de minimis amounts, and expenditures for construction projects of at least 5 years.

Section 15. General Authority. The General Manager, the Deputy General Manager and Chief Operating Officer and the Assistant General Manager, Business Services and Chief Financial Officer, of the Commission and the officers of the City are hereby authorized and directed, each acting alone, for and in the name and on behalf of this Commission, to execute and deliver any and all documents, certificates and representations, including, but not limited to, signature certificates, no-litigation certificates, tax certificates, letters of representation relating to book-entry registration, custody agreements, filing agent agreements, and certificates concerning the contents of the Official Statements and the Preliminary Official Statements, to contract for municipal bond insurance for all or a portion of the Bonds if determined by the General Manager, with the advice of the Financial Advisors, to be beneficial to the Commission, to contract for one or more surety bonds or insurance policies for the debt service reserves, if any, for the Bonds if determined by the General Manager, with the advice of the Financial

Advisors, to be beneficial to the Commission, to do any and all things and take any and all actions which may be necessary or advisable, in their discretion, to effectuate the issuance and sale of the Bonds, the financing or refinancing of the capital projects benefiting the Wastewater Enterprise, the refunding of outstanding wastewater revenue bonds or commercial paper, and the other actions which the Commission has approved in this resolution. The General Manager is authorized to delegate any of the responsibilities or duties set forth in this resolution to the Deputy General Manager and Chief Operating Officer or to the Assistant General Manager, Business Services and Chief Financial Officer, of the Commission.

Section 16. Ratification. All actions heretofore taken by the officials, employees and agents of the Commission with respect to the authorization, sale and issuance of the Bonds are hereby approved, confirmed and ratified.

Section 17. Effective Date. This resolution shall take effect from and after its adoption.

PASSED AND ADOPTED on November 13, 2012, by the following vote:

AYES: 3

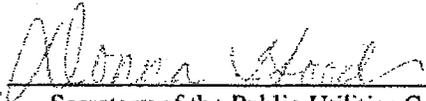
NOES: 0

ABSENT: 2



President of the Public Utilities Commission
of the City and County of San Francisco

Attest:



Secretary of the Public Utilities Commission
of the City and County of San Francisco

APPROVED AS TO FORM:

DENNIS J. HERRERA, City Attorney

By: _____

Mark D. Blake
Deputy City Attorney

CERTIFICATE OF SECRETARY

I, Donna Hood, Secretary of the Public Utilities Commission of the City and County of San Francisco, hereby certify that the foregoing is a full, true and correct copy of Resolution No. 12-0210 duly adopted at the regular meeting of the Public Utilities Commission, duly and regularly held on 11-13, 2012, of which meeting all of the members of said Commission had due notice.

I further certify that at least 72 hours prior to such meeting I caused to be delivered to the Documents Department of the San Francisco Public Library two copies of the agenda for such meeting to be posted immediately upon receipt by such Department at the place designated by the City Librarian for the posting of agenda in the central public library, which place is accessible to the public in accordance with Section 8.16 of the Administrative Code of the City and County of San Francisco, and that a brief description of such resolution appeared as an item on such agenda.

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true and correct copy of the original resolution adopted at said meeting and entered in said minutes; and that said resolution has not been amended, modified or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate of the Public Utilities Commission of the City and County of San Francisco thereto this 13 day of November, 2012.



Donna Hood

Secretary of the Public Utilities Commission of the
City and County of San Francisco

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

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2012

NEW ISSUE—Book-Entry Only

Ratings:
S&P: “___”
Moody’s: “___”
See “RATINGS”

In the opinion of Sidley Austin LLP, San Francisco, California, and Curlls Bartling P.C., Oakland, California, Co-Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents pertaining to the 2013 Series A Bonds and requirements of the Internal Revenue Code of 1986 (the “Code”), as amended, as described herein, interest on the 2013 Series A Bonds is not includable in the gross income of the owners of such Bonds for federal income tax purposes. In the further opinion of Co-Bond Counsel, interest on the 2013 Series A Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the 2013 Series A Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation’s alternative minimum tax liability. In the further opinion of Co-Bond Counsel, interest on the 2013 Series A Bonds is exempt from personal income taxes imposed by the State of California. Co-Bond Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of, interest on the 2013 Series A Bonds. See “TAX MATTERS.”



\$ _____*
Public Utilities Commission
of the City and County of San Francisco
Wastewater Revenue Bonds,
2013 Series A
(Refunding)

Dated: Date of Delivery

Due: October 1, as shown on inside front cover

General. This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of the wastewater revenue bonds captioned above (the “2013 Series A Bonds”). Investors are instructed to read the entire Official Statement to obtain information essential to making an informed investment decision.

Authority for Issuance. The Public Utilities Commission of the City and County of San Francisco (the “SFPUC”) is issuing the 2013 Series A Bonds pursuant to authority granted by the Charter of the City and County of San Francisco (the “City”), and under a Second Supplemental Indenture dated as of _____, 2013, by and between the SFPUC and U.S. Bank National Association, as trustee (the “Trustee”), and which supplements the Indenture dated as of January 1, 2003, by and between the SFPUC and the Trustee (as supplemented and amended to date, the “Indenture”). See “SECURITY FOR THE BONDS.”

Purposes. The 2013 Series A Bonds are being issued primarily to refund and defease the outstanding bond issue of the SFPUC captioned “\$396,270,000 Public Utilities Commission of the City and County of San Francisco, Clean Water Revenue Bonds, 2003 Refunding Series A,” and to prepay certain outstanding State of California Clean Water State Revolving Fund loans used to finance various capital projects benefiting the Wastewater Enterprise (as defined herein). Proceeds of the 2013 Series A Bonds will also be applied to pay the costs of issuance of the 2013 Series A Bonds. See “PLAN OF FINANCE.”

Denominations and Interest. The 2013 Series A Bonds will be available in the denominations of \$5,000 or any integral multiple thereof and will mature in the years and amounts and accrue interest from their date of delivery at the rates set forth on the inside cover page of this Official Statement. Interest on the 2013 Series A Bonds is payable semiannually on April 1 and October 1 of each year, commencing April 1, 2013. See “THE 2013 SERIES A BONDS.”

Book-Entry Only. The 2013 Series A Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to the ultimate purchasers (the “Beneficial Owners”), under the book-entry system maintained by DTC. Beneficial Owners will not receive physical certificates representing their interests in the 2013 Series A Bonds. The principal of, premium, if any, and interest on the 2013 Series A Bonds are payable to DTC by the Trustee, and, so long as DTC is acting as securities depository for the 2013 Series A Bonds, disbursements of such payments to DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC Participants. See “THE 2013 SERIES A BONDS.”

No Redemption. The 2013 Series A Bonds are not subject to redemption prior to maturity. See “THE 2013 SERIES A BONDS – No Redemption.”

Security. Under the Indenture, the SFPUC has irrevocably pledged the Net Revenues of its Wastewater Enterprise to the punctual payment of principal of, premium, if any, and interest on the Bonds, which consist of all outstanding parity revenue bonds issued under the Indenture, including the 2013 Series A Bonds, subject to the allocation of funds provided in the Indenture. The 2013 Series A Bonds are payable on a parity with certain Outstanding Bonds previously issued by the SFPUC under the Indenture. See “SECURITY FOR THE BONDS.”

Limited Obligation. The SFPUC is not obligated to pay the principal of, premium, if any, or interest on the 2013 Series A Bonds from any source of funds other than Net Revenues. The SFPUC has no taxing power. The General Fund of the City is not liable for the payment of the principal of, premium, if any, or interest on the 2013 Series A Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of, premium, if any, or interest on the 2013 Series A Bonds. The 2013 Series A Bonds are not secured by a legal or equitable pledge of, or charge, lien, or encumbrance upon, any of the property of the City or of the SFPUC or any of its income or receipts, except Net Revenues. See “SECURITY FOR THE BONDS.”

MATURITY SCHEDULE
(See inside cover)

The 2013 Series A Bonds are offered when, as and if issued by the SFPUC and received by the successful bidder, subject to the approval of validity by Sidley Austin LLP, San Francisco, California, and Curlls Bartling P.C., Oakland, California, Co-Bond Counsel to the SFPUC, and to certain other conditions. Certain matters will be passed upon for the SFPUC and the City by Jones Hall, A Professional Law Corporation, San Francisco, California, Disclosure Counsel, and by the City Attorney of the City and County of San Francisco. Public Resources Advisory Group, Los Angeles, California, and Kitahata & Company, San Francisco, California, Co-Financial Advisors to the SFPUC, assisted in the structuring of this financing. It is expected that the 2013 Series A Bonds in fully registered form will be available for delivery in book-entry form in New York, New York, on or about _____, 2013.

The date of this Official Statement is _____, 2013.

* Preliminary, subject to change.

MATURITY SCHEDULE*

2013 Series A Bonds (Base CUSIP† Number: 79768H) \$ _____ Serial Bonds

Maturity (October 1)	Principal Amount	Interest Rate	Yield**	Price**	CUSIP†
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** Reoffering prices and yields have been provided by the respective underwriters. See "UNDERWRITING."
† Copyright 2013, American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's, Financial Services LLC on behalf of the American Bankers Association, CUSIP Service. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are provided for convenience of reference only. Neither the SFPUC nor the Underwriters take any responsibility for the accuracy of such CUSIP numbers.

WASTEWATER ENTERPRISE MAJOR FACILITIES

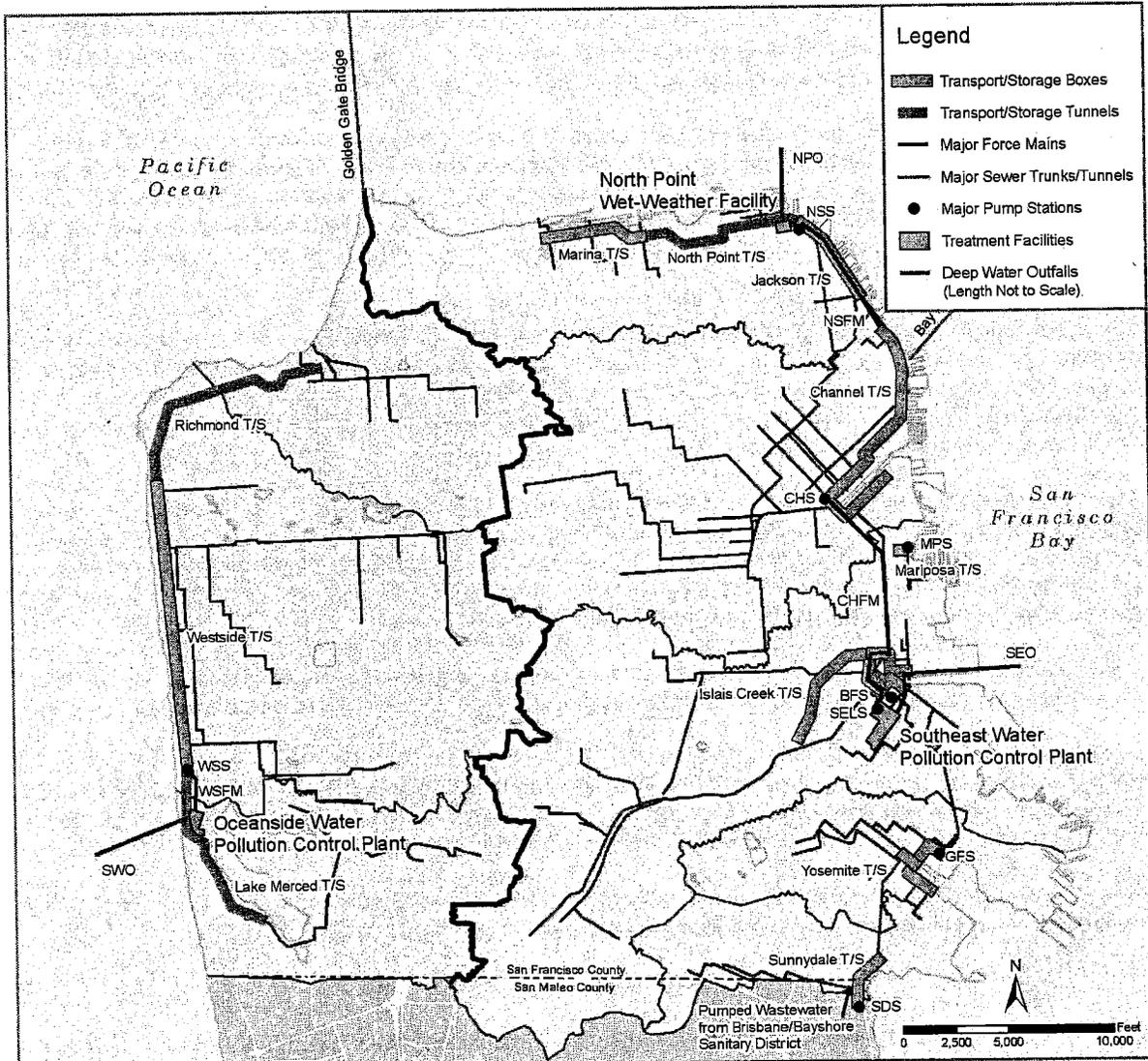


Figure 1-1 – SFPUC Wastewater Enterprise – Major Facilities (Not to Scale)

The 2013 Series A Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the SFPUC or of its income or receipts, except Net Revenues. See “SECURITY FOR THE BONDS.”

GENERAL INFORMATION

No dealer, broker, salesperson or other person has been authorized by the SFPUC to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the SFPUC.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2013 Series A Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the initial purchasers of the 2013 Series A Bonds. Any statement made in this Official Statement involving any forecast or matter of estimates or opinion, whether or not expressly so stated, is intended solely as such and not as a representation of fact.

The information set forth herein other than that provided by the SFPUC, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the SFPUC or the City since the date hereof.

The City maintains a website at <http://www.sfgov.org> and the SFPUC maintains a website at <http://www.sfwater.org>. In addition, certain information and reports found on other websites, and other information and reports, are referred to in this Official Statement. *The information and reports available on such websites, and the other referenced information and reports, are not incorporated by reference into this Official Statement and should not be relied upon in making an investment in the 2013 Series A Bonds.*

The issuance and sale of the 2013 Series A Bonds have not been registered under the Securities Act of 1933 in reliance upon the exemption provided thereunder by Section 3(a)2 for the issuance and sale of municipal securities.

IN CONNECTION WITH THE OFFERING OF THE 2013 SERIES A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2013 SERIES A BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Official Statement is delivered for use in connection with the issuance, sale and delivery of the 2013 Series A Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND "FORWARD-LOOKING STATEMENTS." ALL FORWARD-LOOKING STATEMENTS ARE PREDICTIONS AND ARE SUBJECT TO KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES. NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS "ESTIMATE," "PROJECT," "ANTICIPATE," "EXPECT," "INTEND," "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. GIVEN THEIR UNCERTAINTY, INVESTORS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH STATEMENTS.

SAN FRANCISCO PUBLIC UTILITIES COMMISSION

Art Torres, President
Vince Courtney, Vice President
Ann Moller Caen, Commissioner
Anson Moran, Commissioner
Francesca Vietor, Commissioner

PUBLIC UTILITIES COMMISSION OFFICIALS

Harlan L. Kelly, Jr., General Manager
Michael Carlin, Deputy General Manager and Chief Operating Officer
Todd L. Rydstrom, Assistant General Manager, Business Services and Chief Financial Officer
Tommy T. Moala, Assistant General Manager, Wastewater Enterprise
Steven R. Ritchie, Assistant General Manager, Water Enterprise
Juliet Ellis, Assistant General Manager, External Affairs
Barbara Hale, Assistant General Manager, Power Enterprise
Jackson Wong, Acting Assistant General Manager, Infrastructure Division

CITY AND COUNTY OF SAN FRANCISCO

MAYOR

Edwin M. Lee

BOARD OF SUPERVISORS

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David Campos, District 9
Carmen Chu, District 4
Malia Cohen, District 10
Sean Elsbernd, District 7

Mark Farrell, District 2
Jane Kim, District 6
Eric Mar, District 1
Christina Olague, District 5
Scott Wiener, District 8

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Dennis J. Herrera

CITY TREASURER

José Cisneros

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Naomi Kelly, City Administrator

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San Francisco, California

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U.S. Bank National Association
San Francisco, California

Verification Agent

Causey Demgen & Moore P.C.
Denver, Colorado

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OFFICIAL STATEMENT

§ _____ *

PUBLIC UTILITIES COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO WASTEWATER REVENUE BONDS, 2013 SERIES A (REFUNDING)

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the 2013 Series A Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined have the respective meanings assigned to them elsewhere in this Official Statement, including "APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

General

This Official Statement, including the cover page and Appendices hereto, is provided to furnish certain information in connection with the offering by the Public Utilities Commission of the City and County of San Francisco (the "SFPUC") of the wastewater revenue bonds captioned above (the "2013 Series A Bonds").

Authority for Issuance

The SFPUC is issuing the 2013 Series A Bonds pursuant to authority granted by the Charter (the "Charter") of the City and County of San Francisco (the "City"), and a Second Supplemental Indenture, dated as of _____ 1, 2013 (the "Second Supplemental Indenture"), by and between the SFPUC and U.S. Bank National Association, as trustee (the "Trustee"), which supplements an Indenture, dated as of January 1, 2003 ("Original Indenture"), by and between the SFPUC and the Trustee, as amended by a First Supplemental Indenture dated as of May 1, 2010 (the "First Supplemental Indenture"), and a First Amendment to Indenture, dated as of May 1, 2010, each between the SFPUC and the Trustee (the "First Amendment to Indenture"). The Original Indenture, as amended and supplemented, and as supplemented by the Second Supplemental Indenture, are referred to herein collectively as the "Indenture."

The 2013 Series A Bonds are being issued under a resolution adopted by the SFPUC governing body (the "Commission") on _____, 2012, and under a resolution adopted by the Board of Supervisors of the City (the "Board of Supervisors") on _____, 2012.

See "OBLIGATIONS PAYABLE FROM REVENUES – Authority for Issuance of Revenue Bonds and Other Obligations Payable from Revenues."

Purposes

The 2013 Series A Bonds are being issued primarily to:

- refund, on a current basis, and defease the outstanding bond issue of the SFPUC captioned "\$396,270,000 Public Utilities Commission of the City and County of San Francisco, Clean Water Revenue Bonds, 2003 Refunding Series A" (the "2003 Series A Bonds"); and

* Preliminary, subject to change.

- prepay all outstanding State of California Clean Water State Revolving Fund loans (as further described below, the "SRF Loans") previously used to finance various capital projects benefiting the Wastewater Enterprise (as defined herein).

Proceeds of the 2013 Series A Bonds will also be applied to pay the costs of issuance of the 2013 Series A Bonds.

See "PLAN OF FINANCE."

The SFPUC and the Wastewater Enterprise

The SFPUC is a department of the City responsible for the maintenance, operation and development of three utility enterprises. See "THE PUBLIC UTILITIES COMMISSION."

The Wastewater Enterprise provides sanitary wastewater and stormwater collection, treatment and disposal services to residential, commercial and industrial customers in the City, as well as three municipal sewer service providers serving residents and businesses in northern San Mateo County. The Wastewater Enterprise's sanitary waste and stormwater collection, treatment and disposal services are provided through (i) a combined sanitary waste and stormwater system that collects sanitary waste and stormwater, (ii) three wastewater treatment plants and (iii) effluent outfalls to the San Francisco Bay and Pacific Ocean. See "THE WASTEWATER ENTERPRISE."

The other two enterprises of the SFPUC deliver retail water services to the City and wholesale water to users in three other Bay Area counties, and power (predominantly hydroelectric) for City government operations and to other users. The revenues of these other two enterprises are not available for, and do not secure, payment of the principal, of premium, if any, or interest on the Bonds. See "THE PUBLIC UTILITIES COMMISSION."

Security for the Bonds

Under the Indenture, the SFPUC has irrevocably pledged the Net Revenues of the Wastewater Enterprise to the punctual payment of principal of, premium, if any, and interest on the Bonds (as defined below), which consist of any parity revenue bonds issued under the Indenture, including the 2013 Series A Bonds and the outstanding Bonds described below, subject to the flow of funds contained in the Indenture. The 2013 Series A Bonds and all other Bonds are secured by a parity lien on Net Revenues. See "SECURITY FOR THE BONDS."

The Indenture defines "Net Revenues" as all Revenues (as defined in the Indenture), less all Operation and Maintenance Costs of the Wastewater Enterprise (as defined below), and less moneys required to be paid to the State pursuant to any Senior State Loans (as defined below). Revenues are generated principally from the sewer service charges to customers for the sanitary waste and stormwater collection, treatment and disposal services of the Wastewater Enterprise. Wastewater rates are set by the SFPUC, subject to rejection by resolution of the Board of Supervisors. See "FINANCIAL OPERATIONS."

The SFPUC is not obligated to pay the principal of, premium, if any, or interest on the 2013 Series A Bonds from any source of funds other than Net Revenues. The SFPUC has no taxing power. The General Fund of the City is not liable for the payment of the principal of, premium, if any, or interest on the 2013 Series A Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of, premium, if any, or interest on the 2013 Series A Bonds. The 2013 Series A Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or of the SFPUC or any of its income or receipts, except Net Revenues. See "SECURITY FOR THE BONDS."

Outstanding and Future Parity Bonds and Other Indebtedness

Parity Bonds. The SFPUC has issued three series of outstanding Bonds:

- the 2003 Series A Bonds, which are anticipated to be defeased and refunded with a portion of the proceeds of the 2013 Series A Bonds (see “PLAN OF FINANCE”);

- wastewater revenue bonds captioned “Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series A” (the “2010 Series A Bonds”), which were issued in the aggregate principal amount of \$47,050,000 on June 8, 2010; and

- wastewater revenue bonds captioned “Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series B (Federally Taxable – Build America Bonds – Direct Payment)” (the “2010 Series B Bonds”), which were issued in the aggregate principal amount of \$192,515,000 on June 8, 2010.

The Indenture permits, upon the satisfaction of certain conditions, the issuance of additional bonds secured by a pledge of Net Revenues (the “Additional Bonds”) on a parity with the 2010 Series A Bonds, the 2010 Series B Bonds and the 2013 Series A Bonds. See “SECURITY FOR THE BONDS – Additional Series of Bonds.”

Shortly after the issuance of the 2013 Series A Bonds, the SFPUC intends to issue a series of Additional Bonds (the “2013 Series B Bonds”) to finance select projects in two capital improvement programs for the Wastewater Enterprise: the Capital Improvement Program (the “CIP”) and Sewer System Improvement Program (the “SSIP”). See “CAPITAL IMPROVEMENT PROGRAM” and “SEWER SYSTEM IMPROVEMENT PROGRAM.”

The 2010 Series A Bonds, the 2010 Series B Bonds, the 2013 Series A Bonds and any Additional Bonds issued under the Indenture are referred to herein collectively as the “Bonds.”

State Loans. Under the Indenture, the SFPUC may enter into loan agreements with the State, and any board, department or agency thereof, in order to finance certain categories of projects relating to the facilities of the Wastewater Enterprise. These loans may be payable from Revenues prior to the payment of the Bonds (the “Senior State Loans”), or from Net Revenues on a parity with the Bonds (the “Parity State Loans”), or on a subordinated lien basis relative to the Bonds, as determined by the SFPUC.

The SFPUC has previously entered into certain loan contracts (collectively, the “SRF Loans”) with the State of California Water Resources Control Board (the “State Water Board”) of which \$30,444,082.66 is outstanding, and all of which are anticipated to be prepaid with a portion of the proceeds of the 2013 Series A Bonds (see “PLAN OF FINANCE”).

See also “OBLIGATIONS PAYABLE FROM REVENUES—Other Outstanding Parity and Senior Obligations – State and Federal Loans,” “SECURITY FOR THE BONDS—Additional Senior and Parity Obligations” and “APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Risk Factors

Investment in the 2013 Series A Bonds is subject to material risks. For a general overview of certain risk factors which should be considered, in addition to other matters set forth in this Official Statement, in evaluating an investment in the 2013 Series A Bonds, see “RISK FACTORS.”

Debt Service Coverage

The Indenture provides that the SFPUC will, at all times while any of the Bonds remain Outstanding, establish, fix, prescribe and collect rates, fees and charges in connection with the sewage and stormwater collection, treatment and disposal services and facilities furnished by the Wastewater Enterprise so as to yield Net Revenues during the immediately ensuing period of twelve months which (together with any fund balances of the SFPUC or the Wastewater Enterprise which are available for payment of Debt Service and are not budgeted to be expended during such twelve months, but excluding the Bond Reserve Fund), calculated on a cash basis, are at least equal to 1.25 times the Annual Debt Service (but excluding any interest moneys for the payment of which have been

deposited in the Interest Fund from the proceeds of any Series of Bonds or from any other source) for said twelve-month period. See "SECURITY FOR THE BONDS – Rate Covenants."

Historical Debt Service Coverage. The following table contains a summary of historical debt service coverage for the Bonds. The calculation of debt service coverage includes net operating income and funds not budgeted to be spent in the next twelve months and legally available to pay debt service, as permitted under the Indenture.

Historical Coverage Calculation
(\$ thousands)

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Net Revenue per Indenture	\$72,813	\$71,130	\$63,995	\$85,529	\$107,637
Other Available Funds per Indenture	<u>34,699</u>	<u>48,016</u>	<u>49,272</u>	<u>22,769</u>	<u>50,761</u>
Funds Available for Debt Service	<u>107,512</u>	<u>119,146</u>	<u>113,267</u>	<u>108,298</u>	<u>158,398</u>
Debt Service	\$50,198	\$50,311	\$50,313	\$41,838	\$38,533
Debt Service Coverage	2.14	2.37	2.25	2.59	4.11

For a more complete summary of the historical operating results of the Wastewater Enterprise, see "HISTORICAL OPERATING RESULTS" and APPENDIX C.

Projected Debt Service Coverage. The following table presents a summary of projected debt service coverage for the Bonds. These projections are based on an analysis of historic trends, adjusted where appropriate for known or anticipated changes in operations, and certain assumptions as further described in this Official Statement. See "PROJECTED OPERATING RESULTS."

Projected Coverage Calculation
(\$ thousands)

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Net Revenue per Indenture	\$98,536	\$103,038	\$98,597	\$106,420	\$111,945
Other Available Funds per Indenture	<u>66,658</u>	<u>86,352</u>	<u>105,604</u>	<u>108,006</u>	<u>92,627</u>
Funds Available for Debt Service	<u>165,194</u>	<u>189,390</u>	<u>204,201</u>	<u>214,427</u>	<u>204,571</u>
Debt Service	50,850	51,281	58,800	81,246	89,875
Debt Service Coverage	3.76	4.27	3.77	2.75	2.33

Amounts set forth in this table are projections. For a more complete summary of the assumptions on which these projections are based, see "PROJECTED OPERATING RESULTS." Actual results may differ materially from these projections. See "FORWARD-LOOKING STATEMENTS" above.

Other Matters

Brief descriptions of the 2013 Series A Bonds, the security and sources of payment for the 2013 Series A Bonds, the SFPUC, and the Wastewater Enterprise are provided herein. Such descriptions do not purport to be comprehensive or definitive. Definitions of certain capitalized terms used herein may be found in "APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." All references made to various documents herein are qualified in their entirety by reference to the forms thereof, all of which are available for inspection at the office of the SFPUC at:

San Francisco Public Utilities Commission
525 Golden Gate Avenue, 13th Floor
San Francisco, CA 94102
Attention: Assistant General Manager, Business Services and Chief Financial Officer
(415) 554-3155

THE 2013 SERIES A BONDS

General

The 2013 Series A Bonds will be dated as of their date of delivery and will accrue interest from the date of delivery at the rates per annum set forth on the inside cover page of this Official Statement. Interest on the 2013 Series A Bonds is payable on April 1 and October 1 of each year, beginning April 1, 2013. Interest on the 2013 Series A Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months.

The 2013 Series A Bonds will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. The 2013 Series A Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple of \$5,000.

Under the Indenture, the record date with respect to the payment of principal of and interest on the Bonds is the 15th day of the month immediately preceding an interest payment date, whether or not such day is a Business Day.

Securities Depository and Book-Entry System

The 2013 Series A Bonds will be issued in fully registered form, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, as the Owner of the 2013 Series A Bonds.

So long as DTC, or its nominee, Cede & Co., is the Owner of the 2013 Series A Bonds, all payments on the 2013 Series A Bonds will be made directly to DTC. Disbursement of such payments to the DTC Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners of the 2013 Series A Bonds will be the responsibility of the DTC Participants. See "APPENDIX F—SECURITIES DEPOSITORY AND THE BOOK-ENTRY SYSTEM."

No Redemption

The 2013 Series A Bonds are not subject to redemption before maturity.

PLAN OF FINANCE*

Refunding Plan—2003 Series A Bonds

General. The SFPUC will apply a portion of the proceeds from the sale of the 2013 Series A Bonds to establish an irrevocable escrow to refund and legally defease all of the outstanding 2003 Series A Bonds, as described below. The 2003 Series A Bonds are currently outstanding in the principal amount of \$184,105,000. See “OBLIGATIONS PAYABLE FROM REVENUES.”

Refunding of 2003 Series A Bonds. All of the outstanding 2003 Series A Bonds will be refunded, on a current basis, on April 1, 2013, at a redemption price equal to their outstanding principal amount, plus accrued interest to the redemption date, without premium.

Escrow Fund. A portion of the proceeds of the 2013 Series A Bonds will be deposited with the Trustee, acting as escrow agent (the “Escrow Agent”), under an Escrow Agreement dated as of January 1, 2013 (the “Escrow Agreement”), by and between the SFPUC and the Escrow Agent.

The amounts deposited from the proceeds of the 2013 Series A Bonds, together with certain other available moneys, will be held by the Escrow Agent under the Escrow Agreement and invested in federal securities, the principal of and interest on which, when received, will be sufficient to pay the principal of, interest on and redemption premium on the 2003 Series A Bonds on their redemption date.

Sufficiency of the deposits in the Escrow Fund for those purposes will be verified by Causey Demgen & Moore P.C., Denver, Colorado. See “VERIFICATION OF MATHEMATICAL ACCURACY” below. Assuming the accuracy of the verification agent’s computations, as a result of the deposit and application of funds as provided in the Escrow Agreement, the 2003 Series A Bonds will be defeased pursuant to the Indenture as of the date of issuance of the 2013 Series A Bonds.

Refunding Plan—SRF Loans

The SRF Loans are currently outstanding in the principal amount of \$30,444,082.66. See “OBLIGATIONS PAYABLE FROM REVENUES.” The SFPUC will apply a portion of the proceeds from the sale of the 2013 Series A Bonds to prepay all of the outstanding SRF Loans as of the Closing Date.

* Preliminary, subject to change.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2013 Series A Bonds are expected to be applied as follows:

<u>Sources of Funds</u>	
Par Amount	\$ _____
Net Original Issue Premium/Discount	_____
Total Sources	\$ <u>_____</u>
<u>Uses of Funds</u>	
Deposit to Escrow Fund (1)	\$ _____
Deposit to Reimbursement Account (2)	_____
Underwriter's Discount	_____
Costs of Issuance (3)	_____
Total Uses	\$ <u>_____</u>

-
- (1) To refund the 2003 Series A Bonds. See "FINANCING PLAN" above.
(2) To prepay the SRF Loans. See "FINANCING PLAN" above.
(3) The costs of issuance include amounts for legal fees, Trustee's fees, financial advisory fees, rating agency fees, printing costs, and other issuance costs relating to the issuance of the 2013 Series A Bonds.

SECURITY FOR THE BONDS

Pledge of Net Revenues

General. Under the Indenture, the SFPUC has irrevocably pledged the Net Revenues of the Wastewater Enterprise to the punctual payment of principal of, premium, if any, and interest on the Bonds, which consist of any parity revenue bonds issued under the Indenture, including the 2013 Series A Bonds, the 2010 Series A Bonds, the 2010 Series B Bonds, and any Additional Series of Bonds. This pledge is subject to the flow of funds contained in the Indenture, as described below. See “– Flow of Funds” below.

The facilities comprising the Wastewater Enterprise have not been pledged or mortgaged and do not otherwise secure payment of the Bonds.

Pursuant to Section 5451 of the California Government Code, the pledge of, lien on and security interest in Net Revenues and certain other funds granted by the Indenture is valid and binding in accordance with the terms thereof from the time of issuance of the 2013 Series A Bonds; the Net Revenues and such other funds will be immediately subject to such pledge; and such pledge will constitute a lien and security interest which will immediately attach to such Net Revenues and other funds and will be effective, binding and enforceable against the SFPUC, its successors, creditors, and all others asserting rights therein to the extent set forth and in accordance with the terms of the Indenture irrespective of whether those parties have notice of such pledge and without the need for any physical delivery, recordation, filing or other further act. Such pledge, lien and security interest are not subject to the provisions of Article 9 of the California Uniform Commercial Code.

For definitions of capitalized terms used herein and not otherwise defined, see “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions.”

Limited Obligation. THE SFPUC IS NOT OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2013 SERIES A BONDS EXCEPT FROM NET REVENUES. THE SFPUC HAS NO TAXING POWER. THE GENERAL FUND OF THE CITY IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2013 SERIES A BONDS, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE 2013 SERIES A BONDS. THE 2013 SERIES A BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE CITY OR OF THE SFPUC OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT NET REVENUES.

Wastewater Enterprise. The Indenture defines “Enterprise” (referred to in this Official Statement as the “Wastewater Enterprise”) as meaning the whole and each and every part of the sanitary waste and storm water collection, treatment and disposal system and auxiliary or related facilities of the SFPUC, including all of the presently existing system of the SFPUC for the collection, treatment and disposal of sanitary waste and storm water and all future additions, betterments, and extensions to the system or any part thereof.

Net Revenues. The Indenture defines “Net Revenues” as all of the Revenues, less all Operation and Maintenance Costs of the Enterprise, and less moneys required to be paid to the State pursuant to any Senior State Loans. As of the date of issuance of the 2013 Series A Bonds, the SFPUC anticipates that all SRF Loans (which constitute Senior State Loans under the Indenture) will be prepaid and no longer outstanding. See “PLAN OF FINANCE.”

The Indenture defines “Revenues” as all gross revenues of the Wastewater Enterprise, including all charges received and all other income and receipts derived by the SFPUC from the operation of the Wastewater Enterprise, or arising from the Wastewater Enterprise, including connection and installation charges, but excluding:

- (a) any money received by or for the account of the SFPUC from the levy or collection of taxes;

- (b) moneys received from the State of California and the United States of America and required to be deposited in restricted funds;
- (c) refundable deposits made to establish credit;
- (d) advances and contributions made to the SFPUC to be applied to construction;
- (e) moneys received constituting casualty insurance proceeds with respect to all or any part of the Wastewater Enterprise (which shall be received and disposed of pursuant to the Indenture) and moneys received constituting other insurance proceeds;
- (f) moneys received from the sale or disposition of all or any part of the Wastewater Enterprise (which shall be received and disposed of pursuant to the Indenture);
- (g) moneys received upon the taking by or under the threat of eminent domain of all or any part of the Wastewater Enterprise (which moneys shall be received and disposed of pursuant to the Indenture);
- (h) proceeds from Bonds issued by the SFPUC or proceeds from loans or other indebtedness obtained by the SFPUC; and
- (i) moneys or securities received by the SFPUC as gifts or grants the use of which is restricted by the donor or grantor.

The term "Revenues" also includes (i) all interest or other income (excluding profits or losses from the sale or disposition of Permitted Investments or other securities owned by or on behalf of the SFPUC) derived from the deposit or investment of any moneys in any fund or account established under the Indenture (excluding any Rebate Fund and any escrow fund pledged for the payment of defeased bonds) or in any fund or account of the Wastewater Enterprise and legally available to pay Debt Service on the Bonds, and (ii) any other moneys, proceeds and other amounts that the SFPUC determines should be "Revenues" under the Indenture.

The Indenture defines "Operation and Maintenance Costs of the Enterprise" as the reasonable and necessary costs of operating and maintaining the Wastewater Enterprise, calculated on the basis of generally accepted accounting principles, including (among other things) salaries and wages, fees for services, costs of materials, supplies and fuel, reasonable expenses of management, legal fees, accounting fees, repairs and other expenses necessary to maintain and preserve the Wastewater Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any), and the payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the SFPUC may establish or the Board of Supervisors may require with respect to employees of the SFPUC, as provided in the Charter.

However, the term "Operation and Maintenance Costs of the Enterprise" excludes in all cases (a) depreciation and obsolescence charges or reserves therefor, (b) amortization of intangibles or other bookkeeping entries of a similar nature, (c) costs of capital additions, replacements, betterments, extensions or improvements to the Wastewater Enterprise, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (d) charges for the payment of principal of and interest on any revenue bonds or other indebtedness issued before or after the date of the Indenture for Wastewater Enterprise purposes and (e) such costs as are scheduled to be paid by the SFPUC from moneys other than Revenues, such moneys to be clearly available for such purpose.

Flow of Funds

The Indenture provides that all Revenues must be paid into the Revenue Fund, which must be maintained in the City Treasury. Moneys in the Revenue Fund, including earnings thereon, are required by the Indenture to be applied for the following purposes and only in the following order of priority:

- (a) payment of Operation and Maintenance Costs of the Enterprise;
- (b) payment of Senior State Loans (if any);
- (c) payment of Bonds, Parity State Loans, Policy Costs and amounts due as reimbursement under any Letter of Credit Agreement, as provided in the Indenture; and
- (d) any other lawful purpose of the SFPUC.

Net Revenues deposited in the Revenue Fund, as described in (c) above, will be applied to pay interest and principal on the Bonds and to make deposits to the Bond Reserve Fund if the amounts therein are less than the Required Reserve. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Rate Covenants

Sufficiency of Revenues. The SFPUC has covenanted in the Indenture that it will, at all times while any of the Bonds remain Outstanding, establish, fix, prescribe and collect rates, fees and charges in connection with the sanitary waste and stormwater collection, treatment and disposal services and facilities furnished by the Wastewater Enterprise so as to yield Revenues at least sufficient, after making reasonable allowances for contingencies and error in the estimates, calculated on a cash basis, to pay the following amounts:

- (a) the interest on and principal of the Bonds as they become due and payable (but not including any interest for which moneys have been deposited in the Interest Fund from the proceeds of any Series of Bonds or from any other source);
- (b) all other payments required for compliance with the terms of the Indenture and of any Supplemental Indenture providing for the issuance of Additional Bonds pursuant to the Indenture;
- (c) all other payments to meet any other obligations of the SFPUC which are charges, liens or encumbrances upon, or payable from, Revenues; and
- (d) all current Operation and Maintenance Costs of the Enterprise (but not including such Operation and Maintenance Costs of the Enterprise as are scheduled to be paid by the SFPUC from moneys other than Revenues, such moneys to be clearly available for such purpose).

Debt Service Coverage. In addition to the requirements described above, the SFPUC has covenanted that it will, at all times while any of the Bonds remain Outstanding, establish, fix, prescribe and collect rates, fees and charges in connection with the sewage and stormwater collection, treatment and disposal services and facilities furnished by the Wastewater Enterprise so as to yield Net Revenues during the immediately ensuing period of twelve months which (together with any fund balances of the SFPUC or the Wastewater Enterprise which are available for payment of Debt Service and are not budgeted to be expended during such twelve months, but excluding the Bond Reserve Fund), calculated on a cash basis, are at least equal to 1.25 times the Annual Debt Service (but excluding any interest moneys for the payment of which have been deposited in the Interest Fund from the proceeds of any Series of Bonds or from any other source) for said twelve-month period.

"Annual Debt Service" is defined in the Indenture as the sum of principal and interest on all Outstanding Bonds and Parity State Loans as computed for the twelve-month period ending June 30 to which reference is made, and calculated in a manner consistent with the determination of Average Annual Debt Service and Maximum Annual Debt Service as provided in the definitions thereof.

As of the date of issuance of the 2013 Series A Bonds and defeasance of the 2003 Series A Bonds, certain provisions of the First Amendment to Indenture will become effective that provide that, in determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Bonds that were issued as Build America Bonds, including the 2010 Series B Bonds, amounts equal to the Refundable Credits the SFPUC is scheduled to receive during each such twelve-month period ending June 30 will be deducted from such interest. See

“APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” By their purchase of the 2013 Series A Bonds, the purchasers of the 2013 Series A Bonds consent to the First Amendment to Indenture.

Bond Reserve Fund

The Indenture requires that the Bond Reserve Fund be established with the Trustee and funded in an amount equal to the “Required Reserve,” if any, applicable to each series of Bonds. If the Required Reserve for a Series of Bonds is greater than zero, the Indenture requires the establishment of a bond reserve account (each, a “Reserve Account”) within the Bond Reserve Fund for such Series of Bonds, and requires the deposit in that bond reserve account of an amount equal to the Required Reserve for the related Series of Bonds.

No Reserve Account Required for 2013 Series A Bonds. The Second Supplemental Indenture does *not* require the establishment of a Reserve Account for the 2013 Series A Bonds.

Required Reserve. As of the date of issuance of the 2013 Series A Bonds and defeasance of the 2003 Series A Bonds, certain provisions of the First Amendment to Indenture will become effective that amend the definition of “Required Reserve” as follows:

(a) The Required Reserve with respect to the 2010 Series A Bonds and the 2010 Series B Bonds is reduced to 50% of Maximum Annual Debt Service on the 2010 Series A Bonds and the 2010 Series B Bonds (excluding from such calculation Parity State Loans, if any) then Outstanding. See “—Amendment Affecting Bond Reserve Fund Requirements” and “APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—First Amendment to Indenture—Amendments Relating to the Required Reserve, the Bond Reserve Fund and the Reserve Account.”

(b) For the purpose of calculating Maximum Annual Debt Service and Average Annual Debt Service, in determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Bonds that are issued as Build America Bonds under Section 54AA of the Code (specifically, the 2010 Series B Bonds), amounts equal to the Refundable Credits the SFPUC is scheduled to receive during each such twelve-month period ending June 30 will be deducted from such interest. See “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions.”

(c) A Reserve Account will no longer be required for any subsequent Series of Bonds. A Reserve Account for each such Series of Bonds will be established only if and to the extent required by, and will be funded in an amount, if any, specified in, such Supplemental Indenture. In no event will the SFPUC, in connection with issuance of a Series of Additional Bonds, be obligated to deposit an amount in the Bond Reserve Fund which is in excess of the amount permitted by the applicable provisions of the Code to be so deposited from the proceeds of tax-exempt bonds without having to restrict the yield of any investment purchased with any portion of such deposit. If the Supplemental Indenture relating to such Series of Bonds establishes a Required Reserve and Reserve Account, such Reserve Account will be available only to pay Debt Service on such Series of Bonds, and will not be available to pay Debt Service on any other Series of Bonds, unless otherwise provided in such Supplemental Indenture. Following the issuance of the 2013 Series A Bonds, each of the Reserve Accounts with respect to the 2010 Series A Bonds and 2010 Series B Bonds will be available to pay the Debt Service on all the 2010 Series A Bonds and 2010 Series B Bonds. “APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—First Amendment to Indenture—Amendments Relating to the Required Reserve, the Bond Reserve Fund and the Reserve Account.”

Additional Series of Bonds

The Charter and the Indenture authorize the issuance of Additional Bonds payable from Net Revenues on a parity with the 2010 Series A Bonds, the 2010 Series B Bonds and the 2013 Series A Bonds upon satisfaction of the conditions set forth therein.

The SFPUC expects to issue Additional Bonds to finance the costs of additional improvements included in the CIP and the SSIP. See "FINANCING PLAN FOR CAPITAL IMPROVEMENTS" and "RISK FACTORS—Costs of the SSIP; Timely Completion of the SSIP."

Charter Requirements. Under the Charter, the SFPUC may issue revenue bonds (including Additional Bonds) relating to the Wastewater Enterprise without voter approval in the following circumstances, among others:

- (a) to issue revenue bonds (including Additional Bonds) approved by an affirmative vote of two-thirds of the members of the Board of Supervisors for the purpose of reconstructing, replacing, expanding, repairing or improving the Wastewater Enterprise;
- (b) to issue bonds (including Additional Bonds) approved by an affirmative vote of three-fourths of the members of the Board of Supervisors if the bonds are to finance buildings, fixtures or equipment which are deemed necessary by the Board of Supervisors to comply with an order of a duly constituted state or federal authority having jurisdiction over the Wastewater Enterprise; and
- (c) to issue refunding bonds which are expected to result in net debt service savings to the City on a present value basis, calculated as described in the SFPUC's Debt Management Policies and Procedures.

The Charter also generally authorizes the SFPUC to issue revenue bonds upon the approval of a majority of the voters voting on the proposition at a general or special election.

Indenture Requirements. The Indenture provides that Additional Bonds secured on a parity with the Bonds may be issued for any lawful purpose if no Event of Default has occurred and is continuing under the Indenture or any Supplemental Indenture and no event has occurred which, but for the passage of time or the giving of notice, would constitute an Event of Default under the Indenture or any Supplemental Indenture. Prior to the issuance of such Additional Bonds, the SFPUC is required to file with the Trustee, among other documents, the following:

- (a) a Certificate of the Commission demonstrating that the SFPUC has complied with the rate covenant under the Indenture and that the requirements for issuing Additional Bonds under the Indenture have been met;
- (b) if any portion of the proceeds of such Series of Bonds is to be used to finance construction, a certificate of the Consulting Engineers setting forth (i) the estimated date of completion for the portion of the Project for which such Series of Bonds is being issued and for any other uncompleted portion of the Project, and (ii) an estimate of the cost of construction of such portion of the Project and of any other uncompleted portion of the Project;
- (c) a Certificate of the Commission setting forth for each of the next three Fiscal Years (and, if any portion of the proceeds of such Series of Bonds is to be used to finance construction, the three Fiscal Years following the Fiscal Year in which the Consulting Engineers estimate such portion of the Project will be completed), estimates of (i) Revenues, (ii) Operation and Maintenance Costs of the Enterprise and (iii) Net Revenues; and
- (d) a Certificate of the Commission setting forth (i) the estimates of Net Revenues as set forth in the Certificate of the SFPUC pursuant to paragraph (c) above for each of such three Fiscal Years (and, if any portion of the proceeds of such Series of Bonds is to be used to finance construction, the three Fiscal Years following the Fiscal Year in which the Consulting Engineers estimate such portion of the Project will be completed), (ii) the Annual Debt Service for each of such Fiscal Years, including Annual Debt Service as estimated in such Certificate of the Commission with respect to future Series of Bonds, if any, which such Certificate of the Commission shall estimate will be required to complete payment of the cost of construction of such portion of the Project and any other uncompleted portion of the Project, and (iii) demonstrating that the estimated Net Revenues (together with any fund balances of the SFPUC which are available for the payment of Debt Service but excluding the Bond Reserve Fund) in each of the Fiscal

Years set forth in (c) above is at least equal to 1.25 times the Annual Debt Service for such respective Fiscal Years.

See "APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions."

The Indenture provides the SFPUC with flexibility as to the nature and terms of any Additional Bonds issued with a lien and charge on Net Revenues on a parity with the Outstanding Series of Bonds. Such Additional Bonds may: mature over any period of time; bear interest at a fixed, variable or zero rate; be in any denominations; be in any form (including registered, coupon or book-entry); include or exclude redemption provisions; be subject to optional or mandatory tender for purchase; be sold at such price or prices; be further secured by any separate and additional security; and otherwise include such additional terms and provisions as the SFPUC may determine, consistent with the Indenture and applicable provisions of the Charter.

Additional Senior and Parity Obligations

Pursuant to the Charter, the SFPUC can incur indebtedness, including additional State loans, without voter approval, but subject to Board of Supervisors approval. The Indenture permits the SFPUC to enter into Senior State Loans, Parity State Loans or loans on a subordinated lien basis relative to the Bonds, as determined by the SFPUC.

Under the Indenture, the SFPUC may enter into additional Senior State Loans and Parity State Loans if no Event of Default has occurred and is continuing under the Indenture or any Supplemental Indenture (and no event has occurred which, but for the passage of time or the giving of notice, would constitute an Event of Default under the Indenture or any Supplemental Indenture).

In addition, in connection with the execution and delivery of such Senior State Loans or Parity State Loans, as applicable, the SFPUC is required to deliver a Certificate to the Trustee setting forth, for each of the next three Fiscal Years after the delivery of the Senior State Loans or Parity State Loans, as applicable,

(i) the Revenues, Operation and Maintenance Costs of the Enterprise and Net Revenues (assuming the delivery of the Senior State Loans, as applicable) and

(ii) the Annual Debt Service (assuming the delivery of the Parity State Loans, as applicable), and demonstrating that the estimated Net Revenues (together with any fund balances of the SFPUC which are available for Debt Service, but excluding the Bond Reserve Fund), in each of such three Fiscal Years is at least equal to 1.25 times the Annual Debt Service.

The State Revolving Fund Loan program (the "SRF Loan Program") offers moneys to applicant entities based on available moneys and placement on a statewide priority list. Although placement on the priority list is a necessary condition to receiving SRF Loan Program moneys, placement on the priority list does not create an obligation on the part of the applicant to accept SRF Loan Program moneys.

The SFPUC does not currently intend to enter into any Senior State Loans in the future.

Refunding Bonds

Indenture Requirements. The Indenture provides that Additional Series of Bonds may be issued to refund any Bonds, including the 2013 Series A Bonds, without meeting the test for the issuance of Additional Bonds described above, if the SFPUC delivers to the Trustee (among other documents) a certificate of a Qualified Financial Advisor to the effect that the Average Annual Debt Service for the Additional Series of Bonds will be equal to or less than the Average Annual Debt Service on the Bonds to be refunded.

City Charter Requirements. The Charter permits the issuance of refunding bonds without voter approval only if such refunding results in net debt service savings on a present value basis, calculated as described in the SFPUC's Debt Management Policies and Procedures.

Subordinate Obligations; Obligations Not Payable from Revenues

The Indenture permits the SFPUC to authorize and issue bonds, notes, warrants, certificates or other obligations or evidences of indebtedness, the principal of or interest on which would be payable either (i) from Net Revenues after and subordinate to the payment from Net Revenues of the principal of and interest on the Bonds, or (ii) from moneys which are not Revenues. The SFPUC may issue bonds or incur other indebtedness secured by a pledge of Net Revenues on a basis subordinate to the pledge thereof securing the Bonds without limitation.

OBLIGATIONS PAYABLE FROM REVENUES

Authority for Issuance of Revenue Bonds and Other Obligations Payable from Revenues

City Charter. The Charter, as supplemented by California Government Code Section 53580 et seq., authorizes the SFPUC to issue revenue bonds and commercial paper notes and to incur other obligations payable from or secured by a pledge of Revenues.

Proposition E. On November 5, 2002 the voters approved Proposition E, which authorizes the SFPUC, subject to the referendum process, to issue revenue bonds, notes and other forms of indebtedness when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors, for the purpose of reconstructing, replacing, expanding, preparing or improving water facilities or wastewater facilities or combinations of water and wastewater facilities under the jurisdiction of the SFPUC. Board of Supervisors action to authorize or issue bonds under this provision is subject to certain additional conditions, requiring certification by an independent engineer and certification by the San Francisco Planning Department, as discussed in "APPENDIX B—SUMMARIES OF CERTAIN LOCAL INITIATIVES (PROPOSITIONS E AND P)."

The ordinance authorizing the issuance of indebtedness will become effective 30 days after its adoption unless it is opposed through the referendum process. Opposition may be made by filing with the Board of Supervisors a petition protesting the passage of that ordinance. Such petition must be signed by voters in a number equal to at least 10% of the votes cast for all candidates for Mayor in the last preceding general municipal election for Mayor. If a referendum passes, the ordinance is suspended from becoming effective. The Board of Supervisors may reconsider the ordinance. If it is not entirely repealed, the Board of Supervisors is required to submit the ordinance to voters at the next general municipal or statewide election or at a special municipal election and will not become effective until approved by voters at such an election.

For additional details regarding the above-described provisions of the Charter and certain voter-approved initiatives, see "APPENDIX B—SUMMARIES OF CERTAIN LOCAL INITIATIVES (PROPOSITIONS E AND P)."

Authority for the Issuance of the 2013 Series A Bonds. The 2013 Series A Bonds are being issued under Section 9.109 of the City Charter.

Outstanding Parity Revenue Bonds

Outstanding Bonds. The following outstanding Bonds (the "Outstanding Bonds") have been issued pursuant to the Indenture and are secured by a parity pledge of Net Revenues.

Series of Bonds	Purpose	Initial Principal Amount	Principal Amount Outstanding as of December 31, 2012
Clean Water Revenue Bonds, 2003 Refunding Series A (1)	Refunding of revenue bonds issued for renewal and replacement of wastewater facilities	\$396,270,000	\$184,105,000
Wastewater Revenue Bonds, 2010 Series A	Refinance CIP costs	\$47,050,000	\$47,050,000
Wastewater Revenue Bonds, 2010 Series B	Finance and refinance CIP and SSIP costs	\$192,515,000	\$192,515,000
Total		\$635,835,000	\$423,670,000

(1) Intended to be defeased and refunded with the proceeds of the 2013 Series A Bonds. See "PLAN OF FINANCE."

Risks Related to Build America Bonds. The 2010 Series B Bonds were issued as "Build America Bonds" for purposes of Section 54AA of the Code, under which, and subject to certain potential deductions, the U.S.

Treasury will pay (either in advance or as reimbursement) to the Trustee, as the agent of the SFPUC, a direct subsidy (the "Refundable Credits") equal to 35% of the interest payable with respect to the 2010 Series B Bonds on each Interest Payment Date. Upon receipt, the Trustee will deposit any Refundable Credits it receives in the Interest Fund.

The current federal budget contains provisions for a system of automatic cuts to federal spending for designated agencies and programs (known as "sequestration") if Congress fails to enact a plan to reduce the federal budget deficit to specified levels. To date, Congress has not enacted a reduction plan. As a result, under the terms of the current federal budget, a budget "sequestration" is scheduled to go into effect on January 2, 2013, unless Congressional action is taken prior to that date to avert the sequestration. The federal Office of Management and Budget has reported that, if sequestration is implemented, a 7.6% cut will be made to direct pay subsidies with respect to Build America Bonds (and other direct-pay bonds) in federal fiscal year 2013.

The SFPUC is obligated under the Indenture to make payments of principal of and interest on the Bonds, including the 2010 Series B Bonds, without regard to the receipt or deposit of Refundable Credits. If sequestration is implemented, the SFPUC will be required to make up the shortfall in Refundable Credits from Net Revenues or other available funds.

Other Outstanding Parity and Senior Obligations – State and Federal Loans

The SFPUC has entered into a number of SRF Loans with the State Water Resources Control Board in the aggregate original principal amount of \$281,982,872, of which \$30,444,082.66 is currently outstanding, and all of which are intended to be prepaid with the proceeds of the 2013 Series A Bonds. Therefore, as of the date of issuance of the 2013 Series A Bonds, no SRF Loans will be outstanding.

The SFPUC has complied with all requirements imposed in connection with prior or currently outstanding SRF Loans, including making all payments on the SRF Loans when due.

Additional Bonds

Shortly after the issuance of the 2013 Series A Bonds, the SFPUC intends to issue the 2013 Series B Bonds as a series of Additional Bonds under the Indenture to finance select projects authorized in the CIP and SSIP. See "CAPITAL IMPROVEMENT PROGRAM" and "SEWER SYSTEM IMPROVEMENT PROGRAM" and "FINANCING PLAN FOR CAPITAL IMPROVEMENTS."

Subordinate Debt and Commercial Paper

No Limits on Subordinate Debt. The SFPUC may issue bonds or incur other indebtedness secured by a pledge of Net Revenues on a basis subordinate to the pledge thereof securing the Bonds, without limitation.

Commercial Paper Program. In 2007, the SFPUC established a commercial paper program (authorized by Proposition E) to fund construction costs relating to the CIP, with a current maximum authorization of \$300 million. As of November 1, 2012, the SFPUC had \$25 million aggregate principal amount of Wastewater Commercial Paper Notes outstanding, all of which is secured and payable from Net Revenues on a basis subordinate to the payment of debt service on the Bonds. The Wastewater Commercial Paper Notes are supported by respective liquidity facilities issued by (a) JPMorgan Chase Bank, National Association, with a stated expiration date of February 10, 2014, (b) U.S. Bank National Association, with a stated expiration date of February 10, 2014, (c) Union Bank, N.A., with a stated expiration date of July 10, 2015, and (d) The Bank of Tokyo Mitsubishi UFJ, Ltd., acting through its New York Branch, with a stated expiration date of July 10, 2015.

Contingent Payment Obligations

The Wastewater Enterprise has no interest rate swaps, caps or hedges or other contingent payment obligations payable from Revenues. The Wastewater Enterprise may in the future, however, incur contingent payment obligations payable from Revenues. Such contingent payment obligations may be payable on a parity with

the Bonds if the conditions for the issuance of parity debt under the Indenture are met. See "SECURITY FOR THE BONDS—Additional Series of Bonds."

Other Obligations Payable from Revenues

The SFPUC purchased and cleared a parcel at 525 Golden Gate Avenue, one block north of San Francisco City Hall, and has completed the construction of a 13-story new office building on this site to house the administrative offices of the SFPUC's three utility enterprises. The SFPUC moved into the building on July 2012. Total project costs were approximately \$202 million and were financed with land sale proceeds, fund balances, grants and the proceeds of Certificates of Participation issued by the City and executed and delivered in two series on October 7, 2009, in the aggregate principal amount of \$167,670,000, representing interests in a City General Fund lease. Pursuant to a Memorandum of Understanding between the City and the SFPUC, the SFPUC will reimburse the City General Fund for all debt service in connection with this City financing. The SFPUC will allocate such payment obligations internally among its three utility enterprises based on percentage usage. The Wastewater Enterprise is currently responsible for 18.88% of such obligations, payable from Net Revenues on a basis subordinate to the payment of principal of and interest on the Bonds.

Revenue Bond Oversight Committee

On November 5, 2002, the voters of the City adopted Proposition P, an ordinance that established the Public Utilities Revenue Bond Oversight Committee ("RBOC") to report publicly to the Mayor, the SFPUC and the Board of Supervisors regarding the expenditure of revenue bond proceeds on the repair, replacement, upgrading and expansion of the Wastewater Enterprise, the Water Enterprise, and the Power Enterprise (each as defined herein).

The RBOC has seven members appointed as follows: two by the Mayor, two by the Board of Supervisors, one by the City Controller, one by the Bay Area Water Users Association under the auspices of the Bay Area Water Supply and Conservation Agency. The seventh member is the City's Budget Analyst or his or her representative. The work of the RBOC is funded by 1/20th of 1% of the gross bond proceeds of revenue bond issuances or sales to the extent permitted by law.

Under Proposition P, the RBOC sunsets in 2013, unless extended by the Board of Supervisors. The Commission has approved an extension of the RBOC's term, which is anticipated to be considered by, but has not yet been approved by, the Board of Supervisors.

The RBOC may, by majority vote of all its members, prohibit the issuance or sale of authorized SFPUC revenue bonds which have yet to be issued or sold if, after reviewing materials provided by the SFPUC and conducting its own independent audit, and after consultation with the City Attorney, the RBOC determines that revenue bond proceeds have been or are being spent on purposes not authorized by the authorizing bond resolution or otherwise in a manner amounting to an illegal expenditure or illegal waste of such revenue bond proceeds. The SFPUC may appeal such a decision to the Board of Supervisors within thirty days. The Board of Supervisors may overturn such a decision by the RBOC by a two-thirds vote of all members of the Board of Supervisors with evidence from the SFPUC of corrective measures satisfactory to the Board of Supervisors or may remand the decision to the RBOC for further consideration.

For further information regarding the RBOC, see "APPENDIX B—SUMMARIES OF CERTAIN LOCAL INITIATIVES (PROPOSITIONS A, E AND P)."

Debt Service Requirements

Set forth in the following table are debt service requirements for the 2010 Series A Bonds, the 2010 Series B Bonds, and the 2013 Series A Bonds.

DEBT SERVICE REQUIREMENTS ON OUTSTANDING BONDS

Fiscal Year (ending June 30)	2010 Bonds ⁽²⁾	2013 Series A Bonds Principal	2013 Series A Bonds Interest	Total Debt Service ⁽²⁾
2013	\$ 8,392,778			
2014	9,092,192			
2015	9,221,727			
2016	9,221,727			
2017	15,983,352			
2018	15,987,602			
2019	15,987,627			
2020	15,985,527			
2021	15,986,277			
2022	15,986,027			
2023	14,115,508			
2024	14,114,630			
2025	14,115,433			
2026	14,115,793			
2027	14,114,730			
2028	14,117,521			
2029	14,114,582			
2030	14,114,997			
2031	14,117,640			
2032	14,114,837			
2033	14,113,751			
2034	14,113,370			
2035	14,113,131			
2036	14,117,382			
2037	14,117,759			
2038	14,113,597			
2039	14,116,750			
2040	14,116,461			
2041	14,117,067			
2042	14,115,508			
2043				
2044				
2045				
2046				
2047				
2048				
TOTAL (1)				

(1) Totals may not add due to rounding
(2) Net of anticipated Refundable Credits

RISK FACTORS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the 2013 Series A Bonds. This section is provided for convenience and is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the 2013 Series A Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks.

Potential investors in the 2013 Series A Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the 2013 Series A Bonds or adversely affect the ability of the SFPUC to make timely payments of principal of or interest on the 2013 Series A Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future.

General

The ability of the SFPUC to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest on the 2013 Series A Bonds may be adversely affected by actions and events outside of the control of the SFPUC and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay fees and charges. Among other matters, general and local economic conditions and changes in law and government regulations could adversely affect the amount of Revenues realized by the SFPUC or significantly raise the cost of operating the Wastewater Enterprise.

In addition, the realization of future Revenues is subject to, among other things, the capabilities of management of the SFPUC, the ability of the SFPUC to provide service to its customers, the ability of the SFPUC to establish, maintain and collect charges from its customers and the ability of the SFPUC to establish, maintain and collect rates and charges sufficient to pay for Operation and Maintenance Costs of the Wastewater Enterprise, the Bonds and other obligations payable from Revenues. See "FINANCIAL OPERATIONS" and "OBLIGATIONS PAYABLE FROM REVENUES."

Limited Obligation

If the SFPUC defaults on its obligations to make debt service payments on the Bonds, the Trustee has the right under the Indenture to accelerate the total unpaid principal amount of the Bonds. However, in the event of a default and such acceleration, there can be no assurance that the SFPUC, and correspondingly the Trustee, will have sufficient moneys available for payment of the Bonds.

The SFPUC is not obligated to pay the principal of, premium, if any, or interest on the 2013 Series A Bonds except from Net Revenues of the Wastewater Enterprise. The SFPUC has no taxing power. The General Fund of the City is not liable for the payment of the principal of, premium, if any, or interest on the 2013 Series A Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of, premium, if any, or interest on the 2013 Series A Bonds. The 2013 Series A Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or of the SFPUC or any of its income or receipts, except Net Revenues.

Limitations on Reserve Accounts

Because the First Amendment to Indenture will become fully effective upon the issuance of the 2013 Series A Bonds, a Reserve Account need not be established for the 2013 Series A Bonds or any future Series of Bonds. A Reserve Account for each such Series of Bonds will be established only if and to the extent required by, and will be funded in an amount, if any, specified in, such Supplemental Indenture.

Limitations on Rate-Setting

The generation of Revenues sufficient to satisfy the requirements of the Indenture and to pay the principal of and interest on the 2013 Series A Bonds will require the SFPUC to raise wastewater rates payable by its customers. The increase of wastewater rates is subject to various substantive and procedural requirements and limitations. See “CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS.”

Initiative, Referendum and Charter Amendments and Future Legislation

Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. Under the Charter, the voters of the City can restrict or revise the powers of the SFPUC through the approval of a Charter amendment. The SFPUC is unable to predict whether any such initiatives might be submitted to or approved by the voters, the nature of such initiatives, or their potential impact on the SFPUC or the Wastewater Enterprise. See “CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS.”

In addition, the SFPUC is subject to various laws, rules and regulations adopted by the local, State and federal governments and their agencies. The SFPUC is unable to predict the adoption or amendment of any such laws, rules or regulations, or their effect on the operations or financial condition of the SFPUC.

Risks Related to Wastewater Enterprise Facilities and Operation

The operation of the Wastewater Enterprise, and the physical condition of the Wastewater Enterprise facilities, are subject to a number of risk factors that could adversely affect the reliability of the SFPUC’s ability to provide wastewater and stormwater collection and treatment services, or increase the operating expenses of the Wastewater Enterprise. Prolonged damage to the Wastewater Enterprise could interrupt the ability of the SFPUC to realize Revenues sufficient to pay principal of and interest on the Bonds, or require the SFPUC to increase expenditures for repairs significantly enough to adversely impact the SFPUC’s ability to pay the principal of or interest on the Bonds. These factors could include, among others, the following.

Aging Facilities. Certain of the Wastewater Enterprise’s facilities are near the end of their useful life. Long-lived assets result in decreased reliability due to sewer line breakage and unplanned outages and place a greater maintenance burden on Wastewater Enterprise operations. Average useful life of the sewer system’s collecting sewers (i.e., gravity pipes 36 inches or less in diameter) is approximately 110 years, though many conditions, including pipe material and soil conditions, affect actual pipe lifespan. The recent historical rate of replacement for the Wastewater Enterprise’s sewer pipes has been at a 200-year replacement cycle. Aging sewers, if left unaddressed, would result in increasing system failures, sinkholes in the street, reduced system reliability and possibly public health and safety risks. Extensive efforts are being made to increase the replacement rate significantly and to address the aging infrastructure, with the objective of ultimately achieving a 110-year replacement cycle. The CIP and SSIP will increase sewer inspections and condition assessments in order to more effectively prioritize areas of pipeline replacement and to increase the aggregate miles of sewer replaced each year.

Seismic Hazards. The San Francisco Bay Area is in a seismically active region and such long-lived facilities have an increased risk of failure in the event of an earthquake. A major earthquake could significantly affect the ability of the SFPUC to serve its customers. The CIP and SSIP include planned and proposed improvements to such older facilities for purposes of improving reliability.

Other Natural and Man-Made Disasters. Other natural disasters, including without limitation wildfires, flooding and landslides, or man-made disasters, including without limitation natural gas pipeline failures or explosions, could interrupt operation of the Wastewater Enterprise.

Statutory and Regulatory Compliance. The operation of the Wastewater Enterprise is subject to a variety of federal and State statutory and regulatory requirements concerning matters such as water quality, discharge requirements, and biosolids management. SFPUC’s failure to comply with applicable laws and

regulations could result in significant fines and penalties. In addition to claims by private parties, changes in the scope and standards for public agency wastewater systems such as the Wastewater Enterprise may also lead to administrative orders issued by federal or State regulators. Future compliance with increased regulatory requirements or enforcement orders could impose substantial additional operating expenses on the Wastewater Enterprise. See "REGULATORY MATTERS."

Casualty Losses. The SFPUC's risk management program includes both self-insured and insured coverages; however, the program does not provide coverage for every conceivable risk of loss. Damage attributable to seismic events and environmental pollution are excluded. In situations where the SFPUC has not purchased commercial coverage, the Wastewater Enterprise has a 'self-retention' program that it administers and retains budgeted resources internally to provide coverage for loss liabilities. See also "FINANCIAL OPERATIONS – Risk Management and Insurance." The SFPUC is not required to either insure against or self-insure against every potential risk of loss, and there is a risk that damage or destruction of property and equipment comprising the Wastewater Enterprise could occur for which no insurance or self-insurance funds will be available. There can be no assurance that insurance providers will pay claims under any policies promptly, or at all, should a claim be made under such policies in connection with property loss or damage. It is possible that an insurance provider will refuse to pay a claim, especially if it is substantial, and force the SFPUC to sue to collect on or settle the insurance claim. Further, there can be no assurances that any insurance proceeds will be sufficient to rebuild or replace any damaged property.

Safety and Security. Military conflicts and terrorist activities may adversely impact the operations of the Wastewater Enterprise or the finances of the SFPUC. The SFPUC continually plans and prepares for emergency situations and immediately responds to ensure services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the assets of the Wastewater Enterprise or that costs of security measures will not be greater than presently anticipated.

Cost of the SSIP; Timely Completion of the SSIP

When fully developed, the SSIP will be a major capital improvement program for the Wastewater Enterprise. The completion of various SSIP capital improvement projects could be delayed and the overall cost of such projects could be increased for a variety of reasons, including, but not limited to, actions by State or federal regulatory agencies, voter initiatives, legal challenges on environmental or other grounds, prolonged contractor disputes, unanticipated geologic or soil conditions, or the occurrence of an earthquake or other natural disaster. See "SEWER SYSTEM IMPROVEMENT PROGRAM – Potential Changes to SSIP Projects."

The SFPUC intends to finance the development and implementation of SSIP projects through the issuance of Additional Bonds and other indebtedness. If SSIP projects are completed at the cost and on the schedule presently under consideration by the SFPUC, the cost of such projects will require a significant planned increase in the amount of debt payable from Revenues, which will result in significant planned rate increases. Correspondingly, debt service coverage for the Bonds will also be significantly lower than it is currently or has been historically. Were SSIP projects delayed or the cost of SSIP projects to increase without an offsetting reduction in the program scope, the SFPUC would be required either to incur more debt payable from Revenues or to cash fund those costs from Revenues. Either option would likely increase rates payable by SFPUC customers to levels higher than presently anticipated by the SFPUC, and could result in lower debt service coverage ratios than presently anticipated by the SFPUC. See "FINANCING PLAN FOR CAPITAL IMPROVEMENTS." Historical and projected debt service coverage levels through Fiscal Year 2016-17 for the Bonds are described herein. See "HISTORICAL OPERATING RESULTS" and "PROJECTED OPERATING RESULTS."

Over the next several years the SFPUC expects to issue additional revenue bonds to fund development and implementation of SSIP projects. The issuance by the SFPUC of revenue bonds is subject to various approval requirements. See "OBLIGATIONS PAYABLE FROM REVENUES."

The ability of the SFPUC to issue additional revenue bonds to finance the development and implementation of SSIP projects may also be adversely affected by any adverse change in the financial position of the SFPUC or by

general market conditions. There can be no assurance that the SFPUC will be able to issue revenue bonds in an aggregate amount sufficient to finance all of the costs of completing the SSIP projects.

Potential Impacts of Climatic Change and Sea Level Rise

The impacts of climate change that would most affect the Wastewater Enterprise relate to changing rainfall patterns, sea level rise and rising tides. Existing climate change models show varied results in terms of projected rainfall patterns making proactive, long-term planning difficult. If they do occur, significant increases in rainfall (intensity, duration and frequency) could impact the ability of the sewer system to effectively collect and store stormwater and wastewater for treatment. Recent evaluation of historical rainfall data for the last 30 years indicates that the SFPUC's current sewer design criteria are still valid, but ongoing monitoring of climate change models and rainfall patterns must be undertaken in order to validate these design criteria and to determine if design changes become necessary in the future.

Projected levels for sea level rise and rising tides could result in a backflow (or inflow) of San Francisco Bay water into the sewer system at the lowest weir elevation and the Wastewater Enterprise has begun to experience difficulties with low elevation outflows into the San Francisco Bay. In response, the Wastewater Enterprise is planning to install backflow tide valves to prevent inflow at the end of overflow points and at outfall structures.

Low-lying, subsided regions of the City are also at risk for flooding, especially during seasonal high tides coupled with a rain event. This would be exacerbated with predicted sea level rise and possible higher-intensity storms. In response, the SFPUC has developed CIP projects and plans to develop SSIP projects to improve stormwater management.

Limitations on Remedies; Bankruptcy

The remedies available to the owners of the 2013 Series A Bonds upon the occurrence of an event of default under the Indenture in many respects depend upon judicial actions which are themselves often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the 2013 Series A Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against charter cities and counties in the State. The opinions to be delivered by Co-Bond Counsel, concurrently with the issuance of the 2013 Series A Bonds, that the 2013 Series A Bonds constitute valid and binding limited obligations of the SFPUC and the Indenture constitutes a valid and binding obligation of the SFPUC will also be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the 2013 Series A Bonds will be similarly qualified. See "APPENDIX D—PROPOSED FORMS OF OPINIONS OF CO-BOND COUNSEL."

If the SFPUC fails to comply with its covenants under the Indenture or to pay principal of or interest on the 2013 Series A Bonds, there can be no assurance that the available legal remedies will be adequate to protect the interests of the holders of the 2013 Series A Bonds.

Loss of Tax Exemption/Risk of Tax Audit of Municipal Issuers

As discussed under "TAX MATTERS", interest on the 2013 Series A Bonds could fail to be excluded from the gross income of the owners thereof for purposes of federal income taxation retroactive to the date of the issuance of the 2013 Series A Bonds as a result of future acts or omissions of the SFPUC in violation of its covenants to comply with requirements of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2013 Series A Bonds are not subject to redemption or any increase in interest rate and will remain outstanding until maturity.

The Internal Revenue Service has initiated an expanded program for the auditing of tax-exempt securities issues, including both random and target audits. It is possible that the 2013 Series A Bonds will be selected for audit

by the Internal Revenue Service. It is also possible that the market value of the 2013 Series A Bonds might be affected as a result of such an audit of the 2013 Series A Bonds (or by an audit of similar securities).

Secondary Market

There can be no guarantee that there will be a secondary market for the 2013 Series A Bonds or, if a secondary market exists, that the 2013 Series A Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

THE CITY AND COUNTY OF SAN FRANCISCO

The City is the economic and cultural center of the San Francisco Bay Area and northern California. The corporate limits of the City encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay. The City is located at the northern tip of the San Francisco Peninsula, bounded by the Pacific Ocean to the west, the Bay to the east, the entrance to the Bay and the Golden Gate Bridge to the north, and San Mateo County to the south. Silicon Valley is about a 40-minute drive to the south, and the wine country is about an hour's drive to the north. The California Department of Finance Demographic Research Unit estimated the City's population at 812,538 as of January 1, 2012.

The San Francisco Bay Area consists of the nine counties contiguous to the San Francisco Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (collectively, the "Bay Area"). The economy of the Bay Area includes a wide range of industries, supplying local needs as well as the needs of national and international markets. Major business sectors in the Bay Area include retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising, biotechnology and higher education.

THE GENERAL FUND OF THE CITY IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2013 SERIES A BONDS, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2013 SERIES A BONDS. THE 2013 SERIES A BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE CITY.

THE PUBLIC UTILITIES COMMISSION

General

The SFPUC is a department of the City responsible for the maintenance, operation and development of three utility enterprises: the Wastewater Enterprise, the Water Enterprise and the Power Enterprise (which is a component of Hetch Hetchy Water and Power), all as further described below.

The revenues of the Water Enterprise and Hetch Hetchy Water and Power, including the Power Enterprise, are not available for payment of the principal of, premium, if any, or interest on the Bonds. See "SECURITY FOR THE BONDS—Pledge of Revenues."

Organization, Purposes and Powers

Wastewater Enterprise. The Wastewater Enterprise's collection and treatment system consists of a combined sewer collection system conveying wastewater and stormwater flows within the City to three water pollution control plants, also located within the City. Treated effluent flows are then discharged through deep-water outfalls into the San Francisco Bay and Pacific Ocean. The Wastewater Enterprise also operates and maintains a sewer system on Treasure Island/Yerba Buena Island, and an onsite wastewater and stormwater reclamation and treatment facility at the new SFPUC headquarters at 525 Golden Gate Avenue. See "THE WASTEWATER ENTERPRISE."

Water Enterprise. Nearly 2.6 million people rely on water supplied by the SFPUC to meet their daily water needs through its Water Enterprise. The SFPUC serves as the retail water supplier for the City and is responsible for water deliveries to residents and institutions within the City limits, as well as to a number of retail accounts outside of the City limits. In addition, the SFPUC sells water to 27 Wholesale Customer entities in San Mateo, Alameda and Santa Clara Counties under contractual agreements.

The revenues of the Water Enterprise are not "Revenues" under the Indenture and do not secure the payment of the principal of, premium, if any, or interest on the Bonds. See "SECURITY FOR THE BONDS—Pledge of Revenues."

Hetch Hetchy – Water and Power Operations. Hetch Hetchy Water and Power operates dams (including O'Shaughnessy Dam), reservoirs (including Hetch Hetchy Reservoir), hydroelectric generation and transmission facilities and water transmission facilities from Hetch Hetchy Valley to the connection with the Water Enterprise (collectively, the "Hetch Hetchy Project"), which provides water for distribution through the Water Enterprise and hydroelectric power to municipal and public infrastructure, services and facilities of the City (the "Power Enterprise"). The Power Enterprise, which is a component of the Hetch Hetchy Water and Power Project, was created in February 2005 as a separate system within Hetch Hetchy Water and Power. The Power Enterprise focuses on providing adequate and reliable supplies of electric power to meet the municipal requirements of the City, including power to operate municipal streetcars and electric buses, street and traffic lights, municipal buildings and other City facilities, including San Francisco International Airport. Additionally, the Power Enterprise provides power to the Modesto and Turlock Irrigation Districts (located in the central valley of California) and to other commercial customers consistent with prescribed contractual obligations and federal law.

The revenues of Hetch Hetchy Water and Power are not "Revenues" under the Indenture and do not secure the payment of the principal of, premium, if any, or interest on the Bonds. See "SECURITY FOR THE BONDS—Pledge of Revenues."

Commission Members

Under the Charter, the SFPUC is given exclusive charge of the operation and management of all water, wastewater and municipal customers' energy supplies and utilities of the City as well as the real, personal and financial assets under the SFPUC's jurisdiction. The SFPUC is governed by the Commission.

In June 2008, an initiative measure amended the Charter, changing the process for Commission appointments, and establishing qualifications for commissioners, as follows:

- The Commission consists of five members appointed by the Mayor, subject to confirmation by a majority of the Board of Supervisors.
- Seat 1 is designated for a member with experience in environmental policy and an understanding of environmental justice issues.
- Seat 2 is designated for a member with experience in ratepayer or consumer advocacy.
- Seat 3 is designated for a member with experience in project finance.
- Seat 4 is designated for a member with expertise in water systems, power systems, or public utility management.
- Seat 5 is designated for an at-large member.
- In order to stagger the terms of the commissioners, the members appointed to Seats 2 and 4 served for an initial term of two years from August 1, 2008. The remaining three members appointed to Seats 1, 3, and 5 served for an initial term of four years from August 1, 2008. Thereafter, the terms of all members are four years.
- Members may be suspended by the Mayor and may be removed by a three-fourths vote of the Board of Supervisors for official misconduct.

The current members of the Commission and the appointment and expiration dates of their terms are:

<u>Name and Title</u>	<u>Seat</u>	<u>Originally Appointed</u>	<u>Term Expires</u>
Art Torres, President	2	November 2010	August 2014
Vince Courtney, Vice President	5	January 2011	August 2016
Ann Moller Caen	3	March 1997	August 2016
Anson Moran	4	July 2009	August 2014
Francesca Viotor	1	September 2008	August 2016

Management

Management of the SFPUC is led by the General Manager. The General Manager is appointed by the Mayor from candidates submitted by the Commission. Once appointed by the Mayor, the General Manager serves at the pleasure of the Commission; however, the Commission also has Charter authority to employ the General Manager under an individual contract.

Brief biographies of the General Manager and principal members of the senior management of the SFPUC are set forth below.

Harlan L. Kelly, Jr. Harlan L. Kelly, Jr. became General Manager of the SFPUC in September 2012. He previously served as the SFPUC's Assistant General Manager, Infrastructure, and was responsible for implementing over \$10 billion in capital programs for water, sewer and power, including the \$4.6 billion Water System Improvement Program, the \$6.9 billion SSIP, and the \$202 million SFPUC Headquarters and Administration Building at 525 Golden Gate Avenue. His civil engineering career spanning nearly three decades includes his tenure as the City Engineer of San Francisco. At San Francisco Department of Public Works, he held functional and project management positions, including Acting General Manager, and Deputy Director of Engineering, during which he managed complex capital improvement programs that included the rebuild and seismic retrofit of City

Hall, and expansions of convention, hospital, county jail, and public arts facilities. He is a licensed professional engineer, and a graduate of the University of California at Berkeley. He is the recipient of the Municipal Fiscal Advisory Committee's Public Municipal Excellence Award from the San Francisco Planning and Urban Research Association; the Public Works Leader of the Year Award from the American Public Works Association – Northern California Chapter; the Eminent Engineer Award from the National Engineering Honor Society Tau Beta Pi; and the Heroes and Hearts Award from the San Francisco General Hospital Foundation for exceptional community service. He is a member of the Construction Managers Association of America, the American Society of Civil Engineers, the National Society of Black Engineers, and the American Public Works Association. He is co-founder of the youth internship program Project Pull, which has been in continuous operation since 1995, and he has served on the Board of Directors of the Embarcadero YMCA.

Michael Carlin. Michael Carlin is the SFPUC Deputy General Manager. Mr. Carlin has worked for the SFPUC since 1996 and served from 2004 through 2009 as Assistant General Manager for Water. Since 2009 he has served as Deputy General Manager. Mr. Carlin acts as Chief Operating Officer of the SFPUC, reporting directly to the General Manager, and oversees the agency's efforts to integrate Asset Management, Supervisory Control & Data Acquisition, Work Order Writing & Tracking, Security and other systems and functions across the Water, Wastewater and Power Enterprises and throughout the organization. Mr. Carlin also plays a leading role in overseeing new initiatives and the many environmentally innovative "green" projects that cut across enterprises within the SFPUC, including a comprehensive agency approach towards confronting and adapting to the impacts of climate change. He joined the SFPUC as the Water Resources Planning Manager in 1996. Prior to joining the City, he was the Chief of Planning for the San Francisco Bay Regional Water Quality Control Board. Mr. Carlin holds a B.A. in Biology from San Francisco State University and an M.P.A. with an emphasis in Environmental Management from Golden Gate University.

Todd L. Rydstrom. Todd Rydstrom serves as the Assistant General Manager and Chief Financial Officer of the SFPUC, where he manages the Business & Financial Services Bureau comprised of 300 staff in Customer Service, Information Technology, Finance, Human Resources, Fleet Management, and Assurance & Internal Controls. Prior to joining the SFPUC in June 2008, Mr. Rydstrom served as the Director of Budget, Analysis & Accounting Reconciliation in the Controller's Office, where he managed the City's then \$6.1 billion Budget, Revenue, Property Tax, Accounting Reconciliation and Office of Economic Analysis functions. In 2006, Mr. Rydstrom was awarded the Public Managerial Excellence Award for outstanding public service in the City. Prior to joining the City Controller's Office in November 2001, Mr. Rydstrom served as the City of Oakland's Acting Budget Director and Principal Financial Analyst. Mr. Rydstrom has over twenty years of experience in investment and government finance. His work experience includes investment operations and business development with The Principal Financial Group, one of the largest Fortune 500 pension fund companies in the U.S., as well as public sector finance and budgeting with Bay Area governments including the City of Emeryville, the City of Oakland, and the City and County of San Francisco. In 2009, Mr. Rydstrom was appointed to the San Francisco Treasury Oversight Committee, which oversees the City and County of San Francisco Treasury holdings and investment policy. Mr. Rydstrom received his M.P.P. from the Goldman School of Public Policy at the University of California, Berkeley where he was awarded the Smolensky Prize for Outstanding Advanced Policy Analysis for his work titled Municipal & Redevelopment Strategic Fiscal Planning. He earned his undergraduate degree in Investment Finance from Iowa State University.

Tommy T. Moala. Tommy T. Moala is the Assistant General Manager of the Wastewater Enterprise which protects public health and safety through the collective treatment of raw sewage runoff. San Francisco's unique and award-winning combined sewer system treats on average more than 79 million gallons per day of sewage and stormwater during dry weather periods. Mr. Moala oversees operations, equipment and facilities maintenance, structural design and governmental compliance for the City's three wastewater treatment plants, 993-mile long sewer system and network of wastewater pumping stations. A former Naval Propulsion Engineer, Mr. Moala has more than 15 years experience in wastewater in-plant management. He began his 20-year career with the SFPUC as a Stationary Engineer, moving up steadily through the ranks to Senior Engineer, Chief Stationary Engineer and Operations Manager, and setting the Enterprise's standard for zero-violations along the way. A team recipient of the National Protection Agency O & M Award and the National Association of Clean Water Agency Award, Mr. Moala has also received then-Mayor Gavin Newsom's Public Managerial Excellence Award and the SFPUC O'Shaughnessy Award for organizing the SFPUC Emergency Response Team dispatched to Hurricane Katrina. He

is a member of the Water Environment Federation, the California Water Environment Federation, the National Association of Clean Water Agencies and the American Water Works Association.

Jackson Wong. Jackson Wong became the Acting Assistant General Manager, Infrastructure, on November 5, 2012. He has had a 38-year career serving the City, in leadership capacities such as Manager of the Bureau of Engineering, Department of Public Works; Deputy Airport Director, Facilities, Operations and Maintenance; and Chief Operating Officer of the Airport, from 1998 to his retirement in January 2012.

Steven R. Ritchie. Steven Ritchie is the Assistant General Manager of the Water Enterprise, responsible for overseeing water system operations and planning from Hetch Hetchy through the Regional Water System to the City Distribution Division. He is also responsible for the management of the SFPUC's lands and natural resources. Mr. Ritchie was the Manager of Planning at the SFPUC from 1995 to 1998. Prior to his current assignment, he managed the South Bay Salt Pond Restoration Project, a multi-agency effort to restore 15,100 acres of valuable habitat in South San Francisco Bay, while providing for flood risk management and public access. In addition, Mr. Ritchie has worked at management positions at the San Francisco Bay Regional Water Quality Control Board (1987-1995), the CalFed Bay-Delta Program (1998-2000), and URS consultants (2000-2004). He has a B.S. and M.S. in Civil Engineering from Stanford University.

Juliet Ellis. Juliet Ellis, Assistant General Manager for External Affairs, is the primary spokesperson for the SFPUC and is responsible for the SFPUC's communications, outreach, education, environmental and legislative matters. Ms. Ellis served as a Commissioner on the SFPUC from December 2008 until October 2010, focusing on the Commission's consumer and rate payer advocacy efforts. Ms. Ellis also served as Executive Director of Urban Habitat (UH), a regional social and environmental justice organization, where Ms. Ellis worked in partnership with low-income communities and communities of color to advance social, economic, and environmental justice in the Bay Area region. Through advocacy and the promotion of equitable policies, leadership development, research, and participation in strategic coalitions, Urban Habitat helps to build a democratic society in which all communities have the power to influence and benefit from the decisions impacting their neighborhoods. Prior to becoming Executive Director for UH, Ms. Ellis was the Associate Program Officer for Neighborhood and Community Development at The San Francisco Foundation. She was responsible for all aspects of grantmaking in the areas of workforce development, housing, homelessness, economic development, community development, and neighborhood planning. Ms. Ellis has served on numerous regional and local boards and committees, including the Oakland Homeless and Low-Income Taskforce, the San Francisco Asset Building Initiative, the Alameda Continuum of Care Council, the Alameda County Public Health Disparities Taskforce, the Community Capital Investment Initiative, Girls After School Academy, the Ella Baker Center for Human Rights, and the San Francisco School of Volunteers. She currently serves on the Board and Steering Committee of the Green for All, the David Brower Center, and the Partnership for Working Families. Ms. Ellis has an M.S. in Business Administration from San Francisco State University and a B.S. in Marketing from Ball State University.

Barbara Hale. Barbara Hale is Assistant General Manager of the Power Enterprise. Ms. Hale oversees the Power Enterprise, including Power Retail Services, Utilities Services, Regulatory Affairs, Infrastructure Development and Power Purchasing and Scheduling. She is responsible for the development of a strategic business plan for the organization, setting out priorities, objectives, schedules and policy issues. Ms. Hale oversees all power-related inter-governmental relations, works directly with the Commission on policy and capital matters, and provides direction and leadership to a multi-discipline staff at remote and downtown locations. Ms. Hale provides strategic advice on energy policy matters to the General Manager and manages a staff responsible for developing specific energy efficiency projects and renewable and other advanced sources of electrical generation. Ms. Hale also acts as liaison between the SFPUC and State and federal agencies responsible for energy policy, such as the California Public Utilities Commission, the California Energy Commission, the California Power Authority, the Federal Energy Regulatory Commission, and the United States Department of Energy. Ms. Hale graduated cum laude from San Francisco State University with a B.A. in Economics, receiving special recognition for high achievement with the Department Honors Award. Ms. Hale has pursued extensive graduate coursework in Applied Economics.

Employee Relations

The SFPUC's operating budget for Fiscal Year 2012-13 includes annual funding for 1,620 full-time positions. Authorization exists for 2,225 full time positions for Fiscal Year 2012-13, which includes operations and capital budget positions in Infrastructure along with an assumption of vacant positions for salary savings.

The Charter governs the SFPUC's employment policies and authorizes the San Francisco Civil Service Commission to establish rules and procedures to implement those policies. Since 1976, the Charter has prohibited strikes by City employees. Under the Charter, employee organizations representing City workers are permitted to negotiate wages, hours, benefits and other conditions of employment through collective bargaining. The decision to elect collective bargaining is irrevocable. All SFPUC employees now bargain collectively.

There are presently 14 labor unions representing SFPUC employees. Most SFPUC employees collectively bargain every three years, with certain unions agreeing to a two-year memorandum of understanding with the City ending June 30, 2014. Conflicts between the employees and the City in collective bargaining are resolved by an arbitration board whose decision is final. There have been no strikes by City employees since the adoption of the strike prohibition in 1976.

THE WASTEWATER ENTERPRISE

Background and History

Initial development of the City's sewage system dates back to the second half of the nineteenth century. In accordance with common engineering practice of that period, the sewer system collected both sanitary wastes and stormwater runoff and transported them to a large number of discharge points on the shoreline of San Francisco Bay.

Today the Wastewater Enterprise provides sanitary waste and stormwater collection, treatment and disposal services through:

- (i) a combined sanitary waste and stormwater system;
- (ii) two all-weather wastewater treatment plants and one wet-weather facility; and
- (iii) effluent outfalls to the San Francisco Bay and Pacific Ocean.

Of an estimated total combined wastewater flow of 40 billion gallons per year, approximately 34 billion gallons per year receive full secondary treatment, 4.5 billion gallons per year receive primary or decant treatment and are discharged to deep-water outfalls, and 1.5 billion gallons per year receive primary or decant treatment and are discharged through nearshore outfalls.

New redevelopment projects such as Mission Bay, Treasure Island and the Hunter's Point Naval Shipyard are implementing green infrastructure or low-impact design elements that allow for the treatment of stormwater by natural techniques such as vegetated swales, infiltration and other approved methods prior to discharge into the receiving waters.

The Wastewater Enterprise was operated by the City's Department of Public Works until July 1996, when the Mayor transferred its operation to the SFPUC.

Service Area

The service area of the Wastewater Enterprise encompasses approximately 29,773 acres and includes residents of the City and of northern San Mateo County through arrangements with three municipal sewer service providers: North San Mateo County Sanitation District, the Bayshore Sanitary District and the City of Brisbane (collectively, the "Municipal Customers").

The Wastewater Enterprise serves residential, commercial and industrial users, making up a daytime "population equivalent" of approximately 990,449 (which includes the estimated additional daily contribution by the City's employment base to wastewater flow).

See "FINANCIAL OPERATIONS – Customer Base."

Combined Sanitary Waste and Stormwater System

History and Background Regarding Combined System. On average, over three quarters of the City's annual rainfall occurs from November to March. Depending on the duration, intensity and storm pattern, runoff of combined flows of sanitary wastes and stormwater can exceed the collection and treatment system hydraulic capacity.

In order to address the combined sewer overflow problem during wet-weather periods, the City built a series of large underground transport/storage structures (box sewers and tunnels) around the perimeter of the City to intercept, temporarily store, and transport the mixture of storm runoff and wastewater to new or upgraded treatment facilities. The primary purpose of this system of transport/storage structures was to reduce the incidence and volume of discharges in wet weather. Prior to their construction, untreated combined sewer overflows occurred

throughout the City whenever rainfall occurred at a rate of 0.02 inches per hour. By providing both storage volume and detention time, the transport/storage structures allow for treatment of the stored combined wastewater and stormwater flows at the treatment plants after storms. In addition, the retention of the combined flows in the transport/storage structures allows solids to settle, and weir and baffle structures retain floatable materials, providing the equivalent of wet-weather "primary treatment" (i.e., decant treatment).

With these improvements, the facilities of the Wastewater Enterprise are designed to minimize the number of wet-weather discharge events. In all cases of discharge, the combined sewage receives the level of treatment prescribed by federal and state law.

Sewer Lines. The Wastewater Enterprise's collection and transport system currently has a storage capacity of approximately 197 million gallons, and includes approximately 993 miles of sewer lines of which 781 miles is made up of collecting sewers of 36 inches or less in diameter.

The distribution of the large network of the Wastewater Enterprise's sewer pipes by pipe length and age is shown in Table 1 below.

TABLE 1
SEWER SYSTEM BY PIPE LENGTH IN MILES AND AGE

Year Built	Gravity Pipe <36" Diameter	All Other Pipe ⁽¹⁾	Total Pipe	Percent of Total
1860 - 1900	85	45	130	13%
1901 - 1940	381	66	447	45
1941 - 1980	181	54	235	24
1981 - present	114	47	161	16
Unknown	20	0	20	2
Total	781	212	993	100%

⁽¹⁾ Includes gravity pipe greater than 36" in diameter, tunnels, force mains, transport/storage, effluent outfall and overflow discharge.

Source: SFPUC, Wastewater Enterprise

Transport/Storage Structures. In addition to sewer lines, the Wastewater Enterprise maintains underground transport/storage structures to capture combined sewage and stormwater. These structures were built between 1979 and 1996. The largest of these structures, the Westside Transport structure, is approximately 2 miles long, 45 feet deep and 25 feet wide. The transport/storage structures were designed with sufficient storage to reduce combined sewer discharges and protect beneficial uses of receiving waters for the San Francisco Bay and the Pacific Ocean.

The performance of the transport/storage structures and treatment facilities complies with the requirements of the National Combined Sewer Overflow Control Policy, as implemented by discharge permits issued on behalf of the United States Environmental Protection Agency (the "EPA") by the San Francisco Bay Regional Water Quality Control Board (the "Regional Water Board"). See "REGULATORY MATTERS."

Pump Stations. The Wastewater Enterprise has 27 pump stations, which include six major all-weather pump stations, two major wet-weather pump stations, 18 minor pump stations, and one major effluent pump station for bayside effluent discharge.

Outfalls and Nearshore Discharge Structures. The Wastewater Enterprise currently has three offshore outfalls that discharge to deep waters — Southeast Bay Outfall, Northpoint Outfalls, and Southwest Ocean Outfall. In addition to these outfalls, 36 combined sewer discharge structures, or near-shore outfalls, serve as relief points of the combined sewer system. These structures operate infrequently, and only during large storm events. Discharges through these permitted sites receive primary wet weather treatment.

Urban Watershed Management. The SFPUC is working to improve the system's stormwater drainage performance and its wastewater treatment efficiency. The SFPUC Stormwater Program complies with regulatory requirements and is designed to maximize sewer system performance, engage community members in its work, improve watershed function, enhance the environmental quality of the City's neighborhoods, and protect the water quality of the San Francisco Bay and Pacific Ocean. To achieve these goals, the SFPUC has adopted regulations that require new and redevelopment projects in San Francisco to install and operate green technologies for managing stormwater runoff.

Useful Life. The average useful life of typical collecting sewers (i.e., gravity pipes 36 inches or less in diameter) is approximately 110 years. The average useful life for other sewer pipes/infrastructure (such as tunnels, force mains, transport/storage boxes) is 50 years, while large outfalls have a typical useful life ranging from 50 to 100 years. However, many conditions, including pipe material and soil conditions, affect actual pipe lifespan. The approximate ages of the various components of the Wastewater Enterprise's sewer lines are set forth in Table I above.

The recent historical rate of replacement for the Wastewater Enterprise's sewer pipes (less than 36-inch diameter) has been at a 200-year replacement cycle. Aging sewers, if left unaddressed, would result in increased leakage, sinkholes, sewer line failures, reduced system reliability and possibly public health and safety risks. The SFPUC has developed its Renewal & Replacement program, CIP and SSIP in part to address the aging infrastructure, with the objective of ultimately returning to a 110-year replacement cycle, and upgrade other critical infrastructure. Condition assessment of the other sewer pipes and infrastructure will be conducted and any observed deficiencies will be addressed and recommended improvements implemented. See "CAPITAL IMPROVEMENT PROGRAM" and "SEWER SYSTEM IMPROVEMENT PROGRAM."

Wastewater Treatment

Wastewater Treatment Plants. The Wastewater Enterprise operates three major wastewater treatment facilities (in addition to the transport/storage structures that provide decant treatment):

- Southeast Water Pollution Control Plant (the "Southeast Plant"), which treats dry and wet weather flows collected from the Bayside Watershed (18,597 acres, or 63% of the total city service area) as well as the Municipal Customers;
- North Point Wet-Weather Facility (the "North Point Facility"), which treats additional wet-weather flows collected from the Bayside Watershed; and
- Oceanside Water Pollution Control Plant (the "Oceanside Plant"), which treats dry and wet weather flows collected from the Westside Watershed (11,176 acres, or 37% of the total city service area) and minor flows from northern San Mateo County.

The capacities of each treatment plant are shown in the table below.

TABLE 2
PLANT CAPACITY FLOW (IN MGD¹) PER WEATHER SEASON

Plant	Dry Weather	% of Dry Weather	Peak Wet Weather	% of Peak Wet Weather
Southeast	85	80%	250	54%
Oceanside	21	20	65	14
North Point	N/A	N/A	150	32
Total	106	100%	465	100%

Source: SFPUC, Wastewater Enterprise

Southeast Water Pollution Control Plant. The Southeast Plant, located at 750 Phelps Street, occupies 39.9 acres bounded by Evans, Phelps, Quint, and Rankin streets, with Jerrold Avenue separating the north and south sides of the facility. It is a secondary wastewater treatment plant that provides the wastewater treatment needs for nearly two-thirds of the City's residents in the Bayside Watershed, consisting of the Marina, Financial District, South of Market Area, Mission, Hunters Point, and Visitacion Valley neighborhoods, plus 1.65 mgd of flow from Municipal Customers. Land uses in the Bayside Watershed are a mixture of residential, commercial and light industrial.

The Southeast Plant provides primary and secondary treatment using the high-purity-oxygen activated sludge process prior to effluent disinfection. Sludge treatment consists of gravity-belt thickening, anaerobic digestion, chemical conditioning and dewatering. Plant effluent is discharged during dry weather into the San Francisco Bay through an outfall in the vicinity of Pier 80. During wet weather, effluent is discharged through the outfall near Pier 80 and at an additional outfall at the shoreline of Islais Creek (Quint Street Outfall).

The Southeast Plant was constructed in 1952 as a primary treatment facility. In order to meet the mandates of the federal Clean Water Act, the Southeast Plant was expanded in the early 1980s to provide secondary treatment of all Bayside Watershed dry-weather flows with a daily average design capacity of approximately 85 mgd and peak-hour design flow of 142 mgd. In 1996, the plant's wet weather capacity was increased to 250 mgd, with 150 mgd receiving primary treatment prior to disinfection and discharge. During wet weather, the Southeast Plant engages additional wet-weather facilities to provide primary treatment to an additional 100 mgd of combined wastewater flow. The Southeast Plant complies with all dry- and wet-weather discharge requirements.

Oceanside Water Pollution Control Plant. The Oceanside Plant, located at 3500 Great Highway, occupies 12 acres adjacent to Lake Merced and the San Francisco Zoo. Constructed in 1993, the Oceanside Plant serves San Francisco's Westside Watershed and San Mateo County flows that drain to this basin. Land uses in the Westside Watershed are primarily residential.

The Oceanside Plant's wet-weather capacity is up to 65 mgd of primary and secondary treatment using the high-purity-oxygen activated sludge process. Sludge treatment consists of gravity belt thickening, anaerobic digestion, chemical conditioning and dewatering. The Oceanside Plant began operations in September 1993 and complies with all dry- and wet-weather discharge requirements. Plant effluent is discharged approximately 4 miles offshore into the Pacific Ocean through deep ocean outfalls.

North Point Wet-Weather Facility. The North Point Facility occupies 6.5 acres along the northern waterfront adjacent to The Embarcadero. The North Point Facility serves the northeast portion of the Bayside Watershed. Land uses in the North Point Facility's service area are predominantly commercial and residential.

¹ Million gallons per day.

The North Point Facility is a wet-weather facility consisting of screening, grit removal, sedimentation, disinfection and de-chlorination. Effluent from the North Point Facility is discharged into the San Francisco Bay through an outfall system at Piers 33 and 35. At the conclusion of each wet-weather event, grit and solids are flushed out of the sedimentation tanks and directed to the Channel Pump Station, which pumps them to the Southeast Plant for treatment.

The North Point Facility was originally constructed in 1951 as an all-weather primary treatment facility. In response to the mandates of the federal Clean Water Act, the North Point Facility was converted into a strictly wet-weather treatment plant in 1983, providing up to 150 mgd of primary treatment.

Other Facilities. The Wastewater Enterprise also operates wastewater facilities on Treasure Island and at the SFPUC's new headquarters at 525 Golden Gate Avenue.

Treasure Island Wastewater Facility. Treasure Island and Yerba Buena Island, located in San Francisco Bay between San Francisco and Oakland, are served by a wastewater system that currently relies on pumping to convey sewage to a secondary facility for treatment and discharge, with a capacity of 2 mgd. This wastewater facility is currently owned by the United States Navy, but operated and maintained by the Wastewater Enterprise pursuant to a cooperative agreement with the Navy. The wastewater collection system consists of 10 miles of sewers and 29 wastewater pump stations. In addition, a stormwater collection system includes 6 stormwater pump stations and a number of shallow water outfalls.

"Living Machine" at 525 Golden Gate Avenue. The recently completed headquarters of the SFPUC, at 525 Golden Gate Avenue, is LEED Platinum Certified and considered a "green" sustainable building. The "Living Machine" is a 5,000 gallon facility providing treatment of the building's wastewater. The treated tertiary effluent from this facility is reclaimed and reused to meet the water demands for the building's low-flow toilets.

Biosolids Management. The Southeast Plant and the Oceanside Plant produce approximately 75,000 wet tons per year of sewage sludge or biosolids, which are highly treated and anaerobically digested.

During wet-weather months, biosolids are trucked to the Hay Road Landfill outside of Vacaville in Solano County, California, where it is stored during the winter. During dry weather, it is dried to 50% or less water content and mixed with compost and solids to create an "engineered soil" that is used as the daily soil cap on the active face of the landfill and other approved beneficial uses as a soil substitute.

During dry-weather months, biosolids are trucked to various ranches in Solano and Sonoma Counties and applied directly as a soil amendment for farming or to enhance pasture productivity pursuant to federal and local county regulations. A small portion (about 6%) of the Southeast Plant biosolids are trucked to a Merced County composting site and are processed into a Class A biosolids compost.

The Wastewater Enterprise coordinates the application, testing and sampling procedures required by the applicable regulatory agencies. Because reuse in Solano County may not offer a long-term solution (due to more stringent regulations and encroaching suburban development), the SFPUC is exploring other means of reusing biosolids and upgrading the level of treatment.

See "SEWER SYSTEM IMPROVEMENT PROGRAM – SSIP Projects and Scope" and "REGULATORY MATTERS" below.

System Capacity and Projected Needs

Current Capacity. The facilities of the Wastewater Enterprise collected, treated and discharged an average of approximately 68 mgd of sanitary wastewater during dry-weather periods between 2008 and 2012. When the three treatment facilities and elements of the collection system are fully operational, the Wastewater Enterprise can provide up to 465 mgd of combined wastewater and stormwater treatment. The transport/storage structures around the perimeter of the City allow for an additional 110 million gallons of decant treatment, for a total infrastructure capacity of 575 mgd during wet weather (193 mgd of secondary treatment, 272 mgd of primary treatment, and 110 mgd of decant treatment).

Deep-water outfalls can discharge 435 mgd. Another 140 mgd of secondary treated effluent can be discharged through a shallow water outfall to Islais Creek during peak wet-weather events.

Projected Demand. Results of the SFPUC's water demand forecasts show that the SFPUC's in-City retail water demand will only slightly increase, even though household population in the City is expected to increase by nearly 12% for the same period (from 2010 through 2035). This results in relatively flat growth and is attributable to a decrease in average per capita water usage due to conservation, including the significant use of low-flow plumbing fixtures. For wastewater production, this translates to relatively flat growth of influent flow to the treatment plants, but more solids loading.

The Wastewater Enterprise's existing treatment plants have sufficient excess capacity to address the currently anticipated increase in demand, so no significant expansion is expected to be required in order to meet the needs of the City based upon these population growth projections alone.

However, the SFPUC may, at its sole discretion, provide a new treatment plant with additional capacity and associated infrastructure to serve the full build-out of the proposed conversion of the former Treasure Island Naval Station to residential and commercial uses.

Because the SFPUC maintains a combined sewer system, there may be other factors in the future, including environmental changes and regulatory developments, that could require expanded collection or treatment capacity.

Emergency Operations

The Wastewater Enterprise maintains up-to-date contingency plans in the event of an unplanned outage or failure of a treatment facility, process unit, pump station, sewer pipeline or other infrastructure element. Overall, the wastewater collection and treatment system is designed with redundancy and some flexibility in order to facilitate responses to emergency events. The collection system is equipped with pump stations and isolation valves so that flows can be redirected as needed in the event of a failure.

If an unplanned shutdown of critical treatment facilities were to occur, the transport/storage structures provide up to 167 million gallons of storage (providing up to several days of storage, depending on the inflow). The wastewater treatment facilities and major pump stations are also built with redundancy, that is, to operate with one process unit or key piece of equipment out of service. Critical infrastructure elements prone to failure or for which full redundancy is not available have been identified as projects in the CIP and SSIP to increase system flexibility and the ability to respond to unplanned events.

CAPITAL IMPROVEMENT PROGRAM

Program Summary

As a precursor to the SSIP, the CIP was proposed in 2005 to address the more immediate needs of the Wastewater Enterprise prior to the implementation of the SSIP. The projects in the CIP address system reliability issues, critical needs of aging infrastructure and upgrades to treatment facilities and pump stations by funding projects to repair corrosion damage, improve ventilation and upgrade major electrical and mechanical systems. The CIP projects also address capacity improvements for sewer mains to reduce the frequency and severity of flooding during heavy rains. Finally, the CIP projects address the reduction of odors by funding projects to cover, vent and treat odors at the Southeast Plant.

CIP funding was approved by the Board of Supervisors in September 2006 and the issuance of commercial paper notes began in November 2006. The Wastewater Enterprise subsequently identified additional projects for inclusion in the CIP.

CIP Objectives and Scope

The CIP focuses on the immediate needs of the Wastewater Enterprise in the following areas:

- maximizing the collection and conveyance of sewage and stormwater;
- protecting public health and safety;
- maximizing control of odor emissions;
- increasing reliability of critical wastewater electrical and mechanical equipment;
- prolonging the life of concrete surfaces within wastewater facilities;
- improving the operation of solids and biogas handling at the treatment plants;
- reducing future operation and maintenance costs of treatment facilities and pump stations; and
- enhancing security of critical facilities.

The scope of the CIP is divided into two subprograms: (1) Sewer Improvement Projects to enhance the ability of the system to collect and convey wastewater; and (2) Aging Infrastructure and Odor Control Projects to replace old facilities and to control odors.

Sewer Improvement Projects Overview. These projects will replace and increase the sizes of sewer pipelines throughout the system, enhancing reliability and increasing sewer capacity, allowing more flow to be captured and transported to the wastewater treatment plants.

Aging Infrastructure and Odor Control Projects Overview. These projects will enhance odor controls, ensure reliability of critical equipment and improve structural integrity at treatment facilities and pumping stations. Projects at the Southeast Plant and the collection system are mostly related to odor control. Projects at the Oceanside Plant are for solids handling improvements, disposal requirements and corrosion control. Pump station projects are related to improving reliability and efficiency.

CIP Schedule and Budget

The current program budget for the CIP is shown in the table below:

**TABLE 3
CIP PROJECT BUDGETS AS OF SEPTEMBER 29, 2012
(\$ Millions)**

<u>Projects</u>	<u>Budget</u>
CIP - Aging Infrastructure and Odor Control Sub-program:	\$233
CIP - Sewer Improvement Sub-program:	179
Total	<u>\$412</u>

Source: SFPUC, Wastewater Enterprise

CIP Status and Performance

Individual CIP projects are at different phases, from planning to construction. The table below outlines the status of the CIP projects reflected in the above-referenced budgets.

**TABLE 4
STATUS OF CIP PROJECTS THROUGH SEPTEMBER 29, 2012**

<u>Active Phase</u>	<u>Number of Projects</u>
Planning	5
Design/Environmental Review	2
Construction/Completed	<u>54</u>
Total	61

Source: SFPUC, Wastewater Enterprise

SEWER SYSTEM IMPROVEMENT PROGRAM

SSIP Program Development and Objectives

The Wastewater Enterprise is embarking on a comprehensive \$6.9 billion Sewer System Improvement Program (SSIP) to be implemented over approximately the next 20 years. The SSIP is a series of major capital improvement projects that are intended to bring the City's wastewater and stormwater system into a state of good repair, and meet Commission-endorsed levels of service goals.

The SSIP capital improvement projects will address specific challenges and deficiencies facing the Wastewater Enterprise, maximize system reliability and flexibility, improve operational and seismic reliability, and ensure present and future regulatory compliance. The SSIP project development will also consider environmental benefits, sustainability, and community benefits in addressing the long-term wastewater needs.

In furtherance of the SSIP, SFPUC staff developed Goals and Levels of Service and identified project priorities.

On August 28, 2012, the Commission endorsed these SSIP Goals and levels of service, validated the scope and phased implementation approach for the overall \$6.9 billion SSIP Program, and authorized SFPUC staff to move forward with planning and development on a proposed Phase 1 set of SSIP projects representing \$2.7 billion.

The goals for the SSIP, as endorsed by the Commission in August 2012, include the following:

1. provide a compliant, reliable, resilient and flexible system that can respond to catastrophic events;
2. integrate grey and green infrastructure to manage stormwater and minimize flooding;
3. provide benefits to impacted communities;
4. modify the system to adapt to climate change;
5. achieve economic and environmental sustainability; and
6. maintain ratepayer affordability.

SSIP Projects and Scope

SSIP project development is in its early stages. Through preliminary planning and needs assessment, categories of projects have been identified and budgeted for implementation over three phases. The overall scope of SSIP projects is divided into two major subprograms: treatment plant projects and collection system projects.

Treatment Plant Projects. Treatment plant projects are proposed at the Southeast Plant, Oceanside Plant and North Point Facility that would address aging infrastructure and outdated technologies; increase seismic and operational reliability; and reduce odors, noise, visual and other public impacts. These projects would also address long-term regulatory compliance by ensuring continued performance that meets current and future regulatory mandates. The major treatment project is the Biosolids Digester Project at the Southeast Plant, which will replace the aged existing digester and solids handling treatment processes with a more technologically advanced facility, intended to ensure long-term reliable and sustainable treatment, disposal and reuse of biosolids.

Collection System Projects. Proposed collection system projects would increase the ability of the sewer system to collect and convey wastewater and stormwater and would address aging infrastructure including large diameter sewers, pump stations, transport/storage boxes, and combined sewer discharge structures. The major collection system project is the Central Bayside System Improvement Project. This project would provide a full redundant back-up to the existing Channel Force Main, which conveys 60% of the flow to the Southeast Plant, and improve stormwater conveyance in the local drainage basins. Other projects to improve stormwater management

and reduce flooding during wet weather will be identified through the SFPUC's integrated urban watershed assessment process, which is already underway. The process involves characterizing each of the eight watersheds in the City through extensive hydraulic modeling, condition assessment and stakeholder input. A suite of projects to meet watershed objectives, including green infrastructure alternatives, will then be proposed based on the characterization.

Phase 1 Projects. As previously stated, on August 28, 2012, the Commission endorsed the goals, associated levels of service, the scope of the SSIP, and a phased implementation approach. The Commission also authorized SFPUC to move forward with more detailed planning for the Phase 1 projects, totaling \$2.7 billion. The preliminary budget for these proposed Phase 1 projects is below.

Proposed Phase 1 Projects	Estimated Budget (\$ Millions)
PLANNING THROUGH CONSTRUCTION	
Southeast Plant Biosolids Digester	\$1,596
Southeast Plant Grit and Odor Control Upgrades	272
North Shore and Westside Pump Station Upgrades	256
CSD Structure Refurbishments	84
Green Infrastructure – Early Implementation Projects	57
Collection System Pump Stations/ Odor Control	110
PLANNING THROUGH PRELIMINARY DESIGN	
Treatment Plant Process Upgrades	58
Treatment Plant Seismic and Structural Upgrades	51
Central Bayside System Improvement Project	70
City Green Infrastructure Projects	6
Collection System Operational Improvements	27
PROGRAM MANAGEMENT	125
TOTAL	\$2,712

SSIP Schedule and Budget

Of the three phases of the SSIP, the Commission has authorized SFPUC staff to proceed with planning and developing Phase 1 projects, representing \$2.7 billion. To date, the Board of Supervisors has appropriated \$429.3 million for Phase 2 projects. Subject to Commission and Board of Supervisors consideration of project environmental analysis and actions to approve project budgets, construction of Phase 1 projects and implementation of projects in Phases 2 and 3 would occur over varying time periods over the next 20 years. The currently proposed implementation schedule for the SSIP is set forth below.

TABLE 5
SEWER SYSTEM IMPROVEMENT PROGRAM
PHASED IMPLEMENTATION SCHEDULE
(2012 PROGRAM VALIDATION SERVICE AREA SPACE)
(\$ Millions)

Program	Phase 1	Phase 2 [1]	Phase 3 [1]	Total
Treatment Plants	\$2,333	\$1,215	\$407	\$3,855
Collection System	\$354	\$1,928	\$476	\$2,758

Program Management (City and Consultant staff)	\$125	\$152	\$43	\$320
Total	\$2,712	\$3,295	\$926	\$6,933

[1] Preliminary and subject to Commission approval.
Source: SFPUC, Wastewater Enterprise

Management Approach

The development and implementation of CIP and SSIP projects are led by SFPUC staff, with oversight and ultimate responsibility by the General Manager, Assistant General Manager of the Wastewater Enterprise, and Assistant General Manager of the Infrastructure Division.

Consultants are employed to support a number of programmatic functions, such as strategic program development, risk assessment and mitigation, program controls, various independent technical reviews, construction planning and management, and labor and community relations. The services of consultants are also used on an as-needed or project-specific basis to assist SFPUC staff with functions such as engineering design, environmental review, right-of-way engineering and surveying, and construction management.

Potential Changes to SSIP Projects

Because the SSIP projects are currently in the preliminary and planning stages, uncertainties exist that may result in changes to the scope and phasing of the projects, changes to the project budgets, and delays and cost increases. These factors include, without limitation, the following:

- market conditions and the bidding environment for construction costs, which could worsen over the 20-year life of the program;
- market conditions for financing the various phases of the SSIP, which could worsen over the 20-year life of the program;
- changes in the legal and regulatory requirements affecting the Wastewater Enterprise and the SSIP (see "REGULATORY MATTERS");
- the discovery of unforeseen underground/geotechnical conditions, particularly for projects with tunneling activities and extensive earthwork;
- the discovery of unforeseen site conditions associated with existing infrastructure; many of the SSIP projects involve upgrades to existing structures and facilities that were built a very long time ago and accurate as-built records are not always available;
- the discovery of unforeseen site conditions associated with utility conflicts;
- unexpected environmental discoveries that may impact construction activities; those may include the discovery of protected species, archaeological artifacts, contaminated soil or hazardous material at project sites;
- contractor claims, contractor non-performance, failure of contractors to execute within contract price, or failure of contractors to meet schedule terms;
- errors or omissions in contract documents (drawings and specifications) that may result in change orders;
- equipment and material vendors' lack of compliance with quality and schedule requirements;

- inclement weather affecting contractor performance and timeliness of completion;
- labor issues involving work stoppages or slowdowns; or
- the occurrence of a major seismic event.

See "RISK FACTORS."

FINANCING PLAN FOR WASTEWATER ENTERPRISE CAPITAL IMPROVEMENTS

Ten-Year Capital Plan. The Commission adopted a 10-year capital plan for Fiscal Years 2012-13 to 2021-22 on February 14, 2012, which includes approximately \$5.1 billion in capital projects, \$4.6 billion of which is projected to be funded from proceeds of revenue bonds. Of the total capital budget, \$4 billion is for SSIP projects, \$.09 billion is for renewal and replacement projects, and the balance is for CIP and Treasure Island projects.

CIP and SSIP. The CIP and SSIP financing plan utilizes the Wastewater Enterprise's commercial paper program to fund projects on an interim basis through design and into the early construction phase. This approach allows the SFPUC to take advantage of lower interest rates on short-term paper and to size and closely time long-term financings with projected need. Commercial paper is then refunded and consolidated into larger, long-term fixed-rate bond issues when the outstanding amount of commercial paper approaches authorized limits.

As of November 1, 2012, the SFPUC had \$25 million aggregate principal amount of tax-exempt commercial paper notes outstanding, out of a total authorized amount of \$300 million. The SFPUC anticipates issuing additional commercial paper to provide interim financing for Wastewater Enterprise capital projects under the \$300 million authorization. See "OBLIGATIONS PAYABLE FROM REVENUES – Subordinate Debt and Commercial Paper."

The table below sets forth the projected sources and uses of funds for the CIP and SSIP. The projected repayment of principal and interest on these future debt issues has been incorporated into the Commission's approved rates through Fiscal Year 2013-14.

**TABLE 6
CIP AND SSIP
FINANCING PLAN
(IN THOUSANDS)**

	<u>2013 (1)</u>	<u>2014 (1)</u>	<u>2015 (1)</u>	<u>2016 (1)</u>	<u>2017 (1)</u>
SOURCES OF FUNDS					
Revenue Bonds	\$209,961	\$218,569	\$230,670	\$274,961	\$316,695
Wastewater Revenues	33,000	37,000	39,000	41,000	43,000
Capacity Fee Revenues	0	0	2,000	4,000	4,000
Total Sources	<u>242,961</u>	<u>255,569</u>	<u>271,670</u>	<u>319,961</u>	<u>363,695</u>
USES OF FUNDS					
CIP	25,894	0	0	0	0
SSIP	156,996	168,911	174,015	189,395	261,098
Renewal and Replacement	59,918	75,788	87,192	87,326	90,577
Other	153	10,870	10,463	43,240	12,020
Total Uses	<u>242,961</u>	<u>255,569</u>	<u>271,670</u>	<u>319,961</u>	<u>363,695</u>

⁽¹⁾ Amounts set forth are projections. Actual results may differ materially from these projections. See "FORWARD-LOOKING STATEMENTS" above.
Source: SFPUC, Financial Services

Renewal and Replacement Capital Improvements. In addition to the projects associated with the CIP and SSIP, the Wastewater Enterprise undertakes renewal and replacement capital projects to improve performance or extend the service life of an existing asset. These projects are typically annual ongoing projects, such as replacement of wastewater conveyance pipes. Renewal and replacement projects are funded from either Wastewater Enterprise revenues on a pay-as-you-go basis or debt funded.

The SFPUC anticipates that a portion of the proceeds of the 2013 Series B Bonds, which the SFPUC intends to issue shortly after the issuance of the 2013 Series A Bonds, will be applied towards the funding of certain renewal and replacement projects as set forth in the Wastewater Enterprise's Capital Budget.

FINANCIAL OPERATIONS

General

The SFPUC is a department of the City and, as such, the financial operations of its three enterprises are included in the Comprehensive Annual Financial Report of the City and shown as enterprise funds. *The City's Comprehensive Annual Financial Report is not incorporated by reference herein.*

The following information is provided with respect to the Wastewater Enterprise only and does not purport to reflect the financial position of the SFPUC or the City as a whole.

Basis of Accounting

The accounts of the Wastewater Enterprise are organized on the basis of a proprietary fund type, specifically an enterprise fund. The financial activities of the Wastewater Enterprise are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

The Wastewater Enterprise applies all applicable GASB pronouncements, as well as statements and interpretations of the FASB, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

City Budget Process

The SFPUC budget is a part of the overall budget prepared bi-annually by the City. The SFPUC's two-year proposed budget is prepared by SFPUC staff and then submitted to the Commission for approval before being submitted to the Mayor. The Mayor's Office reviews and may amend the SFPUC's proposed budget, and then incorporates the proposed budget into the total City budget that is submitted to the Board of Supervisors for approval. Under the Charter, the Board of Supervisors may increase or decrease any proposed expenditure in the Mayor's budget so long as the aggregate changes do not cause the expenditures to exceed the total amount of expenditures proposed by the Mayor. The Charter further provides that the Mayor may reduce or reject any expenditure authorized by the Board of Supervisors except appropriations for bond interest, redemption or other fixed charges, subject to reinstatement of any such expenditure by a two-thirds vote of the Board of Supervisors.

Wastewater Enterprise Rates and Charges

General. Sewer service charges are the primary funding source for the payment of costs associated with the Wastewater Enterprise's sanitary waste and stormwater collection, treatment and disposal services. Each year, the SFPUC prepares an analysis of projected revenues and revenue requirements of the sewage system to ensure revenues will be sufficient to fund the proposed budget, to maintain an adequate operating reserve and to comply with Indenture requirements. In addition to meeting funding and reserve requirements, the rates must also comply with regulations or policies promulgated by the EPA, the State Water Resources Control Board and the Board of Supervisors and with the requirements of the City's Charter and the State Constitution. See "CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS - Proposition 218."

Federal and State Requirements. Under the Federal clean water laws and regulations, entities accepting federal grant funds (such as the SFPUC) must comply with certain requirements, including the requirement that user charges be set to ensure that recipients of sewer services pay their proportionate share of the costs of operation, maintenance and replacement costs based on the quantity and characteristics of the users' discharge into the public sewage system. The Federal "Revenue Program Guidelines" are incorporated into the State water quality regulations, which are administered and enforced by the State Water Board. See "REGULATORY MATTERS" for a more detailed discussion of State and Federal regulations affecting the Wastewater Enterprise.

Charter; Rate-Setting Requirements. Pursuant to certain provisions of Proposition E, which became effective with respect to the Wastewater Enterprise on January 3, 2003, the Charter was amended to authorize the Commission to set rates, fees and other charges in connection with providing Wastewater Enterprise services, subject to rejection, within 30 days of submission, by the Board of Supervisors. If the Board of Supervisors does not act within 30 days, the rates become effective without further action.

In setting rates, fees and charges, the Commission must:

- (a) Establish rates, fees and charges at levels sufficient (i) to improve or maintain financial condition and bond ratings at or above levels equivalent to highly rated utilities of the Wastewater Enterprise, (ii) to meet requirements and covenants under all bond resolutions and indentures (including the Indenture) and (iii) to provide sufficient resources for the continued financial health (including appropriate reserves), operation, maintenance and repair of the Wastewater Enterprise, consistent with good utility practice;
- (b) Retain an independent rate consultant to conduct rate and cost of service studies for the Wastewater Enterprise at least every five years;
- (c) Set retail rates, fees and charges based on the cost of service;
- (d) Conduct all studies mandated by applicable State or Federal law to consider implementing connection fees for the Wastewater Enterprise servicing new development;
- (e) Conduct studies of rate-based conservation incentives and/or lifeline rates and similar rate structures to provide assistance to low income users, and to take the results of each study into account when establishing rates, fees and charges, in accordance with State and federal laws; and
- (f) Adopt annually a rolling five-year forecast of rates, fees and charges.

Proposition E also required the Commission to establish a Rate Fairness Board which, among other powers, may review the aforementioned five-year forecast and may submit rate policy recommendations to the Commission.

Rate Setting Process. The Wastewater Enterprise's rates were last adjusted in 2009 following a Charter-required five-year rate study.

The Wastewater Enterprise sets rates based on revenue requirements. The bi-annual expenditure budget submitted to the Commission, the Mayor and the Board of Supervisors for approval is used as the basis for determining annual revenue requirements. The net revenue requirement after deducting revenues from other sources (such as interest income on invested funds of the Wastewater Enterprise, fines and penalties, and rents for secondary uses of Wastewater Enterprise properties) represents the requirement to be met from current sewer service charge revenues and available fund balances. Next, the Wastewater Enterprise determines revenues under the existing schedule of rates. If revenues under existing rates together with available fund balances are sufficient to meet net revenue requirements, the Wastewater Enterprise conducts a review to ensure compliance with other applicable requirements.

The Wastewater Enterprise develops a ten-year rate forecast using projected revenues under existing rates plus additional revenues from projected rate increases, as required, to meet the projected revenue requirements during the forecast period. This forecast is updated each year resulting in a "rolling" rate forecast that is intended to moderate the effects of any significant changes in revenue requirements in any year.

If, as a result of this process, additional revenues are required or if the cost structure of the Wastewater Enterprise has changed, the Wastewater Enterprise submits its recommended rate schedules to the Commission for its consideration. After receiving public comment, the Commission adopts a rate resolution and transmits its recommended rate schedules to the Board of Supervisors. Once submitted, the Board of Supervisors may vote to

reject the proposed rate schedules within 30 days. If rejected, the existing rate schedules remain in effect until such time as a new rate schedule is resubmitted by the Commission and not rejected by the Board of Supervisors.

Whenever rates are revised, costs are allocated to pollutant parameters, volume, suspended solids, oil and grease, and chemical oxygen demand, and any costs are then allocated to each of the rate categories. See “Wastewater Enterprise Rates and Charges – Rate Categories.”

In addition to complying with the requirements of the Charter, the rate-setting process must comply with the requirements of the State Constitution. See “CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS – Proposition 218.”

Historical Rates. The table below shows a history of sewer service rates from 2002 through 2008, which were applied per unit² of water consumption.

**TABLE 7
HISTORICAL SEWER RATES
(PER HUNDRED CUBIC FEET OF WATER CONSUMPTION)**

<u>Rate Tiers</u>	<u>Effective 7/1/02</u>	<u>Effective 7/1/03</u>	<u>Effective 7/1/04</u>	<u>Effective 7/1/05</u>	<u>Effective 7/1/06</u>	<u>Effective 7/1/07</u>	<u>Effective 7/1/08</u>
<i>Residential</i>							
First 3 discharge units per dwelling unit per month	\$1.86	\$1.86	\$2.15	\$2.54	\$2.88	\$3.14	\$3.42
Tier for discharge units 4 - 5 in Fiscal Years 2006-08 ⁽¹⁾	-	-	-	\$6.36	\$7.19	\$7.84	\$8.55
All additional discharge units	\$4.83	\$4.83	\$5.37	\$7.27	\$8.22	\$8.96	\$9.77
Average monthly bill based on 6.3 discharge units	\$21.52	\$21.52	\$24.17	\$29.79	\$33.71	\$36.75	\$40.06
<i>Non-Residential</i>							
All discharge units ⁽²⁾	\$5.35	\$5.35	\$5.82	\$7.31	\$8.26	\$8.80	\$9.60

⁽¹⁾ Adjustment effective July 14, 2007.

⁽²⁾ Does not include charges for suspended solids, oil and grease, and chemical oxygen demand.

Source: SFPUC, Financial Services

Currently Approved Five-Year Rate Schedule. Based on the approved and adopted 2009 rate study, sewer service charges were adopted in 2009 by the Commission and the Board of Supervisors for Fiscal Years 2009-10 through 2013-14. Separate rate schedules apply to single-family residential, multi-family residential, and non-residential customers, as further described below. Under State law, all sewer rates reflect cost of service by customer class.

Residential Users. Residential users are charged on the basis of discharge units and the customer’s applicable flow factor, which represents the quantity of water use returned to the sewer system as wastewater. For example, a customer using 10 units of water and having a flow factor of 90% is billed for 9 discharge units. The

² A unit equals 100 cubic feet, or 748 gallons.

standard flow factor for single-family residential units is 90%. The standard flow factor for multi-family residential units is 95%, and the discharges in each rate tier are multiplied by the number of dwelling units.

**TABLE 8
RESIDENTIAL USER SEWER RATE
CHARGE PER DISCHARGE UNIT**

Rate Tiers	Effective 7/1/09	Effective 7/1/10	Effective 7/1/11	Effective 7/1/12	Effective 7/1/13
First 3 discharge units per month					
Single-family	\$ 6.05	\$ 6.91	\$ 7.16	\$ 7.52	\$ 7.90
Multi-family	5.66	6.51	7.49	7.86	8.25
All additional discharge units					
Single-family	8.35	9.21	9.55	10.03	10.53
Multi-family	7.45	8.68	9.99	10.49	11.01
Average monthly bill					
Single-family, based on 5.4 discharge units	38.19	42.83	44.40	46.63	48.97
Multi-family, based on 4.75 discharge units	30.02	34.72	39.95	41.94	44.02

Source: SFPUC, Financial Services

Non-Residential Users. Non-residential users are charged the cost for each parameter according to the schedule of rates in the table below. Customers whose parameter loadings are not based on periodic sampling are charged on the basis of standard parameter loadings established by the General Manager for each Standard Industrial Classification code in accordance with applicable state and federal laws and regulations.

**TABLE 9
NON-RESIDENTIAL USER DISCHARGE RATES**

Rate Tiers	Effective 7/1/09	Effective 7/1/10	Effective 7/1/11	Effective 7/1/12	Effective 7/1/13
Volume of wastewater discharged per 100 cubic feet ⁽¹⁾	\$6.5548	\$6.5548	\$6.5548	\$6.5548	\$6.6203
PLUS: Suspended solids discharged per pound	\$0.8819	\$0.8819	\$0.8819	\$0.8819	\$0.8907
PLUS: Oil/Grease discharged per pound	\$1.1035	\$1.1035	\$1.1035	\$1.1035	\$1.1145
PLUS: Chemical Oxygen Demand Discharge per pound	\$0.2156	\$0.2156	\$0.2156	\$0.2156	\$0.2178

⁽¹⁾ Calculated according to principles described in "Financial Operations—Wastewater Enterprise Rates and Charges."
Source: SFPUC, Financial Services

Rate Comparison. The average monthly sewer rate charged to a single family residential account of the Wastewater Enterprise is \$46.63, compared to the Statewide average monthly rate of \$36.75, as reported in the State Water Board's "Wastewater User Charge Survey Report," dated May 2008. There is no common standard for comparing wastewater user charges since a number of factors affect costs to be recovered through an entity's sewer service charge. These factors include, among other matters, the level of service and the differences in the degree of treatment provided. The Wastewater Enterprise provides sanitary waste and stormwater collection, treatment and disposal services. This contrasts with some of the communities included in the State Water Board's survey which

do not provide treatment and disposal or do not treat stormwater, but instead must rely on other entities to provide these services and separately bill customers. Additionally, while the Wastewater Enterprise provides secondary treatment, some communities included in the survey provide only primary treatment while others provide secondary, advanced secondary or even tertiary treatment, each such level of treatment having an impact on the ultimate rate charged customers.

Customer Base

Current Customer Base. The following table summarizes the number of customers served by the Wastewater Enterprise as of June 30, 2012, grouped by user type.

**TABLE 10
SUMMARY OF SEWER ACCOUNTS AND BILLING BY USER TYPE
(FISCAL YEAR 2011-12)**

User Type	Active Accounts	Billings (000s)	Billings as Percent of Total
Multi-Family Residential ⁽¹⁾	36,275	\$93,264	40.4%
Single-Family Residential	110,875	55,776	24.1
<i>Subtotal Residential</i>	147,150	149,040	64.5
Commercial ⁽¹⁾	15,439	75,604	32.7
Municipal Customers	719	6,316	2.7
Suburban (watershed keepers) ⁽²⁾	8	2	0.0
Total	163,316	\$230,962	100.0%

⁽¹⁾ Beginning fiscal year 2011, Customer Care and Billing System included the Presidio Trust Accounts under these customer types.

⁽²⁾ In addition to suburban customers, service is provided to North San Mateo County Sanitation District, Bayshore Sanitary District and the City of Brisbane.

Source: SFPUC Customer Service.

Historical Number of Accounts. The following table sets forth a five-year history of the number of sewer accounts for the Wastewater Enterprise.

**TABLE 11
NUMBER OF SEWER ACCOUNTS
(FISCAL YEAR 2007-08 TO 2011-12)**

Fiscal Year	Sewer Accounts As of June 30	Percentage Change
2007-08	162,921	N/A
2008-09	163,123	0.124%
2009-10	162,737	(0.237%)
2010-11	163,041	0.187%
2011-12	163,316	0.169%

Source: SFPUC Customer Service.

Appeals

Sewer service charges are assessed on the basis of water use as billed by the Water Enterprise multiplied by a flow factor. See “– Wastewater Enterprise Rates and Charges.” For example, it is assumed that 90% of the

volume of water measured at the customer meter for a single-family residential user is discharged to the sewer system as wastewater requiring treatment. Customers who can demonstrate higher rates of consumptive use than that reflected in the applicable flow factor, such as irrigation, can apply to the Residential Users Appeals Board for a lower flow factor (i.e. percentage of metered water returned to the sewage system).

Sewer Account Billing and Delinquencies

Sewer service charges are billed on a combined water and sewer utility bill on either a monthly or bi-monthly basis. Payments are due 15 days after the bill date. If payments are not made, late payment charges are assessed 15 days from the due date or 30 days from the bill date. Accounts are considered delinquent 15 days after a second unpaid bill. Water service may be disconnected or a lien may be assessed against the property for non-payment of water and sewer services.

In some cases of delinquency, a series of notices is sent to the customer and if payment is still not made, action to shut-off the water supply is initiated. In most cases of delinquency, the customer or property owner, with the exception of tenant-occupied single-family residences, receives a lien warning notice. After a lien hearing is held and if the bill still remains outstanding, the lien is recorded and can only be removed upon full payment of all unpaid charges, plus administrative fees and interest. Liens not paid during the fiscal year in which they are recorded are transferred to the tax collector for collection as a lien against the property. Accounts for which property transfers occurred prior to recording the lien and closed accounts with amounts less than \$25 are normally written off as uncollectible.

Current accounts receivables and historical annual write-offs are shown on the tables below. These amounts exclude receivables from municipal customers.

**TABLE 12A
ACCOUNTS RECEIVABLES AGING REPORT
AS OF JUNE 30, 2012**

Period	Amount	Percent of Total	Percent of Total FY 2011-12 Revenues
Current	\$ 28,356,626	76.70%	11.47%
31 - 60 Days	1,674,362	4.53	0.68
61 - 90 Days	976,049	2.64	0.39
Over 90 Days	5,964,493	16.13	2.41
Total	<u>\$36,971,530</u>	<u>100.00%</u>	
Credit Balances	(496,759)		
Total Aged Receivables	<u>36,474,772</u>		
Less Allowance For Doubtful Accounts	<u>(2,383,224)</u>		
Accounts Receivable, Net of Allowance	\$34,091,547		

Source: SFPUC, Financial Services

The following table shows a five-year history of write-offs for uncollectible accounts.

TABLE 12B
WRITE-OFFS FOR UNCOLLECTIBLE ACCOUNTS
As of Fiscal Year End, June 30

	Amount	% of Total Revenues
2008	\$4,305	0.002%
2009	3,013	0.001%
2010	3,172	0.001%
2011	3,559	0.002%
2012	5,870	0.002%

Capacity Charges

Effective July 1, 2005, any customer requesting a new connection to the sewer system or requiring additional collection or treatment capacity as a result of any addition, improvement, modification or change in use of an existing connection as determined solely by the General Manager must pay a capacity charge for the new or additional capacity required to serve the customer. The capacity charge is site specific and may not be sold, traded or conveyed in a manner to another site or customer. The capacity charge does not convey or imply ownership in or of any facilities of the Wastewater Enterprise.

Effective July 1, 2012, the wastewater capacity charge is \$3,422 per equivalent dwelling unit. The capacity charge is adjusted on July 1st of each subsequent year by the annual change in the 20-City Average Construction Cost Index (CCI) published by ENR Magazine.

Capacity charges have averaged approximately 2.15% of revenues over the past five years.

Operating and Maintenance Expenses

“Operating and Maintenance Expenses” cover the general operational expenses of the Wastewater Enterprise. These expenses include labor and employment benefits, contractual services, materials and supplies, depreciation, general and administrative, services from other departments and other miscellaneous costs. See “HISTORICAL OPERATING RESULTS” and “THE PUBLIC UTILITIES COMMISSION—Employee Relations.” Services from other departments include payment for services from other City departments, such as City Attorney’s Office and the General Services Agency.

Employee Benefit Plans

This section is based on the unaudited actual financial results for the SFPUC for Fiscal Year 2011-12.

SFPUC employees are City employees and are covered by benefit plans offered through the City.

Retirement System Plan Description. The SFPUC participates in the City’s single employer defined benefit retirement plan (the “Plan”) which is administered by the San Francisco City and County Employees’ Retirement System (the “Retirement System” or “SFERS”). The Plan covers substantially all full time employees of the SFPUC along with other employees of the City. The Plan provides basic service retirement, disability, and death benefits based on specified percentages of final average salary, and provides cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The City Charter and City Administrative Code are the authority which establishes and amends the benefit provisions and employer obligations of the Plan.

Plan Financial Reports. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102, or by calling (415) 487-7020.

Retirement System Funding Policy. Contributions to the basic Plan are made by both the SFPUC and its employees. Employee contributions are mandatory. Employee contribution rates for fiscal years 2012, 2011 and 2010 varied from 7.5% to 8.0% as a percentage of covered payroll. Due to certain bargaining agreements, the SFPUC contributed from 0.5% to 8.0% of covered payroll on behalf of some employees.

The contributions made by the Wastewater Enterprise for the prior three fiscal years were as follows:

Fiscal Year	Actuarially Determined Rate as a Percentage of Covered Payroll	Contribution (\$000s)	Percent of Required Contribution
2009-10	9.5%	\$4,233	100
2010-11	13.6%	\$5,884	100
2011-12	18.09%	\$8,393	100

Projected Future Contributions and Pension Costs. Employer-share contribution rates increased from 18.1% in Fiscal Year 2011-12 to 20.7% in Fiscal Year 2012-13 for covered City employees, as adopted by the Retirement Board in March 2012. Required employer-share rates included in the City's projections are based on a projection scenario provided by the Cheiron consulting firm, which assumes that the pension fund achieves a 0% investment return in Fiscal Year 2011-12 and achieves its target investment return in each subsequent year. This projection assumes required employer-share contribution rates of 25.5% in Fiscal Year 2013-14, 28.6% in Fiscal Year 2014-15, and 27.6% in Fiscal Year 2015-16. These rates are assumed to be reduced by the floating employee contribution rates included in the pension cost sharing provisions of Proposition C, as well as the increased employee contributions included in the amended labor agreements with the Police Officers Association and Firefighters Local 798. Together, these provisions result in \$38.1 million in savings to the City in Fiscal Year 2012-13, growing to \$56.5 million in Fiscal Year 2015-16. Despite these savings, SFERS employer contribution costs are projected to increase by \$10.2 million in Fiscal Year 2012-13, \$47.1 million in Fiscal Year 2013-14, and \$36.6 million in Fiscal Year 2014-15, followed by a decrease of \$12.8 million for Fiscal Year 2015-16.

Health Care Benefits. Health care benefits of the SFPUC employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System (the "Health Service System"). The Enterprise's annual contribution, which amounted to approximately \$9.426 million and \$8.488 million in fiscal years 2012 and 2011, respectively, is determined by a Charter provision based on similar contributions made by the 10 most populous counties in California.

Included in these amounts are \$2.334 million and \$2.420 million for 2012 and 2011, respectively, to provide post-retirement benefits for retired employees, on a pay-as-you-go basis. There was no additional City allocation to the Wastewater Enterprise's contribution payments made from the Health Service System for post-retirement health benefits in 2012 and 2011.

The City has determined a Citywide Annual Required Contribution ("ARC"), interest on net other post-employment benefits other than pensions ("OPEB") obligation, ARC adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB 45, by the City's actuaries. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excess) amortized over 30 years. The City's allocation of the OPEB related costs to the SFPUC for the year ended June 30, 2012 based upon its percentage of Citywide payroll costs is presented below.

The following table shows the components of the City's annual OPEB allocations for each Enterprise for the years ending June 30, 2012 and 2011, for the amount contributed to the plan, and changes in the City's net OPEB obligation:

TABLE 13
ANNUAL OPEB OBLIGATION BY ENTERPRISE
FOR FISCAL YEARS ENDING JUNE 30, 2011 AND JUNE 30, 2012
(IN THOUSANDS)

	2012				
	<u>Water</u>	<u>Wastewater</u>	<u>Hetch Hetchy Water</u>	<u>Hetch Hetchy Power</u>	<u>SFPUC Total</u>
Annual required contribution	\$19,856	\$7,817	\$2,007	\$2,454	\$32,134
Interest on net OPEB obligation	2,331	918	235	288	3,772
Adjustment to ARC	(1,933)	(761)	(195)	(239)	(3,128)
Annual OPEB cost (expense)	20,254	7,974	2,047	2,503	32,778
Contribution made	(7,559)	(2,334)	(661)	(808)	(11,362)
Increase in net OPEB obligation	12,695	5,640	1,386	1,695	21,416
Net OPEB obligation – beginning of year	60,314	20,873	3,669	7,552	92,408
Net OPEB obligation – end of year	73,009	26,513	5,055	9,247	113,824

	2011				
	<u>Water</u>	<u>Wastewater</u>	<u>Hetch Hetchy Water</u>	<u>Hetch Hetchy Power</u>	<u>SFPUC Total</u>
Annual required contribution	\$19,533	\$7,071	\$1,846	\$2,254	\$30,704
Interest on net OPEB obligation	1,842	667	174	213	2,896
Adjustment to ARC	(1,445)	(523)	(136)	(167)	(2,271)
Annual OPEB cost (expense)	19,930	7,215	1,884	2,300	31,329
Contribution made	(5,214)	(2,420)	(646)	(789)	(9,069)
Increase in net OPEB obligation	14,716	4,795	1,238	1,511	22,260
Net OPEB obligation – beginning of year	45,598	16,078	2,431	6,041	70,148
Net OPEB obligation – end of year	60,314	20,873	3,669	7,552	92,408

Source: SFPUC, Financial Services.

The City issues a publicly available financial report on a City-wide level that includes the complete note disclosures and required supplementary information related to the City's post-retirement health care obligations. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, CA 94102, or by calling (415) 554-7500.

Unfunded Actuarial Accrued Liability. The City Unfunded Actuarial Accrued Liability (“UAAL”) was \$4.0 billion at June 30, 2008. The amount allocable to the Wastewater Enterprise is shown below.

TABLE 14
ESTIMATED OPEB UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)
BY ENTERPRISE
(IN THOUSANDS)

	Percent of Total	UAAL at July 1, 2008
Total City	100.00%	\$4,036,324
Water Enterprise ⁽¹⁾	5.03	203,027
Wastewater Enterprise ⁽¹⁾	1.84	74,268
Hetch Hetchy Power and Water Enterprise ⁽¹⁾	0.89	35,923

⁽¹⁾ Consistent with the City’s election, the SFPUC will amortize its UAAL over 30 years. The amount of the SFPUC’s UAAL and the amount to be recognized every year may vary as a result of future actuarial assumptions and calculations. See “FORWARD-LOOKING STATEMENTS” above.

Source: SFPUC, Financial Services

An actuarial study dated December 13, 2010, indicates that the City’s UAAL increased approximately 8% to \$4.36 billion at June 30, 2010. While the amount allocable to the Wastewater Enterprise has not yet been determined, the SFPUC expects that the amount of the City’s UAAL allocable to the Wastewater Enterprise will increase by a similar percentage.

Pension and Health Care Cost Reforms. City voters have implemented pension and health care cost reforms in recent years to help mitigate future cost increases. These include the following propositions:

Proposition B. Proposition B was approved by voters in June 2008 and increased the years of service required to qualify for employer-funded retiree health benefits for City employees who retire under the San Francisco Employees Retirement System and were hired on or after January 10, 2009. Employees hired before January 10, 2009, became eligible to participate in the retirement health care system after 5 years of service and the employer paid 100% of the contribution. Proposition B also stated that a separate Retiree Health Care Trust Fund would be created to pay for the City’s future costs related to retiree health care. This trust fund will be funded by employer and employee contributions for employees hired on or after January 10, 2009. These new employees would contribute up to 2% of their pre-tax pay and employers would contribute 1%.

Proposition C. Proposition C was a Charter amendment approved by voters in November 2011 that changed the way the City and current and future employees share in funding SFERS pension and health benefits.

With regard to pension benefits, the base employee contribution rate remains at 7.5% for most employees when the City contribution rate is between 11% and 12% of City payroll. Employees making at least \$50,000 will pay an additional amount up to 6% of compensation when the City contribution rate is over 12% of City payroll. When the City contribution rate falls below 11%, employee contributions will be decreased proportionately.

Proposition C creates new retirement plans for employees hired on or after January 7, 2012 that: (1) for miscellaneous employees, increased the minimum retirement age to 53 with 20 years of service or 65 with 10 years; (2) for safety employees, kept the minimum retirement age at 50 with five years of service, but increased the age for maximum benefits to 58; (3) for all employees, limited covered compensation, calculated final compensation from three-year average, and changed the multipliers used to calculate pension benefits, and (4) for miscellaneous employees, raised the age of eligibility to receive vesting allowance to 53 and reduced by half the City’s contribution to vesting allowances. Proposition C limits cost-of-living adjustments for SFERS retirees.

With regard to health benefits, elected officials and employees hired on or before January 9, 2009, contribute up to 1% of compensation toward their retiree health care, with matching contribution by the City. For employees or elected officials who left the City workforce before June 30, 2001, and retire after January 6, 2012, Proposition C requires that the City contributions toward retiree health benefits remain at the same levels they were when the employee left the City workforce.

Debt Management and Fund Balance Reserve Policies

The SFPUC has established Debt Management Policies and Procedures for debt financing under its jurisdiction. These policies are intended to enable the SFPUC to effectively manage its debt issuance and debt management practices.

The SFPUC has also established a Fund Balance Reserve Policy. The Fund Balance Reserve Policy states that operating and capital plans, budgets and rates will be projected and proposed for adoption such that all bond indenture requirements are met or exceeded and that Operating Fund Balance Reserves meet one or more of the following: total at least 15% of annual revenues; total at least 15% of annual expenditures; and result in Debt Service Coverage, on a bond indenture basis, including fund balance reserves available to pay debt service, of at least 1.25 times.

These policies and procedures are reviewed and are revised as necessary with Commission approval, with the latest approval on February 11, 2010. The Commission may also approve exceptions to adherence to these policies.

The SFPUC makes no representation that these policies will not be revised or amended and, except to the extent required for compliance with the terms of the Indenture and makes no representation that these policies will be followed by the SFPUC.

Allocation of Costs

Various common costs incurred by the SFPUC are allocated among the Wastewater Enterprise, the Water Enterprise and the Power Enterprise. Allocations are based on the SFPUC management's best estimate and may change from year to year depending on activities undertaken by each enterprise and information available. The most recent cost allocation review was completed in 2009.

For Fiscal Year 2011-12, the SFPUC budgeted \$24.6 million in administrative costs to the Wastewater Enterprise, which is recorded as personal service expenses and also in other various operating expenses in the Wastewater Enterprise financial statements. For Fiscal Year 2010-11, the SFPUC allocated \$22.5 million in administrative costs to the Wastewater Enterprise.

Payments to/from the City

A variety of City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Wastewater Enterprise and charge amounts designed to recover those costs. Over the past five years, these charges have averaged approximately 23% of annual operating costs of the Wastewater Enterprise.

On October 7, 2009, the City and County of San Francisco issued \$167.67 million in fixed-rate Certificates of Participation, Series 2009 C and D, to fund the construction of the headquarters of the SFPUC at 525 Golden Gate Avenue. Pursuant to a Memorandum of Understanding between the City and the SFPUC, the SFPUC will reimburse the City General Fund for all costs in connection with this City financing. Such obligations are subordinate to debt service on the Bonds and payments related thereto are allocated among the three SFPUC Enterprises. See "OBLIGATIONS PAYABLE FROM REVENUES—Other Obligations Payable from Revenues."

The SFPUC receives payments from other agencies of the City for their share of the proportionate cost of the service provided to them. Over the past five years, these service deliveries generated revenues that have averaged approximately 3% of Wastewater Enterprise revenues.

Investment of SFPUC Funds

The SFPUC’s pooled deposits and investments are invested pursuant to State law and the investment policy established by the City Treasurer and overseen by the Treasury Oversight Committee. This policy seeks the preservation of capital, liquidity and yield, in that order of priority. The policy addresses the soundness of the financial institutions that hold City assets and the types of investments permitted by the California Government Code. The earned income yield for Fiscal Year 2011-12 was 1.32%.

The SFPUC’s non-pooled deposits and investments consist primarily of funds related to the SFPUC’s outstanding bonds, which are invested pursuant to policy established by the SFPUC, subject to the restrictions contained in the applicable bond documentation.

Risk Management and Insurance

The SFPUC’s risk management program encompasses both self-insured and insured coverage. Risk assessments and coverage are coordinated by the SFPUC Enterprise Risk Manager through the City Office of Risk Management. With certain exceptions, the City and SFPUC’s general policy is to first evaluate self-insurance for the risk of loss to which it is exposed. Based on this analysis, the SFPUC has determined that mitigating risk through a “self-retention” mechanism is more economical as it manages risks internally and administers, adjusts, settles, defends, and pays claims from budgeted resources (i.e., pay-as-you-go). When economically more viable or when required by debt financing covenants, the SFPUC obtains commercial insurance.

At least annually, the City reviews and actuarially determines general liability and workers’ compensation liabilities, which are recorded as “Damages and Claims” and “Accrued Worker’s Compensation” in the financial statements.

The SFPUC does not maintain commercial earthquake coverage for the Wastewater Enterprise, with certain minor exceptions, such as a sub-limit for fire-sprinkler leakage due to earthquake under the Property Insurance program.

The following is a summary of the SFPUC’s coverage approach to risk:

Primary Risks	Typical Coverage Approach
General Liability	Self-Insured
Property	Purchased Insurance & Self-Insured
Workers’ Compensation	Self-Insured through City-Wide Pool
Other Risks	Typical Coverage Approach
Surety Bonds	Purchased and Contractually Transferred
Professional Liability	Combination of Self-Insured, Purchased Insurance and Contractual Risk Transfer
Errors & Omissions	Combination of Self-Insured, Purchased Insurance and Contractual Risk Transfer
Builders Risk	Purchased Insurance & Contractual Risk Transfer
Public Officials Liability	Purchased Insurance

The SFPUC’s property risk management approach varies depending on whether the facility is currently under construction, or if the property is part of revenue-generating operations. The majority of purchased insurance program is for revenue-generating facilities, debt-financed facilities, and mandated coverage to meet statutory or contractual requirements.

The SFPUC has purchased a Public Officials Liability policy for all public officials with financial oversight responsibilities, including Commissioners, the General Manager and the Chief Financial Officer. The policy also includes employment practices liability coverage.

Additionally, the SFPUC has implemented an Enterprise Risk Management program for the Business & Financial Services Bureau. The framework provides a strategic approach to managing operational risks of the organization through a coordinated process that identifies, assesses, treats, and monitors risks. The SFPUC acknowledges the importance of aligning strategic planning to the risk management process and intends to continue implementation across the organization.

Capital Project Risk Management. For capital construction projects, the SFPUC has utilized traditional contractual risk transfer, owner-controlled insurance programs or other alternative insurance programs. Under the latter two approaches, the insurance program usually provides coverage for the entire construction project, along with multiple risk coverages, such as general liability and workers compensation. When a contractual risk transfer is used for capital construction risks, the SFPUC requires each contractor to provide its own insurance, while ensuring that the full scope of work be covered with satisfactory levels to limit the SFPUC's risk exposure balanced by that which is commercially available.

Bonds are required, unless Builder's Risk is purchased, in most phases of the construction contracting process for such phases, as bid, performance, and payment or maintenance. Additionally, bonds may be required in other contracts where goods or services are provided to ensure compliance with applicable terms and conditions such as warranty.

Professional liability policies are either directly purchased insurance on behalf of the SFPUC, transferred through contract to the contracted professional, or retained through self-insurance on a case by case basis depending on the size, complexity or scope of construction or professional service contracts. Professional liability policies are typically purchased for services provided by engineers, architects, design professionals and other licensed or certified professional service providers.

Builder's Risk policies of insurance are required to be provided either through an owner-controlled insurance program or the contractor on all construction projects for the full value of the construction.

HISTORICAL OPERATING RESULTS

Summary of Historical Operating Results and Debt Service Coverage

The historical results of operations reflected in the table below are based on the tables contained in the Financial Statements entitled "Statements of Revenues, Expenses and Changes in Net Assets" and "Statements of Cash Flows" for the Fiscal Years listed. See "APPENDIX C—SFPUC WASTEWATER ENTERPRISE FINANCIAL STATEMENTS." The calculation of debt service coverage includes net operating income and funds not budgeted to be spent in the next twelve months and legally available to pay debt service, as permitted under the Indenture.

TABLE 15
HISTORICAL REVENUE, OPERATING & MAINTENANCE EXPENSE
AND DEBT SERVICE COVERAGE FOR FISCAL YEARS ENDED JUNE 30
(IN THOUSANDS)⁽¹⁾

	Audited 2008	Audited 2009	Audited 2010	Audited 2011	Unaudited Actual 2012
OPERATING & INVESTMENT REVENUE					
Sewer Service Charges	\$187,810	\$199,332	\$202,363	\$220,586	\$233,628
Other Revenues	6,181	5,621	5,180	4,875	4,983
Investing Activities	4,099	1,992	2,056	1,927	2,975
Capacity Fees	8,558	3,701	2,300	3,755	5,544
Total Revenues	<u>206,648</u>	<u>210,646</u>	<u>211,899</u>	<u>231,143</u>	<u>247,130</u>
OPERATING & MAINTENANCE EXPENSE					
Labor and Fringe Benefits	69,383	69,141	70,992	73,630	82,709
Contractual Services	11,973	13,828	12,018	12,577	13,257
Materials and Supplies	9,539	5,754	9,888	8,338	8,921
Depreciation	38,758	38,815	40,748	42,217	44,799
General and Administrative ⁽²⁾	1,719	2,302	32,305	32,689	33,292
Services of Other Departments	26,021	31,634	2,500	507	2,815
Other	7,852	7,826	17,061	9,126	10,064
Total Operating Expenses	<u>165,245</u>	<u>169,300</u>	<u>185,512</u>	<u>179,084</u>	<u>195,857</u>
OPERATING AND INVESTMENT INCOME	<u>41,403</u>	<u>41,346</u>	<u>26,387</u>	<u>52,059</u>	<u>51,273</u>
COVERAGE CALCULATION⁽³⁾					
Operating and Investment Income	41,403	41,346	26,387	52,059	51,273
+ Adjustment to Investing Activities ⁽⁴⁾	1,297	161	225	108	(299)
+ Depreciation & Non-Cash Expenses	40,395	41,429	52,912	44,232	46,271
+ Changes in Working Capital	6,223	4,699	976	5,633	21,375
+ SRF Loan Payments	(16,505)	(16,505)	(16,505)	(16,503)	(10,983)
= "Net Revenue"	<u>72,813</u>	<u>71,130</u>	<u>63,995</u>	<u>85,529</u>	<u>107,637</u>
+ Other Available Funds ⁽⁵⁾	34,699	48,016	49,272	22,769	50,761
Funds Available for Bond Debt Service	<u>107,512</u>	<u>119,146</u>	<u>113,267</u>	<u>108,298</u>	<u>158,398</u>
Bond Debt Service	\$50,198	\$50,311	\$50,313	\$41,838	\$38,533
Debt Service Coverage	2.14	2.37	2.25	2.59	4.11

⁽¹⁾ Operating and Investment Income presented in this table differs from the Change in Net Assets presented in the Statement of Revenues, Expenses and Changes in Net Assets in the Audited Financial Statements. See "APPENDIX C—SFPUC WASTEWATER ENTERPRISE FINANCIAL STATEMENTS." This table presents Debt Service Coverage as defined under the Indenture and excludes certain elements of nonoperating revenue and expenses included in the Statements of Revenues, Expenses and Changes in Net Assets. Examples of excluded elements are Grant Revenue, Interest Expense and Gains from Sale of Assets.

⁽²⁾ The increase in General and Administrative expenses beginning in 2007 results from a reallocation of overhead expenses to various expenses.

⁽³⁾ The Indenture defines "Net Revenue" on a cash basis.

⁽⁴⁾ Adjustment of Investing Activities to a cash basis.

⁽⁵⁾ As per the Indenture, in addition to current year cash flow, the coverage calculation permits the inclusion of certain funds not budgeted to be spent in such twelve months and legally available to pay debt service.

Source: SFPUC, Financial Services

Sources of Revenue

The Wastewater Enterprise's sources of revenue for Fiscal Year 2011-12 are summarized below.

	(\$thousands)	
Sewer Service Charges	\$ 233,628	94.54%
Capacity Fees	5,544	2.24
Other Revenue	7,958	3.22
Total	<u>247,130</u>	<u>100.00%</u>

Source: SFPUC, Financial Services

"Other Revenue" shown above includes interest earnings and other revenues, and excludes \$8,498 million in non-operating revenues.

Management's Discussion of Historical Operating Results

As stated in the Wastewater Enterprise's Audited Financial Statements, attached as APPENDIX C to this Official Statement, the Wastewater Enterprise's total revenues of \$255,628,000, including \$8,498,000 in non-operating revenue for fiscal year 2011-12 increased by \$17,644,000, or 7.4%, over the prior year primarily due to increases in charges for services, capacity fee revenues, and grants received from other governments. While sanitary flow of 26.8 million hundred cubic feet for the year decreased by 0.7%, charges for services increased by \$13,042,000, or 5.9%, due to an increase in sewer billing rates of 5% on average. Other operating revenues increased by \$1,897,000, or 22.0%, mainly due to an increase of \$1,789,000 in capacity fee revenues from increased applications and capacity fee rates. Interest and investment income increased by \$1,048,000, or 54.4%, mainly due to higher cash balances and higher interest earnings.

The Wastewater Enterprise's total expenses increased by \$14,626,000, or 7.2%, due to an increase of \$16,773,000 in operating expenses offset by a \$3,809,000 decrease in interest expense due to repayments of revenue bonds and State Revolving Fund loans. The increase in operating expenses is attributable to \$9,079,000 in personal services, mainly due to salaries and fringe benefits, retirement, health care and workers' compensation, \$2,582,000 in depreciation due to prior year capital assets being in use, \$2,308,000 in general and administrative expenses mainly due to judgment and claims liability of \$2,639,000 based on actuarial estimates, \$938,000 in other operating expenses due to increased non-capitalized project expenses, \$680,000 in contractual services, \$603,000 in services provided by other departments mainly for legal services, and \$583,000 in materials and supplies, especially in building, construction and equipment maintenance supplies.

See "APPENDIX C – SFPUC WASTEWATER ENTERPRISE FINANCIAL STATEMENTS."

PROJECTED OPERATING RESULTS

The following table presents projected operating results for the Wastewater Enterprise. These projections are based on an analysis of historical trends, adjusted where appropriate for known or anticipated changes in operations. The projections are also based on the assumptions that all rate increases necessary to finance the CIP and a portion of the SSIP will be obtained.

THESE PROJECTIONS, ALL OR SOME OF WHICH MAY OR MAY NOT BE REALIZED, ARE BASED ON THE ISSUANCE OF ADDITIONAL BONDS FOR THE CIP AND SSIP. CHANGES IN THE CIRCUMSTANCES THAT FORM THE BASES FOR THE ASSUMPTIONS USED IN DEVELOPING THESE PROJECTIONS, AS WELL AS UNANTICIPATED EVENTS, MAY OCCUR SUBSEQUENT TO THE DATE OF THE OFFICIAL STATEMENT. THEREFORE, ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE PROJECTIONS SHOWN.

TABLE 16
PROJECTED REVENUE, OPERATING AND MAINTENANCE EXPENSE
AND DEBT SERVICE COVERAGE FOR FISCAL YEAR ENDING JUNE 30
(IN THOUSANDS) ⁽¹⁾

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
REVENUE					
Sewer Service - Base Rates	\$234,587	\$242,138	\$250,886	\$250,886	\$263,430
Sewer Service - Rate Increases ⁽²⁾	7,551	8,748	-	12,544	10,537
Interest Income ⁽³⁾	1,588	1,755	1,859	1,821	1,629
Other Miscellaneous Income	1,900	1,900	1,900	1,900	1,900
Total Revenues	<u>245,626</u>	<u>254,541</u>	<u>254,645</u>	<u>267,151</u>	<u>277,496</u>
OPERATING AND MAINTENANCE EXPENSE ⁽⁴⁾					
Total Expenses	<u>147,090</u>	<u>151,503</u>	<u>156,048</u>	<u>160,730</u>	<u>165,552</u>
NET REVENUE	<u>98,536</u>	<u>103,038</u>	<u>98,597</u>	<u>106,420</u>	<u>111,945</u>
OTHER AVAILABLE FUNDS	66,658	86,352	105,604	108,006	92,627
FUNDS AVAILABLE FOR BOND DEBT SERVICE	165,194	189,390	204,201	214,427	204,571
Debt Service					
SRF Loans ⁽⁵⁾	9,421	9,040	6,288	5,268	3,619
2003 Bonds ⁽⁵⁾	33,036	33,149	33,257	33,398	17,022
2013 Series B Bonds and Future Revenue Bonds	8,393	9,092	19,255	42,580	69,234
TOTAL DEBT SERVICE ⁽⁶⁾	<u>50,850</u>	<u>51,281</u>	<u>58,800</u>	<u>81,246</u>	<u>89,875</u>
DEBT SERVICE COVERAGE ⁽⁷⁾	<u>3.76</u>	<u>4.27</u>	<u>3.77</u>	<u>2.75</u>	<u>2.33</u>

⁽¹⁾ Amounts set forth in the table are projections. Actual results may differ materially from these projections. See "FORWARD-LOOKING STATEMENTS" above.

⁽²⁾ Projections assume currently approved and anticipated future rate increases described below. See "Assumptions Used in Projections."

⁽³⁾ Interest income is based on net yield forecasts for the City Pooled Fund as provided by the Chief Investment Officer for the City.

⁽⁴⁾ O&M net of depreciation and other non-cash items per Indenture.

⁽⁵⁾ Intended to be refunded fully with the proceeds of the 2013 Series A Bonds. See "PLAN OF FINANCE."

⁽⁶⁾ Includes debt service on Outstanding Bonds and Additional Series of Bonds (net of capitalized interest and debt service reserve fund earnings). Assumes cash funded debt service reserve fund equal to Maximum Annual Debt Service, and two years of capitalized interest funded in connection with the issuance of each Additional Series of Bonds. Actual issuance dates and borrowing rates for Additional Series of Bonds may vary.

⁽⁷⁾ Coverage calculated using fund balance and Net Revenues in accordance with rate covenant set forth in the Indenture.

Source: SFPUC, Financial Services

Assumptions Used in Projections

The assumptions used in the table above are as follows:

Projected Revenue and Rate Increases. The projected revenues are based on projected wastewater service sales and the schedules of rates to be effective in each year. On May 5, 2009, the SFPUC adopted schedules of rates to be effective in Fiscal Years 2009-10 through 2013-14. The adopted schedules provide for 5.0% average rate increases in Fiscal Year 2012-13 and Fiscal Year 2013-14. Average rate increases for the remainder of the projection period are assumed at 0.0% for Fiscal Year 2014-15, 4.0% for Fiscal Year 2015-16 and 4.0% for Fiscal Year 2016-17; however, these rate increase have not been proposed to or considered by the Commission. Interest earnings assume a 2% yield.

Projected Operating and Maintenance Expenses. Operating and Maintenance Expense costs are projected to grow by 3% annually for the projection period.

Projected Debt Service. Projected debt service reflects the existing debt service on the 2003 Series A Bonds and the SRF Loans, which are anticipated to be refunded in full with a portion of the proceeds of the 2013 Series A Bonds. See "PLAN OF FINANCE." Future debt service will be based on the actual debt service of the 2013 Series A Bonds.

The 2013 Series B Bonds are expected to be issued in early 2013 to fund renewal and replacement projects and a portion of the CIP and SSIP in the amount of \$363 million. Future debt issuances to fund renewal and replacement and the CIP and SSIP are expected to total \$1.3 billion for the remainder of the projection period.

REGULATORY MATTERS

The Wastewater Enterprise meets all known current and future regulatory permit requirements for its treatment facilities, and is in full compliance with the Porter-Cologne and Clean Water Acts (as described below). This section summarizes the regulatory framework governing the Wastewater Enterprise and its operations.

History and Background

In 1969, the State adopted the Porter-Cologne Water Quality Act (the "Porter-Cologne Act"), creating the State's current legal framework for the protection of water quality. This adoption was followed at the federal level by the Water Pollution Control Act Amendments of 1972 (the "Clean Water Act"). The Clean Water Act provided an aggressive timetable for eliminating pollution of the nation's waters and established the basic secondary treatment requirement that 85% of pollutants, as defined in administrative regulations, be removed from sanitary sewage. The Clean Water Act also required the issuance of discharge permits on a nationwide basis and established a federal grant program for construction of publicly owned wastewater facilities, subsequently replaced by the state revolving fund loan program. Although the EPA has ultimate responsibility for administering the Clean Water Act, many functions have been delegated to the State. The administration of the current loan program and enforcement of regulations are a joint undertaking of the State Water Board, the Regional Water Board, and EPA Region IX.

City Master Plan

In 1971, the City created its Master Plan to address the requirements of the Porter-Cologne Act, which, following the environmental review process, was adopted by the City and the EPA in 1974, and the City commenced implementation of the plan. With subsequent refinements, the Master Plan has been the SFPUC's guide for improving the performance of the Wastewater Enterprise and meeting the requirements of State and federal water quality laws. All projects and improvements described in the Master Plan, as subsequently modified, have been completed and are fully operational.

National Pollutant Discharge Elimination System Permits

Under the Porter-Cologne and Clean Water Acts, the Regional Water Board administers water pollution control programs. The Regional Water Board issues discharge permits under Section 402 of the Clean Water Act, which establishes the National Pollutant Discharge Elimination System ("NPDES") permit system. These permits, issued for a five-year period, are also waste discharge requirements for the purposes of the Porter-Cologne Act and apply to discharges from the SFPUC's treatment plants and combined sewer discharge facilities.

The Wastewater Enterprise operates under two wastewater NPDES permits: the 2008 Bayside Permit (NPDES Permit No. CA0037664), covering the Southeast Plant, North Point Facility and other bayside facilities that discharge into the San Francisco Bay; and the 2009 Oceanside Permit (NPDES Permit No. CA0037681; issued jointly with EPA Region IX), covering the Oceanside Plant discharges and other westside facilities that discharge into the ocean. Currently, the SFPUC's discharges are in full compliance with all permit requirements. The City is also regulated under the State General Permit for Small Municipal Separate Storm Sewer System (MS4) permit, for storm water discharges in the small portion of the City with separate sewer systems.

Combined Sewer Overflow Control Policy

With the exception of a small portion of the City of Sacramento, the SFPUC is the only wastewater agency in the State that operates a combined sewer system, in which sanitary sewage and stormwater are conveyed in the same system of pipes and treatment facilities. In order to address the unique characteristics of combined sewer systems, the EPA adopted the Combined Sewer Overflow Control Policy (59 FR 18688) in 1994 (the "CSO Policy"). This policy established a consistent national approach for controlling discharges from CSOs to the nation's water, and has since been incorporated into the Clean Water Act by The Wet Weather Water Quality Act of 2000.

The CSO Policy created a two-phased process for combined sewer systems. During the first phase, the permittee is required to implement "nine minimum controls" specified in the CSO Policy. In addition, the permittee is required to develop and implement a long-term control plan for the purpose of providing facilities and controls sufficient to comply with water quality standards. The SFPUC has implemented the "nine minimum controls", and construction of the Master Plan projects constitutes implementation of the long-term control plan. The SFPUC is in full compliance with the CSO Policy.

The SFPUC's discharge permits require the preparation of reports analyzing the efficacy of the system's wet weather operations and the attainment of water quality standards. The SFPUC's efficacy report for the Bayside Watershed submitted in June 2012 concluded that, on a system-wide annual basis, 96% of all combined sewage is treated and disinfected prior to discharge; the remaining 4% is treated in the transport storage system, without disinfection, prior to discharge. The final report for the Westside Watershed is due in September 2014.

Regional Water Board Enforcement

In the 1970s and 1980s, the Regional Water Board issued cease and desist orders to the SFPUC containing project planning, design, and construction schedules for Master Plan projects and discharge limit compliance dates. All such cease and desist orders have been satisfied and are no longer in effect.

Stormwater Regulations

In 1987, Congress revised the Clean Water Act to more effectively address pollution caused by stormwater runoff. The regulations require stormwater management plans for municipalities and controls on certain construction sites and other industries. Urban areas with combined sewers, such as most of the City, are exempt. Because a small portion of the City is served by separate sewer systems, the implementation of the Municipal Separate Storm Sewer System ("MS4") permit requirements occurred under Phase II of the stormwater program, following the earlier Phase I implementation for cities with a large separate sewer system. The permit for small MS4s (NPDES Permit No. CAS000004) is issued by the State Water Board and regulates the stormwater discharge from the SFPUC's separate sewer systems. The SFPUC operates a stormwater management program that complies with the requirements of the MS4 Permit.

Regulatory Trends

Regulatory developments at the State and Federal level, as well as ongoing permit reissuance activities, may increase operations costs and capital needs of the Wastewater Enterprise and may have an effect on the Wastewater Enterprise operations and its revenues. In the future, additional constituents of concern (possibly including pollutants such as ammonia, nutrients, endocrine disrupting chemicals, human-made chemicals/products) will likely be identified, and additional effluent limits may be added for wastewater discharges into the San Francisco Bay and Pacific Ocean, as water quality objectives are developed for new compounds and improved analytical techniques become available. Additional source control measures, public education and outreach, and additional or advanced treatment processes may be necessary to achieve compliance. SFPUC staff is actively engaged with regulatory officials and the public in the development of these regulatory matters.

These topics and their possible effect on the Wastewater Enterprise are briefly described below:

Impaired Water Bodies and Total Maximum Daily Loads. The Clean Water Act requires states to identify all water bodies that do not achieve designated water quality standards or objectives. Such water bodies are designated as "impaired," and states are required to identify all sources contributing to the impairment under the Total Maximum Daily Load ("TMDL") program. States are required to designate wasteload allocations to each contributing point source, such as the Wastewater Enterprise, in order to promote the recovery of the water body. Central and lower San Francisco Bay are currently listed as impaired for a number of organic and inorganic pollutants, as well as invasive species and trash. The Regional Water Board has completed San Francisco Bay TMDLs for mercury and PCBs and is developing a TMDL for selenium.

The San Francisco Bay Mercury TMDL, which was adopted in February 2008, is implemented through a group Watershed Permit that was adopted by the Regional Water Board and contains individual and group effluent wasteload allocations for all Bay Area municipal dischargers, including the SFPUC. The Mercury Watershed Permit has a 20-year implementation plan that requires loading reductions every 10 years.

The San Francisco Bay PCBs TMDL establishes a wasteload allocation of 0.3 kg per year for the Southeast Plant. The implementation plan also requires the implementation of PCBs risk reduction programs, similar to risk reduction programs for mercury.

The SFPUC currently complies with the applicable waste load allocation. Future reductions in allowable wasteloads over the next 20 years may require changes to the operation of the Wastewater Enterprise. The SFPUC's unique status as a combined system will likely have an impact on the need for future modifications, since the system removes substantially more pollutants than separate sanitary and stormwater systems.

Contaminated Bay Sediments. California Water Code, Division 7, Chapter 5.6 established a program to assess sediment contamination of the State's enclosed bays and estuaries. Known as the Bay Protection and Toxic Cleanup Program, the focus of this effort was to identify contaminated sediments with elevated levels of toxins.

The State-wide plan identified Mission Creek and Islais Creek as contaminated spots. For Mission Creek, the plan included preliminary estimates of investigation and study costs at \$1 million, remediation and monitoring ranging from \$0.8 to \$1.8 million, and possible sewer system configuration modifications up to \$75 million. The plan included a preliminary estimate of investigation and study costs for Islais Creek at \$1 million. Remediation and monitoring were estimated to range from \$0.8 to \$5.2 million, and possible sewer system configuration modifications up to \$75 million for Islais Creek. The SFPUC provided comments and data studies disputing both the extent of contamination in the creeks and any asserted causal relationship to SFPUC activities. The plan is not self-executing, and requires further regulatory remediation action by the Regional Water Board, which has stated that contaminated sediment issues will be addressed through the TMDL analysis and implementation programs mentioned above.

EPA has determined that Yosemite Creek sediments must be addressed. While EPA has not listed Yosemite Creek as a Superfund site, it has determined that over 50 potentially responsible parties, including the City, develop a proposed sediment remediation plan. Because the process is in its early stages, SFPUC cannot reasonably predict whether or to what extent it may be partially responsible for contributing to this contamination remediation project, or whether such cleanup will have any impact on current sewer system operations.

Pursuant to GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, the Wastewater Enterprise reported \$571,000 in pollution remediation liability as of June 30, 2012.

Contaminants of Emerging Concern. Contaminants of emerging concern include alkyl phenols, flame retardants, hormones, personal care products, pharmaceuticals, steroids, perfluorinated compounds, and pesticides, which typically enter municipal wastewater through bathing, cleaning, laundry, and the disposal of unused products. Pharmaceuticals typically include prescription and over-the-counter therapeutic drugs for both human and veterinary treatment. Personal care products typically include soaps, fragrances, and cosmetics. Secondary treatment facilities with processes similar to those used by the Wastewater Enterprise do provide some incidental removal of these contaminants, even though they are not specifically designed for this purpose. While the EPA has developed programs to measure and evaluate these effects, no standards have been established applicable to point discharges.

Nutrient Control for the Bayside. In 2007, the Natural Resources Defense Council (the "NRDC") petitioned the EPA to promulgate new regulations changing the definition of "secondary treatment" to include nitrogen and phosphorous removal. The NRDC petition alleges that the EPA has unreasonably

failed to update its secondary treatment regulations to include nutrient removal and asserts that current technology allows all publicly-owned treatment works reliably to attain lower concentrations of total phosphorous and total nitrogen. In March 2012, NRDC and other organizations filed a complaint in the United States District Court for the Southern District of New York to compel EPA to update its regulations.

While the SFPUC cannot predict the outcome of that litigation, the State and Regional Boards in 2010 began development of water quality standards for San Francisco Bay using a numeric nutrient endpoint assessment framework and a set of decision rules that help regulatory agencies determine whether a waterbody is meeting beneficial uses. The research needed to finish the assessment framework is underway and is expected to be completed in 2014. Whether new limits will be adopted that would apply to SFPUC treatment facilities is unclear at this time.

Other Regulatory Agencies with Jurisdiction Over the Wastewater Enterprise

Other regulatory agencies with approval or oversight responsibilities over the siting, construction or operational impacts of the Wastewater Enterprise on air, water and natural resources include the Bay Area Air Quality Management District, the Bay Conservation and Development Commission, the California Coastal Commission, the California Department of Public Health, the National Marine Fisheries Service, the United States Fish and Wildlife Service, and the U.S. Army Corps of Engineers.

Other Laws Affecting the Wastewater Enterprise

As a public agency the SFPUC's actions must be consistent with the California Environmental Quality Act and, where federal approvals or funding is involved, the National Environmental Policy Act. The federal Clean Air Act and the California Clean Air Act of 1988 also regulate emissions from the treatment facilities. All of the SFPUC's treatment facilities meet present Bay Area Air Quality Management District standards.

CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS

Tax and Spending Limitations

The taxing powers of public agencies in the State are limited by Article XIII A of the California Constitution, added by an initiative amendment approved by the voters on June 6, 1978, and commonly known as Proposition 13.

Article XIII A limits the maximum ad valorem tax on real property to 1% of "full cash value," which is defined as "the County Assessor's valuation of real property as shown on the Fiscal Year 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction, or other factors.

The tax rate limitation referred to above does not apply to ad valorem taxes to pay the debt service on any indebtedness approved by the voters before July 1, 1978, or on any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters voting on the proposition.

Under the terms of Article XIII A and pursuant to an allocation system created by implementing legislation, each county is required to levy the maximum ad valorem tax permitted by Article XIII A and to distribute the proceeds to local agencies.

Assessed valuation growth allowed under Article XIII A (new construction, change of ownership and up to 2% annual value growth) is allocated among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools share the growth of base revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenues from tax bases to such entities may be affected by the establishment of redevelopment agencies that, under certain circumstances, may be entitled to such revenues resulting from the upgrading of certain property values.

Under State law, any fee that exceeds the reasonable cost of providing the service for which the fee is charged may be considered a "special tax" that must be authorized by a two-thirds vote of the electorate. Accordingly, if a portion of the SFPUC's wastewater user rates or capacity charges were determined by a court to exceed the reasonable cost of providing service, the SFPUC would not be permitted to continue to collect that portion unless it were authorized to do so by a two-thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. If the SFPUC were unable to obtain such a two-thirds majority vote and were unable to reduce costs, such failure could adversely affect the SFPUC's ability to pay the debt service on the Bonds.

The United States Supreme Court has upheld Article XIII A against a challenge alleging violation of equal protection under the Fourteenth Amendment to the United States Constitution.

Proposition 218

Proposition 218, a State ballot initiative known as the "Right to Vote on Taxes Act," was approved by the voters on November 5, 1996. The initiative added Articles XIII C and XIII D to the California Constitution, creating additional requirements for the imposition by most local governments of "general taxes," "special taxes," "assessments," "fees," and "charges." Articles XIII C and XIII D became effective, pursuant to their terms, as of November 6, 1996, although compliance with some of the provisions was deferred until July 1, 1997, and certain of the provisions purport to apply to any tax imposed for general governmental purposes (i.e., "general taxes") imposed, extended or increased on or after January 1, 1995 and prior to November 6, 1996.

Article XIII D imposes substantive and procedural requirements on the imposition, extension or increase of any "fee" or "charge" subject to its provisions. A "fee" or "charge" subject to Article XIII D includes any levy, other than an ad valorem tax, special tax or assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIII D prohibits, among other things, the imposition of any proposed fee or

charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required not less than 45 days following the public hearing on any such proposed new or increased fee or charge.

The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal. 4th 409 (2004) ("Richmond"), and *Bighorn-Desert View Water Agency vs. Verjil*, 39 Cal. 4th 206 (2006) ("Bighorn") have clarified uncertainty surrounding the applicability of Section 6 of Article XIII D to service fees and charges. In *Richmond*, the Shasta Community Services District charged a water connection fee, which included a capacity charge for capital improvements to the water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIII D because a water connection fee is not a property-related fee or charge because it results from the property owner's voluntary decision to apply for the connection. In both *Richmond* and *Bighorn*, however, the Court stated that a fee for ongoing water service through an existing connection is imposed "as an incident of property ownership" within the meaning of Article XIII D, rejecting, in *Bighorn*, the water agency's argument that consumption-based water charges are not imposed "as an incident of property ownership" but as a result of the voluntary decisions of customers as to how much water to use.

The SFPUC provides public notice of proposed wastewater rate increases in accordance with the requirements of Article XIII D through means that include, among others, holding informational presentations at community group meetings, mailings to residential and commercial customers of public hearings on rate increases, and press releases and media campaigns regarding rate increases, followed by public hearings conducted by the SFPUC's Rate Fairness Board and by the SFPUC itself. The SFPUC also develops and adopts retail utility user rates and fees in accordance with the requirements of Article XIII D(6)(b) that limit property-related fees and charges. Article XIII C extends the people's initiative power to reduce or repeal previously authorized local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIII C to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. In *Bighorn*, the Court concluded that under Article XIII C local voters by initiative may reduce a public agency's water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was not determining whether the electorate's initiative power is subject to the public agency's statutory obligation to set water service charges at a level that will "pay the operating expenses of the agency, ... provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due."

The courts have not fully interpreted the provisions of Proposition 218. The SFPUC is unable to predict how courts will further interpret Article XIII C and Article XIII D, and what, if any, further implementing legislation will be enacted. Under the *Bighorn* case, City voters could adopt an initiative measure that reduces or repeals the SFPUC's wastewater rates and charges, though it is not clear whether (and courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonded indebtedness. There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIII C and Article XIII D to limit the ability of the SFPUC to impose, levy, charge and collect increased fees and charges for the Wastewater Enterprise, or to call into question wastewater rate increases previously adopted by the SFPUC. No assurance may be given that Articles XIII C and XIII D will not have a material adverse impact on Revenues.

Charter Limitations

The Charter requires that bonds (such as the Bonds) secured by revenues, other than refunding bonds, may be issued only with the assent of a majority of voters. However, under the Charter amendments enacted by the voters in November 2002 (Proposition E), the SFPUC may issue revenue bonds, including notes, commercial paper or other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors, for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or wastewater facilities or combinations of water and wastewater facilities under the jurisdiction of the SFPUC (and

subject to the further conditions contained in Proposition E). See "OBLIGATIONS PAYABLE FROM REVENUES—Authority for Issuance of Revenue Bonds and Other Obligations Payable from Revenues."

In June 1998 the electorate of the City approved Proposition H which, subject to certain exceptions, including a limited exception to raise rates to pay debt service on voter-approved debt, froze the SFPUC's water rates through July 1, 2006. The SFPUC can give no assurance that the electorate will not seek in the future to freeze or limit rate increases.

Initiative, Referendum and Charter Amendments

General. Article XIII A and Articles XIII C and XIII D of the California Constitution were adopted pursuant to the State's constitutional initiative process. From time to time other initiative measures could be adopted by State voters, or by voters of the City, placing additional limitations on the ability of the SFPUC to increase revenues.

Proposition 26. Proposition 26 was recently approved by the electorate at the November 2, 2010 election. Proposition imposes a two-thirds voter approval requirement for the imposition of fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. The initiative was designed to prevent the circumvention of tax limitations imposed by the voters pursuant to Proposition 13, approved in 1978, and other measures through the use of non-tax fees and charges.

Proposition 26 expressly excludes "a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the [State/local government] of providing the service or product to the payor" and "assessments and property-related fees imposed in accordance with the provisions of Article XIII D." The SFPUC believes that the initiative is not intended to and would not apply to fees for utility services charged by the SFPUC. The SFPUC, however, is unable to predict whether Proposition 26 will be interpreted by the courts to apply to the provision of utility services by local governments such as the SFPUC.

Future Charter Amendments. The voters could adopt additional Charter amendments in the future that could limit the ability of the SFPUC to issue debt, affect the operation of the Wastewater Enterprise, limit the ability of the SFPUC to enact rate increases, or implement other changes affecting the SFPUC and the Wastewater Enterprise.

LITIGATION

The SFPUC is not aware of any litigation pending or threatened questioning the political existence of the City or the SFPUC or contesting the SFPUC's power to fix water rates and charges, or in any way questioning or affecting:

- (i) the proceedings under which the 2013 Series A Bonds are to be issued;
- (ii) the validity of any provision of the 2013 Series A Bonds or the Indenture;
- (iii) the pledge of Revenues by the SFPUC under the Indenture; or
- (iv) the titles to office of the present members of the Board of Supervisors and the Commission.

There are a number of suits and claims pending against the City and the SFPUC, which may include personal injury, wrongful death and other suits and claims against which the City may self-insure. The aggregate amount of the self-insured liabilities of the City and the SFPUC which may result from such suits and claims will not, in the opinion of the City Attorney, materially impair the ability of the SFPUC to pay principal of or interest on the Bonds as they become due. There is no litigation pending, with service of process having been accomplished, against the City or the SFPUC which if determined adversely to the City or the SFPUC would, in the opinion of the City Attorney, materially impair the ability of the SFPUC to pay principal of and interest on the Bonds as they become due.

TAX MATTERS

General

In the opinion of Sidley Austin LLP, San Francisco, California, and Curlls Bartling P.C., Oakland, California, Co-Bond Counsel to the SFPUC, based on existing statutes, regulations, rulings and judicial decisions, and assuming compliance by the SFPUC with certain covenants in the Indenture and other documents pertaining to the 2013 Series A Bonds and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the 2013 Series A Bonds and the timely payment of certain investment earnings to the United States, interest on the 2013 Series A Bonds is not includable in the gross income of the owners of the 2013 Series A Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the 2013 Series A Bonds to be included in gross income retroactively to the date of issuance of the 2013 Series A Bonds.

In the further opinion of Co-Bond Counsel, interest on the 2013 Series A Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the 2013 Series A Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Co-Bond Counsel express no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the 2013 Series A Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Indenture or in other documents pertaining to the 2013 Series A Bonds may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Co-Bond Counsel express no opinion as to the effect of any change to any document pertaining to the 2013 Series A Bonds or of any action

taken or not taken where such change is made or action is taken or not taken without the approval of Sidley Austin LLP and Curls Bartling P.C., or in reliance upon the advice of counsel other than Sidley Austin LLP and Curls Bartling P.C., with respect to the exclusion from gross income of the interest on the 2013 Series A Bonds for federal income tax purposes.

Original Issue Discount

The initial public offering price of certain of the 2013 Series A Bonds (the "Discount 2013 Series A Bonds") may be less than the principal amount of the Discount 2013 Series A Bonds. The difference between the principal amount of a Discount 2013 Series A Bond and its initial public offering price is original issue discount. Original issue discount on a Discount 2013 Series A Bond accrues over the term of such Discount 2013 Series A Bond at a constant interest rate. To the extent it has accrued, original issue discount on a Discount 2013 Series A Bond is treated as interest excludable from gross income for federal income tax purposes under the conditions and limitations described above. The amount of original issue discount that accrues on a Discount 2013 Series A Bond in each year is not an item of tax preference for purposes of calculating federal alternative minimum taxable income, but is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. Additionally, such accrued original issue discount is taken into account in determining the distribution requirements of certain regulated investment companies. Consequently, owners of Discount 2013 Series A Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner may not have received cash in such year.

The accrual of original issue discount on a Discount 2013 Series A Bond will increase the owner's adjusted basis in such Discount 2013 Series A Bond. This will affect the amount of taxable gain or loss realized by the owner of the Discount 2013 Series A Bond upon the redemption, prepayment, sale or other disposition of such Discount 2013 Series A Bond. The effect of the accrual of original issue discount on the federal income tax consequences of a redemption, prepayment, sale or other disposition of a Discount 2013 Series A Bond that is not purchased at the initial public offering price may be determined according to rules that differ from those described above. Owners of Discount 2013 Series A Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of original issue discount that properly accrues with respect to the Discount 2013 Series A Bonds, other federal income tax consequences of owning and disposing of the Discount 2013 Series A Bonds and any state and local tax consequences of owning and disposing of the Discount 2013 Series A Bonds.

Original Issue Premium

The excess, if any, of the tax adjusted basis of 2013 Series A Bonds purchased as part of the initial public offering to a purchaser (other than a purchaser who holds such 2013 Series A Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." Bond premium is amortized over the term of such 2013 Series A Bonds for federal income tax purposes (or, in the case of a bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). Owners of 2013 Series A Bonds with bond premium are required to decrease their adjusted basis in such 2013 Series A Bonds by the amount of amortizable bond premium attributable to each taxable year such 2013 Series A Bonds are held. The amortizable bond premium on such 2013 Series A Bonds attributable to a taxable year is not deductible for federal income tax purposes; however, bond premium is treated as an offset to the interest received on such 2013 Series A Bonds. Owners of such 2013 Series A Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premium upon sale or other disposition of such 2013 Series A Bonds and with respect to the state and local tax consequences of owning and disposing of such 2013 Series A Bonds.

Information Reporting and Backup Withholding

Interest paid on the 2013 Series A Bonds will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, such reporting requirement causes

the payment of interest on the 2013 Series A Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the Internal Revenue Service (the "IRS") as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner's federal income tax liability so long as the required information is furnished to the IRS.

State Tax Exemption

In the further opinion of Co-Bond Counsel, interest on the 2013 Series A Bond is exempt from personal income taxes imposed by the State of California.

Future Developments

Future or pending legislative proposals, if enacted, regulations, rulings or court decisions may cause interest on the 2013 Series A Bonds to be subject, directly or indirectly, to federal income taxation or to State or local income taxation, or may otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Legislation or regulatory actions and future or pending proposals may also affect the economic value of the federal or State tax exemption or the market value of the 2013 Series A Bonds. Prospective purchasers of the 2013 Series A Bonds should consult their tax advisors regarding any future, pending or proposed federal or State tax legislation, regulations, rulings or litigation as to which Co-Bond Counsel expresses no opinion.

For example, based on a proposal by the President, the Senate Majority Leader introduced a bill, S. 1549 (the "Proposed Legislation"), which, if enacted, would subject interest on bonds that is otherwise excludable from gross income for federal income tax purposes, including interest on the 2013 Series A Bonds, to a tax payable by certain bondholders that are individuals, estates or trusts with adjusted gross income in excess of thresholds specified in the Proposed Legislation in tax years beginning after December 31, 2012. The Proposed Legislation would also provide special rules for such bondholders that are also subject to the alternative minimum tax. It is unclear if the Proposed Legislation will be enacted, whether in its current or an amended form, or if other legislation that would subject interest on the 2013 Series A Bonds to a tax or cause interest on the 2013 Series A Bonds to be included in the computation of a tax, will be introduced or enacted. Prospective purchasers should consult their tax advisors as to the effect of the Proposed Legislation, if enacted, in its current form or as it may be amended, or such other legislation on their individual situations.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, sale and delivery of the 2013 Series A Bonds are subject to the approval of Sidley Austin LLP, San Francisco, California, and Curls Bartling P.C., Oakland, California, Co-Bond Counsel to the SFPUC. Certain legal matters are being passed upon for the SFPUC by the City Attorney and by Jones Hall, A Professional Law Corporation, San Francisco, California, Disclosure Counsel. Co-Bond Counsel and Disclosure Counsel will receive compensation that is contingent upon the sale and delivery of the 2013 Series A Bonds.

The form of approving opinion of Co-Bond Counsel is set forth in APPENDIX D, and will be available at the time of delivery of the 2013 Series A Bonds. Co-Bond Counsel is not passing upon and undertakes no responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

Jones Hall, A Professional Law Corporation, has served as Disclosure Counsel to the SFPUC and in such capacity has advised the SFPUC with respect to the requirements of applicable securities laws and participated with responsible SFPUC officials and staff in conferences and meetings where information contained in this Official Statement was reviewed for accuracy and completeness. Disclosure Counsel is not responsible for the accuracy or completeness of the information presented in this Official Statement and has not undertaken to independently verify any of such information. Rather, the SFPUC is solely responsible for the accuracy and completeness of the information contained in this Official Statement. Upon the issuance of the 2013 Series A Bonds, Jones Hall will deliver a letter to the SFPUC concerning certain matters with respect to the Official Statement. No purchaser or holder of the 2013 Series A Bonds, or other person or party other than the SFPUC, will be entitled to rely on such letter or on the fact that Jones Hall has acted as Disclosure Counsel to the SFPUC.

RATINGS

Moody's Investors Service ("Moody's") has assigned its municipal bond rating of "___" to the 2013 Series A Bonds, and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), has assigned its municipal bond rating of "___" to the 2013 Series A Bonds.

The ratings assigned by Moody's and Standard & Poor's express only the views of the respective rating agencies. The explanation of the significance of these ratings, and any outlook associated with these ratings, may be obtained from Moody's and Standard & Poor's, respectively. Each rating agency generally bases its rating on its own investigations, studies, and assumptions. The SFPUC has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2013 Series A Bonds. The SFPUC undertakes no responsibility to maintain its current ratings on the 2013 Series A Bonds or to oppose any such downward revision, suspension or withdrawal.

UNDERWRITING

The 2013 Series A Bonds are being purchased by _____ (the "2013 Series A Underwriter") as winner of a competitive bid conducted on _____, 2013. The 2013 Series A Underwriter has agreed to purchase the 2013 Series A Bonds from the SFPUC at a purchase price of \$ _____ (consisting of \$ _____ aggregate principal amount of the 2013 Series A Bonds, plus original issue premium of \$ _____, less an underwriter's discount of \$ _____). Under the terms of its bid, the 2013 Series A Underwriter will be obligated to purchase all of the 2013 Series A Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions to be satisfied by the SFPUC.

The Underwriter has certified the reoffering prices or yields set forth on the inside cover hereof. The SFPUC takes no responsibility for the accuracy of these prices or yields. The Underwriter may offer and sell the

2013 Series A Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriters.

FINANCIAL STATEMENTS

Attached as APPENDIX C are the audited financial statements of the Wastewater Enterprise (the "Financial Statements") for Fiscal Years 2010-11 and 2011-12, prepared by the SFPUC and audited by KPMG LLP, independent certified public accountants, San Francisco, California (the "Auditor"). The financial statements are included for convenience.

The SFPUC has not requested nor did the SFPUC obtain permission from the Auditor to include the audited financial statements as an Appendix to this Official Statement. Accordingly, the Auditor has made no representation in connection with inclusion of the audits herein that there has been no material change in the financial condition of the SFPUC since the most recent audit was concluded. The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Official Statement.

CONTINUING DISCLOSURE

The SFPUC has covenanted for the benefit of the owners and beneficial owners of the 2013 Series A Bonds, under a Continuing Disclosure Certificate dated as of the Closing Date, to provide certain financial information and operating data (an "Annual Report") not later than nine months following the end of its Fiscal Year (presently June 30), beginning on March 31, 2013, with the report for Fiscal Year 2011-12, and to promptly provide notices of the occurrence of certain enumerated events set forth in the Continuing Disclosure Certificate ("Listed Events").

The SFPUC will file the Annual Report and any notice of Listed Events as described in the Continuing Disclosure Certificate. The specific nature of the information to be contained in the Annual Report or the notices of Listed Events is set forth in the Continuing Disclosure Certificate. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the "Rule"). The form of the Continuing Disclosure Certificate is attached to this Official Statement as APPENDIX E.

The SFPUC has never failed to comply in all material respects with its prior continuing disclosure undertakings under the Rule.

CO-FINANCIAL ADVISORS

Public Resources Advisory Group, Los Angeles, California, and Kitahata & Company, San Francisco, California (the "Co-Financial Advisors"), have served as Co-Financial Advisors to the SFPUC in connection with the structuring and delivery of the 2013 Series A Bonds. The Co-Financial Advisors participated with responsible SFPUC officials and staff in conferences and meetings where information contained in this Official Statement was reviewed for accuracy and completeness, but are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Co-Financial Advisors will receive compensation that is contingent upon the sale and delivery of the 2013 Series A Bonds.

VERIFICATION OF MATHEMATICAL ACCURACY

Upon delivery of the 2013 Series A Bonds, Causey Demgen & Moore P.C., Denver, Colorado, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them on behalf of the SFPUC, relating to (a) the sufficiency of the anticipated receipts from the cash deposited in the Escrow Fund to prepay the 2003 Series A Bonds in full, and (b) the "yield" on the investments deposited in the Escrow Fund and on the 2003 Series A Bonds considered by co-Bond Counsel in connection with the opinion rendered by such firm that the 2003 Series A Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended.

APPROVAL AND EXECUTION

This Official Statement has been duly approved, executed and delivered by the SFPUC.

**PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO**

By: _____
Harlan L. Kelly, Jr.
General Manager

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

This Appendix includes summaries of certain provisions of the Indenture, which are in addition and complementary to the summaries found under "INTRODUCTION," "THE 2013 SERIES A BONDS" and "SECURITY FOR THE BONDS" in the Official Statement. The following summaries are qualified in their entirety by reference to the Indenture, a copy of which can be obtained from the Commission.

APPENDIX B

SUMMARIES OF CERTAIN LOCAL INITIATIVES (PROPOSITIONS E AND P)

Proposition E – Alternative Method for Issuing Revenue Bonds/Establishment of Rate Fairness Board

Authority to Issue Revenue Bonds. Proposition E, approved by San Francisco voters on November 5th, 2002, which has been incorporated into the San Francisco Charter as Sections 8B.120 – 8B.127, provides for additional authority for the SFPUC to issue revenue bonds, including notes, commercial paper or other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors of the City, for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities or combinations of water and clean water facilities under the jurisdiction of the SFPUC. Proposition E authorizes the Board of Supervisors to take any and all actions necessary to authorize, issue and repay such revenue bonds, including, but not limited to, modifying schedules of rates and charges to provide for the payment and retirement of such bonds. Issuance of such revenue bonds is subject to the following additional conditions set forth in Proposition E:

Notwithstanding any other provision of the Charter or of any ordinance of the City, the Board of Supervisors may take any and all actions necessary to authorize, issue and repay such bonds, including, but not limited to, modifying schedules of rates and charges to provide for the payment and retirement of such bonds, subject to the following conditions:

(a) Certification by an independent engineer retained by the SFPUC that:

(1) the projects to be financed by the bonds, including the prioritization, cost estimates and scheduling, meet utility standards; and

(2) that estimated net revenue after payment of operating and maintenance expenses will be sufficient to meet debt service coverage and other indenture or resolution requirements, including debt service on the bonds to be issued, and estimated renewal and replacement costs.

(b) Certification by the San Francisco Planning Department that facilities under the jurisdiction of the SFPUC funded with such bonds will comply with applicable requirements of the California Environmental Quality Act.

Setting Rates. The SFPUC is required under Proposition E to set rates, fees and other charges in connection with providing the utility services under its jurisdiction, subject to rejection — within thirty days of submission — by resolution of the Board of Supervisors. If the Board of Supervisors fails to act within thirty days the rates will become effective without further action.

Under Proposition E, in setting retail rates, fees and charges (for water, sewer and power utility services) the SFPUC is required to take the following actions:

1. Establish rates, fees and charges at levels sufficient to improve or maintain financial condition and bond ratings at or above levels equivalent to highly rated utilities of each enterprise under its jurisdiction, meet requirements and covenants under all bond resolutions and indentures, and provide sufficient resources for the continued financial health (including appropriate reserves), operation, maintenance and repair of each enterprise, consistent with good utility practice,

2. Retain an independent rate consultant to conduct rate and cost of service studies for each utility at least every five years;

3. Set retail rates, fees and charges based on the cost of service;

4. Conduct all studies mandated by applicable state and federal law to consider implementing connection fees for water and clean water facilities servicing new development;

5. Conduct studies of rate-based conservation incentives and/or lifeline rates and similar rate structures to provide assistance to low income users, and take the results of such studies into account when establishing rates, fees and charges, in accordance with applicable state and federal laws;

6. Adopt annually a rolling 5-year forecast of rates, fees and other charges; and

7. Establish a Rate Fairness Board.

Rate Fairness Board. Proposition E also directed the establishment of a Rate Fairness Board to advise the SFPUC on water and sewer rate matters. These provisions went into effect on July 1, 2006, with respect to water rates. Specific duties for the Rate Fairness Board include:

- annual review of a five-year rate forecast;
- hold one or more public hearings on annual rate recommendations before the SFPUC adopts rates;
- provide a report and recommendations to the SFPUC on the rate proposal; and,
- in connection with periodic rate studies, submit to the SFPUC rate policy recommendations for the SFPUC's consideration, including recommendations to reallocate costs among various retail utility customer classifications, subject to any outstanding bond requirements.

Proposition P – Revenue Bond Oversight Committee

On November 5, 2002, the voters of San Francisco adopted Proposition P, an ordinance that established the "Public Utilities Revenue Bond Oversight Committee" ("RBOC"). The ordinance, which has been incorporated into the San Francisco Administrative Code as Chapter 5, Article V, Sections 5A.30 – 5A.36, set forth the authority, duties and responsibilities of the RBOC, and established qualifications for Rate Fairness Board membership and related provisions. As approved currently, the RBOC sunsets on January 1, 2013.

In accordance with the provisions of Proposition P, to the extent permitted by law, one-twentieth of one percent of the gross proceeds of the SFPUC's Wastewater Revenue Bonds (the "Bonds") shall be deposited in a fund established by the Controller's Office and appropriated by the Board at the direction of the RBOC established by Proposition P to cover the costs of said committee; provided that any amounts so paid from the proceeds of Bonds that have not been spent by RBOC in connection with such Bonds (as contemplated by Article 5A.31(c) of the Administrative Code) within 36 months of the date of issuance of such Bonds shall be returned to the SFPUC for deposit into the Capital Project Fund (as such term is defined in the Indenture) and expended by the SFPUC to acquire and construct improvements.

APPENDIX C

SFPUC WASTEWATER ENTERPRISE FINANCIAL STATEMENTS

APPENDIX D

PROPOSED FORMS OF OPINIONS OF CO-BOND COUNSEL

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

OFFICIAL STATEMENT

§ _____
PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS,
2013 SERIES A
(REFUNDING)

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Public Utilities Commission of the City and County of San Francisco (the "SFPUC") in connection with the issuance of the wastewater revenue bonds captioned above (the "2013 Series A Bonds"). The 2013 Series A Bonds are being issued pursuant to an Indenture dated as of January 1, 2003, between the SFPUC and U.S. Bank National Association, as trustee (the "Trustee"), as amended and supplemented, including as amended and supplemented by a Second Supplemental Indenture dated as of _____ 1, 2013, by and between the SFPUC and the Trustee (collectively, the "Indenture").

The SFPUC covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the SFPUC for the benefit of the Holders and Beneficial Owners of the 2013 Series A Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission (the "S.E.C.") Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the SFPUC pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person that: (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2013 Series A Bonds (including persons holding 2013 Series A Bonds through nominees, depositories or other intermediaries) including, but not limited to, the power to vote or consent with respect to any 2013 Series A Bonds or to dispose of ownership of any 2013 Series A Bonds; or (b) is treated as the owner of any 2013 Series A Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the SFPUC, acting in its capacity as Dissemination Agent under this Disclosure Certificate, or any successor Dissemination Agent designated in writing by the SFPUC and which has filed with the SFPUC a written acceptance of such designation.

"Holder" shall mean either the registered owners of the 2013 Series A Bonds, or, if the 2013 Series A Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive continuing disclosure filings pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the final Official Statement, dated _____, 2013, prepared in connection with the sale and offering of the 2013 Series A Bonds.

“Participating Underwriter” shall mean any of the original underwriters or purchasers of the 2013 Series A Bonds required to comply with the Rule in connection with the offering of the 2013 Series A Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The SFPUC shall, or shall cause the Dissemination Agent to, not later than 9 months after the end of the SFPUC’s fiscal year (which currently ends June 30), commencing March 31, 2013, with the report for the 2011-12 Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is not the SFPUC, the SFPUC shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. However, if the audited financial statements of the SFPUC are not available by the date required above for the filing of the Annual Report, the SFPUC shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the SFPUC’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the SFPUC is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the SFPUC shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the SFPUC), file a report with the SFPUC certifying the date that the Annual Report was provided to the MSRB pursuant to this Disclosure Certificate.

SECTION 4. Content of Annual Reports. SFPUC’s Annual Report shall contain or incorporate by reference the following information:

(a) Audited Financial Statements of the municipal water supply, storage and distribution system of the SFPUC for the prior fiscal year, prepared in accordance with generally accepted accounting principles applicable to the SFPUC from time to time. If the SFPUC’s audited financial statements are not available by the date the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(b) An update for the prior fiscal year of the table in the Official Statement entitled “TABLE __, HISTORICAL SEWER RATES”;

(c) An update for the prior fiscal year of the table in the Official Statement entitled “TABLE __, SUMMARY OF SEWER ACCOUNTS AND BILLING BY USER TYPE”;

(d) An update for the prior fiscal year of the table in the Official Statement in the section entitled “OBLIGATIONS PAYABLE FROM REVENUES – Outstanding Parity Revenue Bonds” showing all bonds and other obligations of the SFPUC secured by Net Revenues; and

(e) An update for the prior fiscal year of the table in the Official Statement entitled “TABLE __, HISTORICAL REVENUES, OPERATING & MAINTENANCE EXPENSES AND DEBT SERVICE COVERAGE.”

Any or all of the items listed above may be set forth in a document or set of documents, or may be included by specific reference to other documents, including official statements of debt issues of the SFPUC or related public entities, which are available to the public on the MSRB website. If the document included by reference is a final official statement, it must be available from the MSRB. The SFPUC shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The SFPUC shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the 2013 Series A Bonds:

1. Principal and interest payment delinquencies.
2. Non payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2013 Series A Bonds, or other material events affecting the tax exempt status of the 2013 Series A Bonds.
7. Modifications to rights of security holders, if material.
8. Bond calls, if material, and tender offers.
9. Defeasances.
10. Release, substitution, or sale of property securing repayment of the 2013 Series A Bonds, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership or similar event of the SFPUC.
13. The consummation of a merger, consolidation, or acquisition involving the SFPUC or the sale of all or substantially all of the assets of the SFPUC, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the SFPUC obtains knowledge of the occurrence of a Listed Event, and, if the Listed Event is described in subsections (a)(2), (a)(6), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13) or (a)(14) above, the SFPUC determines that knowledge of the occurrence of that Listed Event would be material under applicable federal securities law, the SFPUC shall, or shall cause the Dissemination Agent (if not the SFPUC) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in

subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected 2013 Series A Bonds under the Indenture.

(c) For purposes of this Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the SFPUC in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the SFPUC, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of said party.

SECTION 6. Termination of Reporting Obligation. The SFPUC's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2013 Series A Bonds. If such termination occurs prior to the final maturity of the 2013 Series A Bonds, the SFPUC shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The SFPUC may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the SFPUC may amend or waive this Disclosure Certificate or any provision of this Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 2013 Series A Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of the City Attorney or nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2013 Series A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the owners of a majority in aggregate principal amount of the 2013 Series A Bonds or (ii) does not, in the opinion of the City Attorney or nationally recognized bond counsel, materially impair the interests of the Holders.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the SFPUC shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the SFPUC. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the SFPUC from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the SFPUC chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in

addition to that which is specifically required by this Disclosure Certificate, the SFPUC shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the SFPUC to comply with any provision of this Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the 2013 Series A Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the SFPUC to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in a federal or State court located in the City and County of San Francisco, State of California. Failure by the SFPUC to comply with any provision of this Disclosure Certificate shall not be deemed an Event of Default under the Indenture and the sole remedy under this Disclosure Certificate in the event of any failure of the SFPUC to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the SFPUC, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the 2013 Series A Bonds, and shall create no rights in any other person or entity.

Date: _____, 2013.

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

By _____
Harlan L. Kelly, Jr.
General Manager

Approved as to Form:

DENNIS J. HERRERA
CITY ATTORNEY

By: _____
Deputy City Attorney

CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A

FORM OF NOTICE TO THE
MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

Name of Issue: WASTEWATER REVENUE BONDS, 2013 SERIES A (REFUNDING)

Date of Issuance: _____, 2013

NOTICE IS HEREBY GIVEN that the SFPUC has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the Public Utilities Commission of the City and County of San Francisco, dated _____, 2013. The SFPUC anticipates that the Annual Report will be filed by _____.

Dated: _____

PUBLIC UTILITIES COMMISSION OF THE CITY AND
COUNTY OF SAN FRANCISCO

By: _____ [to be signed only if filed]
Title _____

APPENDIX F

SECURITIES DEPOSITORY AND BOOK-ENTRY SYSTEM

The information in this APPENDIX has been provided by DTC for use in securities offering documents, and the SFPUC takes no responsibility for the accuracy or completeness thereof. The SFPUC cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the beneficial owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

As used in this Appendix, "Securities" means the 2013 Series A Bonds, "Issuer" means the SFPUC, and "Agent" means the Trustee.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing organization" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information contained on this Internet site is not incorporated herein by reference.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2012

NEW ISSUE—Book-Entry Only

Ratings:
 S&P: “_____”
 Moody’s: “_____”
 See “RATINGS”

In the opinion of Sidley Austin LLP, San Francisco, California, and Curis Bartling P.C., Oakland, California, Co-Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents pertaining to the 2013 Series B Bonds and requirements of the Internal Revenue Code of 1986 (the “Code”), as amended, as described herein, interest on the 2013 Series B Bonds is not includable in the gross income of the owners of such Bonds for federal income tax purposes. In the further opinion of Co-Bond Counsel, interest on the 2013 Series B Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the 2013 Series B Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation’s alternative minimum tax liability. In the further opinion of Co-Bond Counsel, interest on the 2013 Series B Bonds is exempt from personal income taxes imposed by the State of California. Co-Bond Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of, interest on the 2013 Series B Bonds. See “TAX MATTERS.”



\$ _____
 Public Utilities Commission
 of the City and County of San Francisco
 Wastewater Revenue Bonds,
 2013 Series B

Dated: Date of Delivery

Due: October 1, as shown on inside front cover

General. This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of the wastewater revenue bonds captioned above (the “2013 Series B Bonds”). Investors are instructed to read the entire Official Statement to obtain information essential to making an informed investment decision.

Authority for Issuance. The Public Utilities Commission of the City and County of San Francisco (the “SFPUC”) is issuing the 2013 Series B Bonds pursuant to authority granted by the Charter of the City and County of San Francisco (the “City”), through Proposition E approved by voters of the City on November 5, 2002, and under a Third Supplemental Indenture dated as of _____, 2013, by and between the SFPUC and U.S. Bank National Association, as trustee (the “Trustee”), and which supplements the Indenture dated as of January 1, 2003, by and between the SFPUC and the Trustee (as supplemented and amended to date, the “Indenture”). See “SECURITY FOR THE BONDS.”

Purposes. The 2013 Series B Bonds are being issued primarily to finance and refinance (through the retirement of commercial paper notes) certain capital projects benefitting the Wastewater Enterprise (as defined herein). Proceeds of the 2013 Series B Bonds will also be applied to pay the costs of issuance of the 2013 Series B Bonds. See “PLAN OF FINANCE.”

Denominations and Interest. The 2013 Series B Bonds will be available in the denominations of \$5,000 or any integral multiple thereof and will mature in the years and amounts and accrue interest from their date of delivery at the rates set forth on the inside cover page of this Official Statement. Interest on the 2013 Series B Bonds is payable semiannually on April 1 and October 1 of each year, commencing April 1, 2013. See “THE 2013 SERIES B BONDS.”

Book-Entry Only. The 2013 Series B Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to the ultimate purchasers (the “Beneficial Owners”), under the book-entry system maintained by DTC. Beneficial Owners will not receive physical certificates representing their interests in the 2013 Series B Bonds. The principal of, premium, if any, and interest on the 2013 Series B Bonds are payable to DTC by the Trustee, and, so long as DTC is acting as securities depository for the 2013 Series B Bonds, disbursements of such payments to DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC Participants. See “THE 2013 SERIES B BONDS.”

Redemption. The 2013 Series B Bonds are subject to optional and mandatory sinking fund redemption prior to maturity. See “THE 2013 SERIES B BONDS – Redemption.”

Security. Under the Indenture, the SFPUC has irrevocably pledged the Net Revenues of its Wastewater Enterprise to the punctual payment of principal of, premium, if any, and interest on the Bonds, which consist of all outstanding parity revenue bonds issued under the Indenture, including the 2013 Series B Bonds, subject to the allocation of funds provided in the Indenture. The 2013 Series B Bonds are payable on a parity with certain Outstanding Bonds previously issued by the SFPUC under the Indenture. See “SECURITY FOR THE BONDS.”

Limited Obligation. The SFPUC is not obligated to pay the principal of, premium, if any, or interest on the 2013 Series B Bonds from any source of funds other than Net Revenues. The SFPUC has no taxing power. The General Fund of the City is not liable for the payment of the principal of, premium, if any, or interest on the 2013 Series B Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of, premium, if any, or interest on the 2013 Series B Bonds. The 2013 Series B Bonds are not secured by a legal or equitable pledge of, or charge, lien, or encumbrance upon, any of the property of the City or of the SFPUC or any of its income or receipts, except Net Revenues. See “SECURITY FOR THE BONDS.”

MATURITY SCHEDULE

(See inside cover)

The 2013 Series B Bonds will be sold through a competitive sale anticipated to be held on _____, 2013.

The 2013 Series B Bonds are offered when, as and if issued by the SFPUC and received by the successful bidder, subject to the approval of validity by Sidley Austin LLP, San Francisco, California, and Curis Bartling P.C., Oakland, California, Co-Bond Counsel to the SFPUC, and to certain other conditions. Certain matters will be passed upon for the SFPUC and the City by Jones Hall, A Professional Law Corporation, San Francisco, California, Disclosure Counsel, and by the City Attorney of the City and County of San Francisco. Public Resources Advisory Group, Los Angeles, California, and Kitahata & Company, San Francisco, California, Co-Financial Advisors to the SFPUC, assisted in the structuring of this financing. It is expected that the 2013 Series B Bonds in fully registered form will be available for delivery in book-entry form in New York, New York, on or about _____, 2013.

The date of this Official Statement is _____, 2013.

* Preliminary; subject to change.

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

MATURITY SCHEDULE*

2013 Series B Bonds
(Base CUSIP† Number: 79768H)

Maturity (October 1)	Principal Amount	\$ _____ Interest Rate	Serial Bonds	Yield**	Price**	CUSIP†
-------------------------	---------------------	------------------------------	--------------	---------	---------	--------

\$ _____ % Term Bonds Due October 1, 20___, Yield:** _____%, Price:** _____%
CUSIP† 79768H _____

** Reoffering prices and yields have been provided by the respective underwriters. See "UNDERWRITING."
† Copyright 2013, American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's, Financial Services LLC on behalf of the American Bankers Association, CUSIP Service. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are provided for convenience of reference only. Neither the SFPUC nor the Underwriters take any responsibility for the accuracy of such CUSIP numbers.

WASTEWATER ENTERPRISE MAJOR FACILITIES

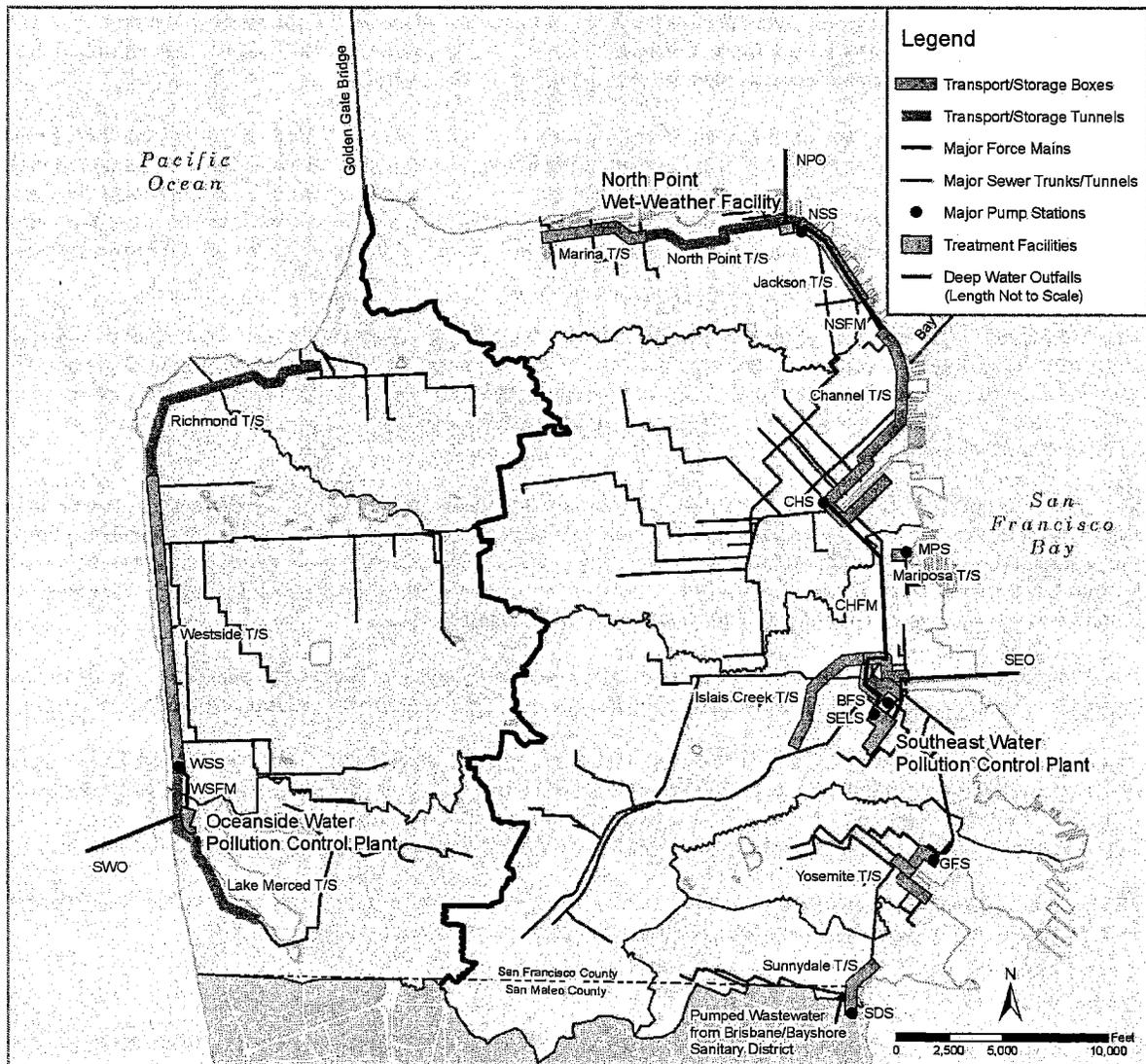


Figure 1-1 – SFPUC Wastewater Enterprise – Major Facilities (Not to Scale)

The 2013 Series B Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the SFPUC or of its income or receipts, except Net Revenues. See “SECURITY FOR THE BONDS.”

GENERAL INFORMATION

No dealer, broker, salesperson or other person has been authorized by the SFPUC to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the SFPUC.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2013 Series B Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the initial purchasers of the 2013 Series B Bonds. Any statement made in this Official Statement involving any forecast or matter of estimates or opinion, whether or not expressly so stated, is intended solely as such and not as a representation of fact.

The information set forth herein other than that provided by the SFPUC, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the SFPUC or the City since the date hereof.

The City maintains a website at <http://www.sfgov.org> and the SFPUC maintains a website at <http://www.sfwater.org>. In addition, certain information and reports found on other websites, and other information and reports, are referred to in this Official Statement. *The information and reports available on such websites, and the other referenced information and reports, are not incorporated by reference into this Official Statement and should not be relied upon in making an investment in the 2013 Series B Bonds.*

The issuance and sale of the 2013 Series B Bonds have not been registered under the Securities Act of 1933 in reliance upon the exemption provided thereunder by Section 3(a)2 for the issuance and sale of municipal securities.

IN CONNECTION WITH THE OFFERING OF THE 2013 SERIES B BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2013 SERIES B BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Official Statement is delivered for use in connection with the issuance, sale and delivery of the 2013 Series B Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND "FORWARD-LOOKING STATEMENTS." ALL FORWARD-LOOKING STATEMENTS ARE PREDICTIONS AND ARE SUBJECT TO KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES. NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS "ESTIMATE," "PROJECT," "ANTICIPATE," "EXPECT," "INTEND," "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. GIVEN THEIR UNCERTAINTY, INVESTORS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH STATEMENTS.

SAN FRANCISCO PUBLIC UTILITIES COMMISSION

Art Torres, President
Vince Courtney, Vice President
Ann Moller Caen, Commissioner
Anson Moran, Commissioner
Francesca Vietor, Commissioner

PUBLIC UTILITIES COMMISSION OFFICIALS

Harlan L. Kelly, Jr., General Manager
Michael Carlin, Deputy General Manager and Chief Operating Officer
Todd L. Rydstrom, Assistant General Manager, Business Services and Chief Financial Officer
Tommy T. Moala, Assistant General Manager, Wastewater Enterprise
Steven R. Ritchie, Assistant General Manager, Water Enterprise
Juliet Ellis, Assistant General Manager, External Affairs
Barbara Hale, Assistant General Manager, Power Enterprise
Jackson Wong, Acting Assistant General Manager, Infrastructure Division

CITY AND COUNTY OF SAN FRANCISCO

MAYOR

Edwin M. Lee

BOARD OF SUPERVISORS

David Chiu, Board President, District 3

John Avalos, District 11	Mark Farrell, District 2
David Campos, District 9	Jane Kim, District 6
Carmen Chu, District 4	Eric Mar, District 1
Malia Cohen, District 10	Christina Olague, District 5
Sean Elsbernd, District 7	Scott Wiener, District 8

CITY ATTORNEY

Dennis J. Herrera

CITY TREASURER

José Cisneros

OTHER CITY AND COUNTY OFFICIALS

Benjamin Rosenfield, Controller
Naomi Kelly, City Administrator

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San Francisco, California

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Jones Hall, A Professional Law Corporation
San Francisco, California

Trustee
U.S. Bank National Association
San Francisco, California

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OFFICIAL STATEMENT

§ _____ *

PUBLIC UTILITIES COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO WASTEWATER REVENUE BONDS, 2013 SERIES B

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the 2013 Series B Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined have the respective meanings assigned to them elsewhere in this Official Statement, including "APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

General

This Official Statement, including the cover page and Appendices hereto, is provided to furnish certain information in connection with the offering by the Public Utilities Commission of the City and County of San Francisco (the "SFPUC") of the wastewater revenue bonds captioned above (the "2013 Series B Bonds").

Authority for Issuance

The SFPUC is issuing the 2013 Series B Bonds pursuant to authority granted by the Charter (the "Charter") of the City and County of San Francisco (the "City"), under Proposition E, approved by the voters of the City on November 5, 2002, and a Third Supplemental Indenture, dated as of _____ 1, 2013 (the "Third Supplemental Indenture"), by and between the SFPUC and U.S. Bank National Association, as trustee (the "Trustee"), which supplements an Indenture, dated as of January 1, 2003 ("Original Indenture"), by and between the SFPUC and the Trustee, as amended by a First Supplemental Indenture dated as of May 1, 2010 (the "First Supplemental Indenture"), a First Amendment to Indenture, dated as of May 1, 2010 (the "First Amendment to Indenture"), and a Second Supplemental Indenture dated as of _____, 2013 (the "Second Supplemental Indenture"), each between the SFPUC and the Trustee. The Original Indenture, as amended and supplemented, and as supplemented by the Third Supplemental Indenture, are referred to herein collectively as the "Indenture."

The 2013 Series B Bonds are being issued under a resolution adopted by the SFPUC governing body (the "Commission") on _____, 2012, and under a resolution adopted by the Board of Supervisors of the City (the "Board of Supervisors") on _____, 2012.

See "OBLIGATIONS PAYABLE FROM REVENUES – Authority for Issuance of Revenue Bonds and Other Obligations Payable from Revenues."

Purposes

The 2013 Series B Bonds are being issued primarily to finance and refinance (through the retirement of commercial paper notes) select projects authorized in two capital improvement programs for the Wastewater Enterprise (as defined herein): the Capital Improvement Program (the "CIP") and Sewer System Improvement Program (the "SSIP"). See "CAPITAL IMPROVEMENT PROGRAM" and "SEWER SYSTEM IMPROVEMENT PROGRAM."

Proceeds of the 2013 Series B Bonds will also be applied to pay the costs of issuance of the 2013 Series B Bonds.

* Preliminary, subject to change.

See "PLAN OF FINANCE."

The SFPUC and the Wastewater Enterprise

The SFPUC is a department of the City responsible for the maintenance, operation and development of three utility enterprises. See "THE PUBLIC UTILITIES COMMISSION."

The Wastewater Enterprise provides sanitary wastewater and stormwater collection, treatment and disposal services to residential, commercial and industrial customers in the City, as well as three municipal sewer service providers serving residents and businesses in northern San Mateo County. The Wastewater Enterprise's sanitary waste and stormwater collection, treatment and disposal services are provided through (i) a combined sanitary waste and stormwater system that collects sanitary waste and stormwater, (ii) three wastewater treatment plants and (iii) effluent outfalls to the San Francisco Bay and Pacific Ocean. See "THE WASTEWATER ENTERPRISE."

The other two enterprises of the SFPUC deliver retail water services to the City and wholesale water to users in three other Bay Area counties, and power (predominantly hydroelectric) for City government operations and to other users. The revenues of these other two enterprises are not available for, and do not secure, payment of the principal, of premium, if any, or interest on the Bonds. See "THE PUBLIC UTILITIES COMMISSION."

Security for the Bonds

Under the Indenture, the SFPUC has irrevocably pledged the Net Revenues of the Wastewater Enterprise to the punctual payment of principal of, premium, if any, and interest on the Bonds (as defined below), which consist of any parity revenue bonds issued under the Indenture, including the 2013 Series B Bonds and the outstanding Bonds described below, subject to the flow of funds contained in the Indenture. The 2013 Series B Bonds and all other Bonds are secured by a parity lien on Net Revenues. See "SECURITY FOR THE BONDS."

The Indenture defines "Net Revenues" as all Revenues (as defined in the Indenture), less all Operation and Maintenance Costs of the Wastewater Enterprise (as defined below), and less moneys required to be paid to the State pursuant to any Senior State Loans (as defined below). Revenues are generated principally from the sewer service charges to customers for the sanitary waste and stormwater collection, treatment and disposal services of the Wastewater Enterprise. Wastewater rates are set by the SFPUC, subject to rejection by resolution of the Board of Supervisors. See "FINANCIAL OPERATIONS."

The SFPUC is not obligated to pay the principal of, premium, if any, or interest on the 2013 Series B Bonds from any source of funds other than Net Revenues. The SFPUC has no taxing power. The General Fund of the City is not liable for the payment of the principal of, premium, if any, or interest on the 2013 Series B Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of, premium, if any, or interest on the 2013 Series B Bonds. The 2013 Series B Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or of the SFPUC or any of its income or receipts, except Net Revenues. See "SECURITY FOR THE BONDS."

Outstanding and Future Parity Bonds and Other Indebtedness

Parity Bonds. The SFPUC has issued three series of outstanding Bonds:

- wastewater revenue bonds captioned "Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series A" (the "2010 Series A Bonds"), which were issued in the aggregate principal amount of \$47,050,000 on June 8, 2010;

- wastewater revenue bonds captioned "Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series B (Federally Taxable – Build America Bonds – Direct Payment)" (the "2010 Series B Bonds"), which were issued in the aggregate principal amount of \$192,515,000 on June 8, 2010; and

• wastewater revenue bonds captioned “Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2013 Series A (Refunding)” (the “2013 Series A Bonds”), which were issued in the aggregate principal amount of \$ _____ on _____, 2013.

The Indenture permits, upon the satisfaction of certain conditions, the issuance of additional bonds secured by a pledge of Net Revenues (the “Additional Bonds”) on a parity with the 2010 Series A Bonds, the 2010 Series B Bonds, the 2013 Series A Bonds and the 2013 Series B Bonds. See “SECURITY FOR THE BONDS – Additional Series of Bonds.”

The 2010 Series A Bonds, the 2010 Series B Bonds, the 2013 Series A Bonds, the 2013 Series B Bonds and any Additional Bonds issued under the Indenture are referred to herein collectively as the “Bonds.”

State Loans. Under the Indenture, the SFPUC may enter into loan agreements with the State, and any board, department or agency thereof, in order to finance certain categories of projects relating to the facilities of the Wastewater Enterprise. These loans may be payable from Revenues prior to the payment of the Bonds (the “Senior State Loans”), or from Net Revenues on a parity with the Bonds (the “Parity State Loans”), or on a subordinated lien basis relative to the Bonds, as determined by the SFPUC.

See also “SECURITY FOR THE BONDS—Additional Senior and Parity Obligations” and “APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Risk Factors

Investment in the 2013 Series B Bonds is subject to material risks. For a general overview of certain risk factors which should be considered, in addition to other matters set forth in this Official Statement, in evaluating an investment in the 2013 Series B Bonds, see “RISK FACTORS.”

Debt Service Coverage

The Indenture provides that the SFPUC will, at all times while any of the Bonds remain Outstanding, establish, fix, prescribe and collect rates, fees and charges in connection with the sewage and stormwater collection, treatment and disposal services and facilities furnished by the Wastewater Enterprise so as to yield Net Revenues during the immediately ensuing period of twelve months which (together with any fund balances of the SFPUC or the Wastewater Enterprise which are available for payment of Debt Service and are not budgeted to be expended during such twelve months, but excluding the Bond Reserve Fund), calculated on a cash basis, are at least equal to 1.25 times the Annual Debt Service (but excluding any interest moneys for the payment of which have been deposited in the Interest Fund from the proceeds of any Series of Bonds or from any other source) for said twelve-month period. See “SECURITY FOR THE BONDS – Rate Covenants.”

Historical Debt Service Coverage. The following table contains a summary of historical debt service coverage for the Bonds. The calculation of debt service coverage includes net operating income and funds not budgeted to be spent in the next twelve months and legally available to pay debt service, as permitted under the Indenture.

Historical Coverage Calculation
(\$ thousands)

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Net Revenue per Indenture	\$72,813	\$71,130	\$63,995	\$85,529	\$107,637
Other Available Funds per Indenture	34,699	48,016	49,272	22,769	50,761
Funds Available for Debt Service	<u>107,512</u>	<u>119,146</u>	<u>113,267</u>	<u>108,298</u>	<u>158,398</u>
Debt Service	\$50,198	\$50,311	\$50,313	\$41,838	\$38,533
Debt Service Coverage	2.14	2.37	2.25	2.59	4.11

For a more complete summary of the historical operating results of the Wastewater Enterprise, see "HISTORICAL OPERATING RESULTS" and APPENDIX C.

Projected Debt Service Coverage. The following table presents a summary of projected debt service coverage for the Bonds. These projections are based on an analysis of historic trends, adjusted where appropriate for known or anticipated changes in operations, and certain assumptions as further described in this Official Statement. See "PROJECTED OPERATING RESULTS."

Projected Coverage Calculation
(\$ thousands)

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Net Revenue per Indenture	\$98,536	\$103,038	\$98,597	\$106,420	\$111,945
Other Available Funds per Indenture	66,658	86,352	105,604	108,006	92,627
Funds Available for Debt Service	<u>165,194</u>	<u>189,390</u>	<u>204,201</u>	<u>214,427</u>	<u>204,571</u>
Debt Service	<u>\$50,850</u>	<u>\$51,281</u>	<u>\$58,800</u>	<u>\$81,246</u>	<u>\$89,875</u>
Debt Service Coverage	3.76	4.27	3.77	2.75	2.33

Amounts set forth in this table are projections. For a more complete summary of the assumptions on which these projections are based, see "PROJECTED OPERATING RESULTS." Actual results may differ materially from these projections. See "FORWARD-LOOKING STATEMENTS" above.

Other Matters

Brief descriptions of the 2013 Series B Bonds, the security and sources of payment for the 2013 Series B Bonds, the SFPUC, and the Wastewater Enterprise are provided herein. Such descriptions do not purport to be comprehensive or definitive. Definitions of certain capitalized terms used herein may be found in "APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." All references made to various documents herein are qualified in their entirety by reference to the forms thereof, all of which are available for inspection at the office of the SFPUC at:

San Francisco Public Utilities Commission
525 Golden Gate Avenue, 13th Floor
San Francisco, CA 94102
Attention: Assistant General Manager, Business Services and Chief Financial Officer
(415) 554-3155

THE 2013 SERIES B BONDS

General

The 2013 Series B Bonds will be dated as of their date of delivery and will accrue interest from the date of delivery at the rates per annum set forth on the inside cover page of this Official Statement. Interest on the 2013 Series B Bonds is payable on April 1 and October 1 of each year, beginning April 1, 2013. Interest on the 2013 Series B Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months.

The 2013 Series B Bonds will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. The 2013 Series B Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple of \$5,000.

Under the Indenture, the record date with respect to the payment of principal of and interest on the Bonds is the 15th day of the month immediately preceding an interest payment date, whether or not such day is a Business Day.

Securities Depository and Book-Entry System

The 2013 Series B Bonds will be issued in fully registered form, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, as the Owner of the 2013 Series B Bonds.

So long as DTC, or its nominee, Cede & Co., is the Owner of the 2013 Series B Bonds, all payments on the 2013 Series B Bonds will be made directly to DTC. Disbursement of such payments to the DTC Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners of the 2013 Series B Bonds will be the responsibility of the DTC Participants. See "APPENDIX F—SECURITIES DEPOSITORY AND THE BOOK-ENTRY SYSTEM."

Redemption*

Optional Redemption. The 2013 Series B Bonds maturing on or after October 1, 20___, are subject to redemption prior to their stated maturity, at the option of the SFPUC, from and to the extent of any source of available funds, as a whole or in part, on any date on or after ___ 1, 20___, and if in part by lot within such maturity, at a redemption price equal to 100% of the principal amount of the 2013 Series B Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Trustee, on or before September 30 of each year (commencing on or before September 30, 20___), will deposit in the 2013 Series B Sinking Fund Account from the Principal Fund moneys in an amount sufficient to call and redeem or to pay at maturity, as the case may be, the principal of 2013 Series B Term Bonds in the following respective principal amounts on the next succeeding October 1 in each of the following years.

Redemption Date (October 1)	Principal Amount
--------------------------------	---------------------

20__ Maturity

* Preliminary; subject to change.

PLAN OF FINANCE

The 2013 Series B Bonds are being issued to finance and refinance (through the retirement of commercial paper notes) a portion of the design, acquisition and construction of various capital projects in furtherance of the CIP and SSIP. See "ESTIMATED SOURCES AND USES OF FUNDS," "CAPITAL IMPROVEMENT PROGRAM and "SEWER SYSTEM IMPROVEMENT PROGRAM."

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2013 Series B Bonds are expected to be applied as follows:

<u>Sources of Funds</u>	
Par Amount	\$ _____
Net Original Issue Premium/Discount	_____
Total Sources	\$ <u>_____</u>
<u>Uses of Funds</u>	
Deposit to 2013 Series B Capital Project Account (1)	\$ _____
Underwriter's Discount	_____
Costs of Issuance (2)	_____
Total Uses	\$ <u>_____</u>

- (1) To finance a portion of the CIP and SSIP. See "FINANCING PLAN" above.
- (2) The costs of issuance include amounts for legal fees, Trustee's fees, financial advisory fees, fees of the Public Utilities Revenue Bond Oversight Committee, rating agency fees, printing costs, and other issuance costs relating to the issuance of the 2013 Series B Bonds.

SECURITY FOR THE BONDS

Pledge of Net Revenues

General. Under the Indenture, the SFPUC has irrevocably pledged the Net Revenues of the Wastewater Enterprise to the punctual payment of principal of, premium, if any, and interest on the Bonds, which consist of any parity revenue bonds issued under the Indenture, including the 2010 Series A Bonds, the 2010 Series B Bonds, the 2013 Series A Bonds, the 2013 Series B Bonds, and any Additional Series of Bonds. This pledge is subject to the flow of funds contained in the Indenture, as described below. See “– Flow of Funds” below.

The facilities comprising the Wastewater Enterprise have not been pledged or mortgaged and do not otherwise secure payment of the Bonds.

Pursuant to Section 5451 of the California Government Code, the pledge of, lien on and security interest in Net Revenues and certain other funds granted by the Indenture is valid and binding in accordance with the terms thereof from the time of issuance of the 2013 Series B Bonds; the Net Revenues and such other funds will be immediately subject to such pledge; and such pledge will constitute a lien and security interest which will immediately attach to such Net Revenues and other funds and will be effective, binding and enforceable against the SFPUC, its successors, creditors, and all others asserting rights therein to the extent set forth and in accordance with the terms of the Indenture irrespective of whether those parties have notice of such pledge and without the need for any physical delivery, recordation, filing or other further act. Such pledge, lien and security interest are not subject to the provisions of Article 9 of the California Uniform Commercial Code.

For definitions of capitalized terms used herein and not otherwise defined, see “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions.”

Limited Obligation. THE SFPUC IS NOT OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2013 SERIES B BONDS EXCEPT FROM NET REVENUES. THE SFPUC HAS NO TAXING POWER. THE GENERAL FUND OF THE CITY IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2013 SERIES B BONDS, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE 2013 SERIES B BONDS. THE 2013 SERIES B BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE CITY OR OF THE SFPUC OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT NET REVENUES.

Wastewater Enterprise. The Indenture defines “Enterprise” (referred to in this Official Statement as the “Wastewater Enterprise”) as meaning the whole and each and every part of the sanitary waste and storm water collection, treatment and disposal system and auxiliary or related facilities of the SFPUC, including all of the presently existing system of the SFPUC for the collection, treatment and disposal of sanitary waste and storm water and all future additions, betterments, and extensions to the system or any part thereof.

Net Revenues. The Indenture defines “Net Revenues” as all of the Revenues, less all Operation and Maintenance Costs of the Enterprise, and less moneys required to be paid to the State pursuant to any Senior State Loans. As of the date of issuance of the 2013 Series B Bonds, all outstanding SRF Loans (which constitute Senior State Loans under the Indenture) have been prepaid and are no longer outstanding.

The Indenture defines “Revenues” as all gross revenues of the Wastewater Enterprise, including all charges received and all other income and receipts derived by the SFPUC from the operation of the Wastewater Enterprise, or arising from the Wastewater Enterprise, including connection and installation charges, but excluding:

- (a) any money received by or for the account of the SFPUC from the levy or collection of taxes;
- (b) moneys received from the State of California and the United States of America and required to be deposited in restricted funds;

- (c) refundable deposits made to establish credit;
- (d) advances and contributions made to the SFPUC to be applied to construction;
- (e) moneys received constituting casualty insurance proceeds with respect to all or any part of the Wastewater Enterprise (which shall be received and disposed of pursuant to the Indenture) and moneys received constituting other insurance proceeds;
- (f) moneys received from the sale or disposition of all or any part of the Wastewater Enterprise (which shall be received and disposed of pursuant to the Indenture);
- (g) moneys received upon the taking by or under the threat of eminent domain of all or any part of the Wastewater Enterprise (which moneys shall be received and disposed of pursuant to the Indenture);
- (h) proceeds from Bonds issued by the SFPUC or proceeds from loans or other indebtedness obtained by the SFPUC; and
- (i) moneys or securities received by the SFPUC as gifts or grants the use of which is restricted by the donor or grantor.

The term "Revenues" also includes (i) all interest or other income (excluding profits or losses from the sale or disposition of Permitted Investments or other securities owned by or on behalf of the SFPUC) derived from the deposit or investment of any moneys in any fund or account established under the Indenture (excluding any Rebate Fund and any escrow fund pledged for the payment of defeased bonds) or in any fund or account of the Wastewater Enterprise and legally available to pay Debt Service on the Bonds, and (ii) any other moneys, proceeds and other amounts that the SFPUC determines should be "Revenues" under the Indenture.

The Indenture defines "Operation and Maintenance Costs of the Enterprise" as the reasonable and necessary costs of operating and maintaining the Wastewater Enterprise, calculated on the basis of generally accepted accounting principles, including (among other things) salaries and wages, fees for services, costs of materials, supplies and fuel, reasonable expenses of management, legal fees, accounting fees, repairs and other expenses necessary to maintain and preserve the Wastewater Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any), and the payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the SFPUC may establish or the Board of Supervisors may require with respect to employees of the SFPUC, as provided in the Charter.

However, the term "Operation and Maintenance Costs of the Enterprise" excludes in all cases (a) depreciation and obsolescence charges or reserves therefor, (b) amortization of intangibles or other bookkeeping entries of a similar nature, (c) costs of capital additions, replacements, betterments, extensions or improvements to the Wastewater Enterprise, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (d) charges for the payment of principal of and interest on any revenue bonds or other indebtedness issued before or after the date of the Indenture for Wastewater Enterprise purposes and (e) such costs as are scheduled to be paid by the SFPUC from moneys other than Revenues, such moneys to be clearly available for such purpose.

Flow of Funds

The Indenture provides that all Revenues must be paid into the Revenue Fund, which must be maintained in the City Treasury. Moneys in the Revenue Fund, including earnings thereon, are required by the Indenture to be applied for the following purposes and only in the following order of priority:

- (a) payment of Operation and Maintenance Costs of the Enterprise;
- (b) payment of Senior State Loans (if any);

- (c) payment of Bonds, Parity State Loans, Policy Costs and amounts due as reimbursement under any Letter of Credit Agreement, as provided in the Indenture; and
- (d) any other lawful purpose of the SFPUC.

Net Revenues deposited in the Revenue Fund, as described in (c) above, will be applied to pay interest and principal on the Bonds and to make deposits to the Bond Reserve Fund if the amounts therein are less than the Required Reserve. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Rate Covenants

Sufficiency of Revenues. The SFPUC has covenanted in the Indenture that it will, at all times while any of the Bonds remain Outstanding, establish, fix, prescribe and collect rates, fees and charges in connection with the sanitary waste and stormwater collection, treatment and disposal services and facilities furnished by the Wastewater Enterprise so as to yield Revenues at least sufficient, after making reasonable allowances for contingencies and error in the estimates, calculated on a cash basis, to pay the following amounts:

- (a) the interest on and principal of the Bonds as they become due and payable (but not including any interest for which moneys have been deposited in the Interest Fund from the proceeds of any Series of Bonds or from any other source);
- (b) all other payments required for compliance with the terms of the Indenture and of any Supplemental Indenture providing for the issuance of Additional Bonds pursuant to the Indenture;
- (c) all other payments to meet any other obligations of the SFPUC which are charges, liens or encumbrances upon, or payable from, Revenues; and
- (d) all current Operation and Maintenance Costs of the Enterprise (but not including such Operation and Maintenance Costs of the Enterprise as are scheduled to be paid by the SFPUC from moneys other than Revenues, such moneys to be clearly available for such purpose).

Debt Service Coverage. In addition to the requirements described above, the SFPUC has covenanted that it will, at all times while any of the Bonds remain Outstanding, establish, fix, prescribe and collect rates, fees and charges in connection with the sewage and stormwater collection, treatment and disposal services and facilities furnished by the Wastewater Enterprise so as to yield Net Revenues during the immediately ensuing period of twelve months which (together with any fund balances of the SFPUC or the Wastewater Enterprise which are available for payment of Debt Service and are not budgeted to be expended during such twelve months, but excluding the Bond Reserve Fund), calculated on a cash basis, are at least equal to 1.25 times the Annual Debt Service (but excluding any interest moneys for the payment of which have been deposited in the Interest Fund from the proceeds of any Series of Bonds or from any other source) for said twelve-month period.

"Annual Debt Service" is defined in the Indenture as the sum of principal and interest on all Outstanding Bonds and Parity State Loans as computed for the twelve-month period ending June 30 to which reference is made, and calculated in a manner consistent with the determination of Average Annual Debt Service and Maximum Annual Debt Service as provided in the definitions thereof.

Certain provisions of the First Amendment to Indenture have become effective that provide that, in determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Bonds that were issued as Build America Bonds, including the 2010 Series B Bonds, amounts equal to the Refundable Credits the SFPUC is scheduled to receive during each such twelve-month period ending June 30 will be deducted from such interest. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." **By their purchase of the 2013 Series B Bonds, the purchasers of the 2013 Series B Bonds consent to the First Amendment to Indenture.**

Bond Reserve Fund

The Indenture requires that the Bond Reserve Fund be established with the Trustee and funded in an amount equal to the "Required Reserve," if any, applicable to each series of Bonds. If the Required Reserve for a Series of Bonds is greater than zero, the Indenture requires the establishment of a bond reserve account (each, a "Reserve Account") within the Bond Reserve Fund for such Series of Bonds, and requires the deposit in that bond reserve account of an amount equal to the Required Reserve for the related Series of Bonds.

No Reserve Account Required for 2013 Series B Bonds. The Third Supplemental Indenture does *not* require the establishment of a Reserve Account for the 2013 Series B Bonds.

Required Reserve. Certain provisions of the First Amendment to Indenture have become effective that amend the definition of "Required Reserve" as follows:

(a) The Required Reserve with respect to the 2010 Series A Bonds and the 2010 Series B Bonds is reduced to 50% of Maximum Annual Debt Service on the 2010 Series A Bonds and the 2010 Series B Bonds (excluding from such calculation Parity State Loans, if any) then Outstanding. See "--Amendment Affecting Bond Reserve Fund Requirements" and "APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—First Amendment to Indenture—Amendments Relating to the Required Reserve, the Bond Reserve Fund and the Reserve Account."

(b) For the purpose of calculating Maximum Annual Debt Service and Average Annual Debt Service, in determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Bonds that are issued as Build America Bonds under Section 54AA of the Code (specifically, the 2010 Series B Bonds), amounts equal to the Refundable Credits the SFPUC is scheduled to receive during each such twelve-month period ending June 30 will be deducted from such interest. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions."

(c) A Reserve Account will no longer be required for any subsequent Series of Bonds. A Reserve Account for each such Series of Bonds will be established only if and to the extent required by, and will be funded in an amount, if any, specified in, such Supplemental Indenture. In no event will the SFPUC, in connection with issuance of a Series of Additional Bonds, be obligated to deposit an amount in the Bond Reserve Fund which is in excess of the amount permitted by the applicable provisions of the Code to be so deposited from the proceeds of tax-exempt bonds without having to restrict the yield of any investment purchased with any portion of such deposit. If the Supplemental Indenture relating to such Series of Bonds establishes a Required Reserve and Reserve Account, such Reserve Account will be available only to pay Debt Service on such Series of Bonds, and will not be available to pay Debt Service on any other Series of Bonds, unless otherwise provided in such Supplemental Indenture. Following the issuance of the 2013 Series A Bonds, each of the Reserve Accounts with respect to the 2010 Series A Bonds and 2010 Series B Bonds will be available to pay the Debt Service on all the 2010 Series A Bonds and 2010 Series B Bonds. "APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—First Amendment to Indenture—Amendments Relating to the Required Reserve, the Bond Reserve Fund and the Reserve Account."

Additional Series of Bonds

The Charter and the Indenture authorize the issuance of Additional Bonds payable from Net Revenues on a parity with the 2010 Series A Bonds, the 2010 Series B Bonds, 2013 Series A Bonds, and the 2013 Series B Bonds upon satisfaction of the conditions set forth therein.

The SFPUC expects to issue Additional Bonds to finance select projects authorized in the CIP and the SSIP. See "FINANCING PLAN FOR CAPITAL IMPROVEMENTS" and "RISK FACTORS—Costs of the SSIP; Timely Completion of the SSIP."

Charter Requirements. Under the Charter, the SFPUC may issue revenue bonds (including Additional Bonds) relating to the Wastewater Enterprise without voter approval in the following circumstances, among others:

- (a) to issue revenue bonds (including Additional Bonds) approved by an affirmative vote of two-thirds of the members of the Board of Supervisors for the purpose of reconstructing, replacing, expanding, repairing or improving the Wastewater Enterprise;
- (b) to issue bonds (including Additional Bonds) approved by an affirmative vote of three-fourths of the members of the Board of Supervisors if the bonds are to finance buildings, fixtures or equipment which are deemed necessary by the Board of Supervisors to comply with an order of a duly constituted state or federal authority having jurisdiction over the Wastewater Enterprise; and
- (c) to issue refunding bonds which are expected to result in net debt service savings to the City on a present value basis, calculated as described in the SFPUC's Debt Management Policies and Procedures.

The Charter also generally authorizes the SFPUC to issue revenue bonds upon the approval of a majority of the voters voting on the proposition at a general or special election.

Indenture Requirements. The Indenture provides that Additional Bonds secured on a parity with the Bonds may be issued for any lawful purpose if no Event of Default has occurred and is continuing under the Indenture or any Supplemental Indenture and no event has occurred which, but for the passage of time or the giving of notice, would constitute an Event of Default under the Indenture or any Supplemental Indenture. Prior to the issuance of such Additional Bonds, the SFPUC is required to file with the Trustee, among other documents, the following:

- (a) a Certificate of the Commission demonstrating that the SFPUC has complied with the rate covenant under the Indenture and that the requirements for issuing Additional Bonds under the Indenture have been met;
- (b) if any portion of the proceeds of such Series of Bonds is to be used to finance construction, a certificate of the Consulting Engineers setting forth (i) the estimated date of completion for the portion of the Project for which such Series of Bonds is being issued and for any other uncompleted portion of the Project, and (ii) an estimate of the cost of construction of such portion of the Project and of any other uncompleted portion of the Project;
- (c) a Certificate of the Commission setting forth for each of the next three Fiscal Years (and, if any portion of the proceeds of such Series of Bonds is to be used to finance construction, the three Fiscal Years following the Fiscal Year in which the Consulting Engineers estimate such portion of the Project will be completed), estimates of (i) Revenues, (ii) Operation and Maintenance Costs of the Enterprise and (iii) Net Revenues; and
- (d) a Certificate of the Commission setting forth (i) the estimates of Net Revenues as set forth in the Certificate of the SFPUC pursuant to paragraph (c) above for each of such three Fiscal Years (and, if any portion of the proceeds of such Series of Bonds is to be used to finance construction, the three Fiscal Years following the Fiscal Year in which the Consulting Engineers estimate such portion of the Project will be completed), (ii) the Annual Debt Service for each of such Fiscal Years, including Annual Debt Service as estimated in such Certificate of the Commission with respect to future Series of Bonds, if any, which such Certificate of the Commission shall estimate will be required to complete payment of the cost of construction of such portion of the Project and any other uncompleted portion of the Project, and (iii) demonstrating that the estimated Net Revenues (together with any fund balances of the SFPUC which are available for the payment of Debt Service but excluding the Bond Reserve Fund) in each of the Fiscal Years set forth in (c) above is at least equal to 1.25 times the Annual Debt Service for such respective Fiscal Years.

See "APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions."

The Indenture provides the SFPUC with flexibility as to the nature and terms of any Additional Bonds issued with a lien and charge on Net Revenues on a parity with the Outstanding Series of Bonds. Such Additional Bonds may: mature over any period of time; bear interest at a fixed, variable or zero rate; be in any denominations; be in any form (including registered, coupon or book-entry); include or exclude redemption provisions; be subject to optional or mandatory tender for purchase; be sold at such price or prices; be further secured by any separate and additional security; and otherwise include such additional terms and provisions as the SFPUC may determine, consistent with the Indenture and applicable provisions of the Charter.

Additional Senior and Parity Obligations

Pursuant to the Charter, the SFPUC can incur indebtedness, including additional State loans, without voter approval, but subject to Board of Supervisors approval. The Indenture permits the SFPUC to enter into Senior State Loans, Parity State Loans or loans on a subordinated lien basis relative to the Bonds, as determined by the SFPUC.

Under the Indenture, the SFPUC may enter into additional Senior State Loans and Parity State Loans if no Event of Default has occurred and is continuing under the Indenture or any Supplemental Indenture (and no event has occurred which, but for the passage of time or the giving of notice, would constitute an Event of Default under the Indenture or any Supplemental Indenture).

In addition, in connection with the execution and delivery of such Senior State Loans or Parity State Loans, as applicable, the SFPUC is required to deliver a Certificate to the Trustee setting forth, for each of the next three Fiscal Years after the delivery of the Senior State Loans or Parity State Loans, as applicable,

(i) the Revenues, Operation and Maintenance Costs of the Enterprise and Net Revenues (assuming the delivery of the Senior State Loans, as applicable) and

(ii) the Annual Debt Service (assuming the delivery of the Parity State Loans, as applicable), and demonstrating that the estimated Net Revenues (together with any fund balances of the SFPUC which are available for Debt Service, but excluding the Bond Reserve Fund), in each of such three Fiscal Years is at least equal to 1.25 times the Annual Debt Service.

The State Revolving Fund Loan program (the "SRF Loan Program") offers moneys to applicant entities based on available moneys and placement on a statewide priority list. Although placement on the priority list is a necessary condition to receiving SRF Loan Program moneys, placement on the priority list does not create an obligation on the part of the applicant to accept SRF Loan Program moneys.

The SFPUC does not currently intend to enter into any Senior State Loans in the future.

Refunding Bonds

Indenture Requirements. The Indenture provides that Additional Series of Bonds may be issued to refund any Bonds without meeting the test for the issuance of Additional Bonds described above, if the SFPUC delivers to the Trustee (among other documents) a certificate of a Qualified Financial Advisor to the effect that the Average Annual Debt Service for the Additional Series of Bonds will be equal to or less than the Average Annual Debt Service on the Bonds to be refunded.

City Charter Requirements. The Charter permits the issuance of refunding bonds without voter approval only if such refunding results in net debt service savings on a present value basis, calculated as described in the SFPUC's Debt Management Policies and Procedures.

Subordinate Obligations; Obligations Not Payable from Revenues

The Indenture permits the SFPUC to authorize and issue bonds, notes, warrants, certificates or other obligations or evidences of indebtedness, the principal of or interest on which would be payable either (i) from Net Revenues after and subordinate to the payment from Net Revenues of the principal of and interest on the Bonds, or

(ii) from moneys which are not Revenues. The SFPUC may issue bonds or incur other indebtedness secured by a pledge of Net Revenues on a basis subordinate to the pledge thereof securing the Bonds without limitation.

OBLIGATIONS PAYABLE FROM REVENUES

Authority for Issuance of Revenue Bonds and Other Obligations Payable from Revenues

City Charter. The Charter authorizes the SFPUC to issue revenue bonds and commercial paper notes and to incur other obligations payable from or secured by a pledge of Revenues.

Proposition E. On November 5, 2002 the voters approved Proposition E, which authorizes the SFPUC, subject to the referendum process, to issue revenue bonds, notes and other forms of indebtedness when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors, for the purpose of reconstructing, replacing, expanding, preparing or improving water facilities or wastewater facilities or combinations of water and wastewater facilities under the jurisdiction of the SFPUC. Board of Supervisors action to authorize or issue bonds under this provision is subject to certain additional conditions, requiring certification by an independent engineer and certification by the San Francisco Planning Department, as discussed in "APPENDIX B—SUMMARIES OF CERTAIN LOCAL INITIATIVES (PROPOSITIONS E AND P)."

The ordinance authorizing the issuance of indebtedness will become effective 30 days after its adoption unless it is opposed through the referendum process. Opposition may be made by filing with the Board of Supervisors a petition protesting the passage of that ordinance. Such petition must be signed by voters in a number equal to at least 10% of the votes cast for all candidates for Mayor in the last preceding general municipal election for Mayor. If a referendum passes, the ordinance is suspended from becoming effective. The Board of Supervisors may reconsider the ordinance. If it is not entirely repealed, the Board of Supervisors is required to submit the ordinance to voters at the next general municipal or statewide election or at a special municipal election and will not become effective until approved by voters at such an election.

For additional details regarding the above-described provisions of the Charter and certain voter-approved initiatives, see "APPENDIX B—SUMMARIES OF CERTAIN LOCAL INITIATIVES (PROPOSITIONS E AND P)."

Authority for the Issuance of the 2013 Series B Bonds. The 2013 Series B Bonds are being issued under Proposition E.

Outstanding Parity Revenue Bonds

Outstanding Bonds. The following outstanding Bonds (the "Outstanding Bonds") have been issued pursuant to the Indenture and are secured by a parity pledge of Net Revenues.

Series of Bonds	Purpose	Initial Principal Amount	Principal Amount Outstanding as of December 31, 2012
Wastewater Revenue Bonds, 2010 Series A	Refinance CIP costs	\$47,050,000	\$47,050,000
Wastewater Revenue Bonds, 2010 Series B	Finance and refinance CIP and SSIP costs	\$192,515,000	\$192,515,000
Wastewater Revenue Bonds, 2013 Series A	Refund 2003 Clean Water Bonds and refund SRF Loans	\$ _____	\$ _____
Total		\$ _____	\$ _____

Risks Related to Build America Bonds. The 2010 Series B Bonds were issued as "Build America Bonds" for purposes of Section 54AA of the Code, under which, and subject to certain potential deductions, the U.S. Treasury will pay (either in advance or as reimbursement) to the Trustee, as the agent of the SFPUC, a direct subsidy (the "Refundable Credits") equal to 35% of the interest payable with respect to the 2010 Series B Bonds on

each Interest Payment Date. Upon receipt, the Trustee will deposit any Refundable Credits it receives in the Interest Fund.

The current federal budget contains provisions for a system of automatic cuts to federal spending for designated agencies and programs (known as “sequestration”) if Congress fails to enact a plan to reduce the federal budget deficit to specified levels. To date, Congress has not enacted a reduction plan. As a result, under the terms of the current federal budget, a budget “sequestration” is scheduled to go into effect on January 2, 2013, unless Congressional action is taken prior to that date to avert the sequestration. The federal Office of Management and Budget has reported that, if sequestration is implemented, a 7.6% cut will be made to direct pay subsidies with respect to Build America Bonds (and other direct-pay bonds) in federal fiscal year 2013.

The SFPUC is obligated under the Indenture to make payments of principal of and interest on the Bonds, including the 2010 Series B Bonds, without regard to the receipt or deposit of Refundable Credits. If sequestration is implemented, the SFPUC will be required to make up the shortfall in Refundable Credits from Net Revenues or other available funds.

Additional Bonds

The SFPUC intends to issue Additional Bonds under the Indenture to finance the CIP and SSIP. See “CAPITAL IMPROVEMENT PROGRAM,” “SEWER SYSTEM IMPROVEMENT PROGRAM” and “FINANCING PLAN FOR CAPITAL IMPROVEMENTS.”

Subordinate Debt and Commercial Paper

No Limits on Subordinate Debt. The SFPUC may issue bonds or incur other indebtedness secured by a pledge of Net Revenues on a basis subordinate to the pledge thereof securing the Bonds, without limitation.

Commercial Paper Program. In 2007, the SFPUC established a commercial paper program (authorized by Proposition E) to fund construction costs relating to the CIP, with a current maximum authorization of \$300 million. As of November 1, 2012, the SFPUC had \$25 million aggregate principal amount of Wastewater Commercial Paper Notes outstanding, all of which is secured and payable from Net Revenues on a basis subordinate to the payment of debt service on the Bonds. The Wastewater Commercial Paper Notes are supported by respective liquidity facilities issued by (a) JPMorgan Chase Bank, National Association, with a stated expiration date of February 10, 2014, (b) U.S. Bank National Association, with a stated expiration date of February 10, 2014, (c) Union Bank, N.A., with a stated expiration date of July 10, 2015, and (d) The Bank of Tokyo Mitsubishi UFJ, Ltd., acting through its New York Branch, with a stated expiration date of July 10, 2015.

Contingent Payment Obligations

The Wastewater Enterprise has no interest rate swaps, caps or hedges or other contingent payment obligations payable from Revenues. The Wastewater Enterprise may in the future, however, incur contingent payment obligations payable from Revenues. Such contingent payment obligations may be payable on a parity with the Bonds if the conditions for the issuance of parity debt under the Indenture are met. See “SECURITY FOR THE BONDS—Additional Series of Bonds.”

Other Obligations Payable from Revenues

The SFPUC purchased and cleared a parcel at 525 Golden Gate Avenue, one block north of San Francisco City Hall, and has completed the construction of a 13-story new office building on this site to house the administrative offices of the SFPUC’s three utility enterprises. The SFPUC moved into the building on July 2012. Total project costs were approximately \$202 million and were financed with land sale proceeds, fund balances, grants and the proceeds of Certificates of Participation issued by the City and executed and delivered in two series on October 7, 2009, in the aggregate principal amount of \$167,670,000, representing interests in a City General Fund lease. Pursuant to a Memorandum of Understanding between the City and the SFPUC, the SFPUC will reimburse the City General Fund for all debt service in connection with this City financing. The SFPUC will allocate

such payment obligations internally among its three utility enterprises based on percentage usage. The Wastewater Enterprise is currently responsible for 18.88% of such obligations, payable from Net Revenues on a basis subordinate to the payment of principal of and interest on the Bonds.

Revenue Bond Oversight Committee

On November 5, 2002, the voters of the City adopted Proposition P, an ordinance that established the Public Utilities Revenue Bond Oversight Committee ("RBOC") to report publicly to the Mayor, the SFPUC and the Board of Supervisors regarding the expenditure of revenue bond proceeds on the repair, replacement, upgrading and expansion of the Wastewater Enterprise, the Water Enterprise, and the Power Enterprise (each as defined herein).

The RBOC has seven members appointed as follows: two by the Mayor, two by the Board of Supervisors, one by the City Controller, one by the Bay Area Water Users Association under the auspices of the Bay Area Water Supply and Conservation Agency. The seventh member is the City's Budget Analyst or his or her representative. The work of the RBOC is funded by 1/20th of 1% of the gross bond proceeds of revenue bond issuances or sales to the extent permitted by law.

Under Proposition P, the RBOC sunsets in 2013, unless extended by the Board of Supervisors. The Commission has approved an extension of the RBOC's term, which is anticipated to be considered by, but has not yet been approved by, the Board of Supervisors.

The RBOC may, by majority vote of all its members, prohibit the issuance or sale of authorized SFPUC revenue bonds which have yet to be issued or sold if, after reviewing materials provided by the SFPUC and conducting its own independent audit, and after consultation with the City Attorney, the RBOC determines that revenue bond proceeds have been or are being spent on purposes not authorized by the authorizing bond resolution or otherwise in a manner amounting to an illegal expenditure or illegal waste of such revenue bond proceeds. The SFPUC may appeal such a decision to the Board of Supervisors within thirty days. The Board of Supervisors may overturn such a decision by the RBOC by a two-thirds vote of all members of the Board of Supervisors with evidence from the SFPUC of corrective measures satisfactory to the Board of Supervisors or may remand the decision to the RBOC for further consideration.

For further information regarding the RBOC, see "APPENDIX B—SUMMARIES OF CERTAIN LOCAL INITIATIVES (PROPOSITIONS A, E AND P)."

Debt Service Requirements

Set forth in the following table are debt service requirements for the 2010 Series A Bonds, the 2010 Series B Bonds, the 2013 Series A Bonds and the 2013 Series B Bonds.

DEBT SERVICE REQUIREMENTS ON OUTSTANDING BONDS

Fiscal Year (ending June 30)	2010 Bonds ⁽²⁾	2013 Series A		2013 Series B		Total Debt Service ⁽²⁾
		Bonds	Bonds Principal	Bonds Interest		
2013	\$ 8,392,778					
2014	9,092,192					
2015	9,221,727					
2016	9,221,727					
2017	15,983,352					
2018	15,987,602					
2019	15,987,627					
2020	15,985,527					
2021	15,986,277					
2022	15,986,027					
2023	14,115,508					
2024	14,114,630					
2025	14,115,433					
2026	14,115,793					
2027	14,114,730					
2028	14,117,521					
2029	14,114,582					
2030	14,114,997					
2031	14,117,640					
2032	14,114,837					
2033	14,113,751					
2034	14,113,370					
2035	14,113,131					
2036	14,117,382					
2037	14,117,759					
2038	14,113,597					
2039	14,116,750					
2040	14,116,461					
2041	14,117,067					
2042	14,115,508					
2043						
2044						
2045						
2046						
2047						
2048						
TOTAL (1)						

(1) Totals may not add due to rounding

(2) Net of anticipated Refundable Credits

RISK FACTORS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the 2013 Series B Bonds. This section is provided for convenience and is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the 2013 Series B Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks.

Potential investors in the 2013 Series B Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the 2013 Series B Bonds or adversely affect the ability of the SFPUC to make timely payments of principal of or interest on the 2013 Series B Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future.

General

The ability of the SFPUC to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest on the 2013 Series B Bonds may be adversely affected by actions and events outside of the control of the SFPUC and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay fees and charges. Among other matters, general and local economic conditions and changes in law and government regulations could adversely affect the amount of Revenues realized by the SFPUC or significantly raise the cost of operating the Wastewater Enterprise.

In addition, the realization of future Revenues is subject to, among other things, the capabilities of management of the SFPUC, the ability of the SFPUC to provide service to its customers, the ability of the SFPUC to establish, maintain and collect charges from its customers and the ability of the SFPUC to establish, maintain and collect rates and charges sufficient to pay for Operation and Maintenance Costs of the Wastewater Enterprise, the Bonds and other obligations payable from Revenues. See "FINANCIAL OPERATIONS" and "OBLIGATIONS PAYABLE FROM REVENUES."

Limited Obligation

If the SFPUC defaults on its obligations to make debt service payments on the Bonds, the Trustee has the right under the Indenture to accelerate the total unpaid principal amount of the Bonds. However, in the event of a default and such acceleration, there can be no assurance that the SFPUC, and correspondingly the Trustee, will have sufficient moneys available for payment of the Bonds.

The SFPUC is not obligated to pay the principal of, premium, if any, or interest on the 2013 Series B Bonds except from Net Revenues of the Wastewater Enterprise. The SFPUC has no taxing power. The General Fund of the City is not liable for the payment of the principal of, premium, if any, or interest on the 2013 Series B Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of, premium, if any, or interest on the 2013 Series B Bonds. The 2013 Series B Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or of the SFPUC or any of its income or receipts, except Net Revenues.

Limitations on Reserve Accounts

Because the First Amendment to Indenture will become fully effective upon the issuance of the 2013 Series B Bonds, a Reserve Account need not be established for the 2013 Series B Bonds or any future Series of Bonds. A Reserve Account for each such Series of Bonds will be established only if and to the extent required by, and will be funded in an amount, if any, specified in, such Supplemental Indenture.

Limitations on Rate-Setting

The generation of Revenues sufficient to satisfy the requirements of the Indenture and to pay the principal of and interest on the 2013 Series B Bonds will require the SFPUC to raise wastewater rates payable by its customers. The increase of wastewater rates is subject to various substantive and procedural requirements and limitations. See "CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS."

Initiative, Referendum and Charter Amendments and Future Legislation

Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. Under the Charter, the voters of the City can restrict or revise the powers of the SFPUC through the approval of a Charter amendment. The SFPUC is unable to predict whether any such initiatives might be submitted to or approved by the voters, the nature of such initiatives, or their potential impact on the SFPUC or the Wastewater Enterprise. See "CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS."

In addition, the SFPUC is subject to various laws, rules and regulations adopted by the local, State and federal governments and their agencies. The SFPUC is unable to predict the adoption or amendment of any such laws, rules or regulations, or their effect on the operations or financial condition of the SFPUC.

Risks Related to Wastewater Enterprise Facilities and Operation

The operation of the Wastewater Enterprise, and the physical condition of the Wastewater Enterprise facilities, are subject to a number of risk factors that could adversely affect the reliability of the SFPUC's ability to provide wastewater and stormwater collection and treatment services, or increase the operating expenses of the Wastewater Enterprise. Prolonged damage to the Wastewater Enterprise could interrupt the ability of the SFPUC to realize Revenues sufficient to pay principal of and interest on the Bonds, or require the SFPUC to increase expenditures for repairs significantly enough to adversely impact the SFPUC's ability to pay the principal of or interest on the Bonds. These factors could include, among others, the following.

Aging Facilities. Certain of the Wastewater Enterprise's facilities are near the end of their useful life. Long-lived assets result in decreased reliability due to sewer line breakage and unplanned outages and place a greater maintenance burden on Wastewater Enterprise operations. Average useful life of the sewer system's collecting sewers (i.e., gravity pipes 36 inches or less in diameter) is approximately 110 years, though many conditions, including pipe material and soil conditions, affect actual pipe lifespan. The recent historical rate of replacement for the Wastewater Enterprise's sewer pipes has been at a 200-year replacement cycle. Aging sewers, if left unaddressed, would result in increasing system failures, sinkholes in the street, reduced system reliability and possibly public health and safety risks. Extensive efforts are being made to increase the replacement rate significantly and to address the aging infrastructure, with the objective of ultimately achieving a 110-year replacement cycle. The CIP and SSIP will increase sewer inspections and condition assessments in order to more effectively prioritize areas of pipeline replacement and to increase the aggregate miles of sewer replaced each year.

Seismic Hazards. The San Francisco Bay Area is in a seismically active region and such long-lived facilities have an increased risk of failure in the event of an earthquake. A major earthquake could significantly affect the ability of the SFPUC to serve its customers. The CIP and SSIP include planned and proposed improvements to such older facilities for purposes of improving reliability.

Other Natural and Man-Made Disasters. Other natural disasters, including without limitation wildfires, flooding and landslides, or man-made disasters, including without limitation natural gas pipeline failures or explosions, could interrupt operation of the Wastewater Enterprise.

Statutory and Regulatory Compliance. The operation of the Wastewater Enterprise is subject to a variety of federal and State statutory and regulatory requirements concerning matters such as water quality, discharge requirements, and biosolids management. SFPUC's failure to comply with applicable laws and

regulations could result in significant fines and penalties. In addition to claims by private parties, changes in the scope and standards for public agency wastewater systems such as the Wastewater Enterprise may also lead to administrative orders issued by federal or State regulators. Future compliance with increased regulatory requirements or enforcement orders could impose substantial additional operating expenses on the Wastewater Enterprise. See "REGULATORY MATTERS."

Casualty Losses. The SFPUC's risk management program includes both self-insured and insured coverages; however, the program does not provide coverage for every conceivable risk of loss. Damage attributable to seismic events and environmental pollution are excluded. In situations where the SFPUC has not purchased commercial coverage, the Wastewater Enterprise has a 'self-retention' program that it administers and retains budgeted resources internally to provide coverage for loss liabilities. See also "FINANCIAL OPERATIONS – Risk Management and Insurance." The SFPUC is not required to either insure against or self-insure against every potential risk of loss, and there is a risk that damage or destruction of property and equipment comprising the Wastewater Enterprise could occur for which no insurance or self-insurance funds will be available. There can be no assurance that insurance providers will pay claims under any policies promptly, or at all, should a claim be made under such policies in connection with property loss or damage. It is possible that an insurance provider will refuse to pay a claim, especially if it is substantial, and force the SFPUC to sue to collect on or settle the insurance claim. Further, there can be no assurances that any insurance proceeds will be sufficient to rebuild or replace any damaged property.

Safety and Security. Military conflicts and terrorist activities may adversely impact the operations of the Wastewater Enterprise or the finances of the SFPUC. The SFPUC continually plans and prepares for emergency situations and immediately responds to ensure services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the assets of the Wastewater Enterprise or that costs of security measures will not be greater than presently anticipated.

Cost of the SSIP; Timely Completion of the SSIP

When fully developed, the SSIP will be a major capital improvement program for the Wastewater Enterprise. The completion of various SSIP capital improvement projects could be delayed and the overall cost of such projects could be increased for a variety of reasons, including, but not limited to, actions by State or federal regulatory agencies, voter initiatives, legal challenges on environmental or other grounds, prolonged contractor disputes, unanticipated geologic or soil conditions, or the occurrence of an earthquake or other natural disaster. See "SEWER SYSTEM IMPROVEMENT PROGRAM – Potential Changes to SSIP Projects."

The SFPUC intends to finance the development and implementation of SSIP projects through the issuance of Additional Bonds and other indebtedness. If SSIP projects are completed at the cost and on the schedule presently under consideration by the SFPUC, the cost of such projects will require a significant planned increase in the amount of debt payable from Revenues, which will result in significant planned rate increases. Correspondingly, debt service coverage for the Bonds will also be significantly lower than it is currently or has been historically. Were SSIP projects delayed or the cost of SSIP projects to increase without an offsetting reduction in the program scope, the SFPUC would be required either to incur more debt payable from Revenues or to cash fund those costs from Revenues. Either option would likely increase rates payable by SFPUC customers to levels higher than presently anticipated by the SFPUC, and could result in lower debt service coverage ratios than presently anticipated by the SFPUC. See "FINANCING PLAN FOR CAPITAL IMPROVEMENTS." Historical and projected debt service coverage levels through Fiscal Year 2016-17 for the Bonds are described herein. See "HISTORICAL OPERATING RESULTS" and "PROJECTED OPERATING RESULTS."

Over the next several years the SFPUC expects to issue additional revenue bonds to fund development and implementation of SSIP projects. The issuance by the SFPUC of revenue bonds is subject to various approval requirements. See "OBLIGATIONS PAYABLE FROM REVENUES."

The ability of the SFPUC to issue additional revenue bonds to finance the development and implementation of SSIP projects may also be adversely affected by any adverse change in the financial position of the SFPUC or by

general market conditions. There can be no assurance that the SFPUC will be able to issue revenue bonds in an aggregate amount sufficient to finance all of the costs of completing the SSIP projects.

Potential Impacts of Climatic Change and Sea Level Rise

The impacts of climate change that would most affect the Wastewater Enterprise relate to changing rainfall patterns, sea level rise and rising tides. Existing climate change models show varied results in terms of projected rainfall patterns making proactive, long-term planning difficult. If they do occur, significant increases in rainfall (intensity, duration and frequency) could impact the ability of the sewer system to effectively collect and store stormwater and wastewater for treatment. Recent evaluation of historical rainfall data for the last 30 years indicates that the SFPUC's current sewer design criteria are still valid, but ongoing monitoring of climate change models and rainfall patterns must be undertaken in order to validate these design criteria and to determine if design changes become necessary in the future.

Projected levels for sea level rise and rising tides could result in a backflow (or inflow) of San Francisco Bay water into the sewer system at the lowest weir elevation and the Wastewater Enterprise has begun to experience difficulties with low elevation outflows into the San Francisco Bay. In response, the Wastewater Enterprise is planning to install backflow tide valves to prevent inflow at the end of overflow points and at outfall structures.

Low-lying, subsided regions of the City are also at risk for flooding, especially during seasonal high tides coupled with a rain event. This would be exacerbated with predicted sea level rise and possible higher-intensity storms. In response, the SFPUC has developed CIP projects and plans to develop SSIP projects to improve stormwater management.

Limitations on Remedies; Bankruptcy

The remedies available to the owners of the 2013 Series B Bonds upon the occurrence of an event of default under the Indenture in many respects depend upon judicial actions which are themselves often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the 2013 Series B Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against charter cities and counties in the State. The opinions to be delivered by Co-Bond Counsel, concurrently with the issuance of the 2013 Series B Bonds, that the 2013 Series B Bonds constitute valid and binding also limited obligations of the SFPUC and the Indenture constitutes a valid and binding obligation of the SFPUC will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the 2013 Series B Bonds will be similarly qualified. See "APPENDIX D—PROPOSED FORMS OF OPINIONS OF CO-BOND COUNSEL."

If the SFPUC fails to comply with its covenants under the Indenture or to pay principal of or interest on the 2013 Series B Bonds, there can be no assurance that the available legal remedies will be adequate to protect the interests of the holders of the 2013 Series B Bonds.

Loss of Tax Exemption/Risk of Tax Audit of Municipal Issuers

As discussed under "TAX MATTERS", interest on the 2013 Series B Bonds could fail to be excluded from the gross income of the owners thereof for purposes of federal income taxation retroactive to the date of the issuance of the 2013 Series B Bonds as a result of future acts or omissions of the SFPUC in violation of its covenants to comply with requirements of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2013 Series B Bonds are not subject to redemption or any increase in interest rate and will remain outstanding until maturity.

The Internal Revenue Service has initiated an expanded program for the auditing of tax-exempt securities issues, including both random and target audits. It is possible that the 2013 Series B Bonds will be selected for audit

by the Internal Revenue Service. It is also possible that the market value of the 2013 Series B Bonds might be affected as a result of such an audit of the 2013 Series B Bonds (or by an audit of similar securities).

Secondary Market

There can be no guarantee that there will be a secondary market for the 2013 Series B Bonds or, if a secondary market exists, that the 2013 Series B Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

THE CITY AND COUNTY OF SAN FRANCISCO

The City is the economic and cultural center of the San Francisco Bay Area and northern California. The corporate limits of the City encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay. The City is located at the northern tip of the San Francisco Peninsula, bounded by the Pacific Ocean to the west, the Bay to the east, the entrance to the Bay and the Golden Gate Bridge to the north, and San Mateo County to the south. Silicon Valley is about a 40-minute drive to the south, and the wine country is about an hour's drive to the north. The California Department of Finance Demographic Research Unit estimated the City's population at 812,538 as of January 1, 2012.

The San Francisco Bay Area consists of the nine counties contiguous to the San Francisco Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (collectively, the "Bay Area"). The economy of the Bay Area includes a wide range of industries, supplying local needs as well as the needs of national and international markets. Major business sectors in the Bay Area include retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising, biotechnology and higher education.

THE GENERAL FUND OF THE CITY IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2013 SERIES B BONDS, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2013 SERIES B BONDS. THE 2013 SERIES B BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE CITY.

THE PUBLIC UTILITIES COMMISSION

General

The SFPUC is a department of the City responsible for the maintenance, operation and development of three utility enterprises: the Wastewater Enterprise, the Water Enterprise and the Power Enterprise (which is a component of Hetch Hetchy Water and Power), all as further described below.

The revenues of the Water Enterprise and Hetch Hetchy Water and Power, including the Power Enterprise, are not available for payment of the principal of, premium, if any, or interest on the Bonds. See "SECURITY FOR THE BONDS—Pledge of Revenues."

Organization, Purposes and Powers

Wastewater Enterprise. The Wastewater Enterprise's collection and treatment system consists of a combined sewer collection system conveying wastewater and stormwater flows within the City to three water pollution control plants, also located within the City. Treated effluent flows are then discharged through deep-water outfalls into the San Francisco Bay and Pacific Ocean. The Wastewater Enterprise also operates and maintains a sewer system on Treasure Island/Yerba Buena Island, and an onsite wastewater and stormwater reclamation and treatment facility at the new SFPUC headquarters at 525 Golden Gate Avenue. See "THE WASTEWATER ENTERPRISE."

Water Enterprise. Nearly 2.6 million people rely on water supplied by the SFPUC to meet their daily water needs through its Water Enterprise. The SFPUC serves as the retail water supplier for the City and is responsible for water deliveries to residents and institutions within the City limits, as well as to a number of retail accounts outside of the City limits. In addition, the SFPUC sells water to 27 Wholesale Customer entities in San Mateo, Alameda and Santa Clara Counties under contractual agreements.

The revenues of the Water Enterprise are not "Revenues" under the Indenture and do not secure the payment of the principal of, premium, if any, or interest on the Bonds. See "SECURITY FOR THE BONDS—Pledge of Revenues."

Hetch Hetchy – Water and Power Operations. Hetch Hetchy Water and Power operates dams (including O'Shaughnessy Dam), reservoirs (including Hetch Hetchy Reservoir), hydroelectric generation and transmission facilities and water transmission facilities from Hetch Hetchy Valley to the connection with the Water Enterprise (collectively, the "Hetch Hetchy Project"), which provides water for distribution through the Water Enterprise and hydroelectric power to municipal and public infrastructure, services and facilities of the City (the "Power Enterprise"). The Power Enterprise, which is a component of the Hetch Hetchy Water and Power Project, was created in February 2005 as a separate system within Hetch Hetchy Water and Power. The Power Enterprise focuses on providing adequate and reliable supplies of electric power to meet the municipal requirements of the City, including power to operate municipal streetcars and electric buses, street and traffic lights, municipal buildings and other City facilities, including San Francisco International Airport. Additionally, the Power Enterprise provides power to the Modesto and Turlock Irrigation Districts (located in the central valley of California) and to other commercial customers consistent with prescribed contractual obligations and federal law.

The revenues of Hetch Hetchy Water and Power are not "Revenues" under the Indenture and do not secure the payment of the principal of, premium, if any, or interest on the Bonds. See "SECURITY FOR THE BONDS—Pledge of Net Revenues."

Commission Members

Under the Charter, the SFPUC is given exclusive charge of the operation and management of all water, wastewater and municipal customers' energy supplies and utilities of the City as well as the real, personal and financial assets under the SFPUC's jurisdiction. The SFPUC is governed by the Commission.

In June 2008, an initiative measure amended the Charter, changing the process for Commission appointments, and establishing qualifications for commissioners, as follows:

- The Commission consists of five members appointed by the Mayor, subject to confirmation by a majority of the Board of Supervisors.
- Seat 1 is designated for a member with experience in environmental policy and an understanding of environmental justice issues.
- Seat 2 is designated for a member with experience in ratepayer or consumer advocacy.
- Seat 3 is designated for a member with experience in project finance.
- Seat 4 is designated for a member with expertise in water systems, power systems, or public utility management.
- Seat 5 is designated for an at-large member.
- In order to stagger the terms of the commissioners, the members appointed to Seats 2 and 4 served for an initial term of two years from August 1, 2008. The remaining three members appointed to Seats 1, 3, and 5 served for an initial term of four years from August 1, 2008. Thereafter, the terms of all members are four years.
- Members may be suspended by the Mayor and may be removed by a three-fourths vote of the Board of Supervisors for official misconduct.

The current members of the Commission and the appointment and expiration dates of their terms are:

<u>Name and Title</u>	<u>Seat</u>	<u>Originally Appointed</u>	<u>Term Expires</u>
Art Torres, President	2	November 2010	August 2014
Vince Courtney, Vice President	5	January 2011	August 2016
Ann Moller Caen	3	March 1997	August 2016
Anson Moran	4	July 2009	August 2014
Francesca Vietor	1	September 2008	August 2016

Management

Management of the SFPUC is led by the General Manager. The General Manager is appointed by the Mayor from candidates submitted by the Commission. Once appointed by the Mayor, the General Manager serves at the pleasure of the Commission; however, the Commission also has Charter authority to employ the General Manager under an individual contract.

Brief biographies of the General Manager and principal members of the senior management of the SFPUC are set forth below.

Harlan L. Kelly, Jr. Harlan L. Kelly, Jr. became General Manager of the SFPUC in September 2012. He previously served as the SFPUC's Assistant General Manager, Infrastructure, and was responsible for implementing over \$10 billion in capital programs for water, sewer and power, including the \$4.6 billion Water System Improvement Program, the \$6.9 billion SSIP, and the \$202 million SFPUC Headquarters and Administration Building at 525 Golden Gate Avenue. His civil engineering career spanning nearly three decades includes his tenure as the City Engineer of San Francisco. At San Francisco Department of Public Works, he held functional and project management positions, including Acting General Manager, and Deputy Director of Engineering, during which he managed complex capital improvement programs that included the rebuild and seismic retrofit of City

Hall, and expansions of convention, hospital, county jail, and public arts facilities. He is a licensed professional engineer, and a graduate of the University of California at Berkeley. He is the recipient of the Municipal Fiscal Advisory Committee's Public Municipal Excellence Award from the San Francisco Planning and Urban Research Association; the Public Works Leader of the Year Award from the American Public Works Association – Northern California Chapter; the Eminent Engineer Award from the National Engineering Honor Society Tau Beta Pi; and the Heroes and Hearts Award from the San Francisco General Hospital Foundation for exceptional community service. He is a member of the Construction Managers Association of America, the American Society of Civil Engineers, the National Society of Black Engineers, and the American Public Works Association. He is co-founder of the youth internship program Project Pull, which has been in continuous operation since 1995, and he has served on the Board of Directors of the Embarcadero YMCA.

Michael Carlin. Michael Carlin is the SFPUC Deputy General Manager. Mr. Carlin has worked for the SFPUC since 1996 and served from 2004 through 2009 as Assistant General Manager for Water. Since 2009 he has served as Deputy General Manager. Mr. Carlin acts as Chief Operating Officer of the SFPUC, reporting directly to the General Manager, and oversees the agency's efforts to integrate Asset Management, Supervisory Control & Data Acquisition, Work Order Writing & Tracking, Security and other systems and functions across the Water, Wastewater and Power Enterprises and throughout the organization. Mr. Carlin also plays a leading role in overseeing new initiatives and the many environmentally innovative "green" projects that cut across enterprises within the SFPUC, including a comprehensive agency approach towards confronting and adapting to the impacts of climate change. He joined the SFPUC as the Water Resources Planning Manager in 1996. Prior to joining the City, he was the Chief of Planning for the San Francisco Bay Regional Water Quality Control Board. Mr. Carlin holds a B.A. in Biology from San Francisco State University and an M.P.A. with an emphasis in Environmental Management from Golden Gate University.

Todd L. Rydstrom. Todd Rydstrom serves as the Assistant General Manager and Chief Financial Officer of the SFPUC, where he manages the Business & Financial Services Bureau comprised of 300 staff in Customer Service, Information Technology, Finance, Human Resources, Fleet Management, and Assurance & Internal Controls. Prior to joining the SFPUC in June 2008, Mr. Rydstrom served as the Director of Budget, Analysis & Accounting Reconciliation in the Controller's Office, where he managed the City's then \$6.1 billion Budget, Revenue, Property Tax, Accounting Reconciliation and Office of Economic Analysis functions. In 2006, Mr. Rydstrom was awarded the Public Managerial Excellence Award for outstanding public service in the City. Prior to joining the City Controller's Office in November 2001, Mr. Rydstrom served as the City of Oakland's Acting Budget Director and Principal Financial Analyst. Mr. Rydstrom has over twenty years of experience in investment and government finance. His work experience includes investment operations and business development with The Principal Financial Group, one of the largest Fortune 500 pension fund companies in the U.S., as well as public sector finance and budgeting with Bay Area governments including the City of Emeryville, the City of Oakland, and the City and County of San Francisco. In 2009, Mr. Rydstrom was appointed to the San Francisco Treasury Oversight Committee, which oversees the City and County of San Francisco Treasury holdings and investment policy. Mr. Rydstrom received his M.P.P. from the Goldman School of Public Policy at the University of California, Berkeley where he was awarded the Smolensky Prize for Outstanding Advanced Policy Analysis for his work titled Municipal & Redevelopment Strategic Fiscal Planning. He earned his undergraduate degree in Investment Finance from Iowa State University.

Tommy T. Moala. Tommy T. Moala is the Assistant General Manager of the Wastewater Enterprise which protects public health and safety through the collective treatment of raw sewage runoff. San Francisco's unique and award-winning combined sewer system treats on average more than 79 million gallons per day of sewage and stormwater during dry weather periods. Mr. Moala oversees operations, equipment and facilities maintenance, structural design and governmental compliance for the City's three wastewater treatment plants, 993-mile long sewer system and network of wastewater pumping stations. A former Naval Propulsion Engineer, Mr. Moala has more than 15 years experience in wastewater in-plant management. He began his 20-year career with the SFPUC as a Stationary Engineer, moving up steadily through the ranks to Senior Engineer, Chief Stationary Engineer and Operations Manager, and setting the Enterprise's standard for zero-violations along the way. A team recipient of the National Protection Agency O & M Award and the National Association of Clean Water Agency Award, Mr. Moala has also received then-Mayor Gavin Newsom's Public Managerial Excellence Award and the SFPUC O'Shaughnessy Award for organizing the SFPUC Emergency Response Team dispatched to Hurricane Katrina. He

is a member of the Water Environment Federation, the California Water Environment Federation, the National Association of Clean Water Agencies and the American Water Works Association.

Jackson Wong. Jackson Wong became the Acting Assistant General Manager, Infrastructure, on November 5, 2012. He has had a 38-year career serving the City, in leadership capacities such as Manager of the Bureau of Engineering, Department of Public Works; Deputy Airport Director, Facilities, Operations and Maintenance; and Chief Operating Officer of the Airport, from 1998 to his retirement in January 2012.

Steven R. Ritchie. Steven Ritchie is the Assistant General Manager of the Water Enterprise, responsible for overseeing water system operations and planning from Hetch Hetchy through the Regional Water System to the City Distribution Division. He is also responsible for the management of the SFPUC's lands and natural resources. Mr. Ritchie was the Manager of Planning at the SFPUC from 1995 to 1998. Prior to his current assignment, he managed the South Bay Salt Pond Restoration Project, a multi-agency effort to restore 15,100 acres of valuable habitat in South San Francisco Bay, while providing for flood risk management and public access. In addition, Mr. Ritchie has worked at management positions at the San Francisco Bay Regional Water Quality Control Board (1987-1995), the CalFed Bay-Delta Program (1998-2000), and URS consultants (2000-2004). He has a B.S. and M.S. in Civil Engineering from Stanford University.

Juliet Ellis. Juliet Ellis, Assistant General Manager for External Affairs, is the primary spokesperson for the SFPUC and is responsible for the SFPUC's communications, outreach, education, environmental and legislative matters. Ms. Ellis served as a Commissioner on the SFPUC from December 2008 until October 2010, focusing on the Commission's consumer and rate payer advocacy efforts. Ms. Ellis also served as Executive Director of Urban Habitat (UH), a regional social and environmental justice organization, where Ms. Ellis worked in partnership with low-income communities and communities of color to advance social, economic, and environmental justice in the Bay Area region. Through advocacy and the promotion of equitable policies, leadership development, research, and participation in strategic coalitions, Urban Habitat helps to build a democratic society in which all communities have the power to influence and benefit from the decisions impacting their neighborhoods. Prior to becoming Executive Director for UH, Ms. Ellis was the Associate Program Officer for Neighborhood and Community Development at The San Francisco Foundation. She was responsible for all aspects of grantmaking in the areas of workforce development, housing, homelessness, economic development, community development, and neighborhood planning. Ms. Ellis has served on numerous regional and local boards and committees, including the Oakland Homeless and Low-Income Taskforce, the San Francisco Asset Building Initiative, the Alameda Continuum of Care Council, the Alameda County Public Health Disparities Taskforce, the Community Capital Investment Initiative, Girls After School Academy, the Ella Baker Center for Human Rights, and the San Francisco School of Volunteers. She currently serves on the Board and Steering Committee of the Green for All, the David Brower Center, and the Partnership for Working Families. Ms. Ellis has an M.S. in Business Administration from San Francisco State University and a B.S. in Marketing from Ball State University.

Barbara Hale. Barbara Hale is Assistant General Manager of the Power Enterprise. Ms. Hale oversees the Power Enterprise, including Power Retail Services, Utilities Services, Regulatory Affairs, Infrastructure Development and Power Purchasing and Scheduling. She is responsible for the development of a strategic business plan for the organization, setting out priorities, objectives, schedules and policy issues. Ms. Hale oversees all power-related inter-governmental relations, works directly with the Commission on policy and capital matters, and provides direction and leadership to a multi-discipline staff at remote and downtown locations. Ms. Hale provides strategic advice on energy policy matters to the General Manager and manages a staff responsible for developing specific energy efficiency projects and renewable and other advanced sources of electrical generation. Ms. Hale also acts as liaison between the SFPUC and State and federal agencies responsible for energy policy, such as the California Public Utilities Commission, the California Energy Commission, the California Power Authority, the Federal Energy Regulatory Commission, and the United States Department of Energy. Ms. Hale graduated cum laude from San Francisco State University with a B.A. in Economics, receiving special recognition for high achievement with the Department Honors Award. Ms. Hale has pursued extensive graduate coursework in Applied Economics.

Employee Relations

The SFPUC's operating budget for Fiscal Year 2012-13 includes annual funding for 1,620 full-time positions. Authorization exists for 2,225 full time positions for Fiscal Year 2012-13, which includes operations and capital budget positions in Infrastructure along with an assumption of vacant positions for salary savings.

The Charter governs the SFPUC's employment policies and authorizes the San Francisco Civil Service Commission to establish rules and procedures to implement those policies. Since 1976, the Charter has prohibited strikes by City employees. Under the Charter, employee organizations representing City workers are permitted to negotiate wages, hours, benefits and other conditions of employment through collective bargaining. The decision to elect collective bargaining is irrevocable. All SFPUC employees now bargain collectively.

There are presently 14 labor unions representing SFPUC employees. Most SFPUC employees collectively bargain every three years, with certain unions agreeing to a two-year memorandum of understanding with the City ending June 30, 2014. Conflicts between the employees and the City in collective bargaining are resolved by an arbitration board whose decision is final. There have been no strikes by City employees since the adoption of the strike prohibition in 1976.

THE WASTEWATER ENTERPRISE

Background and History

Initial development of the City's sewage system dates back to the second half of the nineteenth century. In accordance with common engineering practice of that period, the sewer system collected both sanitary wastes and stormwater runoff and transported them to a large number of discharge points on the shoreline of San Francisco Bay.

Today the Wastewater Enterprise provides sanitary waste and stormwater collection, treatment and disposal services through:

- (i) a combined sanitary waste and stormwater system;
- (ii) two all-weather wastewater treatment plants and one wet-weather facility; and
- (iii) effluent outfalls to the San Francisco Bay and Pacific Ocean.

Of an estimated total combined wastewater flow of 40 billion gallons per year, approximately 34 billion gallons per year receive full secondary treatment, 4.5 billion gallons per year receive primary or decant treatment and are discharged to deep-water outfalls, and 1.5 billion gallons per year receive primary or decant treatment and are discharged through nearshore outfalls.

New redevelopment projects such as Mission Bay, Treasure Island and the Hunter's Point Naval Shipyard are implementing green infrastructure or low-impact design elements that allow for the treatment of stormwater by natural techniques such as vegetated swales, infiltration and other approved methods prior to discharge into the receiving waters.

The Wastewater Enterprise was operated by the City's Department of Public Works until July 1996, when the Mayor transferred its operation to the SFPUC.

Service Area

The service area of the Wastewater Enterprise encompasses approximately 29,773 acres and includes residents of the City and of northern San Mateo County through arrangements with three municipal sewer service providers: North San Mateo County Sanitation District, the Bayshore Sanitary District and the City of Brisbane (collectively, the "Municipal Customers").

The Wastewater Enterprise serves residential, commercial and industrial users, making up a daytime "population equivalent" of approximately 990,449 (which includes the estimated additional daily contribution by the City's employment base to wastewater flow).

See "FINANCIAL OPERATIONS – Customer Base."

Combined Sanitary Waste and Stormwater System

History and Background Regarding Combined System. On average, over three quarters of the City's annual rainfall occurs from November to March. Depending on the duration, intensity and storm pattern, runoff of combined flows of sanitary wastes and stormwater can exceed the collection and treatment system hydraulic capacity.

In order to address the combined sewer overflow problem during wet-weather periods, the City built a series of large underground transport/storage structures (box sewers and tunnels) around the perimeter of the City to intercept, temporarily store, and transport the mixture of storm runoff and wastewater to new or upgraded treatment facilities. The primary purpose of this system of transport/storage structures was to reduce the incidence and volume of discharges in wet weather. Prior to their construction, untreated combined sewer overflows occurred

throughout the City whenever rainfall occurred at a rate of 0.02 inches per hour. By providing both storage volume and detention time, the transport/storage structures allow for treatment of the stored combined wastewater and stormwater flows at the treatment plants after storms. In addition, the retention of the combined flows in the transport/storage structures allows solids to settle, and weir and baffle structures retain floatable materials, providing the equivalent of wet-weather "primary treatment" (i.e., decant treatment).

With these improvements, the facilities of the Wastewater Enterprise are designed to minimize the number of wet-weather discharge events. In all cases of discharge, the combined sewage receives the level of treatment prescribed by federal and state law.

Sewer Lines. The Wastewater Enterprise's collection and transport system currently has a storage capacity of approximately 197 million gallons, and includes approximately 993 miles of sewer lines of which 781 miles is made up of collecting sewers of 36 inches or less in diameter.

The distribution of the large network of the Wastewater Enterprise's sewer pipes by pipe length and age is shown in Table 1 below.

TABLE 1
SEWER SYSTEM BY PIPE LENGTH IN MILES AND AGE

Year Built	Gravity Pipe <36" Diameter	All Other Pipe ⁽¹⁾	Total Pipe	Percent of Total
1860 – 1900	85	45	130	13%
1901 – 1940	381	66	447	45
1941 – 1980	181	54	235	24
1981 – present	114	47	161	16
Unknown	20	0	20	2
Total	781	212	993	100%

⁽¹⁾ Includes gravity pipe greater than 36" in diameter, tunnels, force mains, transport/storage, effluent outfall and overflow discharge.

Source: SFPUC, Wastewater Enterprise

Transport/Storage Structures. In addition to sewer lines, the Wastewater Enterprise maintains underground transport/storage structures to capture combined sewage and stormwater. These structures were built between 1979 and 1996. The largest of these structures, the Westside Transport structure, is approximately 2 miles long, 45 feet deep and 25 feet wide. The transport/storage structures were designed with sufficient storage to reduce combined sewer discharges and protect beneficial uses of receiving waters for the San Francisco Bay and the Pacific Ocean.

The performance of the transport/storage structures and treatment facilities complies with the requirements of the National Combined Sewer Overflow Control Policy, as implemented by discharge permits issued on behalf of the United States Environmental Protection Agency (the "EPA") by the San Francisco Bay Regional Water Quality Control Board (the "Regional Water Board"). See "REGULATORY MATTERS."

Pump Stations. The Wastewater Enterprise has 27 pump stations, which include six major all-weather pump stations, two major wet-weather pump stations, 18 minor pump stations, and one major effluent pump station for bayside effluent discharge.

Outfalls and Nearshore Discharge Structures. The Wastewater Enterprise currently has three offshore outfalls that discharge to deep waters — Southeast Bay Outfall, Northpoint Outfalls, and Southwest Ocean Outfall. In addition to these outfalls, 36 combined sewer discharge structures, or near-shore outfalls, serve as relief points of the combined sewer system. These structures operate infrequently, and only during large storm events. Discharges through these permitted sites receive primary wet weather treatment.

Urban Watershed Management. The SFPUC is working to improve the system's stormwater drainage performance and its wastewater treatment efficiency. The SFPUC Stormwater Program complies with regulatory requirements and is designed to maximize sewer system performance, engage community members in its work, improve watershed function, enhance the environmental quality of the City's neighborhoods, and protect the water quality of the San Francisco Bay and Pacific Ocean. To achieve these goals, the SFPUC has adopted regulations that require new and redevelopment projects in San Francisco to install and operate green technologies for managing stormwater runoff.

Useful Life. The average useful life of typical collecting sewers (i.e., gravity pipes 36 inches or less in diameter) is approximately 110 years. The average useful life for other sewer pipes/infrastructure (such as tunnels, force mains, transport/storage boxes) is 50 years, while large outfalls have a typical useful life ranging from 50 to 100 years. However, many conditions, including pipe material and soil conditions, affect actual pipe lifespan. The approximate ages of the various components of the Wastewater Enterprise's sewer lines are set forth in Table 1 above.

The recent historical rate of replacement for the Wastewater Enterprise's sewer pipes (less than 36-inch diameter) has been at a 200-year replacement cycle. Aging sewers, if left unaddressed, would result in increased leakage, sinkholes, sewer line failures, reduced system reliability and possibly public health and safety risks. The SFPUC has developed its Renewal & Replacement program, CIP and SSIP in part to address the aging infrastructure, with the objective of ultimately returning to a 110-year replacement cycle, and upgrade other critical infrastructure. Condition assessment of the other sewer pipes and infrastructure will be conducted and any observed deficiencies will be addressed and recommended improvements implemented. See "CAPITAL IMPROVEMENT PROGRAM" and "SEWER SYSTEM IMPROVEMENT PROGRAM."

Wastewater Treatment

Wastewater Treatment Plants. The Wastewater Enterprise operates three major wastewater treatment facilities (in addition to the transport/storage structures that provide decant treatment):

- Southeast Water Pollution Control Plant (the "Southeast Plant"), which treats dry and wet weather flows collected from the Bayside Watershed (18,597 acres, or 63% of the total city service area) as well as the Municipal Customers;
- North Point Wet-Weather Facility (the "North Point Facility"), which treats additional wet-weather flows collected from the Bayside Watershed; and
- Oceanside Water Pollution Control Plant (the "Oceanside Plant"), which treats dry and wet weather flows collected from the Westside Watershed (11,176 acres, or 37% of the total city service area) and minor flows from northern San Mateo County.

The capacities of each treatment plant are shown in the table below.

TABLE 2
PLANT CAPACITY FLOW (IN MGD²) PER WEATHER SEASON

Plant	Dry Weather	% of Dry Weather	Peak Wet Weather	% of Peak Wet Weather
Southeast	85	80%	250	54%
Oceanside	21	20	65	14
North Point	N/A	N/A	150	32
Total	106	100%	465	100%

Source: SFPUC, Wastewater Enterprise

Southeast Water Pollution Control Plant. The Southeast Plant, located at 750 Phelps Street, occupies 39.9 acres bounded by Evans, Phelps, Quint, and Rankin streets, with Jerrold Avenue separating the north and south sides of the facility. It is a secondary wastewater treatment plant that provides the wastewater treatment needs for nearly two-thirds of the City's residents in the Bayside Watershed, consisting of the Marina, Financial District, South of Market Area, Mission, Hunters Point, and Visitacion Valley neighborhoods, plus 1.65 mgd of flow from Municipal Customers. Land uses in the Bayside Watershed are a mixture of residential, commercial and light industrial.

The Southeast Plant provides primary and secondary treatment using the high-purity-oxygen activated sludge process prior to effluent disinfection. Sludge treatment consists of gravity-belt thickening, anaerobic digestion, chemical conditioning and dewatering. Plant effluent is discharged during dry weather into the San Francisco Bay through an outfall in the vicinity of Pier 80. During wet weather, effluent is discharged through the outfall near Pier 80 and at an additional outfall at the shoreline of Islais Creek (Quint Street Outfall).

The Southeast Plant was constructed in 1952 as a primary treatment facility. In order to meet the mandates of the federal Clean Water Act, the Southeast Plant was expanded in the early 1980s to provide secondary treatment of all Bayside Watershed dry-weather flows with a daily average design capacity of approximately 85 mgd and peak-hour design flow of 142 mgd. In 1996, the plant's wet weather capacity was increased to 250 mgd, with 150 mgd receiving primary treatment prior to disinfection and discharge. During wet weather, the Southeast Plant engages additional wet-weather facilities to provide primary treatment to an additional 100 mgd of combined wastewater flow. The Southeast Plant complies with all dry- and wet-weather discharge requirements.

Oceanside Water Pollution Control Plant. The Oceanside Plant, located at 3500 Great Highway, occupies 12 acres adjacent to Lake Merced and the San Francisco Zoo. Constructed in 1993, the Oceanside Plant serves San Francisco's Westside Watershed and San Mateo County flows that drain to this basin. Land uses in the Westside Watershed are primarily residential.

The Oceanside Plant's wet-weather capacity is up to 65 mgd of primary and secondary treatment using the high-purity-oxygen activated sludge process. Sludge treatment consists of gravity belt thickening, anaerobic digestion, chemical conditioning and dewatering. The Oceanside Plant began operations in September 1993 and complies with all dry- and wet-weather discharge requirements. Plant effluent is discharged approximately 4 miles offshore into the Pacific Ocean through deep ocean outfalls.

North Point Wet-Weather Facility. The North Point Facility occupies 6.5 acres along the northern waterfront adjacent to The Embarcadero. The North Point Facility serves the northeast portion of the Bayside Watershed. Land uses in the North Point Facility's service area are predominantly commercial and residential.

² Million gallons per day.

The North Point Facility is a wet-weather facility consisting of screening, grit removal, sedimentation, disinfection and de-chlorination. Effluent from the North Point Facility is discharged into the San Francisco Bay through an outfall system at Piers 33 and 35. At the conclusion of each wet-weather event, grit and solids are flushed out of the sedimentation tanks and directed to the Channel Pump Station, which pumps them to the Southeast Plant for treatment.

The North Point Facility was originally constructed in 1951 as an all-weather primary treatment facility. In response to the mandates of the federal Clean Water Act, the North Point Facility was converted into a strictly wet-weather treatment plant in 1983, providing up to 150 mgd of primary treatment.

Other Facilities. The Wastewater Enterprise also operates wastewater facilities on Treasure Island and at the SFPUC's new headquarters at 525 Golden Gate Avenue.

Treasure Island Wastewater Facility. Treasure Island and Yerba Buena Island, located in San Francisco Bay between San Francisco and Oakland, are served by a wastewater system that currently relies on pumping to convey sewage to a secondary facility for treatment and discharge, with a capacity of 2 mgd. This wastewater facility is currently owned by the United States Navy, but operated and maintained by the Wastewater Enterprise pursuant to a cooperative agreement with the Navy. The wastewater collection system consists of 10 miles of sewers and 29 wastewater pump stations. In addition, a stormwater collection system includes 6 stormwater pump stations and a number of shallow water outfalls.

"Living Machine" at 525 Golden Gate Avenue. The recently completed headquarters of the SFPUC, at 525 Golden Gate Avenue, is LEED Platinum Certified and considered a "green" sustainable building. The "Living Machine" is a 5,000 gallon facility providing treatment of the building's wastewater. The treated tertiary effluent from this facility is reclaimed and reused to meet the water demands for the building's low-flow toilets.

Biosolids Management. The Southeast Plant and the Oceanside Plant produce approximately 75,000 wet tons per year of sewage sludge or biosolids, which are highly treated and anaerobically digested.

During wet-weather months, biosolids are trucked to the Hay Road Landfill outside of Vacaville in Solano County, California, where it is stored during the winter. During dry weather, it is dried to 50% or less water content and mixed with compost and solids to create an "engineered soil" that is used as the daily soil cap on the active face of the landfill and other approved beneficial uses as a soil substitute.

During dry-weather months, biosolids are trucked to various ranches in Solano and Sonoma Counties and applied directly as a soil amendment for farming or to enhance pasture productivity pursuant to federal and local county regulations. A small portion (about 6%) of the Southeast Plant biosolids are trucked to a Merced County composting site and are processed into a Class A biosolids compost.

The Wastewater Enterprise coordinates the application, testing and sampling procedures required by the applicable regulatory agencies. Because reuse in Solano County may not offer a long-term solution (due to more stringent regulations and encroaching suburban development), the SFPUC is exploring other means of reusing biosolids and upgrading the level of treatment.

See "SEWER SYSTEM IMPROVEMENT PROGRAM – SSIP Projects and Scope" and "REGULATORY MATTERS" below.

System Capacity and Projected Needs

Current Capacity. The facilities of the Wastewater Enterprise collected, treated and discharged an average of approximately 68 mgd of sanitary wastewater during dry-weather periods between 2008 and 2012. When the three treatment facilities and elements of the collection system are fully operational, the Wastewater Enterprise can provide up to 465 mgd of combined wastewater and stormwater treatment. The transport/storage structures around the perimeter of the City allow for an additional 110 million gallons of decant treatment, for a total infrastructure

capacity of 575 mgd during wet weather (193 mgd of secondary treatment, 272 mgd of primary treatment, and 110 mgd of decant treatment).

Deep-water outfalls can discharge 435 mgd. Another 140 mgd of secondary treated effluent can be discharged through a shallow water outfall to Islais Creek during peak wet-weather events.

Projected Demand. Results of the SFPUC's water demand forecasts show that the SFPUC's in-City retail water demand will only slightly increase, even though household population in the City is expected to increase by nearly 12% for the same period (from 2010 through 2035). This results in relatively flat growth and is attributable to a decrease in average per capita water usage due to conservation, including the significant use of low-flow plumbing fixtures. For wastewater production, this translates to relatively flat growth of influent flow to the treatment plants, but more solids loading.

The Wastewater Enterprise's existing treatment plants have sufficient excess capacity to address the currently anticipated increase in demand, so no significant expansion is expected to be required in order to meet the needs of the City based upon these population growth projections alone.

However, the SFPUC may, at its sole discretion, provide a new treatment plant with additional capacity and associated infrastructure to serve the full build-out of the proposed conversion of the former Treasure Island Naval Station to residential and commercial uses.

Because the SFPUC maintains a combined sewer system, there may be other factors in the future, including environmental changes and regulatory developments, that could require expanded collection or treatment capacity.

Emergency Operations

The Wastewater Enterprise maintains up-to-date contingency plans in the event of an unplanned outage or failure of a treatment facility, process unit, pump station, sewer pipeline or other infrastructure element. Overall, the wastewater collection and treatment system is designed with redundancy and some flexibility in order to facilitate responses to emergency events. The collection system is equipped with pump stations and isolation valves so that flows can be redirected as needed in the event of a failure.

If an unplanned shutdown of critical treatment facilities were to occur, the transport/storage structures provide up to 167 million gallons of storage (providing up to several days of storage, depending on the inflow). The wastewater treatment facilities and major pump stations are also built with redundancy, that is, to operate with one process unit or key piece of equipment out of service. Critical infrastructure elements prone to failure or for which full redundancy is not available have been identified as projects in the CIP and SSIP to increase system flexibility and the ability to respond to unplanned events.

CAPITAL IMPROVEMENT PROGRAM

Program Summary

As a precursor to the SSIP, the CIP was proposed in 2005 to address the more immediate needs of the Wastewater Enterprise prior to the implementation of the SSIP. The projects in the CIP address system reliability issues, critical needs of aging infrastructure and upgrades to treatment facilities and pump stations by funding projects to repair corrosion damage, improve ventilation and upgrade major electrical and mechanical systems. The CIP projects also address capacity improvements for sewer mains to reduce the frequency and severity of flooding during heavy rains. Finally, the CIP projects address the reduction of odors by funding projects to cover, vent and treat odors at the Southeast Plant.

CIP funding was approved by the Board of Supervisors in September 2006 and the issuance of commercial paper notes began in November 2006. The Wastewater Enterprise subsequently identified additional projects for inclusion in the CIP.

CIP Objectives and Scope

The CIP focuses on the immediate needs of the Wastewater Enterprise in the following areas:

- maximizing the collection and conveyance of sewage and stormwater;
- protecting public health and safety;
- maximizing control of odor emissions;
- increasing reliability of critical wastewater electrical and mechanical equipment;
- prolonging the life of concrete surfaces within wastewater facilities;
- improving the operation of solids and biogas handling at the treatment plants;
- reducing future operation and maintenance costs of treatment facilities and pump stations; and
- enhancing security of critical facilities.

The scope of the CIP is divided into two subprograms: (1) Sewer Improvement Projects to enhance the ability of the system to collect and convey wastewater; and (2) Aging Infrastructure and Odor Control Projects to replace old facilities and to control odors.

Sewer Improvement Projects Overview. These projects will replace and increase the sizes of sewer pipelines throughout the system, enhancing reliability and increasing sewer capacity, allowing more flow to be captured and transported to the wastewater treatment plants.

Aging Infrastructure and Odor Control Projects Overview. These projects will enhance odor controls, ensure reliability of critical equipment and improve structural integrity at treatment facilities and pumping stations. Projects at the Southeast Plant and the collection system are mostly related to odor control. Projects at the Oceanside Plant are for solids handling improvements, disposal requirements and corrosion control. Pump station projects are related to improving reliability and efficiency.

CIP Schedule and Budget

The current program budget for the CIP is shown in the table below:

TABLE 3
CIP PROJECT BUDGETS AS OF SEPTEMBER 29, 2012
(\$ Millions)

<u>Projects</u>	<u>Budget</u>
CIP - Aging Infrastructure and Odor Control Sub-program:	\$233
CIP - Sewer Improvement Sub-program:	179
<hr/>	
Total	\$412

Source: SFPUC, Wastewater Enterprise

CIP Status and Performance

Individual CIP projects are at different phases, from planning to construction. The table below outlines the status of the CIP projects reflected in the above-referenced budgets.

TABLE 4
STATUS OF CIP PROJECTS THROUGH SEPTEMBER 29, 2012

<u>Active Phase</u>	<u>Number of Projects</u>
Planning	5
Design/Environmental Review	2
Construction/Completed	<u>54</u>
Total	61

Source: SFPUC, Wastewater Enterprise

SEWER SYSTEM IMPROVEMENT PROGRAM

SSIP Program Development and Objectives

The Wastewater Enterprise is embarking on a comprehensive \$6.9 billion Sewer System Improvement Program (SSIP) to be implemented over approximately the next 20 years. The SSIP is a series of major capital improvement projects that are intended to bring the City's wastewater and stormwater system into a state of good repair, and meet Commission-endorsed levels of service goals.

The SSIP capital improvement projects will address specific challenges and deficiencies facing the Wastewater Enterprise, maximize system reliability and flexibility, improve operational and seismic reliability, and ensure present and future regulatory compliance. The SSIP project development will also consider environmental benefits, sustainability, and community benefits in addressing the long-term wastewater needs.

In furtherance of the SSIP, SFPUC staff developed Goals and Levels of Service and identified project priorities.

On August 28, 2012, the Commission endorsed these SSIP Goals and levels of service, validated the scope and phased implementation approach for the overall \$6.9 billion SSIP Program, and authorized SFPUC staff to move forward with planning and development on a proposed Phase 1 set of SSIP projects representing \$2.7 billion.

The goals for the SSIP, as endorsed by the Commission in August 2012, include the following:

1. provide a compliant, reliable, resilient and flexible system that can respond to catastrophic events;
2. integrate grey and green infrastructure to manage stormwater and minimize flooding;
3. provide benefits to impacted communities;
4. modify the system to adapt to climate change;
5. achieve economic and environmental sustainability; and
6. maintain ratepayer affordability.

SSIP Projects and Scope

SSIP project development is in its early stages. Through preliminary planning and needs assessment, categories of projects have been identified and budgeted for implementation over three phases. The overall scope of SSIP projects is divided into two major subprograms: treatment plant projects and collection system projects.

Treatment Plant Projects. Treatment plant projects are proposed at the Southeast Plant, Oceanside Plant and North Point Facility that would address aging infrastructure and outdated technologies; increase seismic and operational reliability; and reduce odors, noise, visual and other public impacts. These projects would also address long-term regulatory compliance by ensuring continued performance that meets current and future regulatory mandates. The major treatment project is the Biosolids Digester Project at the Southeast Plant, which will replace the aged existing digester and solids handling treatment processes with a more technologically advanced facility, intended to ensure long-term reliable and sustainable treatment, disposal and reuse of biosolids.

Collection System Projects. Proposed collection system projects would increase the ability of the sewer system to collect and convey wastewater and stormwater and would address aging infrastructure including large diameter sewers, pump stations, transport/storage boxes, and combined sewer discharge structures. The major collection system project is the Central Bayside System Improvement Project. This project would provide a full redundant back-up to the existing Channel Force Main, which conveys 60% of the flow to the Southeast Plant, and improve stormwater conveyance in the local drainage basins. Other projects to improve stormwater management

and reduce flooding during wet weather will be identified through the SFPUC's integrated urban watershed assessment process, which is already underway. The process involves characterizing each of the eight watersheds in the City through extensive hydraulic modeling, condition assessment and stakeholder input. A suite of projects to meet watershed objectives, including green infrastructure alternatives, will then be proposed based on the characterization.

Phase 1 Projects. As previously stated, on August 28, 2012, the Commission endorsed the goals, associated levels of service, the scope of the SSIP, and a phased implementation approach. The Commission also authorized SFPUC to move forward with more detailed planning for the Phase 1 projects, totaling \$2.7 billion. The preliminary budget for these proposed Phase 1 projects is below.

Proposed Phase 1 Projects	Estimated Budget (\$ Millions)
PLANNING THROUGH CONSTRUCTION	
Southeast Plant Biosolids Digester	\$1,596
Southeast Plant Grit and Odor Control Upgrades	272
North Shore and Westside Pump Station Upgrades	256
CSD Structure Refurbishments	84
Green Infrastructure – Early Implementation Projects	57
Collection System Pump Stations/ Odor Control	110
PLANNING THROUGH PRELIMINARY DESIGN	
Treatment Plant Process Upgrades	58
Treatment Plant Seismic and Structural Upgrades	51
Central Bayside System Improvement Project	70
City Green Infrastructure Projects	6
Collection System Operational Improvements	27
PROGRAM MANAGEMENT	125
TOTAL	\$2,712

SSIP Schedule and Budget

Of the three phases of the SSIP, the Commission has authorized SFPUC staff to proceed with planning and developing Phase 1 projects, representing \$2.7 billion. To date, the Board of Supervisors has appropriated \$429.3 million for Phase 2 projects. Subject to Commission and Board of Supervisors consideration of project environmental analysis and actions to approve project budgets, construction of Phase 1 projects and implementation of projects in Phases 2 and 3 would occur over varying time periods over the next 20 years. The currently proposed implementation schedule for the SSIP is set forth below.

TABLE 5
SEWER SYSTEM IMPROVEMENT PROGRAM
PHASED IMPLEMENTATION SCHEDULE
(2012 PROGRAM VALIDATION SERVICE AREA SPACE)
(\$ Millions)

Program	Phase 1	Phase 2 [1]	Phase 3 [1]	Total
Treatment Plants	\$2,333	\$1,215	\$407	\$3,855
Collection System	\$354	\$1,928	\$476	\$2,758

Program Management (City and Consultant staff)	\$125	\$152	\$43	\$320
Total	\$2,712	\$3,295	\$926	\$6,933

[1] Preliminary and subject to Commission approval.
Source: SFPUC, Wastewater Enterprise

Management Approach

The development and implementation of CIP and SSIP projects are led by SFPUC staff, with oversight and ultimate responsibility by the General Manager, Assistant General Manager of the Wastewater Enterprise, and Assistant General Manager of the Infrastructure Division.

Consultants are employed to support a number of programmatic functions, such as strategic program development, risk assessment and mitigation, program controls, various independent technical reviews, construction planning and management, and labor and community relations. The services of consultants are also used on an as-needed or project-specific basis to assist SFPUC staff with functions such as engineering design, environmental review, right-of-way engineering and surveying, and construction management.

Potential Changes to SSIP Projects

Because the SSIP projects are currently in the preliminary and planning stages, uncertainties exist that may result in changes to the scope and phasing of the projects, changes to the project budgets, and delays and cost increases. These factors include, without limitation, the following:

- market conditions and the bidding environment for construction costs, which could worsen over the 20-year life of the program;
- market conditions for financing the various phases of the SSIP, which could worsen over the 20-year life of the program;
- changes in the legal and regulatory requirements affecting the Wastewater Enterprise and the SSIP (see “REGULATORY MATTERS”);
- the discovery of unforeseen underground/geotechnical conditions, particularly for projects with tunneling activities and extensive earthwork;
- the discovery of unforeseen site conditions associated with existing infrastructure; many of the SSIP projects involve upgrades to existing structures and facilities that were built a very long time ago and accurate as-built records are not always available;
- the discovery of unforeseen site conditions associated with utility conflicts;
- unexpected environmental discoveries that may impact construction activities; those may include the discovery of protected species, archaeological artifacts, contaminated soil or hazardous material at project sites;
- contractor claims, contractor non-performance, failure of contractors to execute within contract price, or failure of contractors to meet schedule terms;
- errors or omissions in contract documents (drawings and specifications) that may result in change orders;
- equipment and material vendors’ lack of compliance with quality and schedule requirements;

- inclement weather affecting contractor performance and timeliness of completion;
- labor issues involving work stoppages or slowdowns; or
- the occurrence of a major seismic event.

See "RISK FACTORS."

FINANCING PLAN FOR WASTEWATER ENTERPRISE CAPITAL IMPROVEMENTS

Ten-Year Capital Plan. The Commission adopted a 10-year capital plan for Fiscal Years 2012-13 to 2021-22 on February 14, 2012, which includes approximately \$5.1 billion in capital projects, \$4.6 billion of which is projected to be funded from proceeds of revenue bonds. Of the total capital budget, \$4 billion is for SSIP projects, \$.09 billion is for renewal and replacement projects, and the balance is for CIP and Treasure Island projects.

CIP and SSIP. The CIP and SSIP financing plan utilizes the Wastewater Enterprise's commercial paper program to fund projects on an interim basis through design and into the early construction phase. This approach allows the SFPUC to take advantage of lower interest rates on short-term paper and to size and closely time long-financings with projected need. Commercial paper is then refunded and consolidated into larger, long-term fixed-rate bond issues when the outstanding amount of commercial paper approaches authorized limits.

As of November 1, 2012, the SFPUC had \$25 million aggregate principal amount of tax-exempt commercial paper notes outstanding, out of a total authorized amount of \$300 million. The SFPUC anticipates issuing additional commercial paper to provide interim financing for Wastewater Enterprise capital projects under the \$300 million authorization. See "OBLIGATIONS PAYABLE FROM REVENUES – Subordinate Debt and Commercial Paper."

The table below sets forth the projected sources and uses of funds for the CIP and SSIP. The projected repayment of principal and interest on these future debt issues has been incorporated into the Commission's approved rates through Fiscal Year 2013-14.

**TABLE 6
CIP AND SSIP
FINANCING PLAN
(IN THOUSANDS)**

	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017 (1)
SOURCES OF FUNDS					
Revenue Bonds	\$209,961	\$218,569	\$230,670	\$274,961	\$316,695
Wastewater Revenues	33,000	37,000	39,000	41,000	43,000
Capacity Fee Revenues	0	0	2,000	4,000	4,000
Total Sources	242,961	255,569	271,670	319,961	363,695
USES OF FUNDS					
CIP	25,894	0	0	0	0
SSIP	156,996	168,911	174,015	189,395	261,098
Renewal and Replacement	59,918	75,788	87,192	87,326	90,577
Other	153	10,870	10,463	43,240	12,020
Total Uses	242,961	255,569	271,670	319,961	363,695

⁽¹⁾ Amounts set forth are projections. Actual results may differ materially from these projections. See "FORWARD-LOOKING STATEMENTS" above.

Source: SFPUC, Financial Services

Renewal and Replacement Capital Improvements. In addition to the projects associated with the CIP and SSIP, the Wastewater Enterprise undertakes renewal and replacement capital projects to improve performance or extend the service life of an existing asset. These projects are typically annual ongoing projects, such as replacement of wastewater conveyance pipes. Renewal and replacement projects are funded from either Wastewater Enterprise revenues on a pay-as-you-go basis or debt funded.

The SFPUC anticipates that a portion of the proceeds of the 2013 Series B Bonds will be applied towards the funding of certain renewal and replacement projects as set forth in the Wastewater Enterprise's Capital Budget.

FINANCIAL OPERATIONS

General

The SFPUC is a department of the City and, as such, the financial operations of its three enterprises are included in the Comprehensive Annual Financial Report of the City and shown as enterprise funds. *The City's Comprehensive Annual Financial Report is not incorporated by reference herein.*

The following information is provided with respect to the Wastewater Enterprise only and does not purport to reflect the financial position of the SFPUC or the City as a whole.

Basis of Accounting

The accounts of the Wastewater Enterprise are organized on the basis of a proprietary fund type, specifically an enterprise fund. The financial activities of the Wastewater Enterprise are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

The Wastewater Enterprise applies all applicable GASB pronouncements, as well as statements and interpretations of the FASB, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

City Budget Process

The SFPUC budget is a part of the overall budget prepared bi-annually by the City. The SFPUC's two-year proposed budget is prepared by SFPUC staff and then submitted to the Commission for approval before being submitted to the Mayor. The Mayor's Office reviews and may amend the SFPUC's proposed budget, and then incorporates the proposed budget into the total City budget that is submitted to the Board of Supervisors for approval. Under the Charter, the Board of Supervisors may increase or decrease any proposed expenditure in the Mayor's budget so long as the aggregate changes do not cause the expenditures to exceed the total amount of expenditures proposed by the Mayor. The Charter further provides that the Mayor may reduce or reject any expenditure authorized by the Board of Supervisors except appropriations for bond interest, redemption or other fixed charges, subject to reinstatement of any such expenditure by a two-thirds vote of the Board of Supervisors.

Wastewater Enterprise Rates and Charges

General. Sewer service charges are the primary funding source for the payment of costs associated with the Wastewater Enterprise's sanitary waste and stormwater collection, treatment and disposal services. Each year, the SFPUC prepares an analysis of projected revenues and revenue requirements of the sewage system to ensure revenues will be sufficient to fund the proposed budget, to maintain an adequate operating reserve and to comply with Indenture requirements. In addition to meeting funding and reserve requirements, the rates must also comply with regulations or policies promulgated by the EPA, the State Water Resources Control Board and the Board of Supervisors and with the requirements of the City's Charter and the State Constitution. See "CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS – Proposition 218."

Federal and State Requirements. Under the Federal clean water laws and regulations, entities accepting federal grant funds (such as the SFPUC) must comply with certain requirements, including the requirement that user charges be set to ensure that recipients of sewer services pay their proportionate share of the costs of operation, maintenance and replacement costs based on the quantity and characteristics of the users' discharge into the public sewage system. The Federal "Revenue Program Guidelines" are incorporated into the State water quality regulations, which are administered and enforced by the State Water Board. See "REGULATORY MATTERS" for a more detailed discussion of State and Federal regulations affecting the Wastewater Enterprise.

Charter; Rate-Setting Requirements. Pursuant to certain provisions of Proposition E, which became effective with respect to the Wastewater Enterprise on January 3, 2003, the Charter was amended to authorize the Commission to set rates, fees and other charges in connection with providing Wastewater Enterprise services, subject to rejection, within 30 days of submission, by the Board of Supervisors. If the Board of Supervisors does not act within 30 days, the rates become effective without further action.

In setting rates, fees and charges, the Commission must:

- (a) Establish rates, fees and charges at levels sufficient (i) to improve or maintain financial condition and bond ratings at or above levels equivalent to highly rated utilities of the Wastewater Enterprise, (ii) to meet requirements and covenants under all bond resolutions and indentures (including the Indenture) and (iii) to provide sufficient resources for the continued financial health (including appropriate reserves), operation, maintenance and repair of the Wastewater Enterprise, consistent with good utility practice;
- (b) Retain an independent rate consultant to conduct rate and cost of service studies for the Wastewater Enterprise at least every five years;
- (c) Set retail rates, fees and charges based on the cost of service;
- (d) Conduct all studies mandated by applicable State or Federal law to consider implementing connection fees for the Wastewater Enterprise servicing new development;
- (e) Conduct studies of rate-based conservation incentives and/or lifeline rates and similar rate structures to provide assistance to low income users, and to take the results of each study into account when establishing rates, fees and charges, in accordance with State and federal laws; and
- (f) Adopt annually a rolling five-year forecast of rates, fees and charges.

Proposition E also required the Commission to establish a Rate Fairness Board which, among other powers, may review the aforementioned five-year forecast and may submit rate policy recommendations to the Commission.

Rate Setting Process. The Wastewater Enterprise's rates were last adjusted in 2009 following a Charter-required five-year rate study.

The Wastewater Enterprise sets rates based on revenue requirements. The bi-annual expenditure budget submitted to the Commission, the Mayor and the Board of Supervisors for approval is used as the basis for determining annual revenue requirements. The net revenue requirement after deducting revenues from other sources (such as interest income on invested funds of the Wastewater Enterprise, fines and penalties, and rents for secondary uses of Wastewater Enterprise properties) represents the requirement to be met from current sewer service charge revenues and available fund balances. Next, the Wastewater Enterprise determines revenues under the existing schedule of rates. If revenues under existing rates together with available fund balances are sufficient to meet net revenue requirements, the Wastewater Enterprise conducts a review to ensure compliance with other applicable requirements.

The Wastewater Enterprise develops a ten-year rate forecast using projected revenues under existing rates plus additional revenues from projected rate increases, as required, to meet the projected revenue requirements during the forecast period. This forecast is updated each year resulting in a "rolling" rate forecast that is intended to moderate the effects of any significant changes in revenue requirements in any year.

If, as a result of this process, additional revenues are required or if the cost structure of the Wastewater Enterprise has changed, the Wastewater Enterprise submits its recommended rate schedules to the Commission for its consideration. After receiving public comment, the Commission adopts a rate resolution and transmits its recommended rate schedules to the Board of Supervisors. Once submitted, the Board of Supervisors may vote to

reject the proposed rate schedules within 30 days. If rejected, the existing rate schedules remain in effect until such time as a new rate schedule is resubmitted by the Commission and not rejected by the Board of Supervisors.

Whenever rates are revised, costs are allocated to pollutant parameters, volume, suspended solids, oil and grease, and chemical oxygen demand, and any costs are then allocated to each of the rate categories. See “Wastewater Enterprise Rates and Charges – Rate Categories.”

In addition to complying with the requirements of the Charter, the rate-setting process must comply with the requirements of the State Constitution. See “CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS – Proposition 218.”

Historical Rates. The table below shows a history of sewer service rates from 2002 through 2008, which were applied per hundred cubic feet of water consumption.

**TABLE 7
HISTORICAL SEWER RATES
(PER HUNDRED CUBIC FEET OF WATER CONSUMPTION)**

Rate Tiers	Effective <u>7/1/02</u>	Effective <u>7/1/03</u>	Effective <u>7/1/04</u>	Effective <u>7/1/05</u>	Effective <u>7/1/06</u>	Effective <u>7/1/07</u>	Effective <u>7/1/08</u>
<i>Residential</i>							
First 3 discharge units per dwelling unit per month	\$1.86	\$1.86	\$2.15	\$2.54	\$2.88	\$3.14	\$3.42
Tier for discharge units 4 - 5 in Fiscal Years 2006-08 ⁽¹⁾	-	-	-	\$6.36	\$7.19	\$7.84	\$8.55
All additional discharge units	\$4.83	\$4.83	\$5.37	\$7.27	\$8.22	\$8.96	\$9.77
Average monthly bill based on 6.3 discharge units	\$21.52	\$21.52	\$24.17	\$29.79	\$33.71	\$36.75	\$40.06
<i>Non-Residential</i>							
All discharge units ⁽²⁾	\$5.35	\$5.35	\$5.82	\$7.31	\$8.26	\$8.80	\$9.60

⁽¹⁾ Adjustment effective July 14, 2007.

⁽²⁾ Does not include charges for suspended solids, oil and grease, and chemical oxygen demand.

Source: SFPUC, Financial Services

Currently Approved Five-Year Rate Schedule. Based on the approved and adopted 2009 rate study, sewer service charges were adopted in 2009 by the Commission and the Board of Supervisors for Fiscal Years 2009-10 through 2013-14. Separate rate schedules apply to single-family residential, multi-family residential, and non-residential customers, as further described below. Under State law, all sewer rates reflect cost of service by customer class.

Residential Users. Residential users are charged on the basis of discharge units and the customer's applicable flow factor, which represents the quantity of water use returned to the sewer system as wastewater. For example, a customer using 10 units of water and having a flow factor of 90% is billed for 9 discharge units. The standard flow factor for single-family residential units is 90%. The standard flow factor for multi-family residential units is 95%, and the discharges in each rate tier are multiplied by the number of dwelling units.

**TABLE 8
RESIDENTIAL USER SEWER RATE
CHARGE PER DISCHARGE UNIT**

Rate Tiers	Effective 7/1/09	Effective 7/1/10	Effective 7/1/11	Effective 7/1/12	Effective 7/1/13
First 3 discharge units per month					
Single-family	\$ 6.05	\$ 6.91	\$ 7.16	\$ 7.52	\$ 7.90
Multi-family	5.66	6.51	7.49	7.86	8.25
All additional discharge units					
Single-family	8.35	9.21	9.55	10.03	10.53
Multi-family	7.45	8.68	9.99	10.49	11.01
Average monthly bill					
Single-family, based on 5.4 discharge units	38.19	42.83	44.40	46.63	48.97
Multi-family, based on 4.75 discharge units	30.02	34.72	39.95	41.94	44.02

Source: SFPUC, Financial Services

Non-Residential Users. Non-residential users are charged the cost for each parameter according to the schedule of rates in the table below. Customers whose parameter loadings are not based on periodic sampling are charged on the basis of standard parameter loadings established by the General Manager for each Standard Industrial Classification code in accordance with applicable state and federal laws and regulations.

**TABLE 9
NON-RESIDENTIAL USER DISCHARGE RATES**

Rate Tiers	Effective 7/1/09	Effective 7/1/10	Effective 7/1/11	Effective 7/1/12	Effective 7/1/13
Volume of wastewater discharged per 100 cubic feet (1)	\$6.5548	\$6.5548	\$6.5548	\$6.5548	\$6.6203
PLUS: Suspended solids discharged per pound	\$0.8819	\$0.8819	\$0.8819	\$0.8819	\$0.8907
PLUS: Oil/Grease discharged per pound	\$1.1035	\$1.1035	\$1.1035	\$1.1035	\$1.1145
PLUS: Chemical Oxygen Demand Discharge per pound	\$0.2156	\$0.2156	\$0.2156	\$0.2156	\$0.2178

(1) Calculated according to principles described in "Financial Operations—Wastewater Enterprise Rates and Charges."
Source: SFPUC, Financial Services

Rate Comparison. The average monthly sewer rate charged to a single family residential account of the Wastewater Enterprise is \$46.63, compared to the Statewide average monthly rate of \$36.75, as reported in the State Water Board's "Wastewater User Charge Survey Report," dated May 2008. There is no common standard for comparing wastewater user charges since a number of factors affect costs to be recovered through an entity's sewer service charge. These factors include, among other matters, the level of service and the differences in the degree of treatment provided. The Wastewater Enterprise provides sanitary waste and stormwater collection, treatment and disposal services. This contrasts with some of the communities included in the State Water Board's survey which do not provide treatment and disposal or do not treat stormwater, but instead must rely on other entities to provide these services and separately bill customers. Additionally, while the Wastewater Enterprise provides secondary treatment, some communities included in the survey provide only primary treatment while others provide secondary,

advanced secondary or even tertiary treatment, each such level of treatment having an impact on the ultimate rate charged customers.

Customer Base

Current Customer Base. The following table summarizes the number of customers served by the Wastewater Enterprise as of June 30, 2012, grouped by user type.

**TABLE 10
SUMMARY OF SEWER ACCOUNTS AND BILLING BY USER TYPE
(FISCAL YEAR 2011-12)**

User Type	Active Accounts	Billings (000s)	Billings as Percent of Total
Multi-Family Residential ⁽¹⁾	36,275	\$93,264	40.4%
Single-Family Residential	110,875	55,776	24.1
<i>Subtotal Residential</i>	147,150	149,040	64.5
Commercial ⁽¹⁾	15,439	75,604	32.7
Municipal Customers	719	6,316	2.7
Suburban (watershed keepers) ⁽²⁾	8	2	0.0
Total	163,316	\$230,962	100.0%

⁽¹⁾ Beginning fiscal year 2011, Customer Care and Billing System included the Presidio Trust Accounts under these customer types.

⁽²⁾ In addition to suburban customers, service is provided to North San Mateo County Sanitation District, Bayshore Sanitary District and the City of Brisbane.
Source: SFPUC Customer Service.

Historical Number of Accounts. The following table sets forth a five-year history of the number of sewer accounts for the Wastewater Enterprise.

**TABLE 11
NUMBER OF SEWER ACCOUNTS
(FISCAL YEAR 2007-08 TO 2011-12)**

Fiscal Year	Sewer Accounts As of June 30	Percentage Change
2007-08	162,921	N/A
2008-09	163,123	0.124%
2009-10	162,737	(0.237%)
2010-11	163,041	0.187%
2011-12	163,316	0.169%

Source: SFPUC Customer Service.

Appeals

Sewer service charges are assessed on the basis of water use as billed by the Water Enterprise multiplied by a flow factor. See “– Wastewater Enterprise Rates and Charges.” For example, it is assumed that 90% of the volume of water measured at the customer meter for a single-family residential user is discharged to the sewer system as wastewater requiring treatment. Customers who can demonstrate higher rates of consumptive use than that reflected in the applicable flow factor, such as irrigation, can apply to the Residential Users Appeals Board for a lower flow factor (i.e. percentage of metered water returned to the sewage system).

Sewer Account Billing and Delinquencies

Sewer service charges are billed on a combined water and sewer utility bill on either a monthly or bi-monthly basis. Payments are due 15 days after the bill date. If payments are not made, late payment charges are assessed 15 days from the due date or 30 days from the bill date. Accounts are considered delinquent 15 days after a second unpaid bill. Water service may be disconnected or a lien may be assessed against the property for non-payment of water and sewer services.

In some cases of delinquency, a series of notices is sent to the customer and if payment is still not made, action to shut-off the water supply is initiated. In most cases of delinquency, the customer or property owner, with the exception of tenant-occupied single-family residences, receives a lien warning notice. After a lien hearing is held and if the bill still remains outstanding, the lien is recorded and can only be removed upon full payment of all unpaid charges, plus administrative fees and interest. Liens not paid during the fiscal year in which they are recorded are transferred to the tax collector for collection as a lien against the property. Accounts for which property transfers occurred prior to recording the lien and closed accounts with amounts less than \$25 are normally written off as uncollectible.

Current accounts receivables and historical annual write-offs are shown on the tables below. These amounts exclude receivables from municipal customers.

**TABLE 12A
ACCOUNTS RECEIVABLES AGING REPORT
AS OF JUNE 30, 2012**

<u>Period</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Percent of Total FY 2011-12 Revenues</u>
Current	\$ 28,356,626	76.70%	11.47%
31 - 60 Days	1,674,362	4.53	0.68
61 - 90 Days	976,049	2.64	0.39
Over 90 Days	5,964,493	16.13	2.41
Total	<u>\$36,971,530</u>	<u>100.00%</u>	
Credit Balances	(496,759)		
Total Aged Receivables	<u>36,474,772</u>		
Less Allowance For Doubtful Accounts	<u>(2,383,224)</u>		
Accounts Receivable, Net of Allowance	\$34,091,547		

Source: SFPUC, Financial Services

The following table shows a five-year history of write-offs for uncollectible accounts.

TABLE 12B
WRITE-OFFS FOR UNCOLLECTIBLE ACCOUNTS
As of Fiscal Year End, June 30

	Amount	% of Total Revenues
2008	\$4,305	0.002%
2009	3,013	0.001%
2010	3,172	0.001%
2011	3,559	0.002%
2012	5,870	0.002%

Capacity Charges

Effective July 1, 2005, any customer requesting a new connection to the sewer system or requiring additional collection or treatment capacity as a result of any addition, improvement, modification or change in use of an existing connection as determined solely by the General Manager must pay a capacity charge for the new or additional capacity required to serve the customer. The capacity charge is site specific and may not be sold, traded or conveyed in a manner to another site or customer. The capacity charge does not convey or imply ownership in or of any facilities of the Wastewater Enterprise.

Effective July 1, 2012, the wastewater capacity charge is \$3,422 per equivalent dwelling unit. The capacity charge is adjusted on July 1st of each subsequent year by the annual change in the 20-City Average Construction Cost Index (CCI) published by ENR Magazine.

Capacity charges have averaged approximately 2.15% of revenues over the past five years.

Operating and Maintenance Expenses

“Operating and Maintenance Expenses” cover the general operational expenses of the Wastewater Enterprise. These expenses include labor and employment benefits, contractual services, materials and supplies, depreciation, general and administrative, services from other departments and other miscellaneous costs. See “HISTORICAL OPERATING RESULTS” and “THE PUBLIC UTILITIES COMMISSION—Employee Relations.” Services from other departments include payment for services from other City departments, such as City Attorney’s Office and the General Services Agency.

Employee Benefit Plans

This section is based on the unaudited actual financial results for the SFPUC for Fiscal Year 2011-12.

SFPUC employees are City employees and are covered by benefit plans offered through the City.

Retirement System Plan Description. The SFPUC participates in the City’s single employer defined benefit retirement plan (the “Plan”) which is administered by the San Francisco City and County Employees’ Retirement System (the “Retirement System” or “SFERS”). The Plan covers substantially all full time employees of the SFPUC along with other employees of the City. The Plan provides basic service retirement, disability, and death benefits based on specified percentages of final average salary, and provides cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The City Charter and City Administrative Code are the authority which establishes and amends the benefit provisions and employer obligations of the Plan.

Plan Financial Reports. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102, or by calling (415) 487-7020.

Retirement System Funding Policy. Contributions to the basic Plan are made by both the SFPUC and its employees. Employee contributions are mandatory. Employee contribution rates for fiscal years 2012, 2011 and 2010 varied from 7.5% to 8.0% as a percentage of covered payroll. Due to certain bargaining agreements, the SFPUC contributed from 0.5% to 8.0% of covered payroll on behalf of some employees.

The contributions made by the Wastewater Enterprise for the prior three fiscal years were as follows:

Fiscal Year	Actuarially Determined Rate as a Percentage of Covered Payroll	Contribution (\$000s)	Percent of Required Contribution
2009-10	9.5%	\$4,233	100
2010-11	13.6%	\$5,884	100
2011-12	18.09%	\$8,393	100

Projected Future Contributions and Pension Costs. Employer-share contribution rates increased from 18.1% in Fiscal Year 2011-12 to 20.7% in Fiscal Year 2012-13 for covered City employees, as adopted by the Retirement Board in March 2012. Required employer-share rates included in the City's projections are based on a projection scenario provided by the Cheiron consulting firm, which assumes that the pension fund achieves a 0% investment return in Fiscal Year 2011-12 and achieves its target investment return in each subsequent year. This projection assumes required employer-share contribution rates of 25.5% in Fiscal Year 2013-14, 28.6% in Fiscal Year 2014-15, and 27.6% in Fiscal Year 2015-16. These rates are assumed to be reduced by the floating employee contribution rates included in the pension cost sharing provisions of Proposition C, as well as the increased employee contributions included in the amended labor agreements with the Police Officers Association and Firefighters Local 798. Together, these provisions result in \$38.1 million in savings to the City in Fiscal Year 2012-13, growing to \$56.5 million in Fiscal Year 2015-16. Despite these savings, SFERS employer contribution costs are projected to increase by \$10.2 million in Fiscal Year 2012-13, \$47.1 million in Fiscal Year 2013-14, and \$36.6 million in Fiscal Year 2014-15, followed by a decrease of \$12.8 million for Fiscal Year 2015-16.

Health Care Benefits. Health care benefits of the SFPUC employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System (the "Health Service System"). The Enterprise's annual contribution, which amounted to approximately \$9,426 and \$8,488 in fiscal years 2012 and 2011, respectively, is determined by a Charter provision based on similar contributions made by the 10 most populous counties in California.

Included in these amounts are \$2.334 million and \$2.420 million for 2012 and 2011, respectively, to provide post-retirement benefits for retired employees, on a pay-as-you-go basis. There was no additional City allocation to the Wastewater Enterprise's contribution payments made from the Health Service System for post-retirement health benefits in 2012 and 2011.

The City has determined a Citywide Annual Required Contribution ("ARC"), interest on net other post-employment benefits other than pensions ("OPEB") obligation, ARC adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB 45, by the City's actuaries. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excess) amortized over 30 years. The City's allocation of the OPEB related costs to the SFPUC for the year ended June 30, 2012 based upon its percentage of Citywide payroll costs is presented below.

The following table shows the components of the City's annual OPEB allocations for each Enterprise for the years ending June 30, 2012 and 2011, for the amount contributed to the plan, and changes in the City's net OPEB obligation:

TABLE 13
ANNUAL OPEB OBLIGATION BY ENTERPRISE
FOR FISCAL YEARS ENDING JUNE 30, 2011 AND JUNE 30, 2012
(IN THOUSANDS)

	2012				
	Water	Wastewater	Hetch Hetchy Water	Hetch Hetchy Power	SFPUC Total
Annual required contribution	\$19,856	\$7,817	\$2,007	\$2,454	\$32,134
Interest on net OPEB obligation	2,331	918	235	288	3,772
Adjustment to ARC	(1,933)	(761)	(195)	(239)	(3,128)
Annual OPEB cost (expense)	20,254	7,974	2,047	2,503	32,778
Contribution made	(7,559)	(2,334)	(661)	(808)	(11,362)
Increase in net OPEB obligation	12,695	5,640	1,386	1,695	21,416
Net OPEB obligation – beginning of year	60,314	20,873	3,669	7,552	92,408
Net OPEB obligation – end of year	73,009	26,513	5,055	9,247	113,824

	2011				
	Water	Wastewater	Hetch Hetchy Water	Hetch Hetchy Power	SFPUC Total
Annual required contribution	\$19,533	\$7,071	\$1,846	\$2,254	\$30,704
Interest on net OPEB obligation	1,842	667	174	213	2,896
Adjustment to ARC	(1,445)	(523)	(136)	(167)	(2,271)
Annual OPEB cost (expense)	19,930	7,215	1,884	2,300	31,329
Contribution made	(5,214)	(2,420)	(646)	(789)	(9,069)
Increase in net OPEB obligation	14,716	4,795	1,238	1,511	22,260
Net OPEB obligation – beginning of year	45,598	16,078	2,431	6,041	70,148
Net OPEB obligation – end of year	60,314	20,873	3,669	7,552	92,408

Source: SFPUC, Financial Services.

The City issues a publicly available financial report on a City-wide level that includes the complete note disclosures and required supplementary information related to the City's post-retirement health care obligations. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, CA 94102, or by calling (415) 554-7500.

Unfunded Actuarial Accrued Liability. The City Unfunded Actuarial Accrued Liability (“UAAL”) was \$4.0 billion at June 30, 2008. The amount allocable to the Wastewater Enterprise is shown below.

TABLE 14
ESTIMATED OPEB UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)
BY ENTERPRISE
(IN THOUSANDS)

	Percent of Total	UAAL at July 1, 2008
Total City	100.00%	\$4,036,324
Water Enterprise ⁽¹⁾	5.03	203,027
Wastewater Enterprise ⁽¹⁾	1.84	74,268
Hetch Hetchy Power and Water Enterprise ⁽¹⁾	0.89	35,923

⁽¹⁾ Consistent with the City’s election, the SFPUC will amortize its UAAL over 30 years. The amount of the SFPUC’s UAAL and the amount to be recognized every year may vary as a result of future actuarial assumptions and calculations. See “FORWARD-LOOKING STATEMENTS” above.

Source: SFPUC, Financial Services

An actuarial study dated December 13, 2010, indicates that the City’s UAAL increased approximately 8% to \$4.36 billion at June 30, 2010. While the amount allocable to the Wastewater Enterprise has not yet been determined, the SFPUC expects that the amount of the City’s UAAL allocable to the Wastewater Enterprise will increase by a similar percentage.

Pension and Health Care Cost Reforms. City voters have implemented pension and health care cost reforms in recent years to help mitigate future cost increases. These include the following propositions:

Proposition B. Proposition B was approved by voters in June 2008 and increased the years of service required to qualify for employer-funded retiree health benefits for City employees who retire under the San Francisco Employees Retirement System and were hired on or after January 10, 2009. Employees hired before January 10, 2009, became eligible to participate in the retirement health care system after 5 years of service and the employer paid 100% of the contribution. Proposition B also stated that a separate Retiree Health Care Trust Fund would be created to pay for the City’s future costs related to retiree health care. This trust fund will be funded by employer and employee contributions for employees hired on or after January 10, 2009. These new employees would contribute up to 2% of their pre-tax pay and employers would contribute 1%.

Proposition C. Proposition C was a Charter amendment approved by voters in November 2011 that changed the way the City and current and future employees share in funding SFERS pension and health benefits.

With regard to pension benefits, the base employee contribution rate remains at 7.5% for most employees when the City contribution rate is between 11% and 12% of City payroll. Employees making at least \$50,000 will pay an additional amount up to 6% of compensation when the City contribution rate is over 12% of City payroll. When the City contribution rate falls below 11%, employee contributions will be decreased proportionately.

Proposition C creates new retirement plans for employees hired on or after January 7, 2012 that: (1) for miscellaneous employees, increased the minimum retirement age to 53 with 20 years of service or 65 with 10 years; (2) for safety employees, kept the minimum retirement age at 50 with five years of service, but increased the age for maximum benefits to 58; (3) for all employees, limited covered compensation, calculated final compensation from three-year average, and changed the multipliers used to calculate pension benefits, and (4) for miscellaneous employees, raised the age of eligibility to receive vesting allowance to 53 and reduced by half the City’s contribution to vesting allowances. Proposition C limits cost-of-living adjustments for SFERS retirees.

With regard to health benefits, elected officials and employees hired on or before January 9, 2009, contribute up to 1% of compensation toward their retiree health care, with matching contribution by the City. For employees or elected officials who left the City workforce before June 30, 2001, and retire after January 6, 2012, Proposition C requires that the City contributions toward retiree health benefits remain at the same levels they were when the employee left the City workforce.

Debt Management and Fund Balance Reserve Policies

The SFPUC has established Debt Management Policies and Procedures for debt financing under its jurisdiction. These policies are intended to enable the SFPUC to effectively manage its debt issuance and debt management practices.

The SFPUC has also established a Fund Balance Reserve Policy. The Fund Balance Reserve Policy states that operating and capital plans, budgets and rates will be projected and proposed for adoption such that all bond indenture requirements are met or exceeded and that Operating Fund Balance Reserves meet one or more of the following: total at least 15% of annual revenues; total at least 15% of annual expenditures; and result in Debt Service Coverage, on a bond indenture basis, including fund balance reserves available to pay debt service, of at least 1.25 times.

These policies and procedures are reviewed and are revised as necessary with Commission approval, with the latest approval on February 11, 2010. The Commission may also approve exceptions to adherence to these policies.

The SFPUC makes no representation that these policies will not be revised or amended and, except to the extent required for compliance with the terms of the Indenture, and makes no representation that these policies will be followed by the SFPUC.

Allocation of Costs

Various common costs incurred by the SFPUC are allocated among the Wastewater Enterprise, the Water Enterprise and the Power Enterprise. Allocations are based on the SFPUC management's best estimate and may change from year to year depending on activities undertaken by each enterprise and information available. The most recent cost allocation review was completed in 2009.

For Fiscal Year 2011-12, the SFPUC budgeted \$24.6 million in administrative costs to the Wastewater Enterprise, which is recorded as personal service expenses and also in other various operating expenses in the Wastewater Enterprise financial statements. For Fiscal Year 2010-11, the SFPUC allocated \$22.5 million in administrative costs to the Wastewater Enterprise.

Payments to/from the City

A variety of City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Wastewater Enterprise and charge amounts designed to recover those costs. Over the past five years, these charges have averaged approximately 23% of annual operating costs of the Wastewater Enterprise.

On October 7, 2009, the City and County of San Francisco issued \$167.67 million in fixed-rate Certificates of Participation, Series 2009 C and D, to fund the construction of the headquarters of the SFPUC at 525 Golden Gate Avenue. Pursuant to a Memorandum of Understanding between the City and the SFPUC, the SFPUC will reimburse the City General Fund for all costs in connection with this City financing. Such obligations are subordinate to debt service on the Bonds and payments related thereto are allocated among the three SFPUC Enterprises. See "OBLIGATIONS PAYABLE FROM REVENUES—Other Obligations Payable from Revenues."

The SFPUC receives payments from other agencies of the City for their share of the proportionate cost of the service provided to them. Over the past five years, these service deliveries generated revenues that have averaged approximately 3% of Wastewater Enterprise revenues.

Investment of SFPUC Funds

The SFPUC’s pooled deposits and investments are invested pursuant to State law and the investment policy established by the City Treasurer and overseen by the Treasury Oversight Committee. This policy seeks the preservation of capital, liquidity and yield, in that order of priority. The policy addresses the soundness of the financial institutions that hold City assets and the types of investments permitted by the California Government Code. The earned income yield for Fiscal Year 2011-12 was 1.32%.

The SFPUC’s non-pooled deposits and investments consist primarily of funds related to the SFPUC’s outstanding bonds, which are invested pursuant to policy established by the SFPUC, subject to the restrictions contained in the applicable bond documentation.

Risk Management and Insurance

The SFPUC’s risk management program encompasses both self-insured and insured coverage. Risk assessments and coverage are coordinated by the SFPUC Enterprise Risk Manager through the City Office of Risk Management. With certain exceptions, the City and SFPUC’s general policy is to first evaluate self-insurance for the risk of loss to which it is exposed. Based on this analysis, the SFPUC has determined that mitigating risk through a “self-retention” mechanism is more economical as it manages risks internally and administers, adjusts, settles, defends, and pays claims from budgeted resources (i.e., pay-as-you-go). When economically more viable or when required by debt financing covenants, the SFPUC obtains commercial insurance.

At least annually, the City reviews and actuarially determines general liability and workers’ compensation liabilities, which are recorded as “Damages and Claims” and “Accrued Worker’s Compensation” in the financial statements.

The SFPUC does not maintain commercial earthquake coverage for the Wastewater Enterprise, with certain minor exceptions, such as a sub-limit for fire-sprinkler leakage due to earthquake under the Property Insurance program.

The following is a summary of the SFPUC’s coverage approach to risk:

Primary Risks	Typical Coverage Approach
General Liability	Self-Insured
Property	Purchased Insurance & Self-Insured
Workers’ Compensation	Self-Insured through City-Wide Pool
Other Risks	Typical Coverage Approach
Surety Bonds	Purchased and Contractually Transferred
Professional Liability	Combination of Self-Insured, Purchased Insurance and Contractual Risk Transfer
Errors & Omissions	Combination of Self-Insured, Purchased Insurance and Contractual Risk Transfer
Builders Risk	Purchased Insurance & Contractual Risk Transfer
Public Officials Liability	Purchased Insurance

The SFPUC’s property risk management approach varies depending on whether the facility is currently under construction, or if the property is part of revenue-generating operations. The majority of purchased insurance program is for revenue-generating facilities, debt-financed facilities, and mandated coverage to meet statutory or contractual requirements.

The SFPUC has purchased a Public Officials Liability policy for all public officials with financial oversight responsibilities, including Commissioners, the General Manager and the Chief Financial Officer. The policy also includes employment practices liability coverage.

Additionally, the SFPUC has implemented an Enterprise Risk Management program for the Business & Financial Services Bureau. The framework provides a strategic approach to managing operational risks of the organization through a coordinated process that identifies, assesses, treats, and monitors risks. The SFPUC acknowledges the importance of aligning strategic planning to the risk management process and intends to continue implementation across the organization.

Capital Project Risk Management. For capital construction projects, the SFPUC has utilized traditional contractual risk transfer, owner-controlled insurance programs or other alternative insurance programs. Under the latter two approaches, the insurance program usually provides coverage for the entire construction project, along with multiple risk coverages, such as general liability and workers compensation. When a contractual risk transfer is used for capital construction risks, the SFPUC requires each contractor to provide its own insurance, while ensuring that the full scope of work be covered with satisfactory levels to limit the SFPUC's risk exposure balanced by that which is commercially available.

Bonds are required, unless Builder's Risk is purchased, in most phases of the construction contracting process for such phases, as bid, performance, and payment or maintenance. Additionally, bonds may be required in other contracts where goods or services are provided to ensure compliance with applicable terms and conditions such as warranty.

Professional liability policies are either directly purchased insurance on behalf of the SFPUC, transferred through contract to the contracted professional, or retained through self-insurance on a case by case basis depending on the size, complexity or scope of construction or professional service contracts. Professional liability policies are typically purchased for services provided by engineers, architects, design professionals and other licensed or certified professional service providers.

Builder's Risk policies of insurance are required to be provided either through an owner-controlled insurance program or the contractor on all construction projects for the full value of the construction.

HISTORICAL OPERATING RESULTS

Summary of Historical Operating Results and Debt Service Coverage

The historical results of operations reflected in the table below are based on the tables contained in the Financial Statements entitled "Statements of Revenues, Expenses and Changes in Net Assets" and "Statements of Cash Flows" for the Fiscal Years listed. See "APPENDIX C—SFPUC WASTEWATER ENTERPRISE FINANCIAL STATEMENTS." The calculation of debt service coverage includes net operating income and funds not budgeted to be spent in the next twelve months and legally available to pay debt service, as permitted under the Indenture.

TABLE 15
HISTORICAL REVENUE, OPERATING & MAINTENANCE EXPENSE
AND DEBT SERVICE COVERAGE FOR FISCAL YEARS ENDED JUNE 30
(IN THOUSANDS)⁽¹⁾

	Audited 2008	Audited 2009	Audited 2010	Audited 2011	Unaudited Actual 2012
OPERATING & INVESTMENT REVENUE					
Sewer Service Charges	\$187,810	\$199,332	\$202,363	\$220,586	\$233,628
Other Revenues	6,181	5,621	5,180	4,875	4,983
Investing Activities	4,099	1,992	2,056	1,927	2,975
Capacity Fees	8,558	3,701	2,300	3,755	5,544
Total Revenues	<u>206,648</u>	<u>210,646</u>	<u>211,899</u>	<u>231,143</u>	<u>247,130</u>
OPERATING & MAINTENANCE EXPENSE					
Labor and Fringe Benefits	69,383	69,141	70,992	73,630	82,709
Contractual Services	11,973	13,828	12,018	12,577	13,257
Materials and Supplies	9,539	5,754	9,888	8,338	8,921
Depreciation	38,758	38,815	40,748	42,217	44,799
General and Administrative ⁽²⁾	1,719	2,302	32,305	32,689	33,292
Services of Other Departments	26,021	31,634	2,500	507	2,815
Other	7,852	7,826	17,061	9,126	10,064
Total Operating Expenses	<u>165,245</u>	<u>169,300</u>	<u>185,512</u>	<u>179,084</u>	<u>195,857</u>
OPERATING AND INVESTMENT INCOME	<u>41,403</u>	<u>41,346</u>	<u>26,387</u>	<u>52,059</u>	<u>51,273</u>
COVERAGE CALCULATION⁽³⁾					
Operating and Investment Income	41,403	41,346	26,387	52,059	51,273
+ Adjustment to Investing Activities ⁽⁴⁾	1,297	161	225	108	(299)
+ Depreciation & Non-Cash Expenses	40,395	41,429	52,912	44,232	46,271
+ Changes in Working Capital	6,223	4,699	976	5,633	21,375
+ SRF Loan Payments	(16,505)	(16,505)	(16,505)	(16,503)	(10,983)
= "Net Revenue"	<u>72,813</u>	<u>71,130</u>	<u>63,995</u>	<u>85,529</u>	<u>107,637</u>
+ Other Available Funds ⁽⁵⁾	34,699	48,016	49,272	22,769	50,761
Funds Available for Bond Debt Service	<u>107,512</u>	<u>119,146</u>	<u>113,267</u>	<u>108,298</u>	<u>158,398</u>
Bond Debt Service	\$50,198	\$50,311	\$50,313	\$41,838	\$38,533
Debt Service Coverage	2.14	2.37	2.25	2.59	4.11

(1) Operating and Investment Income presented in this table differs from the Change in Net Assets presented in the Statement of Revenues, Expenses and Changes in Net Assets in the Audited Financial Statements. See "APPENDIX C—SFPUC WASTEWATER ENTERPRISE FINANCIAL STATEMENTS." This table presents Debt Service Coverage as defined under the Indenture and excludes certain elements of nonoperating revenue and expenses included in the Statements of Revenues, Expenses and Changes in Net Assets. Examples of excluded elements are Grant Revenue, Interest Expense and Gains from Sale of Assets.

(2) The increase in General and Administrative expenses beginning in 2007 results from a reallocation of overhead expenses to various expenses.

(3) The Indenture defines "Net Revenue" on a cash basis.

(4) Adjustment of Investing Activities to a cash basis.

(5) As per the Indenture, in addition to current year cash flow, the coverage calculation permits the inclusion of certain funds not budgeted to be spent in such twelve months and legally available to pay debt service.

Source: SFPUC, Financial Services

Sources of Revenue

The Wastewater Enterprise's sources of revenue for Fiscal Year 2011-12 are summarized below.

	(\$thousands)	
Sewer Service Charges	\$ 233,628	94.54%
Capacity Fees	5,544	2.24
Other Revenue	7,958	3.22
Total	<u>247,130</u>	<u>100.00%</u>

Source: SFPUC, Financial Services

"Other Revenue" shown above includes interest earnings and other revenues, and excludes \$8.498 million in non-operating revenues.

Management's Discussion of Historical Operating Results

As stated in the Wastewater Enterprise's Audited Financial Statements, attached as APPENDIX C to this Official Statement, the Wastewater Enterprise's total revenues of \$255,628,000, including \$8,498,000 in non-operating revenues, for fiscal year 2011-12 increased by \$17,644,000, or 7.4%, over the prior year primarily due to increases in charges for services, capacity fee revenues, and grants received from other governments. While sanitary flow of 26.8 million hundred cubic feet for the year decreased by 0.7%, charges for services increased by \$13,042,000, or 5.9%, due to an increase in sewer billing rates of 5% on average. Other operating revenues increased by \$1,897,000, or 22.0%, mainly due to an increase of \$1,789,000 in capacity fee revenues from increased applications and capacity fee rates. Interest and investment income increased by \$1,048,000, or 54.4%, mainly due to higher cash balances and higher interest earnings.

The Wastewater Enterprise's total expenses increased by \$14,626,000, or 7.2%, due to an increase of \$16,773,000 in operating expenses offset by a \$3,809,000 decrease in interest expense due to repayments of revenue bonds and State Revolving Fund loans. The increase in operating expenses is attributable to \$9,079,000 in personal services, mainly due to salaries and fringe benefits, retirement, health care and workers' compensation, \$2,582,000 in depreciation due to prior year capital assets being in use, \$2,308,000 in general and administrative expenses mainly due to judgment and claims liability of \$2,639,000 based on actuarial estimates, \$938,000 in other operating expenses due to increased non-capitalized project expenses, \$680,000 in contractual services, \$603,000 in services provided by other departments mainly for legal services, and \$583,000 in materials and supplies, especially in building, construction and equipment maintenance supplies.

See "APPENDIX C – SFPUC WASTEWATER ENTERPRISE FINANCIAL STATEMENTS."

PROJECTED OPERATING RESULTS

The following table presents projected operating results for the Wastewater Enterprise. These projections are based on an analysis of historical trends, adjusted where appropriate for known or anticipated changes in operations. The projections are also based on the assumptions that all rate increases necessary to finance the CIP and a portion of the SSIP will be obtained.

THESE PROJECTIONS, ALL OR SOME OF WHICH MAY OR MAY NOT BE REALIZED, ARE BASED ON THE ISSUANCE OF ADDITIONAL BONDS FOR THE CIP AND SSIP. CHANGES IN THE CIRCUMSTANCES THAT FORM THE BASES FOR THE ASSUMPTIONS USED IN DEVELOPING THESE PROJECTIONS, AS WELL AS UNANTICIPATED EVENTS, MAY OCCUR SUBSEQUENT TO THE DATE OF THE OFFICIAL STATEMENT. THEREFORE, ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE PROJECTIONS SHOWN.

TABLE 16
PROJECTED REVENUE, OPERATING AND MAINTENANCE EXPENSE
AND DEBT SERVICE COVERAGE FOR FISCAL YEAR ENDING JUNE 30
(IN THOUSANDS) ⁽¹⁾

	2013	2014	2015	2016	2017
REVENUE					
Sewer Service - Base Rates	\$234,587	\$242,138	\$250,886	\$250,886	\$263,430
Sewer Service - Rate Increases ⁽²⁾	7,551	8,748	-	12,544	10,537
Interest Income ⁽³⁾	1,588	1,755	1,859	1,821	1,629
Other Miscellaneous Income	1,900	1,900	1,900	1,900	1,900
Total Revenues	245,626	254,541	254,645	267,151	277,322
OPERATING AND MAINTENANCE EXPENSE ⁽⁴⁾					
Total Expenses	147,090	151,503	156,048	160,730	165,552
NET REVENUE	98,536	103,038	98,597	106,420	111,945
OTHER AVAILABLE FUNDS	66,658	86,352	105,604	108,006	92,627
FUNDS AVAILABLE FOR BOND DEBT SERVICE	165,194	189,390	204,201	214,427	204,571
Debt Service					
2013 Series A Bonds	42,457	42,189	39,545	38,666	20,641
2013 Series B Bonds and Future Revenue Bonds	8,393	9,092	19,255	42,580	69,234
TOTAL DEBT SERVICE ⁽⁵⁾	50,850	51,281	58,800	81,246	89,875
DEBT SERVICE COVERAGE ⁽⁶⁾	3.76	4.27	3.77	2.75	2.33

⁽¹⁾ Amounts set forth in the table are projections. Actual results may differ materially from these projections. See "FORWARD-LOOKING STATEMENTS" above.

⁽²⁾ Projections assume currently approved and anticipated future rate increases described below. See "--Assumptions Used in Projections."

⁽³⁾ Interest income is based on net yield forecasts for the City Pooled Fund as provided by the Chief Investment Officer for the City.

⁽⁴⁾ O&M net of depreciation and other non-cash items per Indenture.

⁽⁵⁾ Includes debt service on Outstanding Bonds and Additional Series of Bonds (net of capitalized interest and debt service reserve fund earnings). Assumes cash funded debt service reserve fund equal to Maximum Annual Debt Service, and two years of capitalized interest funded in connection with the issuance of each Additional Series of Bonds. Actual issuance dates and borrowing rates for Additional Series of Bonds may vary.

⁽⁶⁾ Coverage calculated using fund balance and Net Revenues in accordance with rate covenant set forth in the Indenture.

Source: SFPUC, Financial Services

Assumptions Used in Projections

The assumptions used in the table above are as follows:

Projected Revenue and Rate Increases. The projected revenues are based on projected wastewater service sales and the schedules of rates to be effective in each year. On May 5, 2009, the SFPUC adopted schedules of rates to be effective in Fiscal Years 2009-10 through 2013-14. The adopted schedules provide for 5.0% average rate increases in Fiscal Year 2012-13 and Fiscal Year 2013-14. Average rate increases for the remainder of the projection period are assumed at 0.0% for Fiscal Year 2014-15, 4.0% for Fiscal Year 2015-16 and 4.0% for Fiscal Year 2016-17; however, these rate increase have not been proposed to or considered by the Commission. Interest earnings assume a 2% yield.

Projected Operating and Maintenance Expenses. Operating and Maintenance Expense costs are projected to grow by 3% annually for the projection period.

Projected Debt Service. Projected debt service reflects the existing debt service on the 2013 Series A Bonds and the 2013 Series B Bonds. Future debt service will be based on the actual debt service of the 2013 Series A Bonds.

Future debt issuances to fund renewal and replacement and the CIP and SSIP are expected to total \$1.3 billion for the remainder of the projection period.

REGULATORY MATTERS

The Wastewater Enterprise meets all known current and future regulatory permit requirements for its treatment facilities, and is in full compliance with the Porter-Cologne and Clean Water Acts (as described below). This section summarizes the regulatory framework governing the Wastewater Enterprise and its operations.

History and Background

In 1969, the State adopted the Porter-Cologne Water Quality Act (the "Porter-Cologne Act"), creating the State's current legal framework for the protection of water quality. This adoption was followed at the federal level by the Water Pollution Control Act Amendments of 1972 (the "Clean Water Act"). The Clean Water Act provided an aggressive timetable for eliminating pollution of the nation's waters and established the basic secondary treatment requirement that 85% of pollutants, as defined in administrative regulations, be removed from sanitary sewage. The Clean Water Act also required the issuance of discharge permits on a nationwide basis and established a federal grant program for construction of publicly owned wastewater facilities, subsequently replaced by the state revolving fund loan program. Although the EPA has ultimate responsibility for administering the Clean Water Act, many functions have been delegated to the State. The administration of the current loan program and enforcement of regulations are a joint undertaking of the State Water Board, the Regional Water Board, and EPA Region IX.

City Master Plan

In 1971, the City created its Master Plan to address the requirements of the Porter-Cologne Act, which, following the environmental review process, was adopted by the City and the EPA in 1974, and the City commenced implementation of the plan. With subsequent refinements, the Master Plan has been the SFPUC's guide for improving the performance of the Wastewater Enterprise and meeting the requirements of State and federal water quality laws. All projects and improvements described in the Master Plan, as subsequently modified, have been completed and are fully operational.

National Pollutant Discharge Elimination System Permits

Under the Porter-Cologne and Clean Water Acts, the Regional Water Board administers water pollution control programs. The Regional Water Board issues discharge permits under Section 402 of the Clean Water Act, which establishes the National Pollutant Discharge Elimination System ("NPDES") permit system. These permits, issued for a five-year period, are also waste discharge requirements for the purposes of the Porter-Cologne Act and apply to discharges from the SFPUC's treatment plants and combined sewer discharge facilities.

The Wastewater Enterprise operates under two wastewater NPDES permits: the 2008 Bayside Permit (NPDES Permit No. CA0037664), covering the Southeast Plant, North Point Facility and other bayside facilities that discharge into the San Francisco Bay; and the 2009 Oceanside Permit (NPDES Permit No. CA0037681; issued jointly with EPA Region IX), covering the Oceanside Plant discharges and other westside facilities that discharge into the ocean. Currently, the SFPUC's discharges are in full compliance with all permit requirements. The City is also regulated under the State General Permit for Small Municipal Separate Storm Sewer System (MS4) permit, for storm water discharges in the small portion of the City with separate sewer systems.

Combined Sewer Overflow Control Policy

With the exception of a small portion of the City of Sacramento, the SFPUC is the only wastewater agency in the State that operates a combined sewer system, in which sanitary sewage and stormwater are conveyed in the same system of pipes and treatment facilities. In order to address the unique characteristics of combined sewer systems, the EPA adopted the Combined Sewer Overflow Control Policy (59 FR 18688) in 1994 (the "CSO Policy"). This policy established a consistent national approach for controlling discharges from CSOs to the nation's water, and has since been incorporated into the Clean Water Act by The Wet Weather Water Quality Act of 2000.

The CSO Policy created a two-phased process for combined sewer systems. During the first phase, the permittee is required to implement "nine minimum controls" specified in the CSO Policy. In addition, the permittee is required to develop and implement a long-term control plan for the purpose of providing facilities and controls sufficient to comply with water quality standards. The SFPUC has implemented the "nine minimum controls", and construction of the Master Plan projects constitutes implementation of the long-term control plan. The SFPUC is in full compliance with the CSO Policy.

The SFPUC's discharge permits require the preparation of reports analyzing the efficacy of the system's wet weather operations and the attainment of water quality standards. The SFPUC's efficacy report for the Bayside Watershed submitted in June 2012 concluded that, on a system-wide annual basis, 96% of all combined sewage is treated and disinfected prior to discharge; the remaining 4% is treated in the transport storage system, without disinfection, prior to discharge. The final report for the Westside Watershed is due in September 2014.

Regional Water Board Enforcement

In the 1970s and 1980s, the Regional Water Board issued cease and desist orders to the SFPUC containing project planning, design, and construction schedules for Master Plan projects and discharge limit compliance dates. All such cease and desist orders have been satisfied and are no longer in effect.

Stormwater Regulations

In 1987, Congress revised the Clean Water Act to more effectively address pollution caused by stormwater runoff. The regulations require stormwater management plans for municipalities and controls on certain construction sites and other industries. Urban areas with combined sewers, such as most of the City, are exempt. Because a small portion of the City is served by separate sewer systems, the implementation of the Municipal Separate Storm Sewer System ("MS4") permit requirements occurred under Phase II of the stormwater program, following the earlier Phase I implementation for cities with a large separate sewer system. The permit for small MS4s (NPDES Permit No. CAS000004) is issued by the State Water Board and regulates the stormwater discharge from the SFPUC's separate sewer systems. The SFPUC operates a stormwater management program that complies with the requirements of the MS4 Permit.

Regulatory Trends

Regulatory developments at the State and Federal level, as well as ongoing permit reissuance activities, may increase operations costs and capital needs of the Wastewater Enterprise and may have an effect on the Wastewater Enterprise operations and its revenues. In the future, additional constituents of concern (possibly including pollutants such as ammonia, nutrients, endocrine disrupting chemicals, human-made chemicals/products) will likely be identified, and additional effluent limits may be added for wastewater discharges into the San Francisco Bay and Pacific Ocean, as water quality objectives are developed for new compounds and improved analytical techniques become available. Additional source control measures, public education and outreach, and additional or advanced treatment processes may be necessary to achieve compliance. SFPUC staff is actively engaged with regulatory officials and the public in the development of these regulatory matters.

These topics and their possible effect on the Wastewater Enterprise are briefly described below:

Impaired Water Bodies and Total Maximum Daily Loads. The Clean Water Act requires states to identify all water bodies that do not achieve designated water quality standards or objectives. Such water bodies are designated as "impaired," and states are required to identify all sources contributing to the impairment under the Total Maximum Daily Load ("TMDL") program. States are required to designate wasteload allocations to each contributing point source, such as the Wastewater Enterprise, in order to promote the recovery of the water body. Central and lower San Francisco Bay are currently listed as impaired for a number of organic and inorganic pollutants, as well as invasive species and trash. The Regional Water Board has completed San Francisco Bay TMDLs for mercury and PCBs and is developing a TMDL for selenium.

The San Francisco Bay Mercury TMDL, which was adopted in February 2008, is implemented through a group Watershed Permit that was adopted by the Regional Water Board and contains individual and group effluent wasteload allocations for all Bay Area municipal dischargers, including the SFPUC. The Mercury Watershed Permit has a 20-year implementation plan that requires loading reductions every 10 years.

The San Francisco Bay PCBs TMDL establishes a wasteload allocation of 0.3 kg per year for the Southeast Plant. The implementation plan also requires the implementation of PCBs risk reduction programs, similar to risk reduction programs for mercury.

The SFPUC currently complies with the applicable waste load allocation. Future reductions in allowable wasteloads over the next 20 years may require changes to the operation of the Wastewater Enterprise. The SFPUC's unique status as a combined system will likely have an impact on the need for future modifications, since the system removes substantially more pollutants than separate sanitary and stormwater systems.

Contaminated Bay Sediments. California Water Code, Division 7, Chapter 5.6 established a program to assess sediment contamination of the State's enclosed bays and estuaries. Known as the Bay Protection and Toxic Cleanup Program, the focus of this effort was to identify contaminated sediments with elevated levels of toxins.

The State-wide plan identified Mission Creek and Islais Creek as contaminated spots. For Mission Creek, the plan included preliminary estimates of investigation and study costs at \$1 million, remediation and monitoring ranging from \$0.8 to \$1.8 million, and possible sewer system configuration modifications up to \$75 million. The plan included a preliminary estimate of investigation and study costs for Islais Creek at \$1 million. Remediation and monitoring were estimated to range from \$0.8 to \$5.2 million, and possible sewer system configuration modifications up to \$75 million for Islais Creek. The SFPUC provided comments and data studies disputing both the extent of contamination in the creeks and any asserted causal relationship to SFPUC activities. The plan is not self-executing, and requires further regulatory remediation action by the Regional Water Board, which has stated that contaminated sediment issues will be addressed through the TMDL analysis and implementation programs mentioned above.

EPA has determined that Yosemite Creek sediments must be addressed. While EPA has not listed Yosemite Creek as a Superfund site, it has determined that over 50 potentially responsible parties, including the City, develop a proposed sediment remediation plan. Because the process is in its early stages, SFPUC cannot reasonably predict whether or to what extent it may be partially responsible for contributing to this contamination remediation project, or whether such cleanup will have any impact on current sewer system operations.

Pursuant to GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, the Wastewater Enterprise reported \$571,000 in pollution remediation liability as of June 30, 2012.

Contaminants of Emerging Concern. Contaminants of emerging concern include alkyl phenols, flame retardants, hormones, personal care products, pharmaceuticals, steroids, perfluorinated compounds, and pesticides, which typically enter municipal wastewater through bathing, cleaning, laundry, and the disposal of unused products. Pharmaceuticals typically include prescription and over-the-counter therapeutic drugs for both human and veterinary treatment. Personal care products typically include soaps, fragrances, and cosmetics. Secondary treatment facilities with processes similar to those used by the Wastewater Enterprise do provide some incidental removal of these contaminants, even though they are not specifically designed for this purpose. While the EPA has developed programs to measure and evaluate these effects, no standards have been established applicable to point discharges.

Nutrient Control for the Bayside. In 2007, the Natural Resources Defense Council (the "NRDC") petitioned the EPA to promulgate new regulations changing the definition of "secondary treatment" to include nitrogen and phosphorous removal. The NRDC petition alleges that the EPA has unreasonably

failed to update its secondary treatment regulations to include nutrient removal and asserts that current technology allows all publicly-owned treatment works reliably to attain lower concentrations of total phosphorous and total nitrogen. In March 2012, NRDC and other organizations filed a complaint in the United States District Court for the Southern District of New York to compel EPA to update its regulations.

While the SFPUC cannot predict the outcome of that litigation, the State and Regional Boards in 2010 began development of water quality standards for San Francisco Bay using a numeric nutrient endpoint assessment framework and a set of decision rules that help regulatory agencies determine whether a waterbody is meeting beneficial uses. The research needed to finish the assessment framework is underway and is expected to be completed in 2014. Whether new limits will be adopted that would apply to SFPUC treatment facilities is unclear at this time.

Other Regulatory Agencies with Jurisdiction Over the Wastewater Enterprise

Other regulatory agencies with approval or oversight responsibilities over the siting, construction or operational impacts of the Wastewater Enterprise on air, water and natural resources include the Bay Area Air Quality Management District, the Bay Conservation and Development Commission, the California Coastal Commission, the California Department of Public Health, the National Marine Fisheries Service, the United States Fish and Wildlife Service, and the U.S. Army Corps of Engineers.

Other Laws Affecting the Wastewater Enterprise

As a public agency the SFPUC's actions must be consistent with the California Environmental Quality Act and, where federal approvals or funding is involved, the National Environmental Policy Act. The federal Clean Air Act and the California Clean Air Act of 1988 also regulate emissions from the treatment facilities. All of the SFPUC's treatment facilities meet present Bay Area Air Quality Management District standards.

CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS

Tax and Spending Limitations

The taxing powers of public agencies in the State are limited by Article XIII A of the California Constitution, added by an initiative amendment approved by the voters on June 6, 1978, and commonly known as Proposition 13.

Article XIII A limits the maximum ad valorem tax on real property to 1% of "full cash value," which is defined as "the County Assessor's valuation of real property as shown on the Fiscal Year 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction, or other factors.

The tax rate limitation referred to above does not apply to ad valorem taxes to pay the debt service on any indebtedness approved by the voters before July 1, 1978, or on any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters voting on the proposition.

Under the terms of Article XIII A and pursuant to an allocation system created by implementing legislation, each county is required to levy the maximum ad valorem tax permitted by Article XIII A and to distribute the proceeds to local agencies.

Assessed valuation growth allowed under Article XIII A (new construction, change of ownership and up to 2% annual value growth) is allocated among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools share the growth of base revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenues from tax bases to such entities may be affected by the establishment of redevelopment agencies that, under certain circumstances, may be entitled to such revenues resulting from the upgrading of certain property values.

Under State law, any fee that exceeds the reasonable cost of providing the service for which the fee is charged may be considered a "special tax" that must be authorized by a two-thirds vote of the electorate. Accordingly, if a portion of the SFPUC's wastewater user rates or capacity charges were determined by a court to exceed the reasonable cost of providing service, the SFPUC would not be permitted to continue to collect that portion unless it were authorized to do so by a two-thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. If the SFPUC were unable to obtain such a two-thirds majority vote and were unable to reduce costs, such failure could adversely affect the SFPUC's ability to pay the debt service on the Bonds.

The United States Supreme Court has upheld Article XIII A against a challenge alleging violation of equal protection under the Fourteenth Amendment to the United States Constitution.

Proposition 218

Proposition 218, a State ballot initiative known as the "Right to Vote on Taxes Act," was approved by the voters on November 5, 1996. The initiative added Articles XIII C and XIII D to the California Constitution, creating additional requirements for the imposition by most local governments of "general taxes," "special taxes," "assessments," "fees," and "charges." Articles XIII C and XIII D became effective, pursuant to their terms, as of November 6, 1996, although compliance with some of the provisions was deferred until July 1, 1997, and certain of the provisions purport to apply to any tax imposed for general governmental purposes (i.e., "general taxes") imposed, extended or increased on or after January 1, 1995 and prior to November 6, 1996.

Article XIII D imposes substantive and procedural requirements on the imposition, extension or increase of any "fee" or "charge" subject to its provisions. A "fee" or "charge" subject to Article XIII D includes any levy, other than an ad valorem tax, special tax or assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIII D prohibits, among other things, the imposition of any proposed fee or

charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required not less than 45 days following the public hearing on any such proposed new or increased fee or charge.

The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal. 4th 409 (2004) ("Richmond"), and *Bighorn-Desert View Water Agency vs. Verjil*, 39 Cal. 4th 206 (2006) ("Bighorn") have clarified uncertainty surrounding the applicability of Section 6 of Article XIID to service fees and charges. In *Richmond*, the Shasta Community Services District charged a water connection fee, which included a capacity charge for capital improvements to the water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIID because a water connection fee is not a property-related fee or charge because it results from the property owner's voluntary decision to apply for the connection. In both *Richmond* and *Bighorn*, however, the Court stated that a fee for ongoing water service through an existing connection is imposed "as an incident of property ownership" within the meaning of Article XIID, rejecting, in *Bighorn*, the water agency's argument that consumption-based water charges are not imposed "as an incident of property ownership" but as a result of the voluntary decisions of customers as to how much water to use.

The SFPUC provides public notice of proposed wastewater rate increases in accordance with the requirements of Article XIID through means that include, among others, holding informational presentations at community group meetings, mailings to residential and commercial customers of public hearings on rate increases, and press releases and media campaigns regarding rate increases, followed by public hearings conducted by the SFPUC's Rate Fairness Board and by the SFPUC itself. The SFPUC also develops and adopts retail utility user rates and fees in accordance with the requirements of Article XIID(6)(b) that limit property-related fees and charges. Article XIIC extends the people's initiative power to reduce or repeal previously authorized local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIIC to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. In *Bighorn*, the Court concluded that under Article XIIC local voters by initiative may reduce a public agency's water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was not determining whether the electorate's initiative power is subject to the public agency's statutory obligation to set water service charges at a level that will "pay the operating expenses of the agency, ... provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due."

The courts have not fully interpreted the provisions of Proposition 218. The SFPUC is unable to predict how courts will further interpret Article XIIC and Article XIID, and what, if any, further implementing legislation will be enacted. Under the *Bighorn* case, City voters could adopt an initiative measure that reduces or repeals the SFPUC's wastewater rates and charges, though it is not clear whether (and courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonded indebtedness. There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIC and Article XIID to limit the ability of the SFPUC to impose, levy, charge and collect increased fees and charges for the Wastewater Enterprise, or to call into question wastewater rate increases previously adopted by the SFPUC. No assurance may be given that Articles XIIC and XIID will not have a material adverse impact on Revenues.

Charter Limitations

The Charter requires that bonds (such as the Bonds) secured by revenues, other than refunding bonds, may be issued only with the assent of a majority of voters. However, under the Charter amendments enacted by the voters in November 2002 (Proposition E), the SFPUC may issue revenue bonds, including notes, commercial paper or other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors, for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or wastewater facilities or combinations of water and wastewater facilities under the jurisdiction of the SFPUC (and

subject to the further conditions contained in Proposition E). See “OBLIGATIONS PAYABLE FROM REVENUES—Authority for Issuance of Revenue Bonds and Other Obligations Payable from Revenues.”

In June 1998 the electorate of the City approved Proposition H which, subject to certain exceptions, including a limited exception to raise rates to pay debt service on voter-approved debt, froze the SFPUC’s water rates through July 1, 2006. The SFPUC can give no assurance that the electorate will not seek in the future to freeze or limit rate increases.

Initiative, Referendum and Charter Amendments

General. Article XIII A and Articles XIII C and XIII D of the California Constitution were adopted pursuant to the State’s constitutional initiative process. From time to time other initiative measures could be adopted by State voters, or by voters of the City, placing additional limitations on the ability of the SFPUC to increase revenues.

Proposition 26. Proposition 26 was recently approved by the electorate at the November 2, 2010 election. Proposition imposes a two-thirds voter approval requirement for the imposition of fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. The initiative was designed to prevent the circumvention of tax limitations imposed by the voters pursuant to Proposition 13, approved in 1978, and other measures through the use of non-tax fees and charges.

Proposition 26 expressly excludes “a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the [State/local government] of providing the service or product to the payor” and “assessments and property-related fees imposed in accordance with the provisions of Article XIII D.” The SFPUC believes that the initiative is not intended to and would not apply to fees for utility services charged by the SFPUC. The SFPUC, however, is unable to predict whether Proposition 26 will be interpreted by the courts to apply to the provision of utility services by local governments such as the SFPUC.

Future Charter Amendments. The voters could adopt additional Charter amendments in the future that could limit the ability of the SFPUC to issue debt, affect the operation of the Wastewater Enterprise, limit the ability of the SFPUC to enact rate increases, or implement other changes affecting the SFPUC and the Wastewater Enterprise.

LITIGATION

The SFPUC is not aware of any litigation pending or threatened questioning the political existence of the City or the SFPUC or contesting the SFPUC's power to fix water rates and charges, or in any way questioning or affecting:

- (i) the proceedings under which the 2013 Series B Bonds are to be issued;
- (ii) the validity of any provision of the 2013 Series B Bonds or the Indenture;
- (iii) the pledge of Revenues by the SFPUC under the Indenture; or
- (iv) the titles to office of the present members of the Board of Supervisors and the Commission.

There are a number of suits and claims pending against the City and the SFPUC, which may include personal injury, wrongful death and other suits and claims against which the City may self-insure. The aggregate amount of the self-insured liabilities of the City and the SFPUC which may result from such suits and claims will not, in the opinion of the City Attorney, materially impair the ability of the SFPUC to pay principal of or interest on the Bonds as they become due. There is no litigation pending, with service of process having been accomplished, against the City or the SFPUC which if determined adversely to the City or the SFPUC would, in the opinion of the City Attorney, materially impair the ability of the SFPUC to pay principal of and interest on the Bonds as they become due.

TAX MATTERS

General

In the opinion of Sidley Austin LLP, San Francisco, California, and Curlls Bartling P.C., Oakland, California, Co-Bond Counsel to the SFPUC, based on existing statutes, regulations, rulings and judicial decisions, and assuming compliance by the SFPUC with certain covenants in the Indenture and other documents pertaining to the 2013 Series B Bonds and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the 2013 Series B Bonds and the timely payment of certain investment earnings to the United States, interest on the 2013 Series B Bonds is not includable in the gross income of the owners of the 2013 Series B Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the 2013 Series B Bonds to be included in gross income retroactively to the date of issuance of the 2013 Series B Bonds.

In the further opinion of Co-Bond Counsel, interest on the 2013 Series B Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the 2013 Series B Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Co-Bond Counsel express no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the 2013 Series B Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Indenture or in other documents pertaining to the 2013 Series B Bonds may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Co-Bond Counsel express no opinion as to the effect of any change to any document pertaining to the 2013 Series B Bonds or of any action

taken or not taken where such change is made or action is taken or not taken without the approval of Sidley Austin LLP and Curls Bartling P.C., or in reliance upon the advice of counsel other than Sidley Austin LLP and Curls Bartling P.C., with respect to the exclusion from gross income of the interest on the 2013 Series B Bonds for federal income tax purposes.

Original Issue Discount

The initial public offering price of certain of the 2013 Series B Bonds (the "Discount 2013 Series B Bonds") may be less than the principal amount of the Discount 2013 Series B Bonds. The difference between the principal amount of a Discount 2013 Series B Bond and its initial public offering price is original issue discount. Original issue discount on a Discount 2013 Series B Bond accrues over the term of such Discount 2013 Series B Bond at a constant interest rate. To the extent it has accrued, original issue discount on a Discount 2013 Series B Bond is treated as interest excludable from gross income for federal income tax purposes under the conditions and limitations described above. The amount of original issue discount that accrues on a Discount 2013 Series B Bond in each year is not an item of tax preference for purposes of calculating federal alternative minimum taxable income, but is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. Additionally, such accrued original issue discount is taken into account in determining the distribution requirements of certain regulated investment companies. Consequently, owners of Discount 2013 Series B Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner may not have received cash in such year.

The accrual of original issue discount on a Discount 2013 Series B Bond will increase the owner's adjusted basis in such Discount 2013 Series B Bond. This will affect the amount of taxable gain or loss realized by the owner of the Discount 2013 Series B Bond upon the redemption, prepayment, sale or other disposition of such Discount 2013 Series B Bond. The effect of the accrual of original issue discount on the federal income tax consequences of a redemption, prepayment, sale or other disposition of a Discount 2013 Series B Bond that is not purchased at the initial public offering price may be determined according to rules that differ from those described above. Owners of Discount 2013 Series B Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of original issue discount that properly accrues with respect to the Discount 2013 Series B Bonds, other federal income tax consequences of owning and disposing of the Discount 2013 Series B Bonds and any state and local tax consequences of owning and disposing of the Discount 2013 Series B Bonds.

Original Issue Premium

The excess, if any, of the tax adjusted basis of 2013 Series B Bonds purchased as part of the initial public offering to a purchaser (other than a purchaser who holds such 2013 Series B Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." Bond premium is amortized over the term of such 2013 Series B Bonds for federal income tax purposes (or, in the case of a bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). Owners of 2013 Series B Bonds with bond premium are required to decrease their adjusted basis in such 2013 Series B Bonds by the amount of amortizable bond premium attributable to each taxable year such 2013 Series B Bonds are held. The amortizable bond premium on such 2013 Series B Bonds attributable to a taxable year is not deductible for federal income tax purposes; however, bond premium is treated as an offset to the interest received on such 2013 Series B Bonds. Owners of such 2013 Series B Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premium upon sale or other disposition of such 2013 Series B Bonds and with respect to the state and local tax consequences of owning and disposing of such 2013 Series B Bonds.

Information Reporting and Backup Withholding

Interest paid on the 2013 Series B Bonds will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the 2013 Series B Bonds to be subject to backup withholding if such interest is paid to

beneficial owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the Internal Revenue Service (the "IRS") as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner's federal income tax liability so long as the required information is furnished to the IRS.

State Tax Exemption

In the further opinion of Co-Bond Counsel, interest on the 2013 Series B Bond is exempt from personal income taxes imposed by the State of California.

Future Developments

Future or pending legislative proposals, if enacted, regulations, rulings or court decisions may cause interest on the 2013 Series B Bonds to be subject, directly or indirectly, to federal income taxation or to State or local income taxation, or may otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Legislation or regulatory actions and future or pending proposals may also affect the economic value of the federal or State tax exemption or the market value of the 2013 Series B Bonds. Prospective purchasers of the 2013 Series B Bonds should consult their tax advisors regarding any future, pending or proposed federal or State tax legislation, regulations, rulings or litigation as to which Co-Bond Counsel expresses no opinion.

For example, based on a proposal by the President, the Senate Majority Leader introduced a bill, S. 1549 (the "Proposed Legislation"), which, if enacted, would subject interest on bonds that is otherwise excludable from gross income for federal income tax purposes, including interest on the 2013 Series B Bonds, to a tax payable by certain bondholders that are individuals, estates or trusts with adjusted gross income in excess of thresholds specified in the Proposed Legislation in tax years beginning after December 31, 2012. The Proposed Legislation would also provide special rules for such bondholders that are also subject to the alternative minimum tax. It is unclear if the Proposed Legislation will be enacted, whether in its current or an amended form, or if other legislation that would subject interest on the 2013 Series B Bonds to a tax or cause interest on the 2013 Series B Bonds to be included in the computation of a tax, will be introduced or enacted. Prospective purchasers should consult their tax advisors as to the effect of the Proposed Legislation, if enacted, in its current form or as it may be amended, or such other legislation on their individual situations.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, sale and delivery of the 2013 Series B Bonds are subject to the approval of Sidley Austin LLP, San Francisco, California, and Curls Bartling P.C., Oakland, California, Co-Bond Counsel to the SFPUC. Certain legal matters are being passed upon for the SFPUC by the City Attorney and by Jones Hall, A Professional Law Corporation, San Francisco, California, Disclosure Counsel. Co-Bond Counsel and Disclosure Counsel will receive compensation that is contingent upon the sale and delivery of the 2013 Series B Bonds.

The form of approving opinion of Co-Bond Counsel is set forth in APPENDIX D, and will be available at the time of delivery of the 2013 Series B Bonds. Co-Bond Counsel is not passing upon and undertakes no responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

Jones Hall, A Professional Law Corporation, has served as Disclosure Counsel to the SFPUC and in such capacity has advised the SFPUC with respect to the requirements of applicable securities laws and participated with responsible SFPUC officials and staff in conferences and meetings where information contained in this Official Statement was reviewed for accuracy and completeness. Disclosure Counsel is not responsible for the accuracy or completeness of the information presented in this Official Statement and has not undertaken to independently verify any of such information. Rather, the SFPUC is solely responsible for the accuracy and completeness of the information contained in this Official Statement. Upon the issuance of the 2013 Series B Bonds, Jones Hall will deliver a letter to the SFPUC concerning certain matters with respect to the Official Statement. No purchaser or holder of the 2013 Series B Bonds, or other person or party other than the SFPUC, will be entitled to rely on such letter or on the fact that Jones Hall has acted as Disclosure Counsel to the SFPUC.

RATINGS

Moody's Investors Service ("Moody's") has assigned its municipal bond rating of "___" to the 2013 Series B Bonds, and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), has assigned its municipal bond rating of "___" to the 2013 Series B Bonds.

The ratings assigned by Moody's and Standard & Poor's express only the views of the respective rating agencies. The explanation of the significance of these ratings, and any outlook associated with these ratings, may be obtained from Moody's and Standard & Poor's, respectively. Each rating agency generally bases its rating on its own investigations, studies, and assumptions. The SFPUC has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2013 Series B Bonds. The SFPUC undertakes no responsibility to maintain its current ratings on the 2013 Series B Bonds or to oppose any such downward revision, suspension or withdrawal.

UNDERWRITING

The 2013 Series B Bonds are being purchased by _____ (the "2013 Series B Underwriter") as winner of a competitive bid conducted on _____, 2013. The 2013 Series B Underwriter has agreed to purchase the 2013 Series B Bonds from the SFPUC at a purchase price of \$_____ (consisting of \$_____ aggregate principal amount of the 2013 Series B Bonds, plus original issue premium of \$_____, less an underwriter's discount of \$_____). Under the terms of its bid, the 2013 Series B Underwriter will be obligated to purchase all of the 2013 Series B Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions to be satisfied by the SFPUC.

The Underwriter has certified the reoffering prices or yields set forth on the inside cover hereof. The SFPUC takes no responsibility for the accuracy of these prices or yields. The Underwriter may offer and sell the

2013 Series B Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriters.

FINANCIAL STATEMENTS

Attached as APPENDIX C are the audited financial statements of the Wastewater Enterprise (the "Financial Statements") for Fiscal Years 2010-11 and 2011-12, prepared by the SFPUC and audited by KPMG LLP, independent certified public accountants, San Francisco, California (the "Auditor"). The financial statements are included for convenience.

The SFPUC has not requested nor did the SFPUC obtain permission from the Auditor to include the audited financial statements as an Appendix to this Official Statement. Accordingly, the Auditor has made no representation in connection with inclusion of the audits herein that there has been no material change in the financial condition of the SFPUC since the most recent audit was concluded. The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Official Statement.

CONTINUING DISCLOSURE

The SFPUC has covenanted for the benefit of the owners and beneficial owners of the 2013 Series B Bonds, under a Continuing Disclosure Certificate dated as of the Closing Date, to provide certain financial information and operating data (an "Annual Report") not later than nine months following the end of its Fiscal Year (presently June 30), beginning on March 31, 2013, with the report for Fiscal Year 2011-12, and to promptly provide notices of the occurrence of certain enumerated events set forth in the Continuing Disclosure Certificate ("Listed Events").

The SFPUC will file the Annual Report and any notice of Listed Events as described in the Continuing Disclosure Certificate. The specific nature of the information to be contained in the Annual Report or the notices of Listed Events is set forth in the Continuing Disclosure Certificate. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the "Rule"). The form of the Continuing Disclosure Certificate is attached to this Official Statement as APPENDIX E.

The SFPUC has never failed to comply in all material respects with its prior continuing disclosure undertakings under the Rule.

CO-FINANCIAL ADVISORS

Public Resources Advisory Group, Los Angeles, California, and Kitahata & Company, San Francisco, California (the "Co-Financial Advisors"), have served as Co-Financial Advisors to the SFPUC in connection with the structuring and delivery of the 2013 Series B Bonds. The Co-Financial Advisors participated with responsible SFPUC officials and staff in conferences and meetings where information contained in this Official Statement was reviewed for accuracy and completeness, but are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Co-Financial Advisors will receive compensation that is contingent upon the sale and delivery of the 2013 Series B Bonds.

APPROVAL AND EXECUTION

This Official Statement has been duly approved, executed and delivered by the SFPUC.

**PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO**

By: _____
Harlan L. Kelly, Jr.
General Manager

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

This Appendix includes summaries of certain provisions of the Indenture, which are in addition and complementary to the summaries found under "INTRODUCTION," "THE 2013 SERIES B BONDS" and "SECURITY FOR THE BONDS" in the Official Statement. The following summaries are qualified in their entirety by reference to the Indenture, a copy of which can be obtained from the Commission.

APPENDIX B

SUMMARIES OF CERTAIN LOCAL INITIATIVES (PROPOSITIONS E AND P)

Proposition E – Alternative Method for Issuing Revenue Bonds/Establishment of Rate Fairness Board

Authority to Issue Revenue Bonds. Proposition E, approved by San Francisco voters on November 5th, 2002, which has been incorporated into the San Francisco Charter as Sections 8B.120 – 8B.127, provides for additional authority for the SFPUC to issue revenue bonds, including notes, commercial paper or other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors of the City, for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities or combinations of water and clean water facilities under the jurisdiction of the SFPUC. Proposition E authorizes the Board of Supervisors to take any and all actions necessary to authorize, issue and repay such revenue bonds, including, but not limited to, modifying schedules of rates and charges to provide for the payment and retirement of such bonds. Issuance of such revenue bonds is subject to the following additional conditions set forth in Proposition E:

Notwithstanding any other provision of the Charter or of any ordinance of the City, the Board of Supervisors may take any and all actions necessary to authorize, issue and repay such bonds, including, but not limited to, modifying schedules of rates and charges to provide for the payment and retirement of such bonds, subject to the following conditions:

(a) Certification by an independent engineer retained by the SFPUC that:

(1) the projects to be financed by the bonds, including the prioritization, cost estimates and scheduling, meet utility standards; and

(2) that estimated net revenue after payment of operating and maintenance expenses will be sufficient to meet debt service coverage and other indenture or resolution requirements, including debt service on the bonds to be issued, and estimated renewal and replacement costs.

(b) Certification by the San Francisco Planning Department that facilities under the jurisdiction of the SFPUC funded with such bonds will comply with applicable requirements of the California Environmental Quality Act.

Setting Rates. The SFPUC is required under Proposition E to set rates, fees and other charges in connection with providing the utility services under its jurisdiction, subject to rejection — within thirty days of submission — by resolution of the Board of Supervisors. If the Board of Supervisors fails to act within thirty days the rates will become effective without further action.

Under Proposition E, in setting retail rates, fees and charges (for water, sewer and power utility services) the SFPUC is required to take the following actions:

1. Establish rates, fees and charges at levels sufficient to improve or maintain financial condition and bond ratings at or above levels equivalent to highly rated utilities of each enterprise under its jurisdiction, meet requirements and covenants under all bond resolutions and indentures, and provide sufficient resources for the continued financial health (including appropriate reserves), operation, maintenance and repair of each enterprise, consistent with good utility practice,

2. Retain an independent rate consultant to conduct rate and cost of service studies for each utility at least every five years;

3. Set retail rates, fees and charges based on the cost of service;

4. Conduct all studies mandated by applicable state and federal law to consider implementing connection fees for water and clean water facilities servicing new development;

5. Conduct studies of rate-based conservation incentives and/or lifeline rates and similar rate structures to provide assistance to low income users, and take the results of such studies into account when establishing rates, fees and charges, in accordance with applicable state and federal laws;

6. Adopt annually a rolling 5-year forecast of rates, fees and other charges; and

7. Establish a Rate Fairness Board.

Rate Fairness Board. Proposition E also directed the establishment of a Rate Fairness Board to advise the SFPUC on water and sewer rate matters. These provisions went into effect on July 1, 2006, with respect to water rates. Specific duties for the Rate Fairness Board include:

- annual review of a five-year rate forecast;
- hold one or more public hearings on annual rate recommendations before the SFPUC adopts rates;
- provide a report and recommendations to the SFPUC on the rate proposal; and,
- in connection with periodic rate studies, submit to the SFPUC rate policy recommendations for the SFPUC's consideration, including recommendations to reallocate costs among various retail utility customer classifications, subject to any outstanding bond requirements.

Proposition P – Revenue Bond Oversight Committee

On November 5, 2002, the voters of San Francisco adopted Proposition P, an ordinance that established the "Public Utilities Revenue Bond Oversight Committee" ("RBOC"). The ordinance, which has been incorporated into the San Francisco Administrative Code as Chapter 5, Article V, Sections 5A.30 – 5A.36, set forth the authority, duties and responsibilities of the RBOC, and established qualifications for Rate Fairness Board membership and related provisions. As approved currently, the RBOC sunsets on January 1, 2013.

In accordance with the provisions of Proposition P, to the extent permitted by law, one-twentieth of one percent of the gross proceeds of the SFPUC's Wastewater Revenue Bonds (the "Bonds") shall be deposited in a fund established by the Controller's Office and appropriated by the Board at the direction of the RBOC established by Proposition P to cover the costs of said committee; provided that any amounts so paid from the proceeds of Bonds that have not been spent by RBOC in connection with such Bonds (as contemplated by Article 5A.31(c) of the Administrative Code) within 36 months of the date of issuance of such Bonds shall be returned to the SFPUC for deposit into the Capital Project Fund (as such term is defined in the Indenture) and expended by the SFPUC to acquire and construct improvements.

APPENDIX C

SFPUC WASTEWATER ENTERPRISE FINANCIAL STATEMENTS

APPENDIX D

PROPOSED FORMS OF OPINIONS OF CO-BOND COUNSEL

APPENDIX E
FORM OF CONTINUING DISCLOSURE CERTIFICATE

OFFICIAL STATEMENT

§
PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS,
2013 SERIES B

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Public Utilities Commission of the City and County of San Francisco (the "SFPUC") in connection with the issuance of the wastewater revenue bonds captioned above (the "2013 Series B Bonds"). The 2013 Series B Bonds are being issued pursuant to an Indenture dated as of January 1, 2003, between the SFPUC and U.S. Bank National Association, as trustee (the "Trustee"), as amended and supplemented, including as amended and supplemented by a Third Supplemental Indenture dated as of _____ 1, 2013, by and between the SFPUC and the Trustee (collectively, the "Indenture").

The SFPUC covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the SFPUC for the benefit of the Holders and Beneficial Owners of the 2013 Series B Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission (the "S.E.C.") Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the SFPUC pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person that: (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2013 Series B Bonds (including persons holding 2013 Series B Bonds through nominees, depositories or other intermediaries) including, but not limited to, the power to vote or consent with respect to any 2013 Series B Bonds or to dispose of ownership of any 2013 Series B Bonds; or (b) is treated as the owner of any 2013 Series B Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the SFPUC, acting in its capacity as Dissemination Agent under this Disclosure Certificate, or any successor Dissemination Agent designated in writing by the SFPUC and which has filed with the SFPUC a written acceptance of such designation.

"Holder" shall mean either the registered owners of the 2013 Series B Bonds, or, if the 2013 Series B Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive continuing disclosure filings pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the final Official Statement, dated _____, 2013, prepared in connection with the sale and offering of the 2013 Series B Bonds.

“Participating Underwriter” shall mean any of the original underwriters or purchasers of the 2013 Series B Bonds required to comply with the Rule in connection with the offering of the 2013 Series B Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The SFPUC shall, or shall cause the Dissemination Agent to, not later than 9 months after the end of the SFPUC’s fiscal year (which currently ends June 30), commencing March 31, 2013, with the report for the 2011-12 Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is not the SFPUC, the SFPUC shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. However, if the audited financial statements of the SFPUC are not available by the date required above for the filing of the Annual Report, the SFPUC shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the SFPUC’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the SFPUC is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the SFPUC shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the SFPUC), file a report with the SFPUC certifying the date that the Annual Report was provided to the MSRB pursuant to this Disclosure Certificate.

SECTION 4. Content of Annual Reports. SFPUC’s Annual Report shall contain or incorporate by reference the following information:

(a) Audited Financial Statements of the municipal water supply, storage and distribution system of the SFPUC for the prior fiscal year, prepared in accordance with generally accepted accounting principles applicable to the SFPUC from time to time. If the SFPUC’s audited financial statements are not available by the date the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(b) An update for the prior fiscal year of the table in the Official Statement entitled “TABLE __, HISTORICAL SEWER RATES”;

(c) An update for the prior fiscal year of the table in the Official Statement entitled “TABLE __, SUMMARY OF SEWER ACCOUNTS AND BILLING BY USER TYPE”;

(d) An update for the prior fiscal year of the table in the Official Statement in the section entitled “OBLIGATIONS PAYABLE FROM REVENUES – Outstanding Parity Revenue Bonds” showing all bonds and other obligations of the SFPUC secured by Net Revenues; and

(e) An update for the prior fiscal year of the table in the Official Statement entitled “TABLE __, HISTORICAL REVENUES, OPERATING & MAINTENANCE EXPENSES AND DEBT SERVICE COVERAGE.”

Any or all of the items listed above may be set forth in a document or set of documents, or may be included by specific reference to other documents, including official statements of debt issues of the SFPUC or related public entities, which are available to the public on the MSRB website. If the document included by reference is a final official statement, it must be available from the MSRB. The SFPUC shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The SFPUC shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the 2013 Series B Bonds:

1. Principal and interest payment delinquencies.
2. Non payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2013 Series B Bonds, or other material events affecting the tax exempt status of the 2013 Series B Bonds.
7. Modifications to rights of security holders, if material.
8. Bond calls, if material, and tender offers.
9. Defeasances.
10. Release, substitution, or sale of property securing repayment of the 2013 Series B Bonds, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership or similar event of the SFPUC.
13. The consummation of a merger, consolidation, or acquisition involving the SFPUC or the sale of all or substantially all of the assets of the SFPUC, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the SFPUC obtains knowledge of the occurrence of a Listed Event, and, if the Listed Event is described in subsections (a)(2), (a)(6), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13) or (a)(14) above, the SFPUC determines that knowledge of the occurrence of that Listed Event would be material under applicable federal securities law, the SFPUC shall, or shall cause the Dissemination Agent (if not the SFPUC) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in

subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected 2013 Series B Bonds under the Indenture.

(c) For purposes of this Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the SFPUC in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the SFPUC, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of said party.

SECTION 6. Termination of Reporting Obligation. The SFPUC's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2013 Series B Bonds. If such termination occurs prior to the final maturity of the 2013 Series B Bonds, the SFPUC shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The SFPUC may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the SFPUC may amend or waive this Disclosure Certificate or any provision of this Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 2013 Series B Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of the City Attorney or nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2013 Series B Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the owners of a majority in aggregate principal amount of the 2013 Series B Bonds or (ii) does not, in the opinion of the City Attorney or nationally recognized bond counsel, materially impair the interests of the Holders.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the SFPUC shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the SFPUC. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the SFPUC from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the SFPUC chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in

addition to that which is specifically required by this Disclosure Certificate, the SFPUC shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the SFPUC to comply with any provision of this Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the 2013 Series B Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the SFPUC to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in a federal or State court located in the City and County of San Francisco, State of California. Failure by the SFPUC to comply with any provision of this Disclosure Certificate shall not be deemed an Event of Default under the Indenture and the sole remedy under this Disclosure Certificate in the event of any failure of the SFPUC to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the SFPUC, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the 2013 Series B Bonds, and shall create no rights in any other person or entity.

Date: _____, 2013.

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

By _____
Harlan L. Kelly, Jr.
General Manager

Approved as to Form:

DENNIS J. HERRERA
CITY ATTORNEY

By: _____
Deputy City Attorney

CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A

**FORM OF NOTICE TO THE
MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

Name of Issue: WASTEWATER REVENUE BONDS, 2013 SERIES B

Date of Issuance: _____, 2013

NOTICE IS HEREBY GIVEN that the SFPUC has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the Public Utilities Commission of the City and County of San Francisco, dated _____, 2013. The SFPUC anticipates that the Annual Report will be filed by _____.

Dated: _____

PUBLIC UTILITIES COMMISSION OF THE CITY AND
COUNTY OF SAN FRANCISCO

By: _____ [to be signed only if filed]
Title _____

APPENDIX F

SECURITIES DEPOSITORY AND BOOK-ENTRY SYSTEM

The information in this APPENDIX has been provided by DTC for use in securities offering documents, and the SFPUC takes no responsibility for the accuracy or completeness thereof. The SFPUC cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the beneficial owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

As used in this Appendix, "Securities" means the 2013 Series B Bonds, "Issuer" means the SFPUC, and "Agent" means the Trustee.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information contained on this Internet site is not incorporated herein by reference.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

SECOND SUPPLEMENTAL INDENTURE

by and between

**PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO**

and

**U.S. BANK NATIONAL ASSOCIATION, as Trustee
Dated as of _____, 2013**

AUTHORIZING THE ISSUANCE OF

**\$ _____ AGGREGATE PRINCIPAL AMOUNT OF
PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS,
2013 SERIES A (REFUNDING)**

(Supplemental to the Indenture dated as of January 1, 2003, as amended)

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Exhibit D – Form of 2013 Series A Bond

SECOND SUPPLEMENTAL INDENTURE

(Supplemental to the Indenture dated as of January 1, 2003, as amended)

Authorizing the Issuance of

\$ _____ Aggregate Principal Amount of
Public Utilities Commission of the
City and County of San Francisco
Wastewater Revenue Bonds,
2013 Series A (Refunding)

This Second Supplemental Indenture, dated as of _____, 2013 (this "Second Supplemental Indenture"), by and between PUBLIC UTILITIES COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO (the "Commission"), a commission duly constituted under the Charter (the "Charter") of the City and County of San Francisco (the "City"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, as trustee (the "Trustee");

WITNESSETH:

WHEREAS, this Second Supplemental Indenture is supplemental to the Indenture, dated as of January 1, 2003 (the "Original Indenture"), between the Commission and the Trustee (previously known as U.S. Bank, N.A.), as amended by a First Amendment to Indenture dated as of May 1, 2010 (the "First Amendment") and as supplemented by a First Supplemental Indenture, dated as of May 1, 2010 (the "First Supplemental Indenture" and together with the First Amendment and the Original Indenture, the "Indenture");

WHEREAS, in January, 2003, the Commission issued the first series of Bonds under the Indenture designated the "Public Utilities Commission of the City and County of San Francisco Clean Water Revenue Bonds, 2003 Refunding Series A" (the "2003 Refunding Series A Bonds"), in the original principal amount of \$396,270,000, for the purpose of refunding certain sewer revenue bonds previously issued by the City to finance and refinance the acquisition of improvements to the Enterprise (as defined in the Indenture), which had previously been owned and operated by the City, all as set forth in the Indenture;

WHEREAS, in May, 2010, the Commission issued the second series of Bonds under the Indenture designated the "Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series A" (the "2010 Series A Bonds"), in the original principal amount of \$47,050,000, to refund certain commercial paper notes issued by the Commission to finance a portion of the Capital Improvement Program ("CIP"), to fund a reserve account for the 2010 Series A Bonds and to pay costs of issuance, all as set forth in the Indenture;

WHEREAS, in May, 2010, the Commission issued the third series of Bonds under the Indenture designated the "Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series B (Federally Taxable – Build America Bonds – Direct Payment)" (the "2010 Series B Bonds"), in the original principal amount of \$192,515,000, to refund certain commercial paper notes, to fund a portion of the costs of the CIP and a portion of the costs of the Commission's proposed Sewer

System Improvement Program, to fund capitalized interest on the 2010 Series B Bonds, to fund a reserve account for the 2010 Series B Bonds and to pay costs of issuance, all as set forth in the Indenture;

WHEREAS, the Commission has entered into certain loans with the State of California Water Resources Control Board and such loans are currently outstanding in the principal amount of \$30,444,082.66 (the "State Revolving Fund Loans");

WHEREAS, pursuant to Section 9.109 of the City Charter and California Government Code Sections 53580 et seq., the Board of Supervisors of the City is authorized to provide for the issuance of bonds of the City for the purpose of refunding any revenue bonds of the City then outstanding without voter approval, provided that such refunding is expected to result in net debt service savings to the City on a present value basis;

WHEREAS, on October __, 2012, the Commission passed its Resolution No. __, and on October __, 2012, the Board passed its Resolution No. __, signed by the Mayor on October __, 2012, approving, among other things, (i) the issuance of not to exceed \$_____ aggregate principal amount of wastewater revenue bonds to refund outstanding wastewater revenue bonds (including the State Revolving Fund Loans) pursuant to Section 9.109 of the Charter and California Government Code Sections 53580 et seq., and (ii) the issuance of not to exceed \$_____ aggregate principal amount of wastewater revenue bonds to finance and refinance (through the payment of commercial paper notes) various capital projects benefiting the Enterprise (including reimbursing the Commission for certain capital costs previously paid with proceeds of wastewater commercial paper notes), pursuant to Section 8B.124 of the Charter and ordinances duly adopted thereunder;

WHEREAS, the Indenture provides that the Commission may, subject to the requirements of the Law (as defined in the Indenture) and the Indenture, issue one or more other series of Bonds from time to time pursuant to a supplemental indenture;

WHEREAS, the Commission has determined to issue a series of Bonds under this Second Supplemental Indenture designated "Wastewater Revenue Bonds, 2013 Series A (Refunding)" (the "2013 Series A Bonds") in the original principal amount of \$_____, to, among other things, refund all of the outstanding 2003 Refunding Series A Bonds (including the State Revolving Fund Loans), pursuant to Section 9.109 of the Charter and California Government Code Sections 53580 et seq.;

WHEREAS, a portion of the proceeds of the 2013 Series A Bonds will be applied to defease and refund all of the 2003 Refunding Series A Bonds under an Escrow Agreement, dated as of _____, 2013 (the "Escrow Agreement"), by and between the Commission and U.S. Bank National Association, as escrow agent;

WHEREAS, the 2013 Series A Bonds will be issued by the Commission under the Indenture as a separate Series of Wastewater Revenue Bonds payable on a parity with the 2010 Series A Bonds and the 2010 Series B Bonds;

WHEREAS, the conditions and limitations contained in the Law and the Indenture will be satisfied at the time of issuance of the 2013 Series A Bonds;

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and the entering into of this Second Supplemental Indenture do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Second Supplemental Indenture;

NOW, THEREFORE, the parties hereto agree, as follows:

ARTICLE XVIII DEFINITIONS

SECTION 18.01. Definitions. The terms defined in this section shall, for all purposes of this Second Supplemental Indenture, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined. Terms defined in the Indenture not otherwise defined herein shall have the meanings specified therein.

Closing Date

The term "Closing Date" means _____, 2013, the date of the original issuance and delivery of the 2013 Series A Bonds.

Escrow Agreement

The term "Escrow Agreement" means that certain Escrow Agreement dated as of _____, 2013, between the Commission and U.S. Bank National Association, as escrow agent, related to the defeasance and refunding of the 2003 Refunding Series A Bonds.

First Amendment

The term "First Amendment" means that certain First Amendment to Indenture dated as of May 1, 2010, between the Commission and the Trustee.

State Revolving Fund Loans

The term "State Revolving Fund Loans" means certain loans with the State of California Water Resources Control Board currently outstanding in the principal amount of \$30,444,082.66.

2013 Series A Bonds

The term "2013 Series A Bonds" has the meaning set forth in Section 19.01(a).

2013 Series A Costs of Issuance Fund

The term "2013 Series A Costs of Issuance Fund" means the fund by that name established pursuant to Section 19.05.

2013 Series A Rebate Fund

The term "2013 Series A Rebate Fund" means the fund by that name established pursuant to Section 19.06.

2013 Series A Refunding Fund

The term "2013 Series A Refunding Fund" means the fund by that name established pursuant to Section 19.07.

2013 Series A SRF Account

The term "2013 Series A SRF Account" means the account by that name established within the Capital Project Fund pursuant to Section 19.08.

**ARTICLE XIX
PROVISIONS RELATING TO 2013 SERIES A BONDS**

SECTION 19.01. Authorization and Terms of 2013 Series A Bonds.

(a) A Series of Bonds is hereby created and such Bonds are designated as the "Wastewater Revenue Bonds, 2013 Series A (Refunding)" (the "2013 Series A Bonds"), which shall be a Series of Clean Water Revenue Bonds issued under the Indenture. The aggregate principal amount of 2013 Series A Bonds that may be issued and Outstanding under this Second Supplemental Indenture shall not exceed \$ _____, except as may be otherwise provided in Section 2.08. The 2013 Series A Bonds shall be of the tenor known as Current Interest Bonds.

(b) The 2013 Series A Bonds shall be initially registered in the name of "Cede & Co.," as nominee of The Depository Trust Company, New York, New York, and shall be evidenced by one 2013 Series A Bond maturing on each maturity date in a denomination corresponding to the total principal designated to mature on such date. Registered ownership of the 2013 Series A Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 19.03 herein.

(c) The 2013 Series A Bonds shall be issued as fully registered Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof; provided that no 2013 Series A Bond shall have principal maturing on more than one principal maturity date. The 2013 Series A Bonds shall be dated as of the Closing Date, the date of delivery thereof, and shall accrue interest from such date.

(d) The 2013 Series A Bonds shall mature on October 1 in the following years and in the following amounts and shall bear interest at the following rates per annum payable on April 1, 2013 and semiannually thereafter on October 1 and April 1 in each year, calculated on the basis of a 360-day year consisting of twelve 30-day months:

<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
20__	\$	%
20__		
20__		
20__		
20__		
20__		

(e) The 2013 Series A Bonds are hereby designated as Serial Bonds.

(f) The principal of and premium, if any, on the 2013 Series A Bonds shall be payable by check or wire in lawful money of the United States of America to the Owner thereof, upon the surrender

thereof at the corporate trust office of U.S. Bank National Association, in San Francisco, California, or such other office designated by the Trustee.

The interest on the 2013 Series A Bonds shall be payable in like lawful money to the person whose name appears on the bond registration books of the Trustee as the Owner thereof as of the close of business on the 15th day of the calendar month immediately preceding an interest payment date, whether or not such day is a Business Day, such interest to be paid by check mailed to such Owner at such address as appears on such registration books or at such address as such Owner may have filed with the Trustee for that purpose, or at the request of an Owner of at least \$1,000,000 in aggregate principal amount of 2013 Series A Bonds filed with the Trustee by such 15th day, by wire transfer to such account designated in such request at a financial institution in the United States.

(g) Each 2013 Series A Bond shall bear interest from the interest payment date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the calendar month next preceding any interest payment date to the interest payment date, inclusive, in which event it shall bear interest from such interest payment date, or unless it is authenticated on or before _____ 15, 2013, in which event it shall bear interest from the Closing Date; provided, however, that if, at the time of authentication of any Bond, interest is in default on Outstanding Bonds, such Bond shall bear interest from the interest payment date to which interest has previously been paid or made available for payment on the Outstanding Bonds and shall be payable to the Owners thereof of record as of a special date as shall be established by the Trustee following such default.

(h) The Trustee shall assign each 2013 Series A Bond authenticated and registered by it a distinctive letter, or number, or letter and number, and shall maintain a record thereof which shall be available to the Commission for inspection.

(i) On the Closing Date the amendments set forth in the First Amendment become effective in accordance with the terms of the Indenture. As such, the Commission has determined not to fund the Required Reserve for the 2013 Series A Bonds.

(j) The Commission has reviewed all proceedings heretofore taken relative to the authorization of the 2013 Series A Bonds and has found, as a result of such review, that all conditions, things and acts required by law to exist, happen or be performed precedent to and in the issuance of the 2013 Series A Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the Commission is authorized, pursuant to each and every requirement of law, including the Law, to issue the 2013 Series A Bonds in the manner and form provided in this Second Supplemental Indenture.

SECTION 19.02. Forms of 2013 Series A Bonds. The 2013 Series A Bonds and the Trustee's certificates of authentication and registration and the forms of assignment to appear thereon shall be in substantially the forms set forth as Exhibit D to this Second Supplemental Indenture, with necessary or appropriate variations, omissions and insertions as permitted or required by this Second Supplemental Indenture.

SECTION 19.03. Use of Depository. (a) The 2013 Series A Bonds shall be initially registered as provided in Section 19.01(b) and Section 19.01(h) hereof. Registered ownership of the 2013 Series A Bonds, or any portions thereof, may not thereafter be transferred except:

(i) to any successor of The Depository Trust Company or its nominee, or of any substitute depository designated pursuant to clause (ii) of this subsection (a) (a "Substitute Depository"); provided that any successor of The Depository Trust Company or Substitute

Depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(ii) to any Substitute Depository not objected to by the Trustee, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the Commission that The Depository Trust Company (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) to any person as provided below, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the Commission to remove The Depository Trust Company or its successor (or Substitute Depository or its successor) from its functions as depository.

(b) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection (a) of this Section 19.03, upon receipt of all Outstanding 2013 Series A Bonds by the Trustee, together with a Written Request of the Commission to the Trustee designating the Substitute Depository, a single new 2013 Series A Bond, which the Commission shall prepare or cause to be prepared, shall be executed and delivered for each maturity of 2013 Series A Bonds then Outstanding, registered in the name of such successor or such Substitute Depository, or their nominees, as the case may be, all as specified in such Written Request of the Commission.

In the case of any transfer pursuant to clause (iii) of subsection (a) of this Section 19.03, upon receipt of all Outstanding 2013 Series A Bonds by the Trustee, together with a Written Request of the Commission to the Trustee, new 2013 Series A Bonds, which the Commission shall prepare or cause to be prepared in definitive form, shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such Written Request of the Commission, subject to the limitations of Section 19.01 hereof, provided that the Trustee shall not be required to deliver such new 2013 Series A Bonds within a period less than 60 days after the date of receipt of such Written Request from the Commission.

(c) [In the case of an advance refunding of any 2013 Series A Bonds evidencing a portion of the principal maturing in a particular year, The Depository Trust Company or its successor (or any Substitute Depository or its successor) shall make an appropriate notation on such 2013 Series A Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee. The Trustee shall not be liable for such depository's failure to make such notations or errors in making such notations.]

(d) The Commission and the Trustee shall be entitled to treat the person in whose name any 2013 Series A Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Commission; and the Commission and the Trustee shall not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2013 Series A Bonds. Neither the Commission nor the Trustee shall have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including The Depository Trust Company or its successor (or Substitute Depository or its successor), except to the Owner of any 2013 Series A Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2013 Series A Bonds.

(e) Notwithstanding any other provision of this Second Supplemental Indenture and so long as all Outstanding 2013 Series A Bonds are registered in the name of Cede & Co. or its registered assigns, the Commission and the Trustee shall cooperate with Cede & Co., as sole registered Bondowner, and its registered assigns, in effecting payment of the principal of and interest on the 2013 Series A Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made available on the date they are due all in accordance with the letter of representations delivered by the Commission and the Trustee to The Depository Trust Company with respect to the 2013 Series A Bonds, the provisions of which the Trustee may rely upon to implement the foregoing procedures notwithstanding any inconsistent provisions herein.

SECTION 19.04. Issuance of 2013 Series A Bonds. At any time after the execution of this Second Supplemental Indenture, the Commission may execute and the Trustee may authenticate and, upon a Written Request or Certificate of the Commission, deliver 2013 Series A Bonds in the aggregate principal amount of \$ _____ to the initial purchasers thereof specified in such Written Request or Certificate.

SECTION 19.05. Application of Proceeds of 2013 Series A Bonds.

(a) On the Closing Date, the original purchaser of the 2013 Series A Bonds will pay and deliver the purchase price of the 2013 Series A Bonds (including any good faith deposit paid prior to the Closing Date) equal to \$ _____ to the Trustee, who shall pay and transfer this amount as follows:

(1) The Trustee shall deposit \$ _____ in a separate fund to be known as the "2013 Series A Costs of Issuance Fund," which fund the Trustee hereby agrees to establish and maintain. The money in the 2013 Series A Costs of Issuance Fund shall be used and disbursed in the manner provided herein for the purpose of paying all costs of issuance incidental to or connected with the issuance of the 2013 Series A Bonds (or for making reimbursements to the Commission or any other person, firm or corporation for such costs theretofore paid by such person or it). Any balance of money remaining in the 2013 Series A Costs of Issuance Fund after the payment of all costs incidental to or connected with the issuance of the 2013 Series A Bonds (as certified to the Trustee by the Commission) or on _____ 1, 2013, whichever is earlier, any then remaining balance of money shall be transferred by the Trustee to the Interest Fund, and the 2013 Series A Costs of Issuance Fund shall be closed.

(2) The Trustee shall deposit \$ _____ in the 2013 Series A Refunding Fund established under Section 19.07 and such funds shall be applied as set forth under the Escrow Agreement.

(3) The Trustee shall deposit \$ _____ in the 2013 Series A SRF Account established under Section 19.08.

(b) Before any payment is made by the Trustee to pay costs of issuance from the 2013 Series A Costs of Issuance Fund, the Commission shall cause to be filed with the Trustee a Written Requisition of the Commission showing with respect to each payment to be made:

- (1) the item number of the payment;
- (2) the name and address of the person to whom payment is due;
- (3) the amount to be paid; and

- (4) the purpose for which the obligation to be paid was incurred.

Each such Written Requisition shall state, and shall be sufficient evidence to the Trustee:

(y) that obligations in the stated amounts have been incurred by the Commission and that each item thereof is a proper charge; and

(z) that there has not been filed with or served upon the Commission notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable to any of the persons named in such Written Requisition, which has not been released or will not be released simultaneously with the payment of such obligation.

Upon receipt of each such Written Requisition, the Trustee will pay the amounts set forth in such Written Requisition as directed by the terms hereof. The Trustee need not make any such payment if it has received notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys to be so paid, which has not been released or will not be released simultaneously with such payment.

When all costs of issuance have been paid, the Commission shall deliver a Certificate of the Commission stating such fact to the Trustee.

SECTION 19.06. Establishment and Application of the 2013 Series A Rebate Fund. (a) The Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder to be known as the "2013 Series A Rebate Fund". Within the 2013 Series A Rebate Fund, the Trustee shall maintain such accounts as it is instructed by the Commission as necessary in order to comply with the terms and requirements of the Certificate as to Arbitrage with respect to the 2013 Series A Bonds, dated the date of issuance of the 2013 Series A Bonds (for purposes of this Article, the "Tax Certificate").

Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the 2013 Series A Rebate Fund shall be held by the Trustee for the account of the Commission in trust, to the extent required to satisfy the requirements for rebate, as set forth in the Tax Certificate (for purposes of this Article, the "Rebate Requirement"), for payment to the federal government of the United States of America, and no other person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the 2013 Series A Rebate Fund shall be governed by this Section 19.06, by Section 19.11 hereof and by the Tax Certificate (which is incorporated herein by reference). The Trustee shall be deemed conclusively to have complied with such provisions and fulfilled its obligation with respect to rebate as long as it follows the written directions of the Commission, including supplying all necessary information in the manner provided in the Tax Certificate. The Trustee shall not be required to take any actions under this Section 19.06, Section 19.11 hereof or the Tax Certificate in the absence of written directions by the Commission, and shall have no liability or responsibility to enforce compliance by the Commission with the terms of the Tax Certificate nor make computations in connection therewith.

(b) Upon the Commission's written direction, an amount shall be deposited in the 2013 Series A Rebate Fund by the Trustee from deposits by the Commission so that the balance of the amount on deposit thereto equals the Rebate Requirement. Computations of the Rebate Requirement shall be furnished by or on behalf of the Commission in accordance with the Tax Certificate.

(c) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section 19.06, other than from moneys held in the funds and accounts created under the Indenture or from other moneys provided to it by or on behalf of the Commission.

(d) The Trustee shall invest all amounts held in the 2013 Series A Rebate Fund in Permitted Investments as instructed in writing by the Commission, subject to the restrictions set forth in the Tax Certificate. Moneys shall not be transferred from the 2013 Series A Rebate Fund except as provided in paragraph (e) below.

(e) Upon receipt of the Commission's written directions, the Trustee shall remit part or all of the balances in the 2013 Series A Rebate Fund to the United States, as so directed. In addition, if the Commission so directs, the Trustee will deposit moneys into or transfer moneys out of the 2013 Series A Rebate Fund from or into such accounts or funds as directed by the Commission's written directions. Any funds remaining in the 2013 Series A Rebate Fund after payment of all of the 2013 Series A Bonds and payment and satisfaction of any Rebate Requirement shall be withdrawn and remitted to the Commission upon the Commission's written request.

(f) Notwithstanding any other provision of the Indenture, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of this Section 19.06, Section 19.11 hereof and the Tax Certificate shall survive the defeasance or payment in full of the 2013 Series A Bonds.

SECTION 19.07. Establishment and Application of the 2013 Series A Refunding Fund.

The Trustee shall establish, maintain and hold hereunder a separate fund known as the "2013 Series A Refunding Fund" (herein called the "2013 Series A Refunding Fund"), which shall be maintained and accounted for by the Trustee so long as any moneys are on deposit therein. The moneys in the 2013 Series A Refunding Fund shall be held by the Trustee in trust and applied to the defeasance of all of the outstanding 2003 Refunding Series A Bonds pursuant to the Escrow Agreement.

Any balance remaining in the 2013 Series A Refunding Fund following such application of moneys shall be transferred to the Interest Fund. All moneys held by the Trustee in the 2013 Series A Refunding Fund shall be invested in Permitted Investments specified by the Commission or, if the Commission does not so specify, then in Permitted Investments of the type described in clause (f) of the definition thereof that are rated AAAM-G by S&P and Aaa by Moody's.

SECTION 19.08. Establishment and Application of the 2013 Series A SRF Account.

2013 Series A SRF Account. The Commission hereby covenants and agrees to establish, maintain and hold hereunder within the Capital Project Fund established under Section 3.04 of the Indenture, a separate account known as the "2013 Series A SRF Account" (herein called the "2013 Series A SRF Account"), which shall be maintained and accounted for by the Trustee so long as any moneys are on deposit therein. The moneys in the 2013 Series A SRF Account shall be held by the Trustee in trust and transferred to the Commission to prepay the State Revolving Fund Loans, pursuant to instructions that will be delivered by the Commission to the Trustee. Any balance remaining in the 2013 Series A SRF Account following such application of moneys shall be transferred to the Treasurer for deposit in the Capital Project Fund.

SECTION 19.09. Terms of Redemption.

The 2013 Series A Bonds are not subject to redemption prior to their stated maturity.

SECTION 19.10. [Reserved].

SECTION 19.11. Tax Covenants. The Commission covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the 2013 Series A Bonds under Section 103 of the Code.

The Commission will not directly or indirectly use or permit the use of any proceeds of the 2013 Series A Bonds or any other funds of the Commission, or take or omit to take any action that would cause the 2013 Series A Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the Commission will comply with all requirements of Section 148 of the Code to the extent applicable to the 2013 Series A Bonds. If at any time the Commission is of the opinion that for purposes of this Section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise, the Commission shall so instruct the Trustee in writing, and the Trustee shall take such action as required by such instructions. Without limiting the generality of the foregoing, the Commission agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applied to the 2013 Series A Bonds from time to time. This covenant shall survive payment in full or defeasance of the 2013 Series A Bonds. The Commission specifically covenants to pay or cause to be paid to the United States, at the times and in the amounts determined, the Rebate Requirement. The Trustee agrees to comply with all written instructions of the Commission given in accordance with the Tax Certificate.

Notwithstanding any provision of this Section, if the Commission provides to the Trustee an opinion of nationally recognized bond counsel to the effect that any action required under this Section or under the Tax Certificate is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the 2013 Series A Bonds under Section 103 of the Code, the Commission and the Trustee may rely conclusively on such opinion in complying with the provisions hereof, and the covenants hereunder shall be deemed to be modified to that extent. The Commission shall assure that the proceeds of the 2013 Series A Bonds are not so used as to cause the 2013 Series A Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code. The Commission shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the 2013 Series A Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

SECTION 19.12. Continuing Disclosure. The Commission hereby covenants and agrees that it will comply with and carry out all of the provisions of that certain Continuing Disclosure Certificate, dated as of the date of issuance of the 2013 Series A Bonds, executed and delivered by the Commission in connection with the issuance of the 2013 Series A Bonds, as it may be supplemented and amended in accordance with its terms (the "2013 Series A Continuing Disclosure Certificate"). Notwithstanding any other provision of the Indenture, failure of the Commission to comply with the 2013 Series A Continuing Disclosure Certificate shall not be considered an Event of Default; however, any Participating Underwriter (as such term is defined in the 2013 Series A Continuing Disclosure Certificate) or any Bondowner or beneficial owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Commission to comply with its obligations under this Section, and the sole remedy in the event of any failure of the Commission to comply with the 2013 Series A Continuing Disclosure Certificate shall be an action to compel performance.

**ARTICLE XX
MISCELLANEOUS**

SECTION 20.01. Terms of 2013 Series A Bonds Subject to the Indenture. Except as expressly provided in this Second Supplemental Indenture, every term and condition contained in the Indenture shall apply to this Second Supplemental Indenture, and to the 2013 Series A Bonds, with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to this Second Supplemental Indenture.

This Second Supplemental Indenture and all the terms and provisions herein contained shall form part of the Indenture as fully and with the same effect as if all such terms and provisions had been set forth in the Indenture. The Indenture is hereby ratified and confirmed and shall continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended hereby.

SECTION 20.02. Effective Date of Second Supplemental Indenture. This Second Supplemental Indenture shall take effect upon its execution and delivery.

SECTION 20.03. Execution in Counterparts. This Second Supplemental Indenture may be executed in several counterparts, each of which shall be deemed an original and all of which shall constitute but one and the same instrument.

**ARTICLE XXI
ADDITIONAL CITY REQUIREMENTS**

As used in this Article, "Agreement" means the Indenture.

To the extent of any inconsistency between the provisions in this Article and provisions in Article XII, the provisions of this Article shall control.

SECTION 21.01. Local Business Enterprise Utilization; Liquidated Damages.

a. The LBE Ordinance

The Trustee shall comply with all the requirements of the Disadvantaged Business Enterprise Ordinance set forth in Chapter 14B of the San Francisco Administrative Code as it now exists or as it may be amended in the future (collectively the "LBE Ordinance"), provided such amendments do not materially increase the Trustee's obligations or liabilities, or materially diminish the Trustee's rights, under this Second Supplemental Indenture. Such provisions of the LBE Ordinance are incorporated by reference and made a part of this Second Supplemental Indenture as though fully set forth in this section. The Trustee's willful failure to comply with any applicable provision of the LBE Ordinance is a material breach of the Trustee's obligations under this Second Supplemental Indenture and shall entitle City, subject to any applicable notice and cure provisions set forth in this Second Supplemental Indenture, to exercise any of the remedies provided for under this Second Supplemental Indenture, under the LBE Ordinance or otherwise available at law or in equity, which remedies shall be cumulative unless this Second Supplemental Indenture expressly provides that any remedy is exclusive. In addition, The Trustee shall comply fully with all other applicable local, state and federal laws prohibiting discrimination and requiring equal opportunity in contracting, including subcontracting.

b. Compliance and Enforcement

1. Enforcement

If the Trustee willfully fails to comply with any of the provisions of the LBE Ordinance, the rules and regulations implementing the LBE Ordinance, or the provisions of this Second Supplemental Indenture pertaining to LBE participation, the Trustee shall be liable for liquidated damages in an amount equal to the Trustee's net profit on this Second Supplemental Indenture, or 10% of the total amount of this Second Supplemental Indenture, or \$1,000, whichever is greatest. The Director of the City's Human Rights Commission or any other public official authorized to enforce the LBE Ordinance (separately and collectively, the "Director of HRC") may also impose other sanctions against the Trustee authorized in the LBE Ordinance, including declaring the Trustee to be irresponsible and ineligible to contract with the City for a period of up to five years or revocation of the Trustee's DBE certification. The Director of HRC will determine the sanctions to be imposed, including the amount of liquidated damages, after investigation pursuant to Administrative Code §14B.17.

By entering into this Second Supplemental Indenture, the Trustee acknowledges and agrees that any liquidated damages assessed by the Director of the HRC shall be payable to City upon demand. The Trustee further acknowledges and agrees that any liquidated damages assessed may be withheld from any monies due to the Trustee on any contract with City.

The Trustee agrees to maintain records necessary for monitoring its compliance with the LBE Ordinance for a period of three years following termination or expiration of this Second Supplemental Indenture, and shall make such records available for audit and inspection by the Director of HRC or the Controller upon request.

SECTION 21.02. Nondiscrimination; Penalties.

a. Trustee Shall Not Discriminate

In the performance of this Second Supplemental Indenture, the Trustee agrees not to discriminate against any employee, City and County employee working with such contractor or subcontractor, applicant for employment with such contractor or subcontractor, or against any person seeking accommodations, advantages, facilities, privileges, services, or membership in all business, social, or other establishments or organizations, on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, height, weight, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), or association with members of such protected classes, or in retaliation for opposition to discrimination against such classes.

b. Subcontracts

The Trustee shall incorporate by reference in all subcontracts the provisions of §§12B.2(a), 12B.2(c)-(k), and 12C.3 of the San Francisco Administrative Code (copies of which are available from Purchasing) and shall require all subcontractors to comply with such provisions. The Trustee's failure to comply with the obligations in this subsection shall constitute a material breach of this Second Supplemental Indenture.

c. Nondiscrimination in Benefits

The Trustee does not as of the date of this Second Supplemental Indenture and will not during the term of this Second Supplemental Indenture, in any of its operations in San Francisco, on real property owned by San Francisco, or where work is being performed for the City elsewhere in the United States, discriminate in the provision of bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits, as well as any benefits other than the benefits specified above, between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees, where the domestic partnership has been registered with a governmental entity pursuant to state or local law authorizing such registration, subject to the conditions set forth in §12B.2(b) of the San Francisco Administrative Code.

d. Condition to Contract

As a condition to this Second Supplemental Indenture, the Trustee shall execute the "Chapter 12B Declaration: Nondiscrimination in Contracts and Benefits" form (form HRC-12B-101) with supporting documentation and secure the approval of the form by the San Francisco Human Rights Commission.

e. Incorporation of Administrative Code Provisions by Reference

The provisions of Chapters 12B and 12C of the San Francisco Administrative Code are incorporated in this Section by reference and made a part of this Second Supplemental Indenture as though fully set forth herein. The Trustee shall comply fully with and be bound by all of the provisions that apply to this Second Supplemental Indenture under such Chapters, including but not limited to the remedies provided in such Chapters. Without limiting the foregoing, the Trustee understands that pursuant to §12B.2(h) of the San Francisco Administrative Code, a penalty of \$50 for each person for each calendar day during which such person was discriminated against in violation of the provisions of this Second Supplemental Indenture may be assessed against the Trustee and/or deducted from any payments due the Trustee.

SECTION 21.03. MacBride Principles—Northern Ireland. Pursuant to San Francisco Administrative Code §12F.5, the City and County of San Francisco urges companies doing business in Northern Ireland to move towards resolving employment inequities, and encourages such companies to abide by the MacBride Principles. The City and County of San Francisco urges San Francisco companies to do business with corporations that abide by the MacBride Principles. By signing below, the person executing this Second Supplemental Indenture on behalf of the Trustee acknowledges and agrees that he or she has read and understood this section.

SECTION 21.04. Tropical Hardwood and Virgin Redwood Ban. Pursuant to §804(b) of the San Francisco Environment Code, the City and County of San Francisco urges contractors not to import, purchase, obtain, or use for any purpose, any tropical hardwood, tropical hardwood wood product, virgin redwood or virgin redwood wood product.

SECTION 21.05. Drug-Free Workplace Policy. The Trustee acknowledges that pursuant to the Federal Drug-Free Workplace Act of 1989, the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance is prohibited on City premises. The Trustee agrees that any violation of this prohibition by the Trustee, its employees, agents or assigns will be deemed a material breach of this Second Supplemental Indenture.

SECTION 21.06. Compliance with Americans with Disabilities Act. The Trustee acknowledges that, pursuant to the Americans with Disabilities Act (ADA), programs, services and other activities provided by a public entity to the public, whether directly or through a contractor, must be

accessible to the disabled public. The Trustee shall provide the services specified in this Second Supplemental Indenture in a manner that complies with the ADA and any and all other applicable federal, state and local disability rights legislation. The Trustee agrees not to discriminate against disabled persons in the provision of services, benefits or activities provided under this Second Supplemental Indenture and further agrees that any violation of this prohibition on the part of the Trustee, its employees, agents or assigns will constitute a material breach of this Second Supplemental Indenture.

SECTION 21.07. Sunshine Ordinance. In accordance with San Francisco Administrative Code §67.24(e), contracts, contractors' bids, responses to solicitations and all other records of communications between City and persons or firms seeking contracts, shall be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure of a private person or organization's net worth or other proprietary financial data submitted for qualification for a contract or other benefit until and unless that person or organization is awarded the contract or benefit. Information provided which is covered by this paragraph will be made available to the public upon request.

SECTION 21.08. Limitations on Contributions. Through execution of this Second Supplemental Indenture, the Trustee acknowledges that it is familiar with section 1.126 of the City's Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the sale or lease of any land or building, or for a grant, loan or loan guarantee, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or a board on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. The Trustee acknowledges that the foregoing restriction applies only if the contract or a combination or series of contracts approved by the same individual or board in a fiscal year have a total anticipated or actual value of \$50,000 or more. The Trustee further acknowledges that the prohibition on contributions applies to each prospective party to the contract; each member of the Trustee's board of directors; the Trustee's chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 20 percent in the Trustee; any subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by the Trustee. Additionally, the Trustee acknowledges that the Trustee must inform each of the persons described in the preceding sentence of the prohibitions contained in Section 1.126.

SECTION 21.09. Requiring Minimum Compensation for Covered Employees.

(a) The Trustee agrees to comply fully with and be bound by all of the provisions of the Minimum Compensation Ordinance (MCO), as set forth in San Francisco Administrative Code Chapter 12P (Chapter 12P), including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 12P are incorporated herein by reference and made a part of this Second Supplemental Indenture as though fully set forth. The text of the MCO is available on the web at <http://www.sfgov.org/olse/mco>. A partial listing of some of the Trustee's obligations under the MCO is set forth in this Section. The Trustee is required to comply with all the provisions of the MCO, irrespective of the listing of obligations in this Section.

(b) The MCO requires the Trustee to pay the Trustee's employees a minimum hourly gross compensation wage rate and to provide minimum compensated and uncompensated time off. The minimum wage rate may change from year to year and the Trustee is obligated to keep informed of the then-current requirements. Any subcontract entered into by the Trustee shall require the subcontractor to comply with the requirements of the MCO and shall contain contractual obligations substantially the

same as those set forth in this Section. It is the Trustee's obligation to ensure that any subcontractors of any tier under this Second Supplemental Indenture comply with the requirements of the MCO. If any subcontractor under this Second Supplemental Indenture fails to comply, City may pursue any of the remedies set forth in this Section against the Trustee.

(c) The Trustee shall not take adverse action or otherwise discriminate against an employee or other person for the exercise or attempted exercise of rights under the MCO. Such actions, if taken within 90 days of the exercise or attempted exercise of such rights, will be rebuttably presumed to be retaliation prohibited by the MCO.

(d) The Trustee shall maintain employee and payroll records as required by the MCO. If the Trustee fails to do so, it shall be presumed that the Trustee paid no more than the minimum wage required under State law.

(e) The City is authorized to inspect the Trustee's job sites and conduct interviews with employees and conduct audits of the Trustee.

(f) The Trustee's commitment to provide the Minimum Compensation is a material element of the City's consideration for this Second Supplemental Indenture. The City in its sole discretion shall determine whether such a breach has occurred. The City and the public will suffer actual damage that will be impractical or extremely difficult to determine if the Trustee fails to comply with these requirements. The Trustee agrees that the sums set forth in Section 12P.6.1 of the MCO as liquidated damages are not a penalty, but are reasonable estimates of the loss that the City and the public will incur for the Trustee's noncompliance. The procedures governing the assessment of liquidated damages shall be those set forth in Section 12P.6.2 of Chapter 12P.

(g) The Trustee understands and agrees that if it fails to comply with the requirements of the MCO, the City shall have the right to pursue any rights or remedies available under Chapter 12P (including liquidated damages), under the terms of the contract, and under applicable law. If, within 30 days after receiving written notice of a breach of this Second Supplemental Indenture for violating the MCO, the Trustee fails to cure such breach or, if such breach cannot reasonably be cured within such period of 30 days, the Trustee fails to commence efforts to cure within such period, or thereafter fails diligently to pursue such cure to completion, the City shall have the right to pursue any rights or remedies available under applicable law, including those set forth in Section 12P.6(c) of Chapter 12P. Each of these remedies shall be exercisable individually or in combination with any other rights or remedies available to the City.

(h) The Trustee represents and warrants that it is not an entity that was set up, or is being used, for the purpose of evading the intent of the MCO.

(i) The City may conduct random audits of the Trustee. Random audits shall be (i) noticed in advance in writing; (ii) limited to ascertaining whether Covered Employees are paid at least the minimum compensation required by the MCO; (iii) accomplished through an examination of pertinent records at a mutually agreed upon time and location within ten days of the written notice; and (iv) limited to one audit of the Trustee every two years for the duration of this Second Supplemental Indenture. Nothing in this Second Supplemental Indenture is intended to preclude the City from investigating any report of an alleged violation of the MCO.

SECTION 21.10. Requiring Health Benefits for Covered Employees. Unless exempt, the Trustee agrees to comply fully with and be bound by all of the provisions of the Health Care Accountability Ordinance (HCAO), as set forth in San Francisco Administrative Code Chapter 12Q,

including the remedies provided, and implementing regulations, as the same may be amended from time to time. The provisions of Chapter 12Q are incorporated herein by reference and made a part of this Second Supplemental Indenture as though fully set forth. The text of the HCAO is available on the web at <http://www.sfgov.org/oca/lwlh.htm>. Capitalized terms used in this Section and not defined in this Second Supplemental Indenture shall have the meanings assigned to such terms in Chapter 12Q.

(a) For each Covered Employee, the Trustee shall provide the appropriate health benefit set forth in Section 12Q.3 of the HCAO. If the Trustee chooses to offer the health plan option, such health plan shall meet the minimum standards set forth by the San Francisco Health Commission.

(b) Notwithstanding the above, if the Trustee is a small business as defined in Section 12Q.3(d) of the HCAO, it shall have no obligation to comply with part (a) above.

(c) The Trustee's failure to comply with the HCAO shall constitute a material breach of this Second Supplemental Indenture. City shall notify the Trustee if such a breach has occurred. If, within 30 days after receiving City's written notice of a breach of this Second Supplemental Indenture for violating the HCAO, the Trustee fails to cure such breach or, if such breach cannot reasonably be cured within such period of 30 days, the Trustee fails to commence efforts to cure within such period, or thereafter fails diligently to pursue such cure to completion, City shall have the right to pursue the remedies set forth in 12Q.5(f)(1-5). Each of these remedies shall be exercisable individually or in combination with any other rights or remedies available to City.

(d) Any Subcontract entered into by the Trustee shall require the Subcontractor to comply with the requirements of the HCAO and shall contain contractual obligations substantially the same as those set forth in this Section. The Trustee shall notify City's Office of Contract Administration when it enters into such a Subcontract and shall certify to the Office of Contract Administration that it has notified the Subcontractor of the obligations under the HCAO and has imposed the requirements of the HCAO on Subcontractor through the Subcontract. The Trustee shall be responsible for its Subcontractors' compliance with this Chapter. If a Subcontractor fails to comply, the City may pursue the remedies set forth in this Section against the Trustee based on the Subcontractor's failure to comply, provided that City has first provided the Trustee with notice and an opportunity to obtain a cure of the violation.

(e) The Trustee shall not discharge, reduce in compensation, or otherwise discriminate against any employee for notifying City with regard to the Trustee's noncompliance or anticipated noncompliance with the requirements of the HCAO, for opposing any practice proscribed by the HCAO, for participating in proceedings related to the HCAO, or for seeking to assert or enforce any rights under the HCAO by any lawful means.

(f) The Trustee represents and warrants that it is not an entity that was set up, or is being used, for the purpose of evading the intent of the HCAO.

(g) The Trustee shall maintain employee and payroll records in compliance with the California Labor Code and Industrial Welfare Commission orders, including the number of hours each employee has worked on the City Contract.

(h) The Trustee shall keep itself informed of the current requirements of the HCAO.

(i) The Trustee shall provide reports to the City in accordance with any reporting standards promulgated by the City under the HCAO, including reports on Subcontractors and Subtenants, as applicable.

(j) The Trustee shall provide City with access to records pertaining to compliance with HCAO after receiving a written request from City to do so and being provided at least ten business days to respond.

(k) The Trustee shall allow City to inspect the Trustee's job sites and have access to the Trustee's employees in order to monitor and determine compliance with HCAO.

(l) The City may conduct random audits of the Trustee to ascertain its compliance with HCAO. The Trustee agrees to cooperate with City when it conducts such audits.

(m) If the Trustee is exempt from the HCAO when this Second Supplemental Indenture is executed because its amount is less than \$25,000 (\$50,000 for nonprofits), but the Trustee later enters into an agreement or agreements that cause the Trustee's aggregate amount of all agreements with City to reach \$75,000, all the agreements shall be thereafter subject to the HCAO. This obligation arises on the effective date of the agreement that causes the cumulative amount of agreements between the Trustee and the City to be equal to or greater than \$75,000 in the fiscal year.

SECTION 21.11. Prohibition on Political Activity with City Funds. In accordance with San Francisco Administrative Code Chapter 12.G, the Trustee may not participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure (collectively, "Political Activity") in the performance of the services provided under this Second Supplemental Indenture. The Trustee agrees to comply with San Francisco Administrative Code Chapter 12.G and any implementing rules and regulations promulgated by the City's Controller. The terms and provisions of Chapter 12.G are incorporated herein by this reference. In the event the Trustee violates the provisions of this section, the City may, in addition to any other rights or remedies available hereunder, (i) terminate this Second Supplemental Indenture, and (ii) prohibit the Trustee from bidding on or receiving any new City contract for a period of two (2) years. The Controller will not consider the Trustee's use of profit as a violation of this section.

SECTION 21.12. Conflict of Interest. Through its execution of this Second Supplemental Indenture, the Trustee acknowledges that it is familiar with the provisions of section 15.103 of the City's Charter, Article III, Chapter 2 of City's Campaign and Governmental Conduct Code, and Section 87100 *et seq.* and Section 1090 *et seq.* of the Government Code of the State of California, and certifies that it does not know of any facts which constitute a violation of said provision and agrees that it will immediately notify the City if it becomes aware of any such fact during the term of this Second Supplemental Indenture.

SECTION 21.13. Earned Income Credit (EIC) Forms. Administrative Code section 120 requires that employers provide their employees with IRS Form W-5 (The Earned Income Credit Advance Payment Certificate) and the IRS EIC Schedule, as set forth below. Employers can locate these forms at the IRS Office, on the Internet, or anywhere that Federal Tax Forms can be found.

(a) The Trustee shall provide EIC Forms to each Eligible Employee at each of the following times: (i) within thirty days following the date on which this Second Supplemental Indenture becomes effective (unless the Trustee has already provided such EIC Forms at least once during the calendar year in which such effective date falls); (ii) promptly after any Eligible

Employee is hired by the Trustee; and (iii) annually between January 1 and January 31 of each calendar year during the term of this Second Supplemental Indenture.

(b) Failure to comply with any requirement contained in subparagraph (a) of this Section shall constitute a material breach by the Trustee of the terms of this Second Supplemental Indenture. If, within thirty days after the Trustee receives written notice of such a breach, the Trustee fails to cure such breach or, if such breach cannot reasonably be cured within such period of thirty days, the Trustee fails to commence efforts to cure within such period or thereafter fails to diligently pursue such cure to completion, the City may pursue any rights or remedies available under this Second Supplemental Indenture or under applicable law.

(c) Any Subcontract entered into by the Trustee shall require the subcontractor to comply, as to the subcontractor's Eligible Employees, with each of the terms of this Section.

(d) Capitalized terms used in this Section and not defined in this Second Supplemental Indenture shall have the meanings assigned to such terms in Section 12O of the San Francisco Administrative Code.

SECTION 21.14. Preservative-treated Wood Containing Arsenic. The Trustee may not purchase preservative-treated wood products containing arsenic in the performance of this Second Supplemental Indenture unless an exemption from the requirements of Chapter 13 of the San Francisco Environment Code is obtained from the Department of the Environment under Section 1304 of the Code. The term "preservative-treated wood containing arsenic" shall mean wood treated with a preservative that contains arsenic, elemental arsenic, or an arsenic copper combination, including, but not limited to, chromated copper arsenate preservative, ammoniacal copper zinc arsenate preservative, or ammoniacal copper arsenate preservative. The Trustee may purchase preservative-treated wood products on the list of environmentally preferable alternatives prepared and adopted by the Department of the Environment. This provision does not preclude the Trustee from purchasing preservative-treated wood containing arsenic for saltwater immersion. The term "saltwater immersion" shall mean a pressure-treated wood that is used for construction purposes or facilities that are partially or totally immersed in saltwater.

SECTION 21.15. Nondisclosure of Private Information. The Trustee has read and agrees to the terms set forth in San Francisco Administrative Code Sections 12M.2, "Nondisclosure of Private Information," and 12M.3, "Enforcement" of Administrative Code Chapter 12M, "Protection of Private Information," which are incorporated herein as if fully set forth. The Trustee agrees that any failure of the Trustee to comply with the requirements of Section 12M.2 of this Chapter shall be a material breach of this Second Supplemental Indenture. In such an event, in addition to any other remedies available to it under equity or law, the City may terminate this Second Supplemental Indenture, bring a false claim action against the Trustee pursuant to Chapter 6 or Chapter 21 of the Administrative Code, or debar the Trustee.

SECTION 21.16. Proprietary or Confidential Information of City. The Trustee understands and agrees that, in the performance of the work or services under this Second Supplemental Indenture or in contemplation thereof, the Trustee may have access to private or confidential information which may be owned or controlled by City and that such information may contain proprietary or confidential details, the disclosure of which to third parties may be damaging to City. The Trustee agrees that all information disclosed by City to the Trustee shall be held in confidence and used only in performance of the Second Supplemental Indenture. The Trustee shall exercise the same standard of care to protect such information as a reasonably prudent contractor would use to protect its own proprietary data.

SECTION 21.17. Compliance with Laws. The Trustee shall keep itself fully informed of the City's Charter, codes, ordinances and regulations of the City and of all state, and federal laws in any manner affecting the performance of this Second Supplemental Indenture, and must at all times comply with such local codes, ordinances, and regulations and all applicable laws as they may be amended from time to time.

SECTION 21.18. Works for Hire. If, in connection with services performed under this Second Supplemental Indenture, the Trustee or its subcontractors create artwork, copy, posters, billboards, photographs, videotapes, audiotapes, systems designs, software, reports, diagrams, surveys, blueprints, source codes or any other original works of authorship, such works of authorship shall be works for hire as defined under Title 17 of the United States Code, and all copyrights in such works are the property of the City. If it is ever determined that any works created by the Trustee or its subcontractors under this Second Supplemental Indenture are not works for hire under U.S. law, the Trustee hereby assigns all copyrights to such works to the City, and agrees to provide any material and execute any documents necessary to effectuate such assignment. With the approval of the City, the Trustee may retain and use copies of such works for reference and as documentation of its experience and capabilities.

SECTION 21.19. Resource Conservation. Chapter 5 of the San Francisco Environment Code ("Resource Conservation") is incorporated herein by reference. Failure by the Trustee to comply with any of the applicable requirements of Chapter 5 will be deemed a material breach of contract.

SECTION 21.20. Public Access to Meetings and Records. If the Trustee receives a cumulative total per year of at least \$250,000 in City funds or City-administered funds and is a non-profit organization as defined in Chapter 12L of the San Francisco Administrative Code, the Trustee shall comply with and be bound by all the applicable provisions of that Chapter. By executing this Second Supplemental Indenture, the Trustee agrees to open its meetings and records to the public in the manner set forth in §§12L.4 and 12L.5 of the Administrative Code. The Trustee further agrees to make-good faith efforts to promote community membership on its Board of Directors in the manner set forth in §12L.6 of the Administrative Code. The Trustee acknowledges that its material failure to comply with any of the provisions of this paragraph shall constitute a material breach of this Second Supplemental Indenture. The Trustee further acknowledges that such material breach of this Second Supplemental Indenture shall be grounds for the City to terminate and/or not renew the agreement, partially or in its entirety.

SECTION 21.21. Guaranteed Maximum Costs.

(a) The City's obligation hereunder shall not at any time exceed the amount certified by the Controller for the purpose and period stated in such certification.

(b) Except as may be provided by laws governing emergency procedures, officers and employees of the City are not authorized to request, and the City is not required to reimburse the Trustee for, commodities or services beyond the agreed upon contract scope unless the changed scope is authorized by amendment and approved as required by law.

(c) Officers and employees of the City are not authorized to offer or promise, nor is the City required to honor, any offered or promised additional funding in excess of the maximum amount of funding for which the contract is certified without certification of the additional amount by the Controller.

(d) The Controller is not authorized to make payments on any contract for which funds have not been certified as available in the budget or by supplemental appropriation.

SECTION 21.22. Submitting False Claims; Monetary Penalties. Pursuant to San Francisco Administrative Code §21.16, any contractor, subcontractor or consultant who submits a false claim shall be liable to the City for three times the amount of damages which the City sustains because of the false claim. A contractor, subcontractor or consultant who submits a false claim shall also be liable to the City for the costs, including attorneys' fees, of a civil action brought to recover any of those penalties or damages, and may be liable to the City for a civil penalty of up to \$10,000 for each false claim. A contractor, subcontractor or consultant will be deemed to have submitted a false claim to the City if the contractor, subcontractor or consultant: (a) knowingly presents or causes to be presented to an officer or employee of the City a false claim or request for payment or approval; (b) knowingly makes, uses, or causes to be made or used a false record or statement to get a false claim paid or approved by the City; (c) conspires to defraud the City by getting a false claim allowed or paid by the City; (d) knowingly makes, uses, or causes to be made or used a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to the City; or (e) is a beneficiary of an inadvertent submission of a false claim to the City, subsequently discovers the falsity of the claim, and fails to disclose the false claim to the City within a reasonable time after discovery of the false claim.

SECTION 21.23. Agreement Made in California; Venue. The formation, interpretation and performance of this Agreement shall be governed by the laws of the State of California. Venue for all litigation relative to the formation, interpretation and performance of this Agreement shall be in San Francisco.

SECTION 21.24. Ownership of Results. Any interest of the Trustee or its Subcontractors, in drawings, plans, specifications, blueprints, studies, reports, memoranda, computation sheets, computer files and media or other documents prepared by the Trustee or its subcontractors in connection with services to be performed under this Second Supplemental Indenture, shall become the property of and will be transmitted to City. However, the Trustee may retain and use copies for reference and as documentation of its experience and capabilities.

SECTION 21.25. Audit and Inspection of Records. The Trustee agrees to maintain and make available to the City, during regular business hours, accurate books and accounting records relating to its work under this Second Supplemental Indenture. The Trustee will permit City to audit, examine and make excerpts and transcripts from such books and records, and to make audits of all invoices, materials, payrolls, records or personnel and other data related to all other matters covered by this Second Supplemental Indenture, whether funded in whole or in part under this Second Supplemental Indenture. The Trustee shall maintain such data and records in an accessible location and condition for a period of not less than three years after final payment under this Second Supplemental Indenture or until after final audit has been resolved, whichever is later. The State of California or any federal agency having an interest in the subject matter of this Second Supplemental Indenture shall have the same rights conferred upon City by this Section.

SECTION 21.26. Subcontracting. The Trustee is prohibited from subcontracting this Second Supplemental Indenture or any part of it unless such subcontracting is first approved by City in writing. Neither party shall, on the basis of this Second Supplemental Indenture, contract on behalf of or in the name of the other party. An agreement made in violation of this provision shall confer no rights on any party and shall be null and void.

SECTION 21.27. Assignment. The services to be performed by Trustee are personal in character and neither this Second Supplemental Indenture nor any duties or obligations hereunder may be assigned or delegated by the Trustee unless first approved by the Commission and the City by written instrument executed and approved in the same manner as this Second Supplemental Indenture.

SECTION 21.28. Non-Waiver of Rights. The omission by either party at any time to enforce any default or right reserved to it, or to require performance of any of the terms, covenants, or provisions hereof by the other party at the time designated, shall not be a waiver of any such default or right to which the party is entitled, nor shall it in any way affect the right of the party to enforce such provisions thereafter.

SECTION 21.29. City a Third Party Beneficiary. The City is hereby designated as a third party beneficiary for the purpose of enforcing all of the obligations of the Trustee contained in Article XXI of this Second Supplemental Indenture and to the extent that any other rights are given to the City hereunder.

SECTION 21.30. Food Service Waste Reduction Requirements. Effective June 1, 2007, the Trustee agrees to comply fully with and be bound by all of the provisions of the Food Service Waste Reduction Ordinance, as set forth in San Francisco Environment Code Chapter 16, including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 16 are incorporated herein by reference and made a part of this Second Supplemental Indenture as though fully set forth. This provision is a material term of this Second Supplemental Indenture. By entering into this Second Supplemental Indenture, the Trustee agrees that if it breaches this provision, City will suffer actual damages that will be impractical or extremely difficult to determine; further, the Trustee agrees that the sum of one hundred dollars (\$100) liquidated damages for the first breach, two hundred dollars (\$200) liquidated damages for the second breach in the same year, and five hundred dollars (\$500) liquidated damages for subsequent breaches in the same year is a reasonable estimate of the damage that the City will incur based on the violation, established in light of the circumstances existing at the time this Second Supplemental Indenture was made. Such amount shall not be considered a penalty, but rather agreed monetary damages sustained by the City because of the Trustee's failure to comply with this provision.

SECTION 21.31. Graffiti Removal. Graffiti is detrimental to the health, safety and welfare of the community in that it promotes a perception in the community that the laws protecting public and private property can be disregarded with impunity. This perception fosters a sense of disrespect of the law that results in an increase in crime; degrades the community and leads to urban blight; is detrimental to property values, business opportunities and the enjoyment of life; is inconsistent with the City's property maintenance goals and aesthetic standards; and results in additional graffiti and in other properties becoming the target of graffiti unless it is quickly removed from public and private property. Graffiti results in visual pollution and is a public nuisance. Graffiti must be abated as quickly as possible to avoid detrimental impacts on the City and County and its residents, and to prevent the further spread of graffiti. The Trustee shall remove all graffiti from any real property owned or leased by the Trustee in the City and County of San Francisco within forty eight (48) hours of the earlier of the Trustee's (a) discovery or notification of the graffiti or (b) receipt of notification of the graffiti from the Department of Public Works. This section is not intended to require the Trustee to breach any lease or other Second Supplemental Indenture that it may have concerning its use of the real property. The term "graffiti" means any inscription, word, figure, marking or design that is affixed, marked, etched, scratched, drawn or painted on any building, structure, fixture or other improvement, whether permanent or temporary, including by way of example only and without limitation, signs, banners, billboards and fencing surrounding construction sites, whether public or private, without the consent of the owner of the property or the owner's authorized agent, and which is visible from the public right-of-way. "Graffiti" shall not include: (1) any sign or banner that is authorized by, and in compliance with, the applicable requirements of the San Francisco Public Works Code, the San Francisco Planning Code or the San Francisco Building Code; or (2) any mural or other painting or marking on the property that is protected as a work of fine art under the California Art Preservation Act (California Civil Code sections 987 et seq.) or as a work of visual art under the Federal Visual Artists Rights Act of 1990 (17 U.S.C. §§ 101 et seq.). Any failure of

the Trustee to comply with this section of this Second Supplemental Indenture shall constitute a material breach of this Second Supplemental Indenture.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Second Supplemental Indenture by their officers thereunto duly authorized as of the date and year first written above.

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

By: _____
General Manager

ATTEST:

Secretary of the Public Utilities
Commission of the City and County
of San Francisco

Approved as to form:

Dennis J. Herrera, City Attorney

By: _____
Deputy City Attorney

U.S. BANK NATIONAL ASSOCIATION,
as trustee

By: _____
Vice President

EXHIBIT D

FORM OF 2013 SERIES A BOND

\$ _____

No. R- _____

State of California

City and County of San Francisco

PUBLIC UTILITIES COMMISSION OF THE

CITY AND COUNTY OF SAN FRANCISCO

WASTEWATER REVENUE BOND

2013 SERIES A (REFUNDING)

Dated Date

Interest Rate

Maturity Date

CUSIP No.

_____, 2013

Registered Owner: Cede & Co.

Principal Amount: _____ DOLLARS

The PUBLIC UTILITIES COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO, a commission duly organized and existing under and pursuant to the Charter of the City and County of San Francisco and the laws of the State of California (herein called the "Commission"), for value received, hereby promises to pay (but only out of the revenues hereinafter referred to) to the registered owner set forth above, or registered assigns, on the maturity date set forth above, the principal sum set forth above by check of the Trustee (as defined below) in lawful money of the United States of America, and to pay (but only out of the revenues hereinafter referred to) interest thereon in like lawful money from the interest payment date next preceding the date of authentication of this Bond (unless this Bond is authenticated as of a day during the period from the 16th day of the calendar month next preceding any interest payment date to and including such interest payment date, in which event it shall bear interest from such interest payment date, or unless this Bond is authenticated on or before _____ 15, 2013, in which event it shall bear interest from the Dated Date; provided, however, that if, at the time of authentication of any Bond, interest is in default on Outstanding Bonds, such Bond shall bear interest from the interest payment date to which interest has previously been paid or made available for payment on the Outstanding Bonds and shall be payable to the Owners thereof of record as of a special date as shall be established by the Trustee following such default) until payment of such principal sum, at the interest rate per annum stated above, payable on April 1, 2013 and semiannually thereafter on October 1 and April 1 in each year.

The principal hereof is payable to the registered owner hereof upon the surrender hereof at the corporate trust office of U.S. Bank National Association, in San Francisco, California, as trustee (herein,

together with any successor as trustee under the Indenture, called the "Trustee"), or such other office designated by the Trustee. The interest hereon is payable to the person whose name appears on the bond registration books of the Trustee as the registered owner hereof as of the close of business on the 15th day of the calendar month immediately preceding an interest payment date, whether or not such day is a business day, such interest to be paid, except as otherwise provided in the Indenture, by check mailed to such registered owner at such address as appears on such registration books. Interest on this Bond shall be calculated on the basis of a 360-day year comprised of twelve 30-day months.

This Bond is one of a duly authorized issue of revenue bonds of the Commission designated as the "Wastewater Revenue Bonds" (herein called the "Bonds"), of the series and designation indicated on the face hereof (herein called the "2013 Series A Bonds") and is a Current Interest Bond (as such term is defined in the Indenture hereinafter referred to). The Bonds are not limited in aggregate principal amount and consist or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued under and pursuant to the provisions of the Charter of the City and County of San Francisco and all laws of the State of California supplemental thereto, including California Government Code Sections 53580 et seq., and the Revenue Bond Law of 1941 to the extent made applicable by said Charter (herein collectively called the "Law"), and pursuant to an Indenture, dated as of January 1, 2003, between the Commission and the Trustee, as amended and supplemented, and as heretofore supplemented by that certain Second Supplemental Indenture dated as of _____, 2013, between the Commission and the Trustee (collectively, with any supplements or amendments thereto, the "Indenture").

Reference is hereby made to the Indenture (a copy of which is on file at the office of the Trustee) and to the Law for a description of the terms on which the Bonds are issued, the provisions with regard to the nature and extent of the Revenues (as such term is defined in the Indenture) and the rights thereunder (and limitations thereon) of the registered owners of the Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the Commission thereunder; and all the terms of the Indenture and the Law are hereby incorporated herein and constitute a contract between the Commission and the registered owner of this Bond, and to all the provisions thereof the owner of this Bond, by his acceptance hereof, consents and agrees. Each owner hereof shall have recourse to all of the provisions of the Law and the Indenture and shall be bound by all of the terms and conditions thereof.

The Bonds are being issued to finance and refinance the acquisition and construction of improvements to the Enterprise, as more particularly described in the Indenture. The Bonds are special obligations of the Commission and are payable, as to the principal thereof and interest thereon, from the revenues of the Enterprise (which, as more particularly defined in the Indenture, are therein and herein called the "Revenues"). All of the Bonds are equally secured by a pledge of, and charge and lien upon, all of the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest on and principal of the Bonds; but nevertheless out of the Revenues certain amounts may be applied for other purposes prior to the payment of the interest on or principal of the Bonds as provided in the Indenture. Additional series of Bonds payable from the Revenues may be issued on a parity with the Bonds of this Series, but only subject to the conditions and limitations contained in the Indenture.

The principal of and interest on this 2013 Series A Bond are payable solely from the Revenues, and the Commission is not obligated to pay them except from the Revenues. The Commission has no taxing power. The general fund of the City and County of San Francisco is not liable, and the credit or taxing power of the City and County of San Francisco is not pledged, for the payment of the Bonds or their interest. The Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the Commission or any of its income or receipts, except the Revenues. The owner hereof has no right to compel the exercise of any taxing power of the City and County of San Francisco.

The rights and obligations of the Commission and the owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Indenture.

The 2013 Series A Bonds are not subject to redemption prior to their stated maturity.

The 2013 Series A Bonds are issuable as fully registered Bonds without coupons in the denomination of \$5,000 or any integral multiple thereof provided that no 2013 Series A Bond shall have principal maturing on more than one principal payment date. Subject to the limitations and conditions and upon payment of the charges, if any, as provided in the Indenture, 2013 Series A Bonds may be exchanged for a like aggregate principal amount of 2013 Series A Bonds of the same series, tenor and maturity of other authorized denominations.

This 2013 Series A Bond is transferable by the registered owner hereof, in person or by his attorney duly authorized in writing, at said office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this 2013 Series A Bond. Upon such transfer a new fully registered 2013 Series A Bond or 2013 Series A Bonds, of authorized denomination or denominations and of the same series and tenor, for the same aggregate principal amount will be issued to the transferee in exchange herefor.

The Commission and the Trustee may treat the registered owner hereof as the absolute owner hereof for all purposes, and the Commission and the Trustee shall not be affected by any notice to the contrary.

It is hereby certified that all of the conditions, things and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this 2013 Series A Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Law and the laws of the State of California, and that the amount of this 2013 Series A Bond, together with all other obligations of the Commission, does not exceed any limit prescribed by the Law or any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This 2013 Series A Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed have been signed by the Trustee.

DTC LEGEND

Unless this bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Commission or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

IN WITNESS WHEREOF, the Public Utilities Commission of the City and County of San Francisco has caused this Bond to be executed on its behalf, signed by the manual or facsimile signatures of its General Manager and of the Controller of the City and County of San Francisco and countersigned by the manual or facsimile signature of its Secretary, all as of _____, 2013.

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

General Manager of the Commission

Controller of the City and County
of San Francisco

Countersigned:

Secretary of the Commission

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION
AND REGISTRATION TO APPEAR ON THE 2013 SERIES A BONDS]

This Bond is one of the Bonds described in the within-mentioned Indenture, which has been authenticated and registered on the date set forth below.

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

Dated: _____

By: _____
Authorized Officer

[FORM OF ASSIGNMENT]

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

Dated: _____

SIGNATURE GUARANTEED BY:

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

THIRD SUPPLEMENTAL INDENTURE

by and between

**PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO**

and

**U.S. BANK NATIONAL ASSOCIATION, as Trustee
Dated as of _____, 2013**

AUTHORIZING THE ISSUANCE OF

**\$ _____ AGGREGATE PRINCIPAL AMOUNT OF
PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS,
2013 SERIES B**

(Supplemental to the Indenture dated as of January 1, 2003, as amended)

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Exhibit E – Form of 2013 Series B Bond

THIRD SUPPLEMENTAL INDENTURE

(Supplemental to the Indenture dated as of January 1, 2003, as amended)

Authorizing the Issuance of

\$ _____ Aggregate Principal Amount of
Public Utilities Commission of the
City and County of San Francisco
Wastewater Revenue Bonds,
2013 Series B

This Third Supplemental Indenture, dated as of _____, 2013 (this "Third Supplemental Indenture"), by and between PUBLIC UTILITIES COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO (the "Commission"), a commission duly constituted under the Charter (the "Charter") of the City and County of San Francisco (the "City"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, as trustee (the "Trustee");

WITNESSETH:

WHEREAS, this Third Supplemental Indenture is supplemental to the Indenture, dated as of January 1, 2003 (the "Original Indenture"), between the Commission and the Trustee (previously known as U.S. Bank, N.A.), as amended by a First Amendment to Indenture dated as of May 1, 2010 (the "First Amendment"), and as supplemented by a First Supplemental Indenture, dated as of May 1, 2010 (the "First Supplemental Indenture") and Second Supplemental Indenture, dated as of _____, 2013 (the "Second Supplemental Indenture" and together with the First Amendment, First Supplemental Indenture and the Original Indenture, the "Indenture");

WHEREAS, in January, 2003, the Commission issued the first series of Bonds the Indenture designated the "Public Utilities Commission of the City and County of San Francisco Clean Water Revenue Bonds, 2003 Refunding Series A" (the "2003 Refunding Series A Bonds"), in the original principal amount of \$396,270,000, for the purpose of refunding certain sewer revenue bonds previously issued by the City to finance and refinance the acquisition of improvements to the Enterprise, which had previously been owned and operated by the City, all as set forth in the Indenture;

WHEREAS, in May, 2010, the Commission issued the second series of Bonds under the Indenture designated the "Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series A" (the "2010 Series A Bonds"), in the original principal amount of \$47,050,000, to refund certain commercial paper notes issued by the Commission to finance a portion of the Capital Improvement Program ("CIP"), to fund a reserve account for the 2010 Series A Bonds and to pay costs of issuance, all as set forth in the Indenture;

WHEREAS, in May, 2010, the Commission issued the third series of Bonds under the Indenture designated the "Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series B (Federally Taxable – Build America Bonds – Direct Payment)" (the "2010 Series B Bonds"), in the original principal amount of \$192,515,000, to refund certain commercial paper notes, to fund a portion of the costs of the CIP and a portion of the costs of the Commission's proposed Sewer System Improvement Program, to fund capitalized interest on the 2010 Series B Bonds, to fund a reserve account for the 2010 Series B Bonds and to pay costs of issuance, all as set forth in the Indenture;

WHEREAS, in January, 2013, the Commission issued the fourth series of Bonds under the Indenture designated the "Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2013 Series A (Refunding)" (the "2013 Series A Bonds"), in the original principal amount of \$ _____, to refund the 2003 Refunding Series A Bonds (including the State Revolving Fund Loans as such term is defined in the Second Supplemental Indenture) and to pay costs of issuance, all as set forth in the Second Supplemental Indenture;

WHEREAS, pursuant to Section 8B.124 of the City Charter, the Commission has the authority to issue additional revenue bonds for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities, or combinations of water and clean water facilities under the jurisdiction of the Commission, subject to certain conditions, including, among others, the adoption of an ordinance by a two-thirds vote of the Board of Supervisors of the City, under such terms and conditions as the Commission may authorize;

WHEREAS, on April 27, 2010, the Board passed by a two-thirds vote its Ordinance No. 93-10, signed by the Mayor of the City on May 3, 2010, approving the issuance and sale of wastewater revenue bonds pursuant to Section 8B.124 of the City Charter to finance various capital projects benefiting the Wastewater Enterprise, as well as paying the costs of issuance and other incidental costs relating thereto, in an aggregate principal amount not to exceed \$297,756,235;

WHEREAS, on June 12, 2012, the Board passed by a two-thirds vote its Ordinance No. 115-12, signed by the Mayor of the City on June 18, 2012, approving the issuance and sale of wastewater revenue bonds pursuant to Article VIII B of the Charter to finance various capital projects benefiting the Enterprise, as well as paying the costs of issuance and other incidental costs relating thereto, in an aggregate principal amount not to exceed \$522,810,000;

WHEREAS, the Commission has not previously issued any wastewater revenue bonds pursuant to Ordinance No. 93-10 or Ordinance No. 115-12;

WHEREAS, on October __, 2012, the Commission passed its Resolution No. __, and on October __, 2012, the Board passed its Resolution No. __, signed by the Mayor on October __, 2012, approving, among other things, (i) the issuance of the Series 2013A Bonds pursuant to Section 9.109 of the Charter, and California Government Code Sections 53580 et seq. and (ii) the issuance of not to exceed \$ _____ aggregate principal amount of wastewater revenue bonds to finance or refinance (through the retirement of commercial paper notes) various capital projects benefiting the Enterprise (including reimbursing the Commission for certain capital costs previously paid with proceeds of wastewater commercial paper notes), pursuant to Section 8B.124;

WHEREAS, the Indenture provides that the Commission may, subject to the requirements of the Law (as defined in the Indenture) and the Indenture, issue one or more other series of Bonds from time to time pursuant to a supplemental indenture;

WHEREAS, the Commission has determined to issue an additional series of Bonds under this Third Supplemental Indenture designated "Wastewater Revenue Bonds, 2013 Series B" in the original principal amount of \$ _____, (the "2013 Series B Bonds") to, among other things, finance various capital projects benefiting the Enterprise, pursuant to Section 8B.124 and Ordinance No. 93-10 and to the extent required, Ordinance No. 115-12;

WHEREAS, the 2013 Series B Bonds will each be issued by the Commission under the Indenture as a separate Series of Clean Water Revenue Bonds payable on a parity with the 2010 Series A Bonds, the 2010 Series B Bonds and the 2013 Series A Bonds;

WHEREAS, the conditions and limitations contained in the Law and the Indenture will be satisfied at the time of issuance of the 2013 Series B Bonds;

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and the entering into of this Third Supplemental Indenture do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Third Supplemental Indenture;

NOW, THEREFORE, the parties hereto agree, as follows:

ARTICLE XXII DEFINITIONS

SECTION 22.01. Definitions. The terms defined in this section shall, for all purposes of this Third Supplemental Indenture, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined. Terms defined in the Indenture not otherwise defined herein shall have the meanings specified therein.

Closing Date

The term "Closing Date" means _____, 2013, the date of the original issuance and delivery of the 2013 Series B Bonds.

Commercial Paper Notes

The term "Commercial Paper Notes" means the notes in the aggregate principal amount of \$300 million, captioned "Public Utilities Commission of the City and County of San Francisco Commercial Paper Notes (Wastewater Series, Proposition E) \$75,000,000 Series A-1 (Tax-Exempt) and \$75,000,000 Series A-2 (Tax-Exempt)" issued by the Commission under that certain Issuing and Paying Agent Agreement dated as of February 10, 2012, and "Public Utilities Commission of the City and County of San Francisco Commercial Paper Notes (Wastewater Series, Proposition E) \$75,000,000 Series A-3 (Tax-Exempt) and \$75,000,000 Series A-4 (Tax-Exempt)" issued by the Commission under that certain Issuing and Paying Agent Agreement dated as of July 1, 2012, each by and between the Commission and U.S. Bank National Association, as issuing and paying agent.

First Amendment

The term "First Amendment" means that certain First Amendment to Indenture dated as of May 1, 2010, between the Commission and the Trustee, which became effective on _____, 2013.

2013 Series B Bonds

The term "2013 Series B Bonds" has the meaning set forth in Section 23.01(a).

2013 Series B Capital Project Account

The term “2013 Series B Capital Project Account” means the account by that name established within the Capital Project Fund pursuant to Section 23.07.

2013 Series B Capitalized Interest Account

The term “2013 Series B Capitalized Interest Account” means the account by that name established within the Interest Fund pursuant to Section 23.05.

2013 Series B Costs of Issuance Fund

The term “2013 Series B Costs of Issuance Fund” means the fund by that name established pursuant to Section 23.05.

2013 Series B Project

The term “2013 Series B Project” means financing, from amounts on deposit in the 2013 Series B Capital Project Account, the reconstructing, replacing, expanding, repairing or improving facilities that are part of, or of benefit to the Enterprise pursuant to the Law, including Section 8B.124 of the Charter.

2013 Series B Rebate Fund

The term “2013 Series B Rebate Fund” means the fund by that name established pursuant to Section 23.06.

2013 Series B Sinking Fund Account

The term “2013 Series B Sinking Fund Account” means the account by that name established within the Principal Fund pursuant to Section 23.09.

**ARTICLE XXIII
PROVISIONS RELATING TO 2013 SERIES B BONDS**

SECTION 23.01. Authorization and Terms of 2013 Series B Bonds.

(a) A Series of Bonds is hereby created and such Bonds are designated as the “Wastewater Revenue Bonds, 2013 Series B” (the “2013 Series B Bonds”), which shall be a Series of Clean Water Revenue Bonds issued under the Indenture. The aggregate principal amount of 2013 Series B Bonds that may be issued and Outstanding under this Third Supplemental Indenture shall not exceed \$ _____, except as may be otherwise provided in Section 2.08. The 2013 Series B Bonds shall be of the tenor known as Current Interest Bonds.

(b) The 2013 Series B Bonds shall be initially registered in the name of “Cede & Co.,” as nominee of The Depository Trust Company, New York, New York, and shall be evidenced by one 2013 Series B Bond maturing on each maturity date in a denomination corresponding to the total principal designated to mature on such date. Registered ownership of the 2013 Series B Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 23.03 herein.

(c) The 2013 Series B Bonds shall be issued as fully registered Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof; provided that no 2013 Series B Bond shall have principal maturing on more than one principal maturity date. The 2013 Series B Bonds shall be dated as of the Closing Date, the date of delivery thereof, and shall accrue interest from such date.

(d) The 2013 Series B Bonds shall mature on October 1 in the following years and in the following amounts and shall bear interest at the following rates per annum payable on April 1, 2013 and semiannually thereafter on October 1 and April 1 in each year, calculated on the basis of a 360-day year consisting of twelve 30-day months:

<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
20__	\$	%
20__		
20__		
20__		
20__		
20__		
20__		
20__		
20__		
20__		

(e) The 2013 Series B Bonds maturing by their terms on and prior to October 1, 20__ are hereby designated as Serial Bonds, and the 2013 Series B Bonds maturing by their terms on October 1, 20__ and October 1, 20__ are hereby designated as Term Bonds (the "2013 Series B Term Bonds").

(f) The principal of and premium, if any, on the 2013 Series B Bonds shall be payable by check or wire in lawful money of the United States of America to the Owner thereof, upon the surrender thereof at the corporate trust office of U.S. Bank National Association, in San Francisco, California, or such other office designated by the Trustee.

The interest on the 2013 Series B Bonds shall be payable in like lawful money to the person whose name appears on the bond registration books of the Trustee as the Owner thereof as of the close of business on the 15th day of the calendar month immediately preceding an interest payment date, whether or not such day is a Business Day, such interest to be paid by check mailed to such Owner at such address as appears on such registration books or at such address as such Owner may have filed with the Trustee for that purpose, or at the request of an Owner of at least \$1,000,000 in aggregate principal amount of 2013 Series B Bonds filed with the Trustee by such 15th day, by wire transfer to such account designated in such request at a financial institution in the United States.

(g) Each 2013 Series B Bond shall bear interest from the interest payment date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the calendar month next preceding any interest payment date to the interest payment date, inclusive, in which event it shall bear interest from such interest payment date, or unless it is authenticated on or before _____ 15, 2013, in which event it shall bear interest from the Closing Date; provided, however, that if, at the time of authentication of any Bond, interest is in default on Outstanding Bonds, such Bond shall bear interest from the interest payment date to which interest has previously been paid or made available for payment on the Outstanding Bonds and shall be payable to the Owners thereof of record as of a special date as shall be established by the Trustee following such default.

(h) The Trustee shall assign each 2013 Series B Bond authenticated and registered by it a distinctive letter, or number, or letter and number, and shall maintain a record thereof which shall be available to the Commission for inspection.

(i) On _____, 2013, the amendments set forth in the First Amendment became effective in accordance with the terms of the Indenture. As such, the Commission has determined not to fund the Required Reserve for the 2013 Series B Bonds.

(j) The Commission has reviewed all proceedings heretofore taken relative to the authorization of the 2013 Series B Bonds and has found, as a result of such review, that all conditions, things and acts required by law to exist, happen or be performed precedent to and in the issuance of the 2013 Series B Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the Commission is authorized, pursuant to each and every requirement of law, including the Law, to issue the 2013 Series B Bonds in the manner and form provided in this Third Supplemental Indenture.

SECTION 23.02. Forms of 2013 Series B Bonds. The 2013 Series B Bonds and the Trustee's certificates of authentication and registration and the forms of assignment to appear thereon shall be in substantially the forms set forth as Exhibit E to this Third Supplemental Indenture, with necessary or appropriate variations, omissions and insertions as permitted or required by this Third Supplemental Indenture.

SECTION 23.03. Use of Depository. (a) The 2013 Series B Bonds shall be initially registered as provided in Section 23.01(b) and Section 23.01(h) hereof. Registered ownership of the 2013 Series B Bonds, or any portions thereof, may not thereafter be transferred except:

(i) to any successor of The Depository Trust Company or its nominee, or of any substitute depository designated pursuant to clause (ii) of this subsection (a) (a "Substitute Depository"); provided that any successor of The Depository Trust Company or Substitute Depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(ii) to any Substitute Depository not objected to by the Trustee, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the Commission that The Depository Trust Company (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) to any person as provided below, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the Commission to remove The Depository Trust Company or its successor (or Substitute Depository or its successor) from its functions as depository.

(b) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection (a) of this Section 23.03, upon receipt of all Outstanding 2013 Series B Bonds by the Trustee, together with a Written Request of the Commission to the Trustee designating the Substitute Depository, a single new 2013 Series B Bond, which the Commission shall prepare or cause to be prepared, shall be executed and delivered for each maturity of 2013 Series B Bonds then Outstanding, registered in the name of such

successor or such Substitute Depository, or their nominees, as the case may be, all as specified in such Written Request of the Commission.

In the case of any transfer pursuant to clause (iii) of subsection (a) of this Section 23.03, upon receipt of all Outstanding 2013 Series B Bonds by the Trustee, together with a Written Request of the Commission to the Trustee, new 2013 Series B Bonds, which the Commission shall prepare or cause to be prepared in definitive form, shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such Written Request of the Commission, subject to the limitations of Section 23.01 hereof, provided that the Trustee shall not be required to deliver such new 2013 Series B Bonds within a period less than 60 days after the date of receipt of such Written Request from the Commission.

(c) In the case of a partial redemption or an advance refunding of any 2013 Series B Bonds evidencing a portion of the principal maturing in a particular year, The Depository Trust Company or its successor (or any Substitute Depository or its successor) shall make an appropriate notation on such 2013 Series B Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee. The Trustee shall not be liable for such depository's failure to make such notations or errors in making such notations.

(d) The Commission and the Trustee shall be entitled to treat the person in whose name any 2013 Series B Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Commission; and the Commission and the Trustee shall not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2013 Series B Bonds. Neither the Commission nor the Trustee shall have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including The Depository Trust Company or its successor (or Substitute Depository or its successor), except to the Owner of any 2013 Series B Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2013 Series B Bonds.

(e) Notwithstanding any other provision of this Third Supplemental Indenture and so long as all Outstanding 2013 Series B Bonds are registered in the name of Cede & Co. or its registered assigns, the Commission and the Trustee shall cooperate with Cede & Co., as sole registered Bondowner, and its registered assigns, in effecting payment of the principal of and redemption premium, if any, and interest on the 2013 Series B Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made available on the date they are due all in accordance with the letter of representations delivered by the Commission and the Trustee to The Depository Trust Company with respect to the 2013 Series B Bonds, the provisions of which the Trustee may rely upon to implement the foregoing procedures notwithstanding any inconsistent provisions herein.

SECTION 23.04. Issuance of 2013 Series B Bonds. At any time after the execution of this Third Supplemental Indenture, the Commission may execute and the Trustee may authenticate and, upon a Written Request or Certificate of the Commission, deliver 2013 Series B Bonds in the aggregate principal amount of \$ _____ to the initial purchasers thereof specified in such Written Request or Certificate.

SECTION 23.05. Application of Proceeds of 2013 Series B Bonds.

(a) On the Closing Date, the original purchaser of the 2013 Series B Bonds will pay and deliver the purchase price of the 2013 Series B Bonds (including any good faith deposit paid prior to the Closing Date) equal to \$ _____ to the Trustee, who shall pay and transfer this amount as follows:

(1) The Trustee shall deposit \$ _____ in a separate fund to be known as the "2013 Series B Costs of Issuance Fund," which the Trustee hereby agrees to establish and maintain. The money in the 2013 Series B Costs of Issuance Fund shall be used and disbursed in the manner provided herein for the purpose of paying costs of issuance incidental to or connected with the issuance of the 2013 Series B Bonds (or for making reimbursements to the Commission or any other person, firm or corporation for such costs theretofore paid by such person or it). Any balance of money remaining in the 2013 Series B Costs of Issuance Fund after the payment of all costs incidental to or connected with the issuance of the 2013 Series B Bonds (as certified to the Trustee by the Commission) or on _____ 1, 2013, whichever is earlier, shall be transferred by the Trustee to the 2013 Series B Capital Project Account, and the 2013 Series B Costs of Issuance Fund shall be closed.

(2) The Trustee shall deposit \$ _____ in the 2013 Series B Capitalized Interest Account, which the Trustee hereby agrees to establish and maintain within the Interest Fund.

(3) The Trustee shall deposit \$ _____ in the 2013 Series B Reimbursement Account established under Section 23.07.

(4) The Trustee shall transfer the remaining balance, being \$ _____, to the Treasurer for deposit to the 2013 Series B Capital Project Account established under Section 23.07. The Trustee is authorized to establish a temporary fund or account on its records to facilitate such transfer to the Treasurer.

(b) Before any payment is made by the Trustee to pay costs of issuance from the 2013 Series B Costs of Issuance Fund, the Commission shall cause to be filed with the Trustee a Written Requisition of the Commission showing with respect to each payment to be made:

- (1) the item number of the payment;
- (2) the name and address of the person to whom payment is due;
- (3) the amount to be paid; and
- (4) the purpose for which the obligation to be paid was incurred.

Each such Written Requisition shall state, and shall be sufficient evidence to the Trustee:

(y) that obligations in the stated amounts have been incurred by the Commission and that each item thereof is a proper charge; and

(z) that there has not been filed with or served upon the Commission notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable to any of the persons named in such Written Requisition, which has not been released or will not be released simultaneously with the payment of such obligation.

Upon receipt of each such Written Requisition, the Trustee will pay the amounts set forth in such Written Requisition as directed by the terms hereof. The Trustee need not make any such payment if it has received notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys to be so paid, which has not been released or will not be released simultaneously with such payment.

When all costs of issuance have been paid, the Commission shall deliver a Certificate of the Commission stating such fact to the Trustee.

SECTION 23.06. Establishment and Application of the 2013 Series B Rebate Fund. (a) The Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder to be known as the "2013 Series B Rebate Fund." Within the 2013 Series B Rebate Fund, the Trustee shall maintain such accounts as it is instructed by the Commission as necessary in order to comply with the terms and requirements of the Certificate as to Arbitrage with respect to the 2013 Series B Bonds, dated the date of issuance of the 2013 Series B Bonds (for purposes of this Article, the "Tax Certificate").

Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the 2013 Series B Rebate Fund shall be held by the Trustee for the account of the Commission in trust, to the extent required to satisfy the requirements for rebate, as set forth in the Tax Certificate (for purposes of this Article, the "Rebate Requirement"), for payment to the federal government of the United States of America, and no other person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the 2013 Series B Rebate Fund shall be governed by this Section 23.06, by Section 23.11 hereof and by the Tax Certificate (which is incorporated herein by reference). The Trustee shall be deemed conclusively to have complied with such provisions and fulfilled its obligation with respect to rebate as long as it follows the written directions of the Commission, including supplying all necessary information in the manner provided in the Tax Certificate. The Trustee shall not be required to take any actions under this Section 23.06, Section 23.11 hereof or the Tax Certificate in the absence of written directions by the Commission, and shall have no liability or responsibility to enforce compliance by the Commission with the terms of the Tax Certificate nor make computations in connection therewith.

(b) Upon the Commission's written direction, an amount shall be deposited to the 2013 Series B Rebate Fund by the Trustee from deposits by the Commission so that the balance of the amount on deposit thereto equals the Rebate Requirement. Computations of the Rebate Requirement shall be furnished by or on behalf of the Commission in accordance with the Tax Certificate.

(c) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section 23.06, other than from moneys held in the funds and accounts created under the Indenture or from other moneys provided to it by or on behalf of the Commission.

(d) The Trustee shall invest all amounts held in the 2013 Series B Rebate Fund in Permitted Investments as instructed in writing by the Commission, subject to the restrictions set forth in the Tax Certificate. Moneys shall not be transferred from the 2013 Series B Rebate Fund except as provided in paragraph (e) below.

(e) Upon receipt of the Commission's written directions, the Trustee shall remit part or all of the balances in the 2013 Series B Rebate Fund to the United States, as so directed. In addition, if the Commission so directs, the Trustee will deposit moneys into or transfer moneys out of the 2013 Series B Rebate Fund from or into such accounts or funds as directed by the Commission's written directions. Any funds remaining in the 2013 Series B Rebate Fund after redemption and payment of all of the 2013 Series B Bonds and payment and satisfaction of any Rebate Requirement shall be withdrawn and remitted to the Commission upon the Commission's written request.

(f) Notwithstanding any other provision of the Indenture, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of this Section 23.06, Section

23.11 hereof and the Tax Certificate shall survive the defeasance or payment in full of the 2013 Series B Bonds.

SECTION 23.07. Establishment and Application of the 2013 Series B Capital Project Account and the 2013 Series B Reimbursement Account.

2013 Series B Capital Project Account. The Commission hereby covenants and agrees to establish, maintain and hold hereunder within the Capital Project Fund, established under Section 3.04 of the Indenture, a separate account known as the "2013 Series B Capital Project Account" (herein called the "2013 Series B Capital Project Account"). The Treasurer shall hold the amounts on deposit in the 2013 Series B Capital Project Account, which shall be maintained and accounted for by the Controller so long as any moneys are on deposit therein. Upon completion of the 2013 Series B Project, the Commission may direct the transfer of any remaining balance in the 2013 Series B Capital Project Account to any other lawfully available fund or account of the Commission; provided such transfer is consistent with the Commission's covenants in the Tax Certificate.

The moneys in the 2013 Series B Capital Project Account shall be held by the Treasurer in trust and applied to the costs of the 2013 Series B Project and the expenses incident thereto or connected therewith, including, if necessary, interest to the extent permitted by law, reimbursement to the Commission for expenses incurred prior to the issuance of the 2013 Series B Bonds or in connection with the Enterprise, architectural, engineering and inspection fees and expenses, apparatus, equipment and furnishings for the Enterprise, testing and inspection, surveys, insurance premiums, losses during construction not insured against because of deductible amounts, the fees and expenses of the Trustee, legal accounting and consultant fees and expenses, and similar expenses. All moneys held by the Treasurer in the 2013 Series B Capital Project Account may be invested in Legal Investments maturing not later than the date on which such moneys are required for payment by the Treasurer. The Treasurer shall pay out moneys from the 2013 Series B Capital Project Account only upon warrants drawn by the Controller in the manner provided by law. No withdrawals shall be made from the 2013 Series B Capital Project Account for any purpose not authorized by law.

2013 Series B Reimbursement Account. The Commission hereby covenants and agrees to establish, maintain and hold hereunder within the Capital Project Fund, established under Section 3.04 of the Indenture, a separate account known as the "2013 Series B Reimbursement Account" (herein called the "2013 Series B Reimbursement Account"), which shall be maintained and accounted for by the Trustee so long as any moneys are on deposit therein. The moneys in the 2013 Series B Reimbursement Account shall be held by the Trustee in trust and transferred by the Trustee to U.S. Bank National Association, as issuing and paying agent of the Commercial Paper Notes (for purposes of this Section 23.07, the "Issuing and Paying Agent"), in connection with the reimbursement of certain capital costs previously paid with the proceeds of the Commercial Paper Notes, pursuant to certain irrevocable refunding instructions that will be delivered by the Commission to the Trustee and the Issuing and Paying Agent.

Any balance remaining in the 2013 Series B Reimbursement Account following such application of moneys shall be transferred to the Treasurer for deposit in the Capital Project Fund. All moneys held by the Trustee in the 2013 Series B Reimbursement Account shall be invested in Permitted Investments specified by the Commission or, if the Commission does not so specify, then in Permitted Investments of the type described in clause (f) of the definition thereof that are rated AAAM-G by S&P and Aaa by Moody's.

SECTION 23.08. Terms of Redemption.

(a)(1) Optional Redemption. The 2013 Series B Bonds maturing on or after October 1, 20___, shall be subject to redemption prior to their stated maturity, at the option of the Commission, from and to the extent of any source of available funds, as a whole or in part, on any date on or after _____ 1, 20___, and if in part by lot within such maturity, at a redemption price equal to 100% of the principal amount of the 2013 Series B Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

(2) Notice to Trustee. The Commission shall give the Trustee written notice at least 45 days before any date fixed for the redemption of Bonds to be redeemed pursuant to subsection a(1) of the fact and date of redemption and of the principal amount of Bonds and the maturities or portions thereof to be redeemed.

(b) Subject to DTC's procedures relating to the selection of bonds for redemption, whenever less than all of the 2013 Series B Bonds of any one maturity and tenor are called for redemption and those 2013 Series B Bonds are redeemable by lot, the Trustee shall select the 2013 Series B Bonds of the maturity to be redeemed from the Outstanding 2013 Series B Bonds of that maturity and tenor, by lot or by any other manner the Trustee deems fair and equitable. For purposes of such selection, 2013 Series B Bonds will be deemed to be made up of \$5,000 portions of principal, any of which may be redeemed separately.

(c) The provisions of the Indenture relating to redemption of Bonds set forth in Sections 4.02, 4.03, 4.04, 4.05 and 4.06 shall apply to the redemption of the 2013 Series B Bonds.

SECTION 23.09. 2013 Series B Sinking Fund Account . The Trustee shall establish and hold within the Principal Fund established under Section 5.02(b) of the Indenture, a 2013 Series B Sinking Fund Account, which the Commission hereby covenants and agrees to cause to be maintained, for payment of the Bond Obligation of the 2013 Series B Term Bonds.

The Trustee, on or before September 30 of each year (commencing on or before September 30, 20___), shall deposit in the 2013 Series B Sinking Fund Account from the Principal Fund moneys in an amount sufficient to call and redeem or to pay at maturity, as the case may be, the principal of 2013 Series B Term Bonds in the following respective principal amounts on the next succeeding October 1 in each of the following years (each such deposit of moneys being referred to as a "2013 Series B Minimum Sinking Fund Account Payment").

2013 Series B Term Bonds maturing on October 1, 20___

<u>Year</u>	<u>Principal Amount</u>
20__	\$
20__	
20__	
20__	
20__ (Maturity)	

2013 Series B Term Bonds maturing on October 1, 20___

<u>Year</u>	<u>Principal Amount</u>
-------------	-------------------------

20__ \$
20__
20__
20__
20__ (Maturity)

During the 12-month period immediately preceding each redemption from the 2013 Series B Sinking Fund Account, the Commission may satisfy, in whole or in part, the 2013 Series B Minimum Sinking Fund Account Payment and the redemption therefrom by depositing with the Trustee 2013 Series B Term Bonds for cancellation prior to the Trustee's selection of the 2013 Series B Term Bonds for redemption.

All moneys in the 2013 Series B Sinking Fund Account, at the Written Request of the Commission, shall be used and withdrawn by the Trustee at any time for the purchase of 2013 Series B Term Bonds (except that no 2013 Series B Term Bonds maturing in any year shall be purchased so long as any 2013 Series B Term Bonds maturing in any earlier year and being of like tenor are Outstanding) at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as the Commission shall direct by Written Request, but not to exceed the principal thereof, and all 2013 Series B Bonds so purchased by the Trustee or deposited by the Commission, shall be cancelled and delivered to the Commission; provided, however, that

(i) all moneys in the 2013 Series B Sinking Fund Account on each September 15, beginning on September 15, 20__ and ending on September 15, 20__, together with any additional sums the Trustee expects to receive for deposit in the 2013 Series B Sinking Fund Account after such date and on or before the next succeeding October 1, shall be used and withdrawn by the Trustee solely for the purpose of redeeming the 2013 Series B Bonds that are subject to redemption under this Section 23.09; and

(ii) the Trustee shall during each 12-month period beginning with the 12-month period ending on October 1, 20__, purchase or call and redeem (as herein provided) an aggregate amount of 2013 Series B Bonds equal to at least the amount of Bond Obligation of the Bonds identified above in this Section 23.09 for such 12-month period reduced by the principal amount of 2013 Series B Term Bonds deposited by the Commission with the Trustee, except that if 2013 Series B Term Bonds of any Term Bond maturity have previously been redeemed or purchased by the Trustee or deposited by the Commission in excess of the amount of Bond Obligation of the Bonds identified above in this Section 23.09, there shall be deemed to have been a reduction of the remaining amounts stated above in this Section 23.09 on a Proportionate Basis, and further except that moneys in the 2013 Series B Sinking Fund Account shall be used, to the extent necessary, to purchase or retire the Outstanding 2013 Series B Term Bonds at the maturity thereof.

The Commission hereby covenants and agrees with the Owners of the 2013 Series B Bonds to call and redeem 2013 Series B Bonds from the 2013 Series B Sinking Fund Account pursuant to this Section 23.09 on October 1 in each of the years, and in the amounts, stated above in this Section 23.09.

SECTION 23.10. [Reserved].

SECTION 23.11. Tax Covenants. The Commission covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the 2013 Series B Bonds under Section 103 of the Code.

The Commission will not directly or indirectly use or permit the use of any proceeds of the 2013 Series B Bonds or any other funds of the Commission, or take or omit to take any action that would cause the 2013 Series B Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Code. To that end, the Commission will comply with all requirements of Section 148 of the Code to the extent applicable to the 2013 Series B Bonds. If at any time the Commission is of the opinion that for purposes of this Section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise, the Commission shall so instruct the Trustee in writing, and the Trustee shall take such action as required by such instructions. Without limiting the generality of the foregoing, the Commission agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applied to the 2013 Series B Bonds from time to time. This covenant shall survive payment in full or defeasance of the 2013 Series B Bonds. The Commission specifically covenants to pay or cause to be paid to the United States, at the times and in the amounts determined, the Rebate Requirement. The Trustee agrees to comply with all written instructions of the Commission given in accordance with the Tax Certificate.

Notwithstanding any provision of this Section, if the Commission provides to the Trustee an opinion of nationally recognized bond counsel to the effect that any action required under this Section or under the Tax Certificate is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the 2013 Series B Bonds under Section 103 of the Code, the Commission and the Trustee may rely conclusively on such opinion in complying with the provisions hereof, and the covenants hereunder shall be deemed to be modified to that extent. The Commission shall assure that the proceeds of the 2013 Series B Bonds are not so used as to cause the 2013 Series B Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code. The Commission shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the 2013 Series B Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

SECTION 23.12. Continuing Disclosure. The Commission hereby covenants and agrees that it will comply with and carry out all of the provisions of that certain Continuing Disclosure Certificate, dated as of the date of issuance of the 2013 Series B Bonds, executed and delivered by the Commission in connection with the issuance of the 2013 Series B Bonds, as it may be supplemented and amended in accordance with its terms (the “2013 Series B Continuing Disclosure Certificate”). Notwithstanding any other provision of the Indenture, failure of the Commission to comply with the 2013 Series B Continuing Disclosure Certificate shall not be considered an Event of Default; however, any Participating Underwriter (as such term is defined in the 2013 Series B Continuing Disclosure Certificate) or any Bondowner or beneficial owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Commission to comply with its obligations under this Section, and the sole remedy in the event of any failure of the Commission to comply with the 2013 Series B Continuing Disclosure Certificate shall be an action to compel performance.

ARTICLE XXIV MISCELLANEOUS

SECTION 24.01. Terms of 2013 Series B Bonds Subject to the Indenture. Except as expressly provided in this Third Supplemental Indenture, every term and condition contained in the Indenture shall apply to this Third Supplemental Indenture, and to the 2013 Series B Bonds, with the same force and effect as if the same were herein set forth at length, with such omissions, variations and

modifications thereof as may be appropriate to make the same conform to this Third Supplemental Indenture.

This Third Supplemental Indenture and all the terms and provisions herein contained shall form part of the Indenture as fully and with the same effect as if all such terms and provisions had been set forth in the Indenture. The Indenture is hereby ratified and confirmed and shall continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended hereby.

SECTION 24.02. Effective Date of Third Supplemental Indenture. This Third Supplemental Indenture shall take effect upon its execution and delivery.

SECTION 24.03. Execution in Counterparts. This Third Supplemental Indenture may be executed in several counterparts, each of which shall be deemed an original and all of which shall constitute but one and the same instrument.

ARTICLE XXV ADDITIONAL CITY REQUIREMENTS

As used in this Article, "Agreement" means the Indenture.

To the extent of any inconsistency between the provisions in this Article and provisions in Article XII, the provisions of this Article shall control.

SECTION 25.01. Local Business Enterprise Utilization; Liquidated Damages.

a. The LBE Ordinance

The Trustee shall comply with all the requirements of the Disadvantaged Business Enterprise Ordinance set forth in Chapter 14B of the San Francisco Administrative Code as it now exists or as it may be amended in the future (collectively the "LBE Ordinance"), provided such amendments do not materially increase the Trustee's obligations or liabilities, or materially diminish the Trustee's rights, under this Third Supplemental Indenture. Such provisions of the LBE Ordinance are incorporated by reference and made a part of this Third Supplemental Indenture as though fully set forth in this section. The Trustee's willful failure to comply with any applicable provision of the LBE Ordinance is a material breach of the Trustee's obligations under this Third Supplemental Indenture and shall entitle City, subject to any applicable notice and cure provisions set forth in this Third Supplemental Indenture, to exercise any of the remedies provided for under this Third Supplemental Indenture, under the LBE Ordinance or otherwise available at law or in equity, which remedies shall be cumulative unless this Third Supplemental Indenture expressly provides that any remedy is exclusive. In addition, The Trustee shall comply fully with all other applicable local, state and federal laws prohibiting discrimination and requiring equal opportunity in contracting, including subcontracting.

b. Compliance and Enforcement

1. Enforcement

If the Trustee willfully fails to comply with any of the provisions of the LBE Ordinance, the rules and regulations implementing the LBE Ordinance, or the provisions of this Third Supplemental Indenture

pertaining to LBE participation, the Trustee shall be liable for liquidated damages in an amount equal to the Trustee's net profit on this Third Supplemental Indenture, or 10% of the total amount of this Third Supplemental Indenture, or \$1,000, whichever is greatest. The Director of the City's Human Rights Commission or any other public official authorized to enforce the LBE Ordinance (separately and collectively, the "Director of HRC") may also impose other sanctions against the Trustee authorized in the LBE Ordinance, including declaring the Trustee to be irresponsible and ineligible to contract with the City for a period of up to five years or revocation of the Trustee's DBE certification. The Director of HRC will determine the sanctions to be imposed, including the amount of liquidated damages, after investigation pursuant to Administrative Code §14B.17.

By entering into this Third Supplemental Indenture, the Trustee acknowledges and agrees that any liquidated damages assessed by the Director of the HRC shall be payable to City upon demand. The Trustee further acknowledges and agrees that any liquidated damages assessed may be withheld from any monies due to the Trustee on any contract with City.

The Trustee agrees to maintain records necessary for monitoring its compliance with the LBE Ordinance for a period of three years following termination or expiration of this Third Supplemental Indenture, and shall make such records available for audit and inspection by the Director of HRC or the Controller upon request.

SECTION 25.02. Nondiscrimination; Penalties.

a. Trustee Shall Not Discriminate

In the performance of this Third Supplemental Indenture, the Trustee agrees not to discriminate against any employee, City and County employee working with such contractor or subcontractor, applicant for employment with such contractor or subcontractor, or against any person seeking accommodations, advantages, facilities, privileges, services, or membership in all business, social, or other establishments or organizations, on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, height, weight, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), or association with members of such protected classes, or in retaliation for opposition to discrimination against such classes.

b. Subcontracts

The Trustee shall incorporate by reference in all subcontracts the provisions of §§12B.2(a), 12B.2(c)-(k), and 12C.3 of the San Francisco Administrative Code (copies of which are available from Purchasing) and shall require all subcontractors to comply with such provisions. The Trustee's failure to comply with the obligations in this subsection shall constitute a material breach of this Third Supplemental Indenture.

c. Nondiscrimination in Benefits

The Trustee does not as of the date of this Third Supplemental Indenture and will not during the term of this Third Supplemental Indenture, in any of its operations in San Francisco, on real property owned by San Francisco, or where work is being performed for the City elsewhere in the United States, discriminate in the provision of bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits, as well as any benefits other than the benefits specified above, between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees, where the

domestic partnership has been registered with a governmental entity pursuant to state or local law authorizing such registration, subject to the conditions set forth in §12B.2(b) of the San Francisco Administrative Code.

d. Condition to Contract

As a condition to this Third Supplemental Indenture, the Trustee shall execute the "Chapter 12B Declaration: Nondiscrimination in Contracts and Benefits" form (form HRC-12B-101) with supporting documentation and secure the approval of the form by the San Francisco Human Rights Commission.

e. Incorporation of Administrative Code Provisions by Reference

The provisions of Chapters 12B and 12C of the San Francisco Administrative Code are incorporated in this Section by reference and made a part of this Third Supplemental Indenture as though fully set forth herein. The Trustee shall comply fully with and be bound by all of the provisions that apply to this Third Supplemental Indenture under such Chapters, including but not limited to the remedies provided in such Chapters. Without limiting the foregoing, the Trustee understands that pursuant to §12B.2(h) of the San Francisco Administrative Code, a penalty of \$50 for each person for each calendar day during which such person was discriminated against in violation of the provisions of this Third Supplemental Indenture may be assessed against the Trustee and/or deducted from any payments due the Trustee.

SECTION 25.03. MacBride Principles—Northern Ireland. Pursuant to San Francisco Administrative Code §12F.5, the City and County of San Francisco urges companies doing business in Northern Ireland to move towards resolving employment inequities, and encourages such companies to abide by the MacBride Principles. The City and County of San Francisco urges San Francisco companies to do business with corporations that abide by the MacBride Principles. By signing below, the person executing this Third Supplemental Indenture on behalf of the Trustee acknowledges and agrees that he or she has read and understood this section.

SECTION 25.04. Tropical Hardwood and Virgin Redwood Ban. Pursuant to §804(b) of the San Francisco Environment Code, the City and County of San Francisco urges contractors not to import, purchase, obtain, or use for any purpose, any tropical hardwood, tropical hardwood wood product, virgin redwood or virgin redwood wood product.

SECTION 25.05. Drug-Free Workplace Policy. The Trustee acknowledges that pursuant to the Federal Drug-Free Workplace Act of 1989, the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance is prohibited on City premises. The Trustee agrees that any violation of this prohibition by the Trustee, its employees, agents or assigns will be deemed a material breach of this Third Supplemental Indenture.

SECTION 25.06. Compliance with Americans with Disabilities Act. The Trustee acknowledges that, pursuant to the Americans with Disabilities Act (ADA), programs, services and other activities provided by a public entity to the public, whether directly or through a contractor, must be accessible to the disabled public. The Trustee shall provide the services specified in this Third Supplemental Indenture in a manner that complies with the ADA and any and all other applicable federal, state and local disability rights legislation. The Trustee agrees not to discriminate against disabled persons in the provision of services, benefits or activities provided under this Third Supplemental Indenture and further agrees that any violation of this prohibition on the part of the Trustee, its employees, agents or assigns will constitute a material breach of this Third Supplemental Indenture.

SECTION 25.07. Sunshine Ordinance. In accordance with San Francisco Administrative Code §67.24(e), contracts, contractors' bids, responses to solicitations and all other records of communications between City and persons or firms seeking contracts, shall be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure of a private person or organization's net worth or other proprietary financial data submitted for qualification for a contract or other benefit until and unless that person or organization is awarded the contract or benefit. Information provided which is covered by this paragraph will be made available to the public upon request.

SECTION 25.08. Limitations on Contributions. Through execution of this Third Supplemental Indenture, the Trustee acknowledges that it is familiar with section 1.126 of the City's Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the sale or lease of any land or building, or for a grant, loan or loan guarantee, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or a board on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. The Trustee acknowledges that the foregoing restriction applies only if the contract or a combination or series of contracts approved by the same individual or board in a fiscal year have a total anticipated or actual value of \$50,000 or more. The Trustee further acknowledges that the prohibition on contributions applies to each prospective party to the contract; each member of the Trustee's board of directors; the Trustee's chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 20 percent in the Trustee; any subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by the Trustee. Additionally, the Trustee acknowledges that the Trustee must inform each of the persons described in the preceding sentence of the prohibitions contained in Section 1.126.

SECTION 25.09. Requiring Minimum Compensation for Covered Employees.

(a) The Trustee agrees to comply fully with and be bound by all of the provisions of the Minimum Compensation Ordinance (MCO), as set forth in San Francisco Administrative Code Chapter 12P (Chapter 12P), including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 12P are incorporated herein by reference and made a part of this Third Supplemental Indenture as though fully set forth. The text of the MCO is available on the web at <http://www.sfgov.org/olse/mco>. A partial listing of some of the Trustee's obligations under the MCO is set forth in this Section. The Trustee is required to comply with all the provisions of the MCO, irrespective of the listing of obligations in this Section.

(b) The MCO requires the Trustee to pay the Trustee's employees a minimum hourly gross compensation wage rate and to provide minimum compensated and uncompensated time off. The minimum wage rate may change from year to year and the Trustee is obligated to keep informed of the then-current requirements. Any subcontract entered into by the Trustee shall require the subcontractor to comply with the requirements of the MCO and shall contain contractual obligations substantially the same as those set forth in this Section. It is the Trustee's obligation to ensure that any subcontractors of any tier under this Third Supplemental Indenture comply with the requirements of the MCO. If any subcontractor under this Third Supplemental Indenture fails to comply, City may pursue any of the remedies set forth in this Section against the Trustee.

(c) The Trustee shall not take adverse action or otherwise discriminate against an employee or other person for the exercise or attempted exercise of rights under the MCO. Such actions, if taken

within 90 days of the exercise or attempted exercise of such rights, will be rebuttably presumed to be retaliation prohibited by the MCO.

(d) The Trustee shall maintain employee and payroll records as required by the MCO. If the Trustee fails to do so, it shall be presumed that the Trustee paid no more than the minimum wage required under State law.

(e) The City is authorized to inspect the Trustee's job sites and conduct interviews with employees and conduct audits of the Trustee.

(f) The Trustee's commitment to provide the Minimum Compensation is a material element of the City's consideration for this Third Supplemental Indenture. The City in its sole discretion shall determine whether such a breach has occurred. The City and the public will suffer actual damage that will be impractical or extremely difficult to determine if the Trustee fails to comply with these requirements. The Trustee agrees that the sums set forth in Section 12P.6.1 of the MCO as liquidated damages are not a penalty, but are reasonable estimates of the loss that the City and the public will incur for the Trustee's noncompliance. The procedures governing the assessment of liquidated damages shall be those set forth in Section 12P.6.2 of Chapter 12P.

(g) The Trustee understands and agrees that if it fails to comply with the requirements of the MCO, the City shall have the right to pursue any rights or remedies available under Chapter 12P (including liquidated damages), under the terms of the contract, and under applicable law. If, within 30 days after receiving written notice of a breach of this Third Supplemental Indenture for violating the MCO, the Trustee fails to cure such breach or, if such breach cannot reasonably be cured within such period of 30 days, the Trustee fails to commence efforts to cure within such period, or thereafter fails diligently to pursue such cure to completion, the City shall have the right to pursue any rights or remedies available under applicable law, including those set forth in Section 12P.6(c) of Chapter 12P. Each of these remedies shall be exercisable individually or in combination with any other rights or remedies available to the City.

(h) The Trustee represents and warrants that it is not an entity that was set up, or is being used, for the purpose of evading the intent of the MCO.

(i) The City may conduct random audits of the Trustee. Random audits shall be (i) noticed in advance in writing; (ii) limited to ascertaining whether Covered Employees are paid at least the minimum compensation required by the MCO; (iii) accomplished through an examination of pertinent records at a mutually agreed upon time and location within ten days of the written notice; and (iv) limited to one audit of the Trustee every two years for the duration of this Third Supplemental Indenture. Nothing in this Third Supplemental Indenture is intended to preclude the City from investigating any report of an alleged violation of the MCO.

SECTION 25.10. Requiring Health Benefits for Covered Employees. Unless exempt, the Trustee agrees to comply fully with and be bound by all of the provisions of the Health Care Accountability Ordinance (HCAO), as set forth in San Francisco Administrative Code Chapter 12Q, including the remedies provided, and implementing regulations, as the same may be amended from time to time. The provisions of Chapter 12Q are incorporated herein by reference and made a part of this Third Supplemental Indenture as though fully set forth. The text of the HCAO is available on the web at <http://www.sfgov.org/oca/lwih.htm>. Capitalized terms used in this Section and not defined in this Third Supplemental Indenture shall have the meanings assigned to such terms in Chapter 12Q.

(a) For each Covered Employee, the Trustee shall provide the appropriate health benefit set forth in Section 12Q.3 of the HCAO. If the Trustee chooses to offer the health plan option, such health plan shall meet the minimum standards set forth by the San Francisco Health Commission.

(b) Notwithstanding the above, if the Trustee is a small business as defined in Section 12Q.3(d) of the HCAO, it shall have no obligation to comply with part (a) above.

(c) The Trustee's failure to comply with the HCAO shall constitute a material breach of this Third Supplemental Indenture. City shall notify the Trustee if such a breach has occurred. If, within 30 days after receiving City's written notice of a breach of this Third Supplemental Indenture for violating the HCAO, the Trustee fails to cure such breach or, if such breach cannot reasonably be cured within such period of 30 days, the Trustee fails to commence efforts to cure within such period, or thereafter fails diligently to pursue such cure to completion, City shall have the right to pursue the remedies set forth in 12Q.5(f)(1-5). Each of these remedies shall be exercisable individually or in combination with any other rights or remedies available to City.

(d) Any Subcontract entered into by the Trustee shall require the Subcontractor to comply with the requirements of the HCAO and shall contain contractual obligations substantially the same as those set forth in this Section. The Trustee shall notify City's Office of Contract Administration when it enters into such a Subcontract and shall certify to the Office of Contract Administration that it has notified the Subcontractor of the obligations under the HCAO and has imposed the requirements of the HCAO on Subcontractor through the Subcontract. The Trustee shall be responsible for its Subcontractors' compliance with this Chapter. If a Subcontractor fails to comply, the City may pursue the remedies set forth in this Section against the Trustee based on the Subcontractor's failure to comply, provided that City has first provided the Trustee with notice and an opportunity to obtain a cure of the violation.

(e) The Trustee shall not discharge, reduce in compensation, or otherwise discriminate against any employee for notifying City with regard to the Trustee's noncompliance or anticipated noncompliance with the requirements of the HCAO, for opposing any practice proscribed by the HCAO, for participating in proceedings related to the HCAO, or for seeking to assert or enforce any rights under the HCAO by any lawful means.

(f) The Trustee represents and warrants that it is not an entity that was set up, or is being used, for the purpose of evading the intent of the HCAO.

(g) The Trustee shall maintain employee and payroll records in compliance with the California Labor Code and Industrial Welfare Commission orders, including the number of hours each employee has worked on the City Contract.

(h) The Trustee shall keep itself informed of the current requirements of the HCAO.

(i) The Trustee shall provide reports to the City in accordance with any reporting standards promulgated by the City under the HCAO, including reports on Subcontractors and Subtenants, as applicable.

(j) The Trustee shall provide City with access to records pertaining to compliance with HCAO after receiving a written request from City to do so and being provided at least ten business days to respond.

(k) The Trustee shall allow City to inspect the Trustee's job sites and have access to the Trustee's employees in order to monitor and determine compliance with HCAO.

(l) The City may conduct random audits of the Trustee to ascertain its compliance with HCAO. The Trustee agrees to cooperate with City when it conducts such audits.

(m) If the Trustee is exempt from the HCAO when this Third Supplemental Indenture is executed because its amount is less than \$25,000 (\$50,000 for nonprofits), but the Trustee later enters into an agreement or agreements that cause the Trustee's aggregate amount of all agreements with City to reach \$75,000, all the agreements shall be thereafter subject to the HCAO. This obligation arises on the effective date of the agreement that causes the cumulative amount of agreements between the Trustee and the City to be equal to or greater than \$75,000 in the fiscal year.

SECTION 25.11. Prohibition on Political Activity with City Funds. In accordance with San Francisco Administrative Code Chapter 12.G, the Trustee may not participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure (collectively, "Political Activity") in the performance of the services provided under this Third Supplemental Indenture. The Trustee agrees to comply with San Francisco Administrative Code Chapter 12.G and any implementing rules and regulations promulgated by the City's Controller. The terms and provisions of Chapter 12.G are incorporated herein by this reference. In the event the Trustee violates the provisions of this section, the City may, in addition to any other rights or remedies available hereunder, (i) terminate this Third Supplemental Indenture, and (ii) prohibit the Trustee from bidding on or receiving any new City contract for a period of two (2) years. The Controller will not consider the Trustee's use of profit as a violation of this section.

SECTION 25.12. Conflict of Interest. Through its execution of this Third Supplemental Indenture, the Trustee acknowledges that it is familiar with the provisions of section 15.103 of the City's Charter, Article III, Chapter 2 of City's Campaign and Governmental Conduct Code, and Section 87100 *et seq.* and Section 1090 *et seq.* of the Government Code of the State of California, and certifies that it does not know of any facts which constitute a violation of said provision and agrees that it will immediately notify the City if it becomes aware of any such fact during the term of this Third Supplemental Indenture.

SECTION 25.13. Earned Income Credit (EIC) Forms. Administrative Code section 12O requires that employers provide their employees with IRS Form W-5 (The Earned Income Credit Advance Payment Certificate) and the IRS EIC Schedule, as set forth below. Employers can locate these forms at the IRS Office, on the Internet, or anywhere that Federal Tax Forms can be found.

(a) The Trustee shall provide EIC Forms to each Eligible Employee at each of the following times: (i) within thirty days following the date on which this Third Supplemental Indenture becomes effective (unless the Trustee has already provided such EIC Forms at least once during the calendar year in which such effective date falls); (ii) promptly after any Eligible Employee is hired by the Trustee; and (iii) annually between January 1 and January 31 of each calendar year during the term of this Third Supplemental Indenture.

(b) Failure to comply with any requirement contained in subparagraph (a) of this Section shall constitute a material breach by the Trustee of the terms of this Third Supplemental Indenture. If, within thirty days after the Trustee receives written notice of such a breach, the Trustee fails to cure such breach or, if such breach cannot reasonably be cured within such period of thirty days, the Trustee fails to commence efforts to cure within such period or thereafter fails

to diligently pursue such cure to completion, the City may pursue any rights or remedies available under this Third Supplemental Indenture or under applicable law.

(c) Any Subcontract entered into by the Trustee shall require the subcontractor to comply, as to the subcontractor's Eligible Employees, with each of the terms of this Section.

(d) Capitalized terms used in this Section and not defined in this Third Supplemental Indenture shall have the meanings assigned to such terms in Section 12O of the San Francisco Administrative Code.

SECTION 25.14. Preservative-treated Wood Containing Arsenic. The Trustee may not purchase preservative-treated wood products containing arsenic in the performance of this Third Supplemental Indenture unless an exemption from the requirements of Chapter 13 of the San Francisco Environment Code is obtained from the Department of the Environment under Section 1304 of the Code. The term "preservative-treated wood containing arsenic" shall mean wood treated with a preservative that contains arsenic, elemental arsenic, or an arsenic copper combination, including, but not limited to, chromated copper arsenate preservative, ammoniacal copper zinc arsenate preservative, or ammoniacal copper arsenate preservative. The Trustee may purchase preservative-treated wood products on the list of environmentally preferable alternatives prepared and adopted by the Department of the Environment. This provision does not preclude the Trustee from purchasing preservative-treated wood containing arsenic for saltwater immersion. The term "saltwater immersion" shall mean a pressure-treated wood that is used for construction purposes or facilities that are partially or totally immersed in saltwater.

SECTION 25.15. Nondisclosure of Private Information. The Trustee has read and agrees to the terms set forth in San Francisco Administrative Code Sections 12M.2, "Nondisclosure of Private Information," and 12M.3, "Enforcement" of Administrative Code Chapter 12M, "Protection of Private Information," which are incorporated herein as if fully set forth. The Trustee agrees that any failure of the Trustee to comply with the requirements of Section 12M.2 of this Chapter shall be a material breach of this Third Supplemental Indenture. In such an event, in addition to any other remedies available to it under equity or law, the City may terminate this Third Supplemental Indenture, bring a false claim action against the Trustee pursuant to Chapter 6 or Chapter 21 of the Administrative Code, or debar the Trustee.

SECTION 25.16. Proprietary or Confidential Information of City. The Trustee understands and agrees that, in the performance of the work or services under this Third Supplemental Indenture or in contemplation thereof, the Trustee may have access to private or confidential information which may be owned or controlled by City and that such information may contain proprietary or confidential details, the disclosure of which to third parties may be damaging to City. The Trustee agrees that all information disclosed by City to the Trustee shall be held in confidence and used only in performance of the Third Supplemental Indenture. The Trustee shall exercise the same standard of care to protect such information as a reasonably prudent contractor would use to protect its own proprietary data.

SECTION 25.17. Compliance with Laws. The Trustee shall keep itself fully informed of the City's Charter, codes, ordinances and regulations of the City and of all state, and federal laws in any manner affecting the performance of this Third Supplemental Indenture, and must at all times comply with such local codes, ordinances, and regulations and all applicable laws as they may be amended from time to time.

SECTION 25.18. Works for Hire. If, in connection with services performed under this Third Supplemental Indenture, the Trustee or its subcontractors create artwork, copy, posters, billboards, photographs, videotapes, audiotapes, systems designs, software, reports, diagrams, surveys, blueprints, source codes or any other original works of authorship, such works of authorship shall be works for hire

as defined under Title 17 of the United States Code, and all copyrights in such works are the property of the City. If it is ever determined that any works created by the Trustee or its subcontractors under this Third Supplemental Indenture are not works for hire under U.S. law, the Trustee hereby assigns all copyrights to such works to the City, and agrees to provide any material and execute any documents necessary to effectuate such assignment. With the approval of the City, the Trustee may retain and use copies of such works for reference and as documentation of its experience and capabilities.

SECTION 25.19. Resource Conservation. Chapter 5 of the San Francisco Environment Code ("Resource Conservation") is incorporated herein by reference. Failure by the Trustee to comply with any of the applicable requirements of Chapter 5 will be deemed a material breach of contract.

SECTION 25.20. Public Access to Meetings and Records. If the Trustee receives a cumulative total per year of at least \$250,000 in City funds or City-administered funds and is a non-profit organization as defined in Chapter 12L of the San Francisco Administrative Code, the Trustee shall comply with and be bound by all the applicable provisions of that Chapter. By executing this Third Supplemental Indenture, the Trustee agrees to open its meetings and records to the public in the manner set forth in §§12L.4 and 12L.5 of the Administrative Code. The Trustee further agrees to make good faith efforts to promote community membership on its Board of Directors in the manner set forth in §12L.6 of the Administrative Code. The Trustee acknowledges that its material failure to comply with any of the provisions of this paragraph shall constitute a material breach of this Third Supplemental Indenture. The Trustee further acknowledges that such material breach of this Third Supplemental Indenture shall be grounds for the City to terminate and/or not renew the agreement, partially or in its entirety.

SECTION 25.21. Guaranteed Maximum Costs.

(a) The City's obligation hereunder shall not at any time exceed the amount certified by the Controller for the purpose and period stated in such certification.

(b) Except as may be provided by laws governing emergency procedures, officers and employees of the City are not authorized to request, and the City is not required to reimburse the Trustee for, commodities or services beyond the agreed upon contract scope unless the changed scope is authorized by amendment and approved as required by law.

(c) Officers and employees of the City are not authorized to offer or promise, nor is the City required to honor, any offered or promised additional funding in excess of the maximum amount of funding for which the contract is certified without certification of the additional amount by the Controller.

(d) The Controller is not authorized to make payments on any contract for which funds have not been certified as available in the budget or by supplemental appropriation.

SECTION 25.22. Submitting False Claims; Monetary Penalties. Pursuant to San Francisco Administrative Code §21.16, any contractor, subcontractor or consultant who submits a false claim shall be liable to the City for three times the amount of damages which the City sustains because of the false claim. A contractor, subcontractor or consultant who submits a false claim shall also be liable to the City for the costs, including attorneys' fees, of a civil action brought to recover any of those penalties or damages, and may be liable to the City for a civil penalty of up to \$10,000 for each false claim. A contractor, subcontractor or consultant will be deemed to have submitted a false claim to the City if the contractor, subcontractor or consultant: (a) knowingly presents or causes to be presented to an officer or employee of the City a false claim or request for payment or approval; (b) knowingly makes, uses, or causes to be made or used a false record or statement to get a false claim paid or approved by the City;

(c) conspires to defraud the City by getting a false claim allowed or paid by the City; (d) knowingly makes, uses, or causes to be made or used a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to the City; or (e) is a beneficiary of an inadvertent submission of a false claim to the City, subsequently discovers the falsity of the claim, and fails to disclose the false claim to the City within a reasonable time after discovery of the false claim.

SECTION 25.23. Agreement Made in California; Venue. The formation, interpretation and performance of this Agreement shall be governed by the laws of the State of California. Venue for all litigation relative to the formation, interpretation and performance of this Agreement shall be in San Francisco.

SECTION 25.24. Ownership of Results. Any interest of the Trustee or its Subcontractors, in drawings, plans, specifications, blueprints, studies, reports, memoranda, computation sheets, computer files and media or other documents prepared by the Trustee or its subcontractors in connection with services to be performed under this Third Supplemental Indenture, shall become the property of and will be transmitted to City. However, the Trustee may retain and use copies for reference and as documentation of its experience and capabilities.

SECTION 25.25. Audit and Inspection of Records. The Trustee agrees to maintain and make available to the City, during regular business hours, accurate books and accounting records relating to its work under this Third Supplemental Indenture. The Trustee will permit City to audit, examine and make excerpts and transcripts from such books and records, and to make audits of all invoices, materials, payrolls, records or personnel and other data related to all other matters covered by this Third Supplemental Indenture, whether funded in whole or in part under this Third Supplemental Indenture. The Trustee shall maintain such data and records in an accessible location and condition for a period of not less than three years after final payment under this Third Supplemental Indenture or until after final audit has been resolved, whichever is later. The State of California or any federal agency having an interest in the subject matter of this Third Supplemental Indenture shall have the same rights conferred upon City by this Section.

SECTION 25.26. Subcontracting. The Trustee is prohibited from subcontracting this Third Supplemental Indenture or any part of it unless such subcontracting is first approved by City in writing. Neither party shall, on the basis of this Third Supplemental Indenture, contract on behalf of or in the name of the other party. An agreement made in violation of this provision shall confer no rights on any party and shall be null and void.

SECTION 25.27. Assignment. The services to be performed by Trustee are personal in character and neither this Third Supplemental Indenture nor any duties or obligations hereunder may be assigned or delegated by the Trustee unless first approved by the Commission and the City by written instrument executed and approved in the same manner as this Third Supplemental Indenture.

SECTION 25.28. Non-Waiver of Rights. The omission by either party at any time to enforce any default or right reserved to it, or to require performance of any of the terms, covenants, or provisions hereof by the other party at the time designated, shall not be a waiver of any such default or right to which the party is entitled, nor shall it in any way affect the right of the party to enforce such provisions thereafter.

SECTION 25.29. City a Third Party Beneficiary. The City is hereby designated as a third party beneficiary for the purpose of enforcing all of the obligations of the Trustee contained in Article XXV of this Third Supplemental Indenture and to the extent that any other rights are given to the City hereunder.

SECTION 25.30. Food Service Waste Reduction Requirements. Effective June 1, 2007, the Trustee agrees to comply fully with and be bound by all of the provisions of the Food Service Waste Reduction Ordinance, as set forth in San Francisco Environment Code Chapter 16, including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 16 are incorporated herein by reference and made a part of this Third Supplemental Indenture as though fully set forth. This provision is a material term of this Third Supplemental Indenture. By entering into this Third Supplemental Indenture, the Trustee agrees that if it breaches this provision, City will suffer actual damages that will be impractical or extremely difficult to determine; further, the Trustee agrees that the sum of one hundred dollars (\$100) liquidated damages for the first breach, two hundred dollars (\$200) liquidated damages for the second breach in the same year, and five hundred dollars (\$500) liquidated damages for subsequent breaches in the same year is a reasonable estimate of the damage that the City will incur based on the violation, established in light of the circumstances existing at the time this Third Supplemental Indenture was made. Such amount shall not be considered a penalty, but rather agreed monetary damages sustained by the City because of the Trustee's failure to comply with this provision.

SECTION 25.31. Graffiti Removal. Graffiti is detrimental to the health, safety and welfare of the community in that it promotes a perception in the community that the laws protecting public and private property can be disregarded with impunity. This perception fosters a sense of disrespect of the law that results in an increase in crime; degrades the community and leads to urban blight; is detrimental to property values, business opportunities and the enjoyment of life; is inconsistent with the City's property maintenance goals and aesthetic standards; and results in additional graffiti and in other properties becoming the target of graffiti unless it is quickly removed from public and private property. Graffiti results in visual pollution and is a public nuisance. Graffiti must be abated as quickly as possible to avoid detrimental impacts on the City and County and its residents, and to prevent the further spread of graffiti. The Trustee shall remove all graffiti from any real property owned or leased by the Trustee in the City and County of San Francisco within forty eight (48) hours of the earlier of the Trustee's (a) discovery or notification of the graffiti or (b) receipt of notification of the graffiti from the Department of Public Works. This section is not intended to require the Trustee to breach any lease or other Third Supplemental Indenture that it may have concerning its use of the real property. The term "graffiti" means any inscription, word, figure, marking or design that is affixed, marked, etched, scratched, drawn or painted on any building, structure, fixture or other improvement, whether permanent or temporary, including by way of example only and without limitation, signs, banners, billboards and fencing surrounding construction sites, whether public or private, without the consent of the owner of the property or the owner's authorized agent, and which is visible from the public right-of-way. "Graffiti" shall not include: (1) any sign or banner that is authorized by, and in compliance with, the applicable requirements of the San Francisco Public Works Code, the San Francisco Planning Code or the San Francisco Building Code; or (2) any mural or other painting or marking on the property that is protected as a work of fine art under the California Art Preservation Act (California Civil Code sections 987 et seq.) or as a work of visual art under the Federal Visual Artists Rights Act of 1990 (17 U.S.C. §§ 101 et seq.). Any failure of the Trustee to comply with this section of this Third Supplemental Indenture shall constitute a material breach of this Third Supplemental Indenture.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Third Supplemental Indenture by their officers thereunto duly authorized as of the date and year first written above.

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

By: _____
General Manager

ATTEST:

Secretary of the Public Utilities
Commission of the City and County
of San Francisco

Approved as to form:

Dennis J. Herrera, City Attorney

By: _____
Deputy City Attorney

U.S. BANK NATIONAL ASSOCIATION,
as trustee

By: _____
Vice President

EXHIBIT E
FORM OF 2013 SERIES B BOND

\$ _____

No. R- _____

State of California

City and County of San Francisco

PUBLIC UTILITIES COMMISSION OF THE

CITY AND COUNTY OF SAN FRANCISCO

WASTEWATER REVENUE BOND

2013 SERIES B

Dated Date

Interest Rate

Maturity Date

CUSIP No.

_____, 2013

Registered Owner: Cede & Co.

Principal Amount: _____ DOLLARS

The PUBLIC UTILITIES COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO, a commission duly organized and existing under and pursuant to the Charter of the City and County of San Francisco and the laws of the State of California (herein called the "Commission"), for value received, hereby promises to pay (but only out of the revenues hereinafter referred to) to the registered owner set forth above, or registered assigns, on the maturity date set forth above (subject to any right of prior redemption hereinafter provided for), the principal sum set forth above by check of the Trustee (as defined below) in lawful money of the United States of America, and to pay (but only out of the revenues hereinafter referred to) interest thereon in like lawful money from the interest payment date next preceding the date of authentication of this Bond (unless this Bond is authenticated as of a day during the period from the 16th day of the calendar month next preceding any interest payment date to and including such interest payment date, in which event it shall bear interest from such interest payment date, or unless this Bond is authenticated on or before _____ 15, 2013, in which event it shall bear interest from the Dated Date; provided, however, that if, at the time of authentication of any Bond, interest is in default on Outstanding Bonds, such Bond shall bear interest from the interest payment date to which interest has previously been paid or made available for payment on the Outstanding Bonds and shall be payable to the Owners thereof of record as of a special date as shall be established by the Trustee following such default) until payment of such principal sum, at the interest rate per annum stated above, payable on April 1, 2013 and semiannually thereafter on October 1 and April 1 in each year.

The principal (or redemption price) hereof is payable to the registered owner hereof upon the surrender hereof at the corporate trust office of U.S. Bank National Association, in San Francisco,

California, as trustee (herein, together with any successor as trustee under the Indenture, called the "Trustee"), or such other office designated by the Trustee. The interest hereon is payable to the person whose name appears on the bond registration books of the Trustee as the registered owner hereof as of the close of business on the 15th day of the calendar month immediately preceding an interest payment date, whether or not such day is a business day, such interest to be paid, except as otherwise provided in the Indenture, by check mailed to such registered owner at such address as appears on such registration books. Interest on this Bond shall be calculated on the basis of a 360-day year comprised of twelve 30-day months.

This Bond is one of a duly authorized issue of revenue bonds of the Commission designated as the "Wastewater Revenue Bonds" (herein called the "Bonds"), of the series and designation indicated on the face hereof (herein called the "2013 Series B Bonds") and is a Current Interest Bond (as such term is defined in the Indenture hereinafter referred to). The Bonds are not limited in aggregate principal amount and consist or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued under and pursuant to the provisions of the Charter of the City and County of San Francisco and all laws of the State of California supplemental thereto, including the Revenue Bond Law of 1941 to the extent made applicable by said Charter (herein collectively called the "Law"), and pursuant to an Indenture, dated as of January 1, 2003, between the Commission and the Trustee, as amended and supplemented, and as heretofore supplemented by that certain Third Supplemental Indenture dated as of _____, 2013, between the Commission and the Trustee (collectively, with any supplements or amendments thereto, the "Indenture").

Reference is hereby made to the Indenture (a copy of which is on file at the office of the Trustee) and to the Law for a description of the terms on which the Bonds are issued, the provisions with regard to the nature and extent of the Revenues (as such term is defined in the Indenture) and the rights thereunder (and limitations thereon) of the registered owners of the Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the Commission thereunder; and all the terms of the Indenture and the Law are hereby incorporated herein and constitute a contract between the Commission and the registered owner of this Bond, and to all the provisions thereof the owner of this Bond, by his acceptance hereof, consents and agrees. Each owner hereof shall have recourse to all of the provisions of the Law and the Indenture and shall be bound by all of the terms and conditions thereof.

The Bonds are being issued to finance and refinance the acquisition and construction of improvements to the Enterprise, as more particularly described in the Indenture. The Bonds are special obligations of the Commission and are payable, as to the principal thereof, interest thereon and any premiums upon the redemption of any thereof, from the revenues of the Enterprise (which, as more particularly defined in the Indenture, are therein and herein called the "Revenues"). All of the Bonds are equally secured by a pledge of, and charge and lien upon, all of the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest on and principal of the Bonds; but nevertheless out of the Revenues certain amounts may be applied for other purposes prior to the payment of the interest on or principal of the Bonds as provided in the Indenture. Additional series of Bonds payable from the Revenues may be issued on a parity with the Bonds of this Series, but only subject to the conditions and limitations contained in the Indenture.

The principal of and interest on this 2013 Series B Bond are payable solely from the Revenues, and the Commission is not obligated to pay them except from the Revenues. The Commission has no taxing power. The general fund of the City and County of San Francisco is not liable, and the credit or taxing power of the City and County of San Francisco is not pledged, for the payment of the Bonds or their interest. The Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the Commission or any of its income or receipts, except the Revenues. The

owner hereof has no right to compel the exercise of any taxing power of the City and County of San Francisco.

The rights and obligations of the Commission and the owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Indenture.

[The 2013 Series B Bonds maturing on or after October 1, 20__, shall be subject to redemption prior to their stated maturity, at the option of the Commission, from and to the extent of any source of available funds, as a whole or in part on any date on or after _____, 20__, and if in part by lot within such maturity, at a redemption price equal to 100% of the principal amount of the 2013 Series B Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.]

[The 2013 Series B Bonds maturing on October 1, 20__, and October 1, 20__, and payable from the 2013 Series B Sinking Fund Account, are further subject to redemption prior to their stated maturity, from the 2013 Series B Sinking Fund Account, on any October 1 on or after October 1, 20__, and October 1, 20__, respectively, by lot within any such maturity if less than all of the 2013 Series B Bonds of such maturity and tenor be redeemed, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium, in accordance with the schedules shown below.]

2013 Series B Term Bonds maturing on October 1, 20__

<u>Year</u>	<u>Principal Amount</u>
20__	\$
20__	
20__	
20__	
20__ (Maturity)	

2013 Series B Term Bonds maturing on October 1, 20__

<u>Year</u>	<u>Principal Amount</u>
20__	\$
20__	
20__	
20__	
20__ (Maturity)	

The 2013 Series B Bonds are issuable as fully registered Bonds without coupons in the denomination of \$5,000 or any integral multiple thereof provided that no 2013 Series B Bond shall have principal maturing on more than one principal payment date. Subject to the limitations and conditions and upon payment of the charges, if any, as provided in the Indenture, 2013 Series B Bonds may be exchanged for a like aggregate principal amount of 2013 Series B Bonds of the same series, tenor and maturity of other authorized denominations.

This 2013 Series B Bond is transferable by the registered owner hereof, in person or by his attorney duly authorized in writing, at said office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and

cancellation of this 2013 Series B Bond. Upon such transfer a new fully registered 2013 Series B Bond or 2013 Series B Bonds, of authorized denomination or denominations and of the same series and tenor, for the same aggregate principal amount will be issued to the transferee in exchange herefor.

The Commission and the Trustee may treat the registered owner hereof as the absolute owner hereof for all purposes, and the Commission and the Trustee shall not be affected by any notice to the contrary.

It is hereby certified that all of the conditions, things and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this 2013 Series B Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Law and the laws of the State of California, and that the amount of this 2013 Series B Bond, together with all other obligations of the Commission, does not exceed any limit prescribed by the Law or any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This 2013 Series B Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed have been signed by the Trustee.

DTC LEGEND

Unless this bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Commission or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

IN WITNESS WHEREOF, the Public Utilities Commission of the City and County of San Francisco has caused this Bond to be executed on its behalf, signed by the manual or facsimile signatures of its General Manager and of the Controller of the City and County of San Francisco and countersigned by the manual or facsimile signature of its Secretary, all as of _____, 2013.

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

General Manager of the Commission

Controller of the City and County
of San Francisco

Countersigned:

Secretary of the Commission

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION
AND REGISTRATION TO APPEAR ON THE 2013 SERIES B BONDS]

This Bond is one of the Bonds described in the within-mentioned Indenture, which has been authenticated and registered on the date set forth below.

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

Dated: _____

By: _____
Authorized Officer

[FORM OF ASSIGNMENT]

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

Dated: _____

SIGNATURE GUARANTEED BY:

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

OFFICIAL NOTICE OF SALE

§ _____ *

**PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS
2013 SERIES A**

NOTICE IS HEREBY GIVEN that proposals will be received in electronic form only and solely through the Parity[®] electronic bid submission system of Ipreo ("Parity"), in the manner described below, by the Public Utilities Commission of the City and County of San Francisco (the "Commission"), at the offices of the Commission, located at 525 Golden Gate Avenue, 13th Floor, San Francisco, California 94102, on:

January 8, 2013, at 8:00 a.m. (California time)

(subject to postponement or cancellation in accordance with this Official Notice of Sale)

for the purchase of the revenue bonds captioned above (the "Bonds") of the Commission more particularly described below. See "TERMS OF SALE – *Warning Regarding Electronic Bids.*"

The Commission reserves the right to postpone, from time to time, the date established for receipt and opening of bids with respect to the Bonds. Notice of any postponement will be communicated through Parity as soon as practicable following postponement. See "TERMS OF SALE – *Postponement or Cancellation of Sale.*"

The Commission reserves the right to cancel the sale of the Bonds. Notice of cancellation will be given through Parity as soon as practicable following such cancellation. See "TERMS OF SALE – *Postponement or Cancellation of Sale.*"

Notice of any change in the terms of the sale of the Bonds will be given through Parity by 1:00 p.m. California time the day before the sale. See "TERMS RELATING TO THE BONDS – *Adjustment of Principal Payments*" and "TERMS OF SALE – *Right to Modify or Amend.*" As an accommodation to bidders, telephone, facsimile or electronic notice of any amendment or modification of this Official Notice of Sale will be given to any bidder requesting such notice from either of the Commission's financial advisors (the "Financial Advisors"):

* Subject to adjustment in accordance with this Official Notice of Sale.

Public Resources Advisory Group
11500 West Olympic Boulevard, Suite 502
Los Angeles, CA 90064
Attention: Edmund Soong
Telephone: 310-477-8487
Facsimile: 310-477-0105
E-mail: esong@pragla.com

Kitahata & Company
137 Joost Avenue
San Francisco, California 94131
Attention: Gary Kitahata
Telephone: (415) 337-1950
Facsimile: (415) 276-3777
E-mail: gkitahata@gmail.com

Failure of any bidder to receive any such supplemental notice shall not affect the sufficiency of any required notice or the legality of the sale.

Bidders are directed to the Preliminary Official Statement of the Commission dated the date hereof with respect to the Bonds (the "Preliminary Official Statement") for additional information regarding the Commission, the Wastewater Enterprise (as defined in the Preliminary Official Statement), the City and County of San Francisco (the "City"), the Bonds and the security therefor, and other matters. See "TERMS OF SALE – *Official Statement*" below.

This Official Notice of Sale will be submitted to Ipreo i-Prospectus ("i-Prospectus") for posting on its website (www.i-dealprospectus.com) and in the Parity bid delivery system. If any summary of the terms of the sale of the Bonds posted by i-Prospectus or Parity conflicts with this Official Notice of Sale in any respect, the terms of this Official Notice of Sale shall control, unless a notice of an amendment to this Official Notice of Sale is given as described herein.

TERMS RELATING TO THE BONDS

THE AUTHORITY FOR ISSUANCE, PURPOSE, PRINCIPAL AND INTEREST REPAYMENT, SECURITY AND SOURCES OF PAYMENT, THE LEGAL OPINION AND ALL OTHER INFORMATION REGARDING THE BONDS ARE PRESENTED IN THE PRELIMINARY OFFICIAL STATEMENT, DATED DECEMBER 28, 2012 (THE "PRELIMINARY OFFICIAL STATEMENT") WHICH EACH BIDDER IS DEEMED TO HAVE OBTAINED AND REVIEWED PRIOR TO BIDDING FOR THE BONDS. THIS OFFICIAL NOTICE OF SALE GOVERNS ONLY THE TERMS OF SALE, BIDDING, AWARD AND CLOSING PROCEDURES FOR THE BONDS. THE DESCRIPTION OF THE BONDS CONTAINED IN THIS OFFICIAL NOTICE OF SALE IS QUALIFIED IN ALL RESPECTS BY THE DESCRIPTION CONTAINED IN THE PRELIMINARY OFFICIAL STATEMENT.

Subject to the foregoing, the Bonds are generally described as follows:

Authority for the Bonds. The Commission is issuing the Bonds under the Charter of the City and under an Indenture, dated as of January 1, 2003 (the "Original Indenture"), by and between the Commission and U.S. Bank National Association, as trustee (the "Trustee"), as amended and supplemented, and as further supplemented by a Second Supplemental Indenture, dated as of January 1, 2013 (the "Second Supplemental Indenture"), by and between the Trustee and the Commission (the Original Indenture, as amended and supplemented, is referred to herein as the "Indenture").

Issue. The Bonds are fully registered bonds without coupons in book-entry form in denominations of \$5,000 or any integral multiple thereof, as designated by the successful bidder thereof (the "Purchaser"), all dated the date of their original issuance. **Potential bidders will be notified via Parity, not later than 1:00 p.m. (California time) on the business day prior to the time prescribed for the receipt of bids, of any change to the principal payment schedule for the Bonds or other terms to be used for the bidding process. In addition, the Commission reserves the right, following the determination of the best bid for the Bonds, to adjust the actual principal payment schedule. See "TERMS RELATING TO THE BONDS – Principal Payments" and "-- Adjustment of Principal Payments" below.**

Interest Rates. Interest on the Bonds will be payable semiannually on April 1 and October 1 of each year, commencing April 1, 2013 (each, an "Interest Payment Date"). Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day consecutive months.

Bidders must specify the rate or rates of interest which the Bonds for which they are bidding will bear; provided, that the following limitations apply:

- (i) the maximum interest rate bid may not exceed 12% per annum;
- (ii) each interest rate specified in any bid must be a multiple of 1/8 or 1/20 of 1% per annum and a zero rate of interest cannot be named;
- (iii) each Bond shall bear interest from its date to its stated maturity date at the single rate of interest specified in the bid; and
- (iv) all Bonds maturing at any one time shall bear the same rate of interest.

Premium and Discount. No bid offering to pay an amount less than __ percent or more than __ percent of the par value of the Bonds will be considered. Each maturity of the Bonds must be reoffered at a yield that will produce a price of not less than __ percent.

Principal Payments. The Bonds maturing on October 1 in any or all years 20__ through 20__, both inclusive, shall be serial bonds, as specified by each bidder. The principal amount of Bonds maturing in any year shall be in integral multiples of \$5,000.

An estimate of the principal payment schedule for the Bonds is set forth below.

Date (October 1)	Principal Payment*
_____	\$ _____
_____	_____
_____	_____
_____	_____
_____	_____

* Preliminary, subject to change.

Information related to the principal payment schedule of the Bonds will be updated on Parity one day prior to the sale of the Bonds. See “—*Adjustment of Principal Payments*” below.

Adjustment of Principal Payments. The principal payment amounts set forth in this Official Notice of Sale reflect certain estimates of the Commission with respect to the likely interest rates of the winning bid and the premium contained in the winning bid. **Potential bidders will be notified via Parity not later than 1:00 p.m. (California time) on the business day preceding the date then prescribed for the receipt of bids of any change to the principal payment schedule for the Bonds to be utilized for the bidding process. The Commission reserves the right to change the principal payment schedule set forth in this Official Notice of Sale for the Bonds after the determination of the winning bidder for the Bonds, by adjusting one or more principal payments of the Bonds in increments of \$5,000 by not more than 10% for any maturity in order to achieve its financing objectives; provided, however, that the aggregate principal amount of the Bonds shall not exceed \$ _____.***

NO PURCHASER MAY WITHDRAW ANY BID OR CHANGE THE INTEREST RATES BID OR THE REOFFERING PRICES IN ITS REOFFERING PRICE CERTIFICATE AS A RESULT OF ANY CHANGE MADE TO THE PRINCIPAL PAYMENTS OF THE BONDS IN ACCORDANCE WITH THIS OFFICIAL NOTICE OF SALE. FURTHER, IF THE COMMISSION CHANGES THE PRINCIPAL PAYMENT SCHEDULE FOR THE BONDS AFTER THE RECEIPT OF BIDS, THE UNDERWRITER’S DISCOUNT, EXPRESSED IN DOLLARS PER THOUSAND DOLLAR OF BONDS, WILL BE HELD CONSTANT. THE COMMISSION WILL NOT BE RESPONSIBLE, IF AND TO THE EXTENT THAT, ANY ADJUSTMENT AFFECTS (i) THE NET COMPENSATION TO BE REALIZED BY THE PURCHASER OR (ii) THE TRUE INTEREST COST OF THE WINNING BID OR THE RANKING OF ANY BID RELATIVE TO OTHER BIDS.

Tax Matters and Legal Opinions. Upon delivery of the Bonds, Sidley Austin LLP and Curlls Bartling P.C. (“Co-Bond Counsel”), will deliver to the Commission opinions to the effect that based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. In the further opinions of Co-Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may, therefore, affect a corporation’s alternative minimum tax liability. In the further opinions of Co-Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See “TAX MATTERS” in the Preliminary Official Statement.

A complete copy of the proposed form of approving legal opinions of Co-Bond Counsel with respect to the Bonds is set forth in Appendix D to the Preliminary Official Statement. A copy of the approving legal opinions of Co-Bond Counsel will be furnished to the Purchaser upon delivery of the Bonds. Copies of said opinions will be filed with the Depository Trust Company (“DTC”) and with the City Treasurer.

* Preliminary, subject to change. If revisions are made to the principal amortization schedule prior to the sale date, the not to exceed amount will be equal to 110% of the revised aggregate principal amount of the Bonds.

TERMS OF SALE

Single Bid for the Bonds. Each bid for the Bonds must be for all, and not less than all, of the Bonds hereby offered for sale, and for not less than the aggregate principal amount thereof, less any discount or plus any premium as permitted herein, as may be specified in the bid. All bids must be unconditional.

Only Electronic Bids Through Parity Will Be Accepted. Only electronic bids submitted through Parity will be accepted. All such bids must conform with the procedures established by Parity.

No bid will be accepted after the time specified for receiving bids. To the extent any instructions or directions set forth in Parity conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control, unless a notice of an amendment to this Official Notice of Sale is given as described herein.

For further information about Parity, potential bidders may contact:

Ipreo
1359 Broadway, 2nd Floor
New York, New York 10018
Telephone: (212) 849-5023
munis@ipreo.com

See "TERMS OF SALE – *Warning Regarding Electronic Bids.*"

THE COMMISSION RETAINS ABSOLUTE DISCRETION TO DETERMINE WHETHER ANY BID IS TIMELY AND COMPLETE AND CONFORMS TO THIS OFFICIAL NOTICE OF SALE. THE COMMISSION TAKES NO RESPONSIBILITY FOR INFORMING ANY BIDDER PRIOR TO THE TIME FOR RECEIVING BIDS THAT ANY BID IS INCOMPLETE OR NONCONFORMING OR HAS NOT BEEN RECEIVED.

WARNING REGARDING ELECTRONIC BIDS: THE COMMISSION WILL ACCEPT BIDS IN ELECTRONIC FORM SOLELY THROUGH PARITY ON THE OFFICIAL BID FORM CREATED FOR SUCH PURPOSE. EACH BIDDER SUBMITTING AN ELECTRONIC BID UNDERSTANDS AND AGREES BY DOING SO THAT IT IS SOLELY RESPONSIBLE FOR ALL ARRANGEMENTS WITH PARITY AND THAT PARITY IS NOT ACTING AS AN AGENT OF THE COMMISSION. INSTRUCTIONS AND FORMS FOR SUBMITTING ELECTRONIC BIDS MUST BE OBTAINED FROM PARITY AND THE COMMISSION ASSUMES NO RESPONSIBILITY FOR ENSURING OR VERIFYING BIDDER COMPLIANCE WITH THE PROCEDURES OF PARITY. THE COMMISSION SHALL ASSUME THAT ANY BID RECEIVED THROUGH PARITY HAS BEEN MADE BY A DULY AUTHORIZED AGENT OF THE BIDDER.

THE CITY, THE COMMISSION, THE CITY ATTORNEY, THE FINANCIAL ADVISORS AND CO-BOND COUNSEL ASSUME NO RESPONSIBILITY FOR ANY ERROR CONTAINED IN ANY BID SUBMITTED ELECTRONICALLY, OR FOR FAILURE OF ANY BID TO BE TRANSMITTED, RECEIVED OR OPENED AT THE OFFICIAL TIME FOR RECEIPT OF BIDS. EACH BIDDER EXPRESSLY ASSUMES THE RISK OF ANY INCOMPLETE, ILLEGIBLE, UNTIMELY OR NONCONFORMING BID SUBMITTED BY ELECTRONIC TRANSMISSION

BY SUCH BIDDER, INCLUDING WITHOUT LIMITATION, BY REASON OF GARBLED TRANSMISSIONS, MECHANICAL FAILURE, ENGAGED TELECOMMUNICATIONS LINES, OR ANY OTHER CAUSE ARISING FROM OR RELATING TO SUBMISSION BY ELECTRONIC TRANSMISSION. THE OFFICIAL TIME FOR RECEIPT OF BIDS WILL BE DETERMINED BY THE COMMISSION AT THE PLACE OF BID OPENING, AND THE COMMISSION SHALL NOT BE REQUIRED TO ACCEPT THE TIME KEPT BY PARITY AS THE OFFICIAL TIME.

Additional Terms and Conditions. By submitting a bid, each bidder thereby agrees to the following terms and conditions:

- (1) if any provision in this Official Notice of Sale with respect to the Bonds conflicts with information or terms provided or required by Parity, this Official Notice of Sale, including any amendments or modifications issued through Parity, will control;
- (2) each bidder will be solely responsible for making necessary arrangements to access Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale;
- (3) neither the Commission nor the City will have any duty or obligation to provide or assure access to Parity to any bidder, and neither the Commission nor the City will be responsible for proper operation of, or have any liability for, any delays, interruptions or damages caused by use of Parity or any incomplete, inaccurate or untimely bid submitted by any bidder through Parity;
- (4) the Commission is permitting use of Parity as a communication mechanism, and not as an agent of the Commission or the City, to facilitate the submission of electronic bids for the Bonds, Parity is acting as an independent contractor, and is not acting for or on behalf of the Commission or the City;
- (5) neither the Commission nor the City is responsible for ensuring or verifying bidder compliance with any procedures established by Parity;
- (6) the Commission may regard the electronic transmission of a bid through Parity (including information regarding the purchase price for the Bonds or the interest rates for any maturity of the Bonds) as though the information were physically submitted and executed on the bidder's behalf by a duly authorized signatory;
- (7) if a bidder's bid is accepted by the Commission, such bid, this Official Notice of Sale and the information that is transmitted electronically through Parity will form a contract, and the bidder will be bound by the terms of such contract; and
- (8) information provided by Parity to bidders will form no part of any bid or of any contract between the Purchaser and the Commission unless that information is included in this Official Notice of Sale or the bid of the Purchaser with respect to the winning bid.

Multiple Bids. If multiple bids with respect to the Bonds are received from a single bidder, the Commission will have the right to accept the bid representing the lowest true interest cost ("TIC") to the Commission, and each bidder agrees by submitting any bid to be bound by such best bid.

Good Faith Deposit. A good faith deposit (a "Deposit") in the amount of \$_____, payable to the order of the Commission, is required from the Purchaser subsequent to the award of the sale. The Purchaser is required to pay the Deposit to the Trustee, on behalf of the Commission, by wire transfer within two (2) hours after the Commission has communicated the acceptance of an award, using the following wire instructions:

Banking Institution:	U.S. BANK NATIONAL ASSOCIATION
Address:	One California Street, Suite 1000 San Francisco, California 94111
Contact & Telephone No:	Andrew Fung (415) 677-3593
FedWire Bank ABA:	091000022
ACH Bank ABA:	091000022
SWIFT Code:	USBKUS44 IMT
Bank Account No:	180121167365
For the Credit of:	U.S. Bank National Association
Other Beneficiary Information:	SFPUC Wastewater 2013 Series A Bonds Good Faith Deposit

If the Deposit is not received by that time, the Commission may rescind the award of sale. No interest on the Deposit will accrue to the Purchaser. The Deposit will be applied to the purchase price of the Bonds. If the Purchaser fails to honor its accepted bid, the Deposit will be retained by the Commission as and for full liquidated damages.

If the Purchaser fails to provide the Reoffering Price Certificate, described below, by January __, 2013, the Deposit will be retained by the Commission.

Basis of Award. Unless all bids with respect to the Bonds are rejected, as described below under "*Right of Rejection and Waiver of Irregularity*," the Bonds will be awarded to the responsible bidder whose bid represents the lowest TIC to the Commission with respect to the Bonds prior to any change to the principal payment schedule in accordance with this Official Notice of Sale. The TIC will be that nominal annual interest rate which, when compounded semiannually using a 360-day year and used to discount to the dated date of the Bonds all payments of principal and interest payable on the Bonds, results in an amount equal to the purchase price of the Bonds to be received by the Commission. If two or more bidders offer bids for the Bonds at the same lowest TIC, the Commission will determine by lot which bidder will be awarded the Bonds. Bid evaluations or rankings made by Parity are not binding on the Commission.

Estimate of True Interest Cost. Each bidder is requested, but not required, to state in each bid the amount of interest payable on the Bonds during the life of the issue and the percentage TIC to the Commission (determined as described above), which will be considered as informative only and not binding on either the bidder or the Commission.

Right of Rejection and Waiver of Irregularity. The Commission reserves the right, in its sole and absolute discretion, to reject any and all bids for the Bonds, for any reason. The Commission also reserves the right to waive any irregularity or informality in any bid.

Time of Award. The Commission, acting through its General Manager or its Assistant General Manager/Chief Financial Officer, Business and Financial Services, or a designee of the General Manager, will take action awarding the Bonds or rejecting all bids not later than two (2) hours after the date and time at which bids with respect to the Bonds are received, unless such period for award is waived by the Purchaser. Prompt notice of the award will be given to the Purchaser.

Confirmation of Bond Sizing. As described herein under "TERMS RELATING TO THE BONDS – Adjustment of Principal Payments" the actual principal amount of the Bonds and the actual maturity schedule (or sinking account payment schedule for term bonds) for the Bonds may be changed by the Commission after the determination of the winning bid. Any such changes will be reported to the Purchaser by 7:00 p.m. (New York time) on the date and time the bids are received. Any such increase or decrease will be in \$5,000 increments with respect to each maturity date or sinking account payment date. If any such adjustment occurs, no rebidding or recalculation of the bids submitted will be required or permitted and no successful bid may be withdrawn. The Purchaser will not be permitted to change the interest rates in its bid. The dollar amount bid by the Purchaser will be adjusted to reflect any adjustments in the aggregate principal amount of the Bonds to be issued.

Qualification for Sale; Compliance with Blue Sky Laws. Compliance with Blue Sky and other securities laws and regulations, including the payment of any applicable fees, shall be the sole responsibility of the Purchaser. The Commission will furnish such information and take such action not inconsistent with law as the Purchaser may request and the Commission may deem necessary or appropriate to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Purchaser; provided, however, that the Commission will not execute a general or special consent to service of process or qualify to do business in connection with such qualification or determination in any jurisdiction.

The Purchaser may not sell, offer to sell or solicit any offer to buy, the Bonds in any jurisdiction where it is unlawful for the Purchaser to make such sale, offer or solicitation, and the Purchaser shall comply with the Blue Sky and other securities laws and regulations of the states and jurisdictions in which the Purchaser sells the Bonds.

Delivery and Payment. Delivery of the Bonds, in the form of one certificate for each maturity, will be made to the Purchaser through the facilities of DTC in New York, New York, or at any other location mutually agreeable to both the Commission and the Purchaser, as soon as practicable. The anticipated date of delivery of the Bonds is January 23, 2013. Payment for the Bonds (including any premium) must be made by wire transfer in immediately available funds. Any expense for making payment in immediately available funds shall be borne by the Purchaser.

Reoffering Price Certificate. The Purchaser must reoffer all of the Bonds to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers). For this purpose, sales of Bonds to other securities brokers or dealers will not be considered sales to the general public.

Not later than the close of business on the third business day following the date on which the sale of the Bonds is awarded, the Purchaser must deliver to the Commission a certificate in the form attached hereto as Exhibit A (the "Reoffering Price Certificate").

The Purchaser will also be required to provide to the Commission and Co-Bond Counsel such additional information as may be requested by Co-Bond Counsel. If the Reoffering Price Certificate is sent by fax transmission, a hard copy must also be promptly sent by mail or courier service.

Failure to demonstrate compliance with this requirement with respect to the Bonds will constitute a default by the Purchaser, entitling the Commission to retain the Purchaser's Deposit even though in such event the Commission will not deliver the Bonds to the Purchaser.

The Commission and the Financial Advisors will be relying on the indication of the reoffering prices set forth in the Reoffering Price Certificate in determining the arbitrage yield on the Bonds.

No Litigation. The Commission will deliver a certificate of the Commission with respect to the Bonds stating that no litigation is pending with service of process having been accomplished, or, to the knowledge of the officer of the Commission executing such certificate, threatened, concerning the validity of the Bonds, the existence of the Commission, or the title of the officers of the Commission who will execute the Bonds to their respective offices.

CUSIP Numbers. It is anticipated that CUSIP numbers will be printed on the Bonds and in the Official Statement, but neither the failure to print such numbers nor any error with respect thereto will constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Official Notice of Sale. The expenses associated with printing CUSIP numbers on the Bonds will be paid by the Commission; however, the CUSIP Service Bureau charge for the assignment of CUSIP numbers will be paid by the Purchaser. CUSIP data is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of The American Bankers Association. CUSIP numbers will be provided for convenience of reference only. Neither the Commission nor the City will take any responsibility for the accuracy of such numbers.

California Debt and Investment Advisory Commission Fee. The attention of bidders is directed to California Government Code Section 8856, which provides that the Purchaser of the Bonds will be charged the California Debt and Investment Advisory Commission fee. The Purchaser is responsible for determining the actual fee due. The Commission expects the Purchaser to pay the applicable fee promptly upon receipt of the invoice.

Certificate Regarding Official Statement. At the time of delivery of the Bonds, the Purchaser will receive a certificate, signed by an officer of the Commission, confirming to the Purchaser that, to the best knowledge of said officer, the final Official Statement relating to the Bonds (the "Official Statement") (excluding information regarding underwriting, the municipal bond insurance policy or policies and the bond reserve surety bond and the provider or providers thereof, if any, and The Depository Trust Company and its book-entry only system, as to which no view will be expressed) as of the date of sale of the Bonds and as of the date of delivery thereof, did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

Official Statement. Electronic copies of the Preliminary Official Statement prepared by the Commission will be furnished to any interested bidder upon request to the Financial Advisors. In accordance with Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"), the Commission deems such Preliminary Official Statement final as of its date, except for the omission

of certain information permitted by Rule 15c2-12. Within seven (7) business days after the date of award of the Bonds, the Purchaser of the Bonds will be furnished with a reasonable number of copies (not to exceed 100) of the Official Statement, without charge. If the Purchaser requests additional copies of the Official Statement within two (2) days after the award of the Bonds, the Commission will supply such requested additional copies of the Official Statement at the expense of the Purchaser.

By making a bid for the Bonds, the bidder agrees, if awarded the Bonds, (i) to disseminate to all members of the underwriting syndicate, if any, copies of the Official Statement, including any supplements prepared by the Commission, and (ii) to take any and all other actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Bonds to the ultimate purchasers, including without limitation the delivery of an Official Statement to each investor who purchases Bonds.

The form and content of the Official Statement of the Commission is within the sole discretion of the Commission. The Purchaser's name will not appear on the cover of the Official Statement.

Continuing Disclosure. In order to assist the Purchaser in complying with Securities and Exchange Commission Rule 15c2-12(b)(5), the Commission will undertake, pursuant to a Continuing Disclosure Certificate, to provide certain annual financial information and notices of the occurrence of certain events. A description of this undertaking and a form of the Continuing Disclosure Certificate are set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

Right to Modify or Amend. The Commission reserves the right to modify or amend this Official Notice of Sale in any respect; provided, however, that any such modification or amendment will be communicated to potential bidders through Parity not later than 1:00 p.m. (California time) on the business day preceding the date for receiving bids. Failure of any potential bidder to receive notice of any modification or amendment will not affect the sufficiency of any such notice, the modification or amendment to which such notice relates, or the legality of the sale.

Postponement or Cancellation of Sale. The Commission reserves the right to postpone or cancel the sale of the Bonds at or prior to the time bids are to be received with respect to the Bonds. Notice of such postponement or cancellation will be given through Parity as soon as practicable following such postponement or cancellation. If the sale is postponed, notice of a new sale date will be given through Parity not later than 1:00 p.m. (California time) on the business day preceding the new sale date that bids are to be received. On any new sale date, any bidder may submit a bid for the purchase of the Bonds, which shall be in conformity in all respects with the provisions of this Official Notice of Sale except for the time or date and time of sale and any other changes announced through Parity.

Failure of any potential bidder to receive notice of cancellation or postponement shall not affect the sufficiency of any such notice, or affect the right of the Commission to cancel or postpone the sale. If a sale is postponed only, any subsequent bid submitted by a bidder with respect to such sale will supersede any prior bid made. If a sale is cancelled, all bids with respect to such sale will be deemed cancelled.

Equal Opportunity. Pursuant to the spirit and intent of the City's Local Business Enterprise ("LBE") Ordinance, Chapter 14B of the Administrative Code of the City, the Commission strongly

encourages the inclusion of Local Business Enterprises certified by the San Francisco Human Rights Commission on prospective proposing syndicate/teams. A list of certified LBEs can be obtained by contacting the San Francisco Human Rights Commission at 25 Van Ness Avenue, Room 800, San Francisco, California 94102, (415) 252-2500.

Dated: December 28, 2012

EXHIBIT A

REOFFERING PRICE CERTIFICATE

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS
2013 SERIES A

(TO BE DELIVERED BY THE ORIGINAL PURCHASER AS DESCRIBED IN THE
OFFICIAL NOTICE OF SALE UNDER "TERMS OF SALE - REOFFERING PRICE
CERTIFICATE")

This Certificate is furnished by _____, as original purchaser (the "Original Purchaser") of \$_____ aggregate principal amount of the revenue bonds captioned above (the "Bonds"), to establish the initial offering price of said portion of the Bonds for purposes of determining the "issue price" of the Bonds within the meaning of Section 1273 of the Internal Revenue Code of 1986, as amended (the "Code").

The Original Purchaser DOES HEREBY CERTIFY as follows:

1. The Original Purchaser made a bona fide offering, beginning on _____, 2013, the date on which the Original Purchaser agreed to purchase the Bonds (the "Sale Date"), of all of the Bonds of each maturity to the General Public (hereinafter defined) at their respective initial offering prices, as set forth in Exhibit __ hereto (each, an "Initial Public Offering Price"), and reasonably expected on the Sale Date to sell the Bonds of each maturity to the General Public at their respective Initial Public Offering Prices.
2. The aggregate of the Initial Public Offering Prices is \$_____ (representing \$_____ aggregate principal amount of the Bonds, [plus] [minus] [net] original issue [premium] [discount] of \$_____).
3. [Except for Bonds maturing on _____, 20__, _____, 20__, and _____, 20__ (the "Undersold Bonds"), with] [With] respect to each maturity of the Bonds, the Original Purchaser first sold for cash at least 10% of the aggregate principal amount of the Bonds to the General Public at their Initial Public Offering Price.
- [4.] With respect to [each maturity of] the Undersold Bonds, despite the reasonable expectation of the Original Purchaser to sell the Bonds at their [respective] Initial Public Offering Price[s], the Original Purchaser did not sell at least 10% of the Bonds [of the maturity] to the General Public at their [respective] Initial Public Offering Price[s]. [PROVIDE EXPLANATION].[‡]

[4.] [5.] For purposes of this Certificate, the term "General Public" excludes bond houses, brokers and similar persons or organizations acting in the capacity of underwriters or wholesalers.

[‡] For any maturity of Undersold Bonds, the successful bidder will be required to supply an explanation, satisfactory to the issuer, as to why the successful bidder did not sell at least 10% of each such maturity.

Nothing herein represents the Original Purchaser's interpretation of any laws, and in particular, regulations under Section 148 of the Code.

Capitalized terms used herein and not otherwise defined have the meanings ascribed thereto in the Indenture dated as of January 1, 2003, by and between the Commission and U.S. Bank National Association, as amended and supplemented to date.

Dated: _____, 2013

[NAME OF UNDERWRITER]

By: _____
[NAME]
[TITLE]

EXHIBIT 1 TO REOFFERING PRICE CERTIFICATE

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Reoffering</u> <u>Price*</u>
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* Stated as a percentage of par.

4B. SFPUC 2013B

Notice of Sale

OFFICIAL NOTICE OF SALE

§ _____
**PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS
2013 SERIES B**

NOTICE IS HEREBY GIVEN that proposals will be received in electronic form only and solely through the Parity[®] electronic bid submission system of Ipreo ("Parity"), in the manner described below, by the Public Utilities Commission of the City and County of San Francisco (the "Commission"), at the offices of the Commission, located at 525 Golden Gate Avenue, 13th Floor, San Francisco, California 94102, on:

January 24, 2013, at 7:45 a.m. (California time)

(subject to postponement or cancellation in accordance with this Official Notice of Sale)

for the purchase of the revenue bonds captioned above (the "Bonds") of the Commission more particularly described below. See "TERMS OF SALE – *Warning Regarding Electronic Bids.*"

The Commission reserves the right to postpone, from time to time, the date established for receipt and opening of bids with respect to the Bonds. Notice of any postponement will be communicated through Parity as soon as practicable following postponement. See "TERMS OF SALE – *Postponement or Cancellation of Sale.*"

The Commission reserves the right to cancel the sale of the Bonds. Notice of cancellation will be given through Parity as soon as practicable following such cancellation. See "TERMS OF SALE – *Postponement or Cancellation of Sale.*"

Notice of any change in the terms of the sale of the Bonds will be given through Parity by 1:00 p.m. California time the day before the sale. See "TERMS RELATING TO THE BONDS – *Adjustment of Principal Payments*" and "TERMS OF SALE – *Right to Modify or Amend.*" As an accommodation to bidders, telephone, facsimile or electronic notice of any amendment or modification of this Official Notice of Sale will be given to any bidder requesting such notice from either of the Commission's financial advisors (the "Financial Advisors"):

* Subject to adjustment in accordance with this Official Notice of Sale.

Public Resources Advisory Group
11500 West Olympic Boulevard, Suite 502
Los Angeles, CA 90064
Attention: Edmund Soong
Telephone: 310-477-8487
Facsimile: 310-477-0105
E-mail: esoong@pragla.com

Kitahata & Company
137 Joost Avenue
San Francisco, California 94131
Attention: Gary Kitahata
Telephone: (415) 337-1950
Facsimile: (415) 276-3777
E-mail: gkitahata@gmail.com

Failure of any bidder to receive any such supplemental notice shall not affect the sufficiency of any required notice or the legality of the sale.

Bidders are directed to the Preliminary Official Statement of the Commission dated the date hereof with respect to the Bonds (the "Preliminary Official Statement") for additional information regarding the Commission, the Wastewater Enterprise (as defined in the Preliminary Official Statement), the City and County of San Francisco (the "City"), the Bonds and the security therefor, and other matters. See "TERMS OF SALE – *Official Statement*" below.

This Official Notice of Sale will be submitted to Ipreo i-Prospectus ("i-Prospectus") for posting on its website (www.i-dealprospectus.com) and in the Parity bid delivery system. If any summary of the terms of the sale of the Bonds posted by i-Prospectus or Parity conflicts with this Official Notice of Sale in any respect, the terms of this Official Notice of Sale shall control, unless a notice of an amendment to this Official Notice of Sale is given as described herein.

TERMS RELATING TO THE BONDS

THE AUTHORITY FOR ISSUANCE, PURPOSE, PRINCIPAL AND INTEREST REPAYMENT, SECURITY AND SOURCES OF PAYMENT, THE LEGAL OPINION AND ALL OTHER INFORMATION REGARDING THE BONDS ARE PRESENTED IN THE PRELIMINARY OFFICIAL STATEMENT, DATED JANUARY 15, 2013 (THE "PRELIMINARY OFFICIAL STATEMENT") WHICH EACH BIDDER IS DEEMED TO HAVE OBTAINED AND REVIEWED PRIOR TO BIDDING FOR THE BONDS. THIS OFFICIAL NOTICE OF SALE GOVERNS ONLY THE TERMS OF SALE, BIDDING, AWARD AND CLOSING PROCEDURES FOR THE BONDS. THE DESCRIPTION OF THE BONDS CONTAINED IN THIS OFFICIAL NOTICE OF SALE IS QUALIFIED IN ALL RESPECTS BY THE DESCRIPTION CONTAINED IN THE PRELIMINARY OFFICIAL STATEMENT.

Subject to the foregoing, the Bonds are generally described as follows:

Authority for the Bonds. The Commission is issuing the Bonds under the Charter of the City and under an Indenture, dated as of January 1, 2003 (the "Original Indenture"), by and between the Commission and U.S. Bank National Association, as trustee (the "Trustee"), as amended and supplemented, and as further supplemented by a Second Supplemental Indenture, dated as of January 1, 2013 (the "Second Supplemental Indenture"), by and between the Trustee and the Commission and a Third Supplemental Indenture, dated as of January 1, 2013 (the "Third Supplemental Indenture"),

by and between the Trustee and the Commission (the Original Indenture, as amended and supplemented, is referred to herein as the "Indenture").

Issue. The Bonds are fully registered bonds without coupons in book-entry form in denominations of \$5,000 or any integral multiple thereof, as designated by the successful bidder thereof (the "Purchaser"), all dated the date of their original issuance. **Potential bidders will be notified via Parity, not later than 4:00 p.m. (California time) on the business day prior to the time prescribed for the receipt of bids, of any change to the principal payment schedule for the Bonds or other terms to be used for the bidding process. In addition, the Commission reserves the right, following the determination of the best bid for the Bonds, to adjust the actual principal payment schedule. See "TERMS RELATING TO THE BONDS – Principal Payments" and "– Adjustment of Principal Payments" below.**

Interest Rates. Interest on the Bonds will be payable semiannually on April 1 and October 1 of each year, commencing April 1, 2013 (each, an "Interest Payment Date"). Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day consecutive months.

Bidders must specify the rate or rates of interest which the Bonds for which they are bidding will bear; provided, that the following limitations apply:

- (i) the maximum interest rate bid may not exceed 12% per annum;
- (ii) each interest rate specified in any bid must be a multiple of 1/8 or 1/20 of 1% per annum and a zero rate of interest cannot be named;
- (iii) each Bond shall bear interest from its date to its stated maturity date at the single rate of interest specified in the bid; and
- (iv) all Bonds maturing at any one time shall bear the same rate of interest.

Premium and Discount. No bid offering to pay an amount less than ___ percent or more than ___ percent of the par value of the Bonds will be considered. Each maturity of the Bonds must be reoffered at a yield that will produce a price of not less than ___ percent.

Principal Payments. The Bonds maturing on October 1 in any or all years 20__ through 20__, both inclusive, shall be serial and/or term bonds, as specified by each bidder. The principal amount of Bonds maturing or subject to mandatory sinking fund redemption in any year shall be in integral multiples of \$5,000. For any term Bonds specified, the principal amount for a given year may be allocated only to a single term bond and must be part of an uninterrupted annual sequence from the first mandatory sinking fund payment to the term bond maturity.

An estimate of the principal payment schedule for the Bonds is set forth below.

Date (October 1)	Principal Payment*
_____	\$ _____
_____	_____
_____	_____
_____	_____
_____	_____

* Preliminary, subject to change.

Information related to the principal payment schedule of the Bonds will be updated on Parity one day prior to the sale of the Bonds. See “—*Adjustment of Principal Payments*” below.

Adjustment of Principal Payments. The principal payment amounts set forth in this Official Notice of Sale reflect certain estimates of the Commission with respect to the likely interest rates of the winning bid and the premium contained in the winning bid. **Potential bidders will be notified via Parity not later than 1:00 p.m. (California time) on the business day preceding the date then prescribed for the receipt of bids of any change to the principal payment schedule for the Bonds to be utilized for the bidding process.** The Commission reserves the right to change the principal payment schedule set forth in this Official Notice of Sale for the Bonds after the determination of the winning bidder for the Bonds, by adjusting one or more principal payments of the Bonds in increments of \$5,000 by not more than 10% for any maturity in order to achieve its financing objectives; provided, however, that the aggregate principal amount of the Bonds shall not exceed \$ _____.*

NO PURCHASER MAY WITHDRAW ANY BID OR CHANGE THE INTEREST RATES BID OR THE REOFFERING PRICES IN ITS REOFFERING PRICE CERTIFICATE AS A RESULT OF ANY CHANGE MADE TO THE PRINCIPAL PAYMENTS OF THE BONDS IN ACCORDANCE WITH THIS OFFICIAL NOTICE OF SALE. FURTHER, IF THE COMMISSION CHANGES THE PRINCIPAL PAYMENT SCHEDULE FOR THE BONDS AFTER THE RECEIPT OF BIDS, THE UNDERWRITER’S DISCOUNT, EXPRESSED IN DOLLARS PER THOUSAND DOLLAR OF BONDS, WILL BE HELD CONSTANT. THE COMMISSION WILL NOT BE RESPONSIBLE, IF AND TO THE EXTENT THAT, ANY ADJUSTMENT AFFECTS (i) THE NET COMPENSATION TO BE REALIZED BY THE PURCHASER OR (ii) THE TRUE INTEREST COST OF THE WINNING BID OR THE RANKING OF ANY BID RELATIVE TO OTHER BIDS.

Redemption.* The Bonds maturing on or after October 1, 20__ shall be subject to redemption prior to their stated maturity, at the option of the Commission, from and to the extent of any source of available funds, as a whole or in part, on any date on or after October 1, 20__, and if in part by lot within such maturity, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

* Preliminary, subject to change. If revisions are made to the principal amortization schedule prior to the sale date, the not to exceed amount will be equal to 110% of the revised aggregate principal amount of the Bonds.

Tax Matters and Legal Opinions. Upon delivery of the Bonds, Sidley Austin LLP and Curis Bartling P.C. ("Co-Bond Counsel"), will deliver to the Commission opinions to the effect that based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. In the further opinions of Co-Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may, therefore, affect a corporation's alternative minimum tax liability. In the further opinions of Co-Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" in the Preliminary Official Statement.

A complete copy of the proposed form of approving legal opinions of Co-Bond Counsel with respect to the Bonds is set forth in Appendix D to the Preliminary Official Statement. A copy of the approving legal opinions of Co-Bond Counsel will be furnished to the Purchaser upon delivery of the Bonds. Copies of said opinions will be filed with the Depository Trust Company ("DTC") and with the City Treasurer.

TERMS OF SALE

Single Bid for the Bonds. Each bid for the Bonds must be for all, and not less than all, of the Bonds hereby offered for sale, and for not less than the aggregate principal amount thereof, less any discount or plus any premium as permitted herein, as may be specified in the bid. All bids must be unconditional.

Only Electronic Bids Through Parity Will Be Accepted. Only electronic bids submitted through Parity will be accepted. All such bids must conform with the procedures established by Parity.

No bid will be accepted after the time specified for receiving bids. To the extent any instructions or directions set forth in Parity conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control, unless a notice of an amendment to this Official Notice of Sale is given as described herein.

For further information about Parity, potential bidders may contact:

Ipreo
1359 Broadway, 2nd Floor
New York, New York 10018
Telephone: (212) 849-5023
munis@ipreo.com

See "TERMS OF SALE – *Warning Regarding Electronic Bids.*"

THE COMMISSION RETAINS ABSOLUTE DISCRETION TO DETERMINE WHETHER ANY BID IS TIMELY AND COMPLETE AND CONFORMS TO THIS OFFICIAL NOTICE OF SALE. THE COMMISSION TAKES NO RESPONSIBILITY FOR INFORMING ANY BIDDER PRIOR TO THE TIME FOR RECEIVING BIDS THAT ANY BID IS INCOMPLETE OR NONCONFORMING OR HAS NOT BEEN RECEIVED.

WARNING REGARDING ELECTRONIC BIDS: THE COMMISSION WILL ACCEPT BIDS IN ELECTRONIC FORM SOLELY THROUGH PARITY ON THE OFFICIAL BID FORM CREATED FOR SUCH PURPOSE. EACH BIDDER SUBMITTING AN ELECTRONIC BID UNDERSTANDS AND AGREES BY DOING SO THAT IT IS SOLELY RESPONSIBLE FOR ALL ARRANGEMENTS WITH PARITY AND THAT PARITY IS NOT ACTING AS AN AGENT OF THE COMMISSION. INSTRUCTIONS AND FORMS FOR SUBMITTING ELECTRONIC BIDS MUST BE OBTAINED FROM PARITY AND THE COMMISSION ASSUMES NO RESPONSIBILITY FOR ENSURING OR VERIFYING BIDDER COMPLIANCE WITH THE PROCEDURES OF PARITY. THE COMMISSION SHALL ASSUME THAT ANY BID RECEIVED THROUGH PARITY HAS BEEN MADE BY A DULY AUTHORIZED AGENT OF THE BIDDER.

THE CITY, THE COMMISSION, THE CITY ATTORNEY, THE FINANCIAL ADVISORS AND CO-BOND COUNSEL ASSUME NO RESPONSIBILITY FOR ANY ERROR CONTAINED IN ANY BID SUBMITTED ELECTRONICALLY, OR FOR FAILURE OF ANY BID TO BE TRANSMITTED, RECEIVED OR OPENED AT THE OFFICIAL TIME FOR RECEIPT OF BIDS. EACH BIDDER EXPRESSLY ASSUMES THE RISK OF ANY INCOMPLETE, ILLEGIBLE, UNTIMELY OR NONCONFORMING BID SUBMITTED BY ELECTRONIC TRANSMISSION BY SUCH BIDDER, INCLUDING WITHOUT LIMITATION, BY REASON OF GARBLED TRANSMISSIONS, MECHANICAL FAILURE, ENGAGED TELECOMMUNICATIONS LINES, OR ANY OTHER CAUSE ARISING FROM OR RELATING TO SUBMISSION BY ELECTRONIC TRANSMISSION. THE OFFICIAL TIME FOR RECEIPT OF BIDS WILL BE DETERMINED BY THE COMMISSION AT THE PLACE OF BID OPENING, AND THE COMMISSION SHALL NOT BE REQUIRED TO ACCEPT THE TIME KEPT BY PARITY AS THE OFFICIAL TIME.

Additional Terms and Conditions. By submitting a bid, each bidder thereby agrees to the following terms and conditions:

- (1) if any provision in this Official Notice of Sale with respect to the Bonds conflicts with information or terms provided or required by Parity, this Official Notice of Sale, including any amendments or modifications issued through Parity, will control;
- (2) each bidder will be solely responsible for making necessary arrangements to access Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale;
- (3) neither the Commission nor the City will have any duty or obligation to provide or assure access to Parity to any bidder, and neither the Commission nor the City will be responsible for proper operation of, or have any liability for, any delays, interruptions or damages caused by use of Parity or any incomplete, inaccurate or untimely bid submitted by any bidder through Parity;
- (4) the Commission is permitting use of Parity as a communication mechanism, and not as an agent of the Commission or the City, to facilitate the submission of electronic bids for the Bonds, Parity is acting as an independent contractor, and is not acting for or on behalf of the Commission or the City;
- (5) neither the Commission nor the City is responsible for ensuring or verifying bidder compliance with any procedures established by Parity;

(6) the Commission may regard the electronic transmission of a bid through Parity (including information regarding the purchase price for the Bonds or the interest rates for any maturity of the Bonds) as though the information were physically submitted and executed on the bidder's behalf by a duly authorized signatory;

(7) if a bidder's bid is accepted by the Commission, such bid, this Official Notice of Sale and the information that is transmitted electronically through Parity will form a contract, and the bidder will be bound by the terms of such contract; and

(8) information provided by Parity to bidders will form no part of any bid or of any contract between the Purchaser and the Commission unless that information is included in this Official Notice of Sale or the bid of the Purchaser with respect to the winning bid.

Multiple Bids. If multiple bids with respect to the Bonds are received from a single bidder, the Commission will have the right to accept the bid representing the lowest true interest cost ("TIC") to the Commission, and each bidder agrees by submitting any bid to be bound by such best bid.

Good Faith Deposit. A good faith deposit (a "Deposit") in the amount of \$ _____, payable to the order of the Commission, is required from the Purchaser subsequent to the award of the sale. The Purchaser is required to pay the Deposit to the Trustee, on behalf of the Commission, by wire transfer within two (2) hours after the Commission has communicated the acceptance of an award, using the following wire instructions:

Banking Institution:	U.S. BANK NATIONAL ASSOCIATION
Address:	One California Street, Suite 1000 San Francisco, California 94111
Contact & Telephone No:	Andrew Fung (415) 677-3593
FedWire Bank ABA:	091000022
ACH Bank ABA:	091000022
SWIFT Code:	USBKUS44 IMT
Bank Account No:	180121167365
For the Credit of:	U.S. Bank National Association
Other Beneficiary Information:	SFPUC Wastewater 2013 Series B Bonds Good Faith Deposit

If the Deposit is not received by that time, the Commission may rescind the award of sale. No interest on the Deposit will accrue to the Purchaser. The Deposit will be applied to the purchase price of the Bonds. If the Purchaser fails to honor its accepted bid, the Deposit will be retained by the Commission as and for full liquidated damages.

If the Purchaser fails to provide the Reoffering Price Certificate, described below, by January __, 2013, the Deposit will be retained by the Commission.

Basis of Award. Unless all bids with respect to the Bonds are rejected, as described below under "*Right of Rejection and Waiver of Irregularity*," the Bonds will be awarded to the responsible

bidder whose bid represents the lowest TIC to the Commission with respect to the Bonds prior to any change to the principal payment schedule in accordance with this Official Notice of Sale. The TIC will be that nominal annual interest rate which, when compounded semiannually using a 360-day year and used to discount to the dated date of the Bonds all payments of principal and interest payable on the Bonds, results in an amount equal to the purchase price of the Bonds to be received by the Commission. If two or more bidders offer bids for the Bonds at the same lowest TIC, the Commission will determine by lot which bidder will be awarded the Bonds. Bid evaluations or rankings made by Parity are not binding on the Commission.

Estimate of True Interest Cost. Each bidder is requested, but not required, to state in each bid the amount of interest payable on the Bonds during the life of the issue and the percentage TIC to the Commission (determined as described above), which will be considered as informative only and not binding on either the bidder or the Commission.

Right of Rejection and Waiver of Irregularity. The Commission reserves the right, in its sole and absolute discretion, to reject any and all bids for the Bonds, for any reason. The Commission also reserves the right to waive any irregularity or informality in any bid.

Time of Award. The Commission, acting through its General Manager or its Assistant General Manager/Chief Financial Officer, Business and Financial Services, or a designee of the General Manager, will take action awarding the Bonds or rejecting all bids not later than two (2) hours after the date and time at which bids with respect to the Bonds are received, unless such period for award is waived by the Purchaser. Prompt notice of the award will be given to the Purchaser.

Confirmation of Bond Sizing. As described herein under "TERMS RELATING TO THE BONDS – Adjustment of Principal Payments" the actual principal amount of the Bonds and the actual maturity schedule (or sinking account payment schedule for term bonds) for the Bonds may be changed by the Commission after the determination of the winning bid. Any such changes will be reported to the Purchaser by 7:00 p.m. (New York time) on the date and time the bids are received. Any such increase or decrease will be in \$5,000 increments with respect to each maturity date or sinking account payment date. If any such adjustment occurs, no rebidding or recalculation of the bids submitted will be required or permitted and no successful bid may be withdrawn. The Purchaser will not be permitted to change the interest rates in its bid. The dollar amount bid by the Purchaser will be adjusted to reflect any adjustments in the aggregate principal amount of the Bonds to be issued.

Qualification for Sale; Compliance with Blue Sky Laws. Compliance with Blue Sky and other securities laws and regulations, including the payment of any applicable fees, shall be the sole responsibility of the Purchaser. The Commission will furnish such information and take such action not inconsistent with law as the Purchaser may request and the Commission may deem necessary or appropriate to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Purchaser; provided, however, that the Commission will not execute a general or special consent to service of process or qualify to do business in connection with such qualification or determination in any jurisdiction.

The Purchaser may not sell, offer to sell or solicit any offer to buy, the Bonds in any jurisdiction where it is unlawful for the Purchaser to make such sale, offer or solicitation, and

the Purchaser shall comply with the Blue Sky and other securities laws and regulations of the states and jurisdictions in which the Purchaser sells the Bonds.

Delivery and Payment. Delivery of the Bonds, in the form of one certificate for each maturity, will be made to the Purchaser through the facilities of DTC in New York, New York, or at any other location mutually agreeable to both the Commission and the Purchaser, as soon as practicable. The anticipated date of delivery of the Bonds is February 7, 2013. Payment for the Bonds (including any premium) must be made by wire transfer in immediately available funds. Any expense for making payment in immediately available funds shall be borne by the Purchaser.

Reoffering Price Certificate. The Purchaser must reoffer all of the Bonds to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers). For this purpose, sales of Bonds to other securities brokers or dealers will not be considered sales to the general public.

Not later than the close of business on the third business day following the date on which the sale of the Bonds is awarded, the Purchaser must deliver to the Commission a certificate in the form attached hereto as Exhibit A (the "Reoffering Price Certificate").

The Purchaser will also be required to provide to the Commission and Co-Bond Counsel such additional information as may be requested by Co-Bond Counsel. If the Reoffering Price Certificate is sent by fax transmission, a hard copy must also be promptly sent by mail or courier service.

Failure to demonstrate compliance with this requirement with respect to the Bonds will constitute a default by the Purchaser, entitling the Commission to retain the Purchaser's Deposit even though in such event the Commission will not deliver the Bonds to the Purchaser.

The Commission and the Financial Advisors will be relying on the indication of the reoffering prices set forth in the Reoffering Price Certificate in determining the arbitrage yield on the Bonds.

No Litigation. The Commission will deliver a certificate of the Commission with respect to the Bonds stating that no litigation is pending with service of process having been accomplished, or, to the knowledge of the officer of the Commission executing such certificate, threatened, concerning the validity of the Bonds, the existence of the Commission, or the title of the officers of the Commission who will execute the Bonds to their respective offices.

CUSIP Numbers. It is anticipated that CUSIP numbers will be printed on the Bonds and in the Official Statement, but neither the failure to print such numbers nor any error with respect thereto will constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Official Notice of Sale. The expenses associated with printing CUSIP numbers on the Bonds will be paid by the Commission; however, the CUSIP Service Bureau charge for the assignment of CUSIP numbers will be paid by the Purchaser. CUSIP data is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of The American Bankers Association. CUSIP numbers will be provided for convenience of reference only. Neither the Commission nor the City will take any responsibility for the accuracy of such numbers.

California Debt and Investment Advisory Commission Fee. The attention of bidders is directed to California Government Code Section 8856, which provides that the Purchaser of the

Bonds will be charged the California Debt and Investment Advisory Commission fee. The Purchaser is responsible for determining the actual fee due. The Commission expects the Purchaser to pay the applicable fee promptly upon receipt of the invoice.

Certificate Regarding Official Statement. At the time of delivery of the Bonds, the Purchaser will receive a certificate, signed by an officer of the Commission, confirming to the Purchaser that, to the best knowledge of said officer, the final Official Statement relating to the Bonds (the "Official Statement") (excluding information regarding underwriting, the municipal bond insurance policy or policies and the bond reserve surety bond and the provider or providers thereof, if any, and The Depository Trust Company and its book-entry only system, as to which no view will be expressed) as of the date of sale of the Bonds and as of the date of delivery thereof, did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

Official Statement. Electronic copies of the Preliminary Official Statement prepared by the Commission will be furnished to any interested bidder upon request to the Financial Advisors. In accordance with Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"), the Commission deems such Preliminary Official Statement final as of its date, except for the omission of certain information permitted by Rule 15c2-12. Within seven (7) business days after the date of award of the Bonds, the Purchaser of the Bonds will be furnished with a reasonable number of copies (not to exceed 75) of the Official Statement, without charge. If the Purchaser requests additional copies of the Official Statement within two (2) days after the award of the Bonds, the Commission will supply such requested additional copies of the Official Statement at the expense of the Purchaser.

By making a bid for the Bonds, the bidder agrees, if awarded the Bonds, (i) to disseminate to all members of the underwriting syndicate, if any, copies of the Official Statement, including any supplements prepared by the Commission, and (ii) to take any and all other actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Bonds to the ultimate purchasers, including without limitation the delivery of an Official Statement to each investor who purchases Bonds.

The form and content of the Official Statement of the Commission is within the sole discretion of the Commission. The Purchaser's name will not appear on the cover of the Official Statement.

Continuing Disclosure. In order to assist the Purchaser in complying with Securities and Exchange Commission Rule 15c2-12(b)(5), the Commission will undertake, pursuant to a Continuing Disclosure Certificate, to provide certain annual financial information and notices of the occurrence of certain events. A description of this undertaking and a form of the Continuing Disclosure Certificate are set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

Right to Modify or Amend. The Commission reserves the right to modify or amend this Official Notice of Sale in any respect; provided, however, that any such modification or amendment will be communicated to potential bidders through Parity not later than 1:00 p.m. (California time) on the business day preceding the date for receiving bids. Failure of any potential bidder to receive

notice of any modification or amendment will not affect the sufficiency of any such notice, the modification or amendment to which such notice relates, or the legality of the sale.

Postponement or Cancellation of Sale. The Commission reserves the right to postpone or cancel the sale of the Bonds at or prior to the time bids are to be received with respect to the Bonds. Notice of such postponement or cancellation will be given through Parity as soon as practicable following such postponement or cancellation. If the sale is postponed, notice of a new sale date will be given through Parity not later than 1:00 p.m. (California time) on the business day preceding the new sale date that bids are to be received. On any new sale date, any bidder may submit a bid for the purchase of the Bonds, which shall be in conformity in all respects with the provisions of this Official Notice of Sale except for the time or date and time of sale and any other changes announced through Parity.

Failure of any potential bidder to receive notice of cancellation or postponement shall not affect the sufficiency of any such notice, or affect the right of the Commission to cancel or postpone the sale. If a sale is postponed only, any subsequent bid submitted by a bidder with respect to such sale will supersede any prior bid made. If a sale is cancelled, all bids with respect to such sale will be deemed cancelled.

Equal Opportunity. Pursuant to the spirit and intent of the City's Local Business Enterprise ("LBE") Ordinance, Chapter 14B of the Administrative Code of the City, the Commission strongly encourages the inclusion of Local Business Enterprises certified by the San Francisco Human Rights Commission on prospective proposing syndicate/teams. A list of certified LBEs can be obtained by contacting the San Francisco Human Rights Commission at 25 Van Ness Avenue, Room 800, San Francisco, California 94102, (415) 252-2500.

Dated: January 15, 2013

EXHIBIT A

REOFFERING PRICE CERTIFICATE

**PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS
2013 SERIES B**

**(TO BE DELIVERED BY THE ORIGINAL PURCHASER AS DESCRIBED IN THE
OFFICIAL NOTICE OF SALE UNDER "TERMS OF SALE – REOFFERING PRICE
CERTIFICATE")**

This Certificate is furnished by _____, as original purchaser (the "Original Purchaser") of \$ _____ aggregate principal amount of the revenue bonds captioned above (the "Bonds"), to establish the initial offering price of said portion of the Bonds for purposes of determining the "issue price" of the Bonds within the meaning of Section 1273 of the Internal Revenue Code of 1986, as amended (the "Code").

The Original Purchaser DOES HEREBY CERTIFY as follows:

1. The Original Purchaser made a bona fide offering, beginning on _____, 2013, the date on which the Original Purchaser agreed to purchase the Bonds (the "Sale Date"), of all of the Bonds of each maturity to the General Public (hereinafter defined) at their respective initial offering prices, as set forth in Exhibit __ hereto (each, an "Initial Public Offering Price"), and reasonably expected on the Sale Date to sell the Bonds of each maturity to the General Public at their respective Initial Public Offering Prices.

2. The aggregate of the Initial Public Offering Prices is \$ _____ (representing \$ _____ aggregate principal amount of the Bonds, [plus] [minus] [net] original issue [premium] [discount] of \$ _____).

3. [Except for Bonds maturing on _____, 20____, _____, 20____, and _____, 20____ (the "Undersold Bonds"), with] [With] respect to each maturity of the Bonds, the Original Purchaser first sold for cash at least 10% of the aggregate principal amount of the Bonds to the General Public at their Initial Public Offering Price.

[4.] With respect to [each maturity of] the Undersold Bonds, despite the reasonable expectation of the Original Purchaser to sell the Bonds at their [respective] Initial Public Offering Price[s], the Original Purchaser did not sell at least 10% of the Bonds [of the maturity] to the General Public at their [respective] Initial Public Offering Price[s]. [PROVIDE EXPLANATION].[‡]

[4.] [5.] For purposes of this Certificate, the term "General Public" excludes bond houses, brokers and similar persons or organizations acting in the capacity of underwriters or wholesalers.

[‡] For any maturity of Undersold Bonds, the successful bidder will be required to supply an explanation, satisfactory to the issuer, as to why the successful bidder did not sell at least 10% of each such maturity.

Nothing herein represents the Original Purchaser's interpretation of any laws, and in particular, regulations under Section 148 of the Code.

Capitalized terms used herein and not otherwise defined have the meanings ascribed thereto in the Indenture dated as of January 1, 2003, by and between the Commission and U.S. Bank National Association, as amended and supplemented to date.

Dated: _____, 2013

[NAME OF UNDERWRITER]

By: _____
[NAME]
[TITLE]

EXHIBIT 1 TO REOFFERING PRICE CERTIFICATE

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Reoffering</u> <u>Price*</u>
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* Stated as a percentage of par.

NOTICE OF INTENTION TO SELL

\$ _____ *
PUBLIC UTILITIES COMMISSION OF
THE CITY AND
COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS
2013 SERIES A
(REFUNDING)

\$ _____ *
PUBLIC UTILITIES COMMISSION OF
THE CITY AND
COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS
2013 SERIES B

NOTICE IS HEREBY GIVEN that the Public Utilities Commission of the City and County of San Francisco (the "Commission") intends to offer for public sale the following bonds on the dates set forth below:

\$ _____ *
PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS
2013 SERIES A
(REFUNDING)

\$ _____ *
PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS
2013 SERIES B

January 8, 2013
at 8:00 a.m. (California time)

January 24, 2013
at 7:45 a.m. (California time)

**(subject to postponement or cancellation in accordance
with the hereinafter mentioned Official Notices of Sale)**

at the offices of the Commission, 525 Golden Gate Avenue, 13th Floor, San Francisco, California 94102, Bids for each of the above-referenced series of bonds will be received in electronic form only and solely through the Parity[®] electronic bid submission system of Ipreo ("Parity") in the manner described in the Official Notice of Sale related to such bonds.

The Commission reserves the right to postpone or cancel the sale of either series of bonds, to change the terms thereof upon notice given through Parity, and to reject all bids received on such date. In the event that no bid for a series is awarded, the Commission may reschedule the sale of such bonds to another date or time by providing notification through Parity. **Notice of any postponement, a new time, or a new time and date, for receipt of bids will be communicated through Parity.**

Each series of bonds will be offered for public sale subject to the terms and conditions of the related Official Notice of Sale. Further information regarding the proposed sale of each of the above-referenced series of bonds, including copies of the applicable Preliminary Official Statement and the Official Notice of Sale relating thereto are available electronically at Parity or may be obtained from either of the Commission's financial advisors: Public Resources Advisory Group, 11500 West Olympic Boulevard, Suite 502, Los Angeles, CA 90064, Attention: Edmund Soong, Telephone: (310) 477-8487, (email: esoong@pragla.com); and Kitahata & Company, 137

* Subject to adjustment in accordance with the related Official Notice of Sale.

Joost Avenue, San Francisco, California 94131, Attention: Gary Kitahata, Telephone: (415) 276-3777, (email: gkitahata@gmail.com).

On or around December 28, 2012, the Preliminary Official Statement and Official Notice of Sale relating to the 2013 Series A Bonds will be posted electronically at Ipreo Prospectus: www.i-dealprospectus.com. The Commission will not provide notice of the availability of such documents to any party, and the failure of any bidder to receive notice thereof shall not affect the legality of the sale of the 2013 Series A Bonds.

On or around January 15, 2013, the Preliminary Official Statement and Official Notice of Sale relating to the 2013 Series B Bonds will be posted electronically at Ipreo Prospectus: www.i-dealprospectus.com. The Commission will not provide notice of the availability of such documents to any party, and the failure of any bidder to receive notice thereof shall not affect the legality of the sale of the 2013 Series B Bonds.

Dated: December [26], 2012

§ _____
PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO WASTEWATER REVENUE BONDS
2013 SERIES _____
()

BOND PURCHASE CONTRACT

_____, 2013

Public Utilities Commission of the
City and County of San Francisco
525 Golden Gate Avenue, 13th Floor
San Francisco, CA 94102

Ladies and Gentlemen:

_____ (the "*Representative*"), as representative of itself, and _____ (collectively, the "*Underwriters*"), offers to enter into this bond purchase contract (this "*Purchase Contract*") with the Public Utilities Commission of the City and County of San Francisco (the "*Commission*"), which will be binding upon the Commission and the Underwriters upon acceptance hereof by the Commission. This offer is made subject to the acceptance by the Commission by the execution of this Purchase Contract and its delivery to the Representative on or before 11:59 p.m., California time, on the date hereof and, if not so accepted, will be subject to withdrawal by the Representative upon written notice delivered to the Commission at any time prior to the acceptance of this Purchase Contract by the Commission. If the Representative withdraws this offer, or the Underwriters' obligation to purchase the Bonds (as hereinafter defined) is otherwise terminated pursuant to Section 8(d) hereof, then and in such case, the City shall be without any further obligation to the Underwriters, including the payment of any costs set forth under Section 10(a) hereof, and the City shall be free to sell the Bonds to any other party.

Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture dated as of January 1, 2003 (the "*Master Indenture*"), between the Commission and U.S. Bank National Association, as trustee (the "*Trustee*"), as amended and supplemented, including as amended and supplemented pursuant to a _____ Supplemental Indenture, dated as of _____, 2013 (the "*Supplemental Indenture*"), between the

Commission and the Trustee (the Master Indenture, as amended and supplemented, being herein referred to as the "Indenture").

Section 1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations set forth herein, the Underwriters jointly and severally agree to purchase from the Commission, and the Commission hereby agrees to sell and deliver to the Underwriters, all (but not less than all) of the \$ _____ aggregate principal amount of Public Utilities Commission of the City and County of San Francisco San Francisco Wastewater Revenue Bonds, 2013 Series __ (the "Bonds").

The purchase price for the Bonds shall be \$ _____ (comprised of the principal amount of the Bonds, plus a net original issue premium on the Bonds of \$ _____, less an Underwriters' discount in the amount of \$ _____).

The Bonds shall be dated their date of delivery and shall have the maturities and bear interest at the rates per annum and have the yields all as set forth on Schedule I attached hereto. The Bonds shall be substantially in the form described in, and shall be issued and secured under and pursuant to, the Indenture. The Bonds shall mature and shall be as otherwise described in the Official Statement.

The Commission will deliver the Continuing Disclosure Certificate substantially in the form set forth in the Preliminary Official Statement (the "Continuing Disclosure Certificate") on the Closing Date (as defined herein). The form of the Continuing Disclosure Certificate will also be set forth in the Official Statement.

Section 2. Authorization for the Bonds; Purpose of Issue. Under [Section 8B.124 of the Charter] [Section 9.109 of the Charter (the "City Charter") of the City and County of San Francisco (the "City") and California Government Code Sections 53580 et seq.], [Ordinance No.93-10, adopted by the Board on April 27, 2010 and signed by the Mayor of the City on May 3, 2010, and, to the extent required, Ordinance No. 115-12, adopted by the Board on June 12, 2012 and signed by the Mayor of the City on June 18, 2012], Resolution No. _____, adopted by the Board of Supervisors of the City on _____, 2012 and signed by the Mayor of the City on _____, 2012 (the "Board Resolution"), and Resolution No. _____, adopted by the Commission on _____, 2012 (the "Commission Resolution" and together with the Board Resolution, the "Resolutions"), the Commission has the authority to issue wastewater revenue bonds.

The Bonds are being issued to [(i) refund all of the outstanding Public Utilities Commission of the City and County of San Francisco Clean Water Revenue Bonds, 2003 Refunding Series A, (ii) pay down loans used to finance various capital projects benefiting the Wastewater Enterprise provided by the California Clean Water State Revolving Fund], [(i) finance various capital projects benefiting the Commission's Wastewater Enterprise, (ii) refund all or a portion of the Commission's commercial paper notes issued to finance various capital projects benefiting the Commission's Wastewater Enterprise,] (v) fund the reserve accounts, if applicable, established under the _____ Supplemental Indenture, and (vi) pay certain costs of issuance of the Bonds.

Section 3. Public Offering. It shall be a condition to the obligations of the Underwriters to purchase, accept delivery of and pay for the Bonds that the entire principal amount of the Bonds be sold and delivered by the Commission to the Underwriters. Subsequent to the initial public offering, the public offering prices of the Bonds may change as determined by the Underwriters as deemed necessary in connection with the marketing of the Bonds.

Section 4. Delivery of Official Statement. Prior to the date hereof, the Commission has provided to the Underwriters for review a form of preliminary official statement relating to the Bonds dated _____, 2013 (including the cover page and appendices thereto, the "*Preliminary Official Statement*"), which as of its date, a representative of the Commission on behalf of the Commission deemed final for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("*Rule 15c2-12*"), except for certain information permitted to be omitted therefrom by Rule 15c2-12. By its acceptance of this offer, the Commission hereby ratifies the use and distribution by the Underwriters of the Preliminary Official Statement and the Commission has authorized the delivery of a final official statement relating to the Bonds dated the date hereof (the "*Official Statement*") which will consist of the Preliminary Official Statement and all information previously permitted to have been omitted by Rule 15c2-12.

The Commission hereby acknowledges that the Preliminary Official Statement has been made available to investors on the Internet at www.i-dealprospectus.com. The Commission hereby agrees to deliver or cause to be delivered to the Underwriters within seven Business Days of the date hereof and at least in sufficient time to accompany any orders or confirmations that request payment from any customers, not more than 100 copies of the final official statement (including all information permitted to be omitted by Rule 15c2-12 and any amendments or supplements to such official statement as have been approved by the Commission and the Representative) (the "*Official Statement*") to enable the Underwriters to comply with the rules of the Securities and Exchange Commission (the "*SEC*") and the Municipal Securities Rulemaking Board (the "*MSRB*"). The Commission hereby approves of the use and distribution by the Underwriters of the Official Statement in connection with the offer and sale of the Bonds. At the time of or prior to the Closing Date (as hereinafter defined), the Representative shall file a copy of the Official Statement with the MSRB or its designee (including the MSRB's Electronic Municipal Market Access ("*EMMA*") system) or with any other repository approved from time to time by the SEC (either in addition to or in lieu of the filings referred to above).

Section 5. The Closing. At 8:00 a.m., California time, on _____, 2013, or at such other time or on such other date as the Commission and the Representative may agree (the "*Closing Date*"), the Commission shall deliver, or cause to be delivered to the Representative through the F.A.S.T. delivery system of The Depository Trust Company ("*DTC*"), the Bonds in book-entry form, duly executed and authenticated. Concurrently with the delivery of the Bonds to the Representative, the Commission will deliver the documents hereinafter mentioned at the offices of Sidley Austin LLP (together with Curis Bartling P.C., "Co-Bond Counsel"), in San Francisco, California, or another place to be mutually agreed upon by the Commission and the Representative. The Underwriters shall accept such delivery and pay the purchase price for the Bonds set forth in Section 1 in immediately available funds to the order of the Trustee. This payment for and delivery of the Bonds, together with the delivery of the aforementioned documents, is herein called the "*Closing*." The Commission with the assistance of the

Representative shall cause CUSIP identification numbers to be printed on the Bonds; *provided* that neither the failure to print such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Underwriters to accept the Bonds. The Underwriters represent that the CUSIP numbers set forth on Schedule I hereof are the correct CUSIP numbers for the Bonds. The Bonds shall be made available to the Trustee at least two (2) business days prior to the Closing.

Section 6. Representations, Warranties and Covenants of the Commission. The Commission represents, warrants and covenants to the Underwriters as follows:

(a) *Due Organization, Existence and Authority.* The Commission is a duly constituted public commission of the City and County of San Francisco duly organized and validly existing pursuant to its Charter and the Constitution and laws of the State, with full authority to: (i) adopt the Commission Resolution; (ii) execute and deliver the _____ Supplemental Indenture, the Continuing Disclosure Certificate and this Purchase Contract; (iii) approve the Official Statement and authorize its distribution by the Underwriter; (iv) sell and deliver the Bonds to the Underwriters as provided herein and (v) carry out and consummate the other transactions contemplated by such documents.

(b) *Accuracy and Completeness of the Preliminary Official Statement and Official Statement.* The information with respect to the Commission, its activities and the Enterprise as described in the Preliminary Official Statement as supplemented and amended through the date hereof was and the Official Statement, is, and at all times subsequent to the date of the Official Statement up to and including the date of the Closing will be, true and correct in all material respects, contains and will contain no misstatement of any material fact and did not and will not omit any statement and information that is necessary to make the statements and information with respect to the Commission contained therein, in the light of the circumstances under which such statements were made, not misleading in any material respect, excluding in each case any information contained in the Preliminary Official Statement and the Official Statement relating to (i) the offering prices, interest rate, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, or other terms of the Bonds depending on such matters, (ii) DTC and the book-entry only system and (iii) the information under the caption "UNDERWRITING."

(c) *Official Statement.* If, at any time prior to the date twenty-five (25) days following the later of (a) the Closing or (b) the date the Underwriters no longer retain, directly or as member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public (the later of (a) or (b) being the "*End of the Underwriting Period*"), an event occurs or facts or conditions become known of which the Commission has knowledge, which in the reasonable opinion of Co-Bond Counsel or the General Counsel to the Commission or the City Attorney might or would cause the information in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the

Commission will notify the Representative, and, if in the reasonable opinion of the Representative and the Commission such event, fact or condition requires the preparation and publication of a supplement or amendment to the Official Statement, the Commission will amend or supplement the Official Statement in a form and in a manner reasonably approved by the Representative and the Commission, provided all expenses incurred in connection with preparing an amendment or supplement to the Official Statement will be paid by the Commission. As used herein and for the purposes of the foregoing, the term "End of the Underwriting Period" for the Bonds shall refer to the Closing, unless the Commission shall have been notified in writing to the contrary by the Representative on or prior to the Closing. For the purposes of this subsection, the Commission will furnish such information as the Underwriters may from time to time reasonably request in writing prior to the End of the Underwriting Period.

(d) *No Breach or Default.* As of the time of acceptance hereof and as of the Closing Date and except as otherwise disclosed in the Official Statement, neither the execution nor the delivery by the Commission of the _____ Supplemental Indenture, the Continuing Disclosure Certificate or this Purchase Contract, the adoption of the Commission Resolution, or the compliance by the Commission with such documents or authorizations, or the consummation of the transactions contemplated by such documents or by the Indenture or the Official Statement: (i) conflicts with or constitutes a material breach of or default under any applicable law or administrative regulation of the State or the United States, or any other statute or administrative rule or regulation, judgment, decree, order, license, permit, agreement or instrument to which the Commission is subject which breach, default or conflict would have a material adverse effect on the ability of the Commission to repay the Bonds or have a material adverse effect on the ability of the Commission to perform its obligations under the Indenture, the Continuing Disclosure Certificate or this Purchase Contract.

(e) *No Other Bond Issues or Debt.* Between the time of acceptance hereof and the Closing Date, the Commission will not, without the prior notice to the Representative, issue any bonds or securities or incur any other indebtedness secured by the Revenues.

(f) *No Litigation.* The Commission shall certify that, as of the date hereof and as of the Closing Date, and except as disclosed in the Official Statement, there is no action, suit, proceedings, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the best knowledge of the Commission, threatened against the Commission affecting the existence of the Commission or the titles of its officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture or any action of the Commission contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the Commission with respect to the Bonds or any action of the Commission contemplated by any of said documents, nor to the knowledge of the members of the Commission, as

evidenced by the representative of the Commission signing this Agreement, is there any basis therefor. The Commission shall further certify that, as of the date hereof and as of the Closing Date, and except as disclosed in the Official Statement, there is no action, suit, proceedings, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the best knowledge of the Commission, threatened against the Commission in which a final adverse decision would materially and adversely affect the operations of the Enterprise or the consummation of the transactions contemplated by this Purchase Contract; or contesting in any way the completeness, accuracy or fairness of the Official Statement.

(g) *Further Cooperation; Blue Sky.* The Commission will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters as the Underwriters may reasonably request in order to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriters may designate; *provided, however,* that the Commission will not be required to execute a special or general consent to service of process or qualify as a foreign corporation in connection with any such qualification in any jurisdiction.

Section 7. Representations, Covenants and Agreements of the Underwriters. The Underwriters represent, covenant and agree with the Commission that:

(a) The Underwriters have been duly authorized to enter into this Purchase Contract, and have duly authorized the Representative to act on behalf of the Underwriters with respect to this Purchase Contract.

(b) The Underwriters shall comply with the San Francisco Business Tax Ordinance and shall, if not otherwise exempt from such ordinance, provide to the Commission a Business Tax Registration Certificate on or prior to the date hereof.

(c) The Underwriters shall comply with Chapter 12B of the San Francisco Administrative Code, entitled "Nondiscrimination in Contracts," which is incorporated herein by this reference.

(d) The Underwriters shall comply with all SEC and MSRB rules applicable to the offering, sale and delivery of the Bonds to ultimate purchasers.

(e) Prior to the date hereof each Underwriter has provided a letter to the Commission relating to each Underwriters' compliance with MSRB Rule G-17, and if any potential or actual material conflicts require disclosure after the date of such letter and prior to the Closing Date each Underwriter will update its respective letter, if necessary.

(f) The Underwriters shall comply with the Commission's policy and practice that the Commission shall not pay, and the Underwriters shall not pass through to the Commission, any fees that are assessed on the Underwriters' as part of the Governmental

Accounting Standards Board fee, as well as the MSRB Underwriting and Transaction Assessment, the SIFMA Municipal Assessment or any other industry related fees that are required to be paid solely by the Underwriters.

Section 8. Closing Conditions. The Underwriters have entered into this Purchase Contract in reliance upon the representations, warranties and covenants herein and the performance by the Commission of its obligations hereunder, both as of the date hereof and as of the Closing Date. The obligations of the Underwriters under this Purchase Contract are and shall be subject to the following conditions:

(a) *Bring-Down Representation.* The representations and warranties of the Commission contained herein shall be true, accurate and correct in all material respects at the date hereof and on the Closing Date, as if made on the Closing Date.

(b) *Executed Documents and Performance Thereunder.* At the time of the Closing (i) the Indenture, this Purchase Contract and the Official Statement shall be in full force and effect, and shall not have been amended, modified or supplemented except with the consent of the Representative (which consent will not be unreasonably withheld); and (ii) the Commission shall perform or have performed all of its obligations required under or specified in this Purchase Contract, the Official Statement and the Indenture to be performed prior to the Closing.

(c) *No Default.* At the time of the Closing, no default shall have occurred or be existing under the Indenture or this Purchase Contract.

(d) *Termination Events.* The Representative may terminate this Purchase Contract by notification in writing to the Commission, but only after consultation with the Commission, if, at any time on or prior to the Closing, any of the following occurs and, as a result of the occurrence of such an event, the marketability of the Bonds or the market price thereof, in the reasonable opinion of the Representative after consultation with the Commission, would be materially adversely affected:

(i) any event shall occur which makes untrue any statement or results in an omission to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading and the Commission fails to amend or supplement the Official Statement pursuant to Section 6(c) hereof; or

(ii) an amendment to the Constitution of the United States or the Constitution of the State or legislation in or by the Congress of the United States or the legislature of the State, or the amendment of legislation pending as of the date of this Purchase Contract in the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on

behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority or the occurrence of any other comparable legislative or regulatory event affecting the federal or State tax status of the interest on the Bonds or bonds or obligations of the general character of the Bonds, provided that the occurrence of any such event shall not constitute a termination event hereunder if the prospect of such constitutional, legislative, regulatory or judicial action or enactment shall have been publicly known on the date hereof; or

(iii) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State shall be rendered which, in the reasonable opinion of the Representative and upon consultation with the Commission, materially adversely affects the market price of the Bonds; or

(iv) a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Indenture need be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(v) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, to the effect that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration under the Securities Act of 1933, as amended and as then in effect, or the Securities Exchange Act of 1934, as amended and as then in effect, or that the Indenture is not exempt from qualification under the Trust Indenture Act of 1939, as amended and as then in effect; or

(vi) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in the United States in securities generally by any governmental authority or by any national securities exchange; or

(vii) a general banking moratorium shall have been declared by federal, State or State of New York authorities; or

(viii) the ratings on the Bonds shall have been downgraded or withdrawn subsequent to the date of this Purchase Contract by a rating agency rating the Bonds; or

(ix) a decision by a federal or State court or legislative action which causes, or in the reasonable opinion of the Representative and the Commission, would cause a material reduction in the Net Revenues which would materially adversely affect the Commission's ability to repay the Bonds; or

(x) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national or international emergency or war or other calamity or crisis the effect of which on financial markets is such as to make it, in the reasonable judgment of the Underwriters, impracticable or inadvisable to proceed with the offering of the Bonds as contemplated in the Official Statement; or

(xi) there shall be (a) any change in or addition to applicable federal or state law, whether statutory or as interpreted by the courts or by federal or state agencies, including any changes in or new rules, regulations or other pronouncements or interpretations by federal or state agencies, (b) any legislation enacted by the Congress of the United States or recommended for passage by the President of the United States (if such enacted, introduced or recommended legislation has a proposed effective date which is on or before the Closing Date), (c) any law, rule or regulation proposed or enacted by any governmental body, department or agency (if such proposed or enacted law, rule or regulation has a proposed effective date which is on or before the Closing Date) or (d) any judgment, ruling or order issued by any court or administrative body, which in any such case would, prohibit (or have the retroactive effect of prohibiting, if enacted, adopted, passed or finalized) the Underwriters from underwriting the Bonds as provided herein or selling the Bonds to the public.

The termination of this Purchase Contract pursuant to this Section 8(d) by the Representative with respect to the Bonds shall not prohibit the Commission from selling such Bonds to any other underwriter.

(e) *Closing Documents.* At or prior to the Closing, the Representative shall receive with respect to the Bonds (unless the context otherwise indicates) the following documents, in each case satisfactory in form and substance to the Representative:

(1) *Approving Authorizations.* Certified copies of the Resolutions and Ordinance.

(2) *Bond Documents.* Executed originals of the Indenture, the Supplemental Indenture, the Continuing Disclosure Certificate and this Purchase Contract.

(3) *Final Opinion.* An approving opinion or opinions of Co-Bond Counsel, dated the Closing Date, and substantially in the form attached to the Official Statement, and a letter of such counsel addressed to the Representative to

the effect that such opinion may be relied upon by the Representative to the same extent as if it had been addressed to them.

(4) *Supplemental Opinion.* A supplemental opinion or opinions of Co-Bond Counsel addressed to the Commission and the Representative, dated the Closing Date, to the following effect:

(i) The statements contained in the Official Statement under the captions "THE 2013 __ BONDS," "SECURITY FOR THE BONDS," "TAX MATTERS," Appendix A—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE," and Appendix F—"PROPOSED FORMS OF OPINIONS OF CO-BOND COUNSEL," insofar as such statements purport to summarize certain provisions of the Bonds, the Indenture, and the opinion of Co-Bond Counsel with respect to the exclusion from gross income of interest on the Bonds for federal income tax purposes are accurate in all material respects.

(ii) The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended.

(iii) This Purchase Contract, the _____ Supplemental Indenture and the Continuing Disclosure Certificate have each been duly authorized, executed and delivered by the Commission and constitute the valid, legal and binding agreements of the Commission, each enforceable in accordance with its respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or other similar laws affecting enforcement of creditors' rights, by the application of equitable principles if equitable remedies are sought and limitations on the enforcement of legal remedies against public agencies in the State.

(5) *Disclosure Counsel Opinion As to Official Statement.* An opinion of Jones Hall, A Professional Law Corporation, as Disclosure Counsel to the Commission, addressed to the Commission and the Underwriters, dated the Closing Date, in form and substance satisfactory to the Commission and the Underwriters.

(6) *Certificate of the Commission.* A certificate of the Commission dated the Closing Date, signed on behalf of the Commission by an authorized officer of the Commission, to the effect that:

(i) The representations and warranties of the Commission contained herein are true and correct in all material respects on and as of the Closing Date as if made on the Closing Date.

(ii) No event affecting the Commission has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(7) *Certificate of the Trustee.* A certificate of the Trustee, dated the Closing Date, to the effect that:

(i) The Trustee is a national banking association organized and existing under the laws of the United States of America and has full power and is qualified to accept and comply with the terms of the Indenture and to perform its obligations thereunder.

(ii) The Trustee has accepted the duties and obligations imposed on it by the Indenture.

(iii) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the consummation by the Trustee of the transactions contemplated by the Indenture to be undertaken by the Trustee.

(iv) Compliance with the terms of the Indenture will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Trustee is a party or by which it is bound, or, to the best knowledge of the Trustee, after reasonable investigation, any law, rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties (except that no representation, warranty or agreement is made by the Trustee with respect to any federal or state securities or Blue Sky laws or regulations).

(v) To the knowledge of the Trustee after due inquiry, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental agency, public board or body served on or threatened against or affecting the existence of the Trustee, or in any way contesting or affecting the validity or enforceability of the Indenture or the Bonds, or contesting the powers of the Trustee or its authority to enter into and perform its obligations under the Indenture or the Bonds, wherein an unfavorable decision, ruling or finding would adversely affect the validity of the Bonds or the Indenture.

(8) *Trustee's Counsel Opinion.* An opinion of counsel to the Trustee addressed to the Commission and the Underwriter, dated the Closing Date, to the effect that:

(i) The Trustee is a national banking association with trust powers, duly organized and validly existing and in good standing under the laws of the United States of America, having the legal authority to exercise trust powers in the State.

(ii) The Trustee has full legal power and adequate corporate authority to accept the duties and obligations imposed on it by the Indenture and to authenticate the Bonds and the full legal power and authority to own its properties and to carry on its business.

(iii) The Bonds have been duly authenticated by the Trustee.

(iv) No consent, approval, authorization or order of any court, regulatory authority or governmental body is required for the valid authorization, execution and delivery of the Indenture and the authentication of the Bonds or the consummation by the Trustee of the transactions contemplated in the Indenture except such as have been obtained and except such as may be required under the state securities or Blue Sky laws in connection with the purchase and distribution of the Bonds by the Underwriter.

(v) The acceptance of its duties under the Indenture and the authentication of the Bonds by the Trustee and performance by the Trustee of its obligations thereunder will not conflict with or result in a breach of any of the terms, conditions or provisions of its Articles of Association or Bylaws or any other agreement or instrument to which the Trustee is a party or by which it is bound or any other existing law, regulation, court order or consent decree to which the Trustee is subject or constitute a default thereunder.

(vi) There is no action, suit, proceeding inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or threatened against the Trustee affecting the existence of the Trustee or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the authentication of the Bonds by the Trustee, or contesting the powers of the Trustee or its authority to perform its obligations under the Indenture or the Bonds.

(9) *Tax Certificate.* Tax Certificate of the Commission, dated the Closing Date, in forms satisfactory to Co-Bond Counsel.

(10) *Escrow Agreement.* Escrow Agreement related to the Bonds, dated the Closing Date, in forms satisfactory to Co-Bond Counsel.

(11) *California Debt and Investment Advisory Commission Filings.* Copies of the Report of Proposed Debt Issuance and Report of Final Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 53583 of the Government Code and Section 8855(g) of the Government Code.

(12) *Continuing Disclosure Certificate.* An executed copy of the Continuing Disclosure Certificate in substantially the form attached to the Official Statement as Appendix G.

(13) *Rating Letters for the Bonds.* Rating Letters of Moody's Investors Service, Inc. ("*Moody's*") and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("*S&P*"), evidencing that such rating agencies have assigned their municipal bond ratings of "___" and "___," respectively.

(14) *Additional Documents.* Such legal opinions, additional certificates, instruments and other documents as the Representative or Co-Bond Counsel may reasonably deem necessary to evidence the truth and accuracy as of the time of the Closing of the representations of the Commission and the due performance or satisfaction by the Commission at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the Commission.

If the Commission shall be unable to satisfy the conditions contained in this Purchase Contract, or if the obligations of the Underwriters shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and the Underwriters and the Commission shall not be under further obligation hereunder, except as further set forth in Section 10 hereof.

Section 9. Good Faith Deposit. To secure the Commission from any loss resulting from the failure of the Underwriters to accept delivery of and pay the purchase price for the Bonds pursuant to the terms of this Purchase Contract, the Underwriters agrees to deliver to or to the order of the Commission, concurrently with the execution and delivery of this Purchase Contract, either an official bank check (which may be deposited by the Commission upon receipt) or a federal funds wire transfer in the amount of \$_____ (representing one-percent (1%) of the principal amount of the Bonds) (the "Good Faith Deposit"). At the Closing, the Good Faith Deposit will be applied towards and deducted from the aggregate net purchase price for the Bonds as provided in Section 1 of this Purchase Contract. If the Underwriters fail to pay the purchase price in full upon tender of the Bonds (other than for a reason permitted under Section 8 hereof), the Commission may retain such Good Faith Deposit as and for liquidated damages for such failure by the Underwriters. In such circumstance, the Underwriters will have no right to recover the Good Faith Deposit or to any allowance or credit therefor. Retaining the Good Faith Deposit shall constitute the Commission's sole and exclusive remedy and full

liquidated damages for the Underwriters' failure (other than for a reason expressly set forth herein) to purchase and accept delivery of the Bonds pursuant to the terms of this Purchase Contract and the Underwriters shall be released and discharged from any and all claims for damages by the Commission against the Underwriters related to such failure and any other defaults by Underwriters hereunder. The Underwriters and the Commission hereby acknowledge and agree that the amount fixed pursuant to this Section for liquidated damages does not constitute a penalty and is a reasonable estimate of the damages that the Commission would sustain in the event of the Underwriters' failure to purchase and to accept delivery of the Bonds on the Closing Date pursuant to the terms of this Purchase Contract. The amount is agreed upon and fixed as liquidated damages because of the difficulty of ascertaining as of the date hereof the actual amount of damages that would be sustained in such event. If the Commission fails to deliver the Bonds on the Closing Date pursuant to this Purchase Contract, or if the conditions to the obligations of the Underwriters to purchase, accept delivery of and pay for the Bonds as set forth in this Purchase Contract shall not be satisfied (unless waived in writing by the Representative pursuant to this Purchase Contract), or if this Purchase Contract is terminated for a reason set forth in Section 8 hereof, the Commission shall promptly to return or cause the return of the Good Faith Deposit to the Underwriters. Upon such return of the Good Faith Deposit to the Underwriters, this Purchase Contract shall terminate, and neither party shall have any further obligations hereunder.

Section 10. Expenses.

(a) *Commission.* The Commission shall pay or cause to be paid (but solely from the proceeds of the Bonds and not otherwise) the expenses incident to the performance of the obligations of the Commission hereunder, including but not limited to: (1) the cost of printing of the Preliminary Official Statement and the final Official Statement in reasonable quantities and all other documents prepared in connection with the transactions contemplated hereby; (2) the fees and disbursements of the Trustee and counsel to the Trustee in connection with the issuance of the Bonds; (3) the fees and disbursements of Co-Bond Counsel and of Public Resources Advisory Group and Kitahata & Company, as Co-Financial Advisors to the Commission, and any other experts or consultants retained by the Commission in connection with the transactions contemplated hereby; and (4) the costs related to obtaining ratings.

(b) *Underwriter.* The Underwriters shall pay: (1) the cost of preparation and printing of Blue Sky and Legal Investment Memoranda, if any, to be used by it; (2) all advertising expenses in connection with the public offering of the Bonds; (3) California Debt and Investment Advisory Commission fees; and (4) all other expenses incurred by the Underwriters in connection with its public offering and distribution of the Bonds, including, without limitation, any experts or other consultants hired or retained by the Underwriters, including Underwriters' counsel, the fees and charges of the CUSIP Bureau, the MSRB and the California Debt and Investment Advisory Commission.

Section 11. City Contracting Requirements. The Underwriters hereby represent to the Commission that it has reviewed and will comply with the following City contracting requirements:

(a) *Conflict of Interest.* Through its execution of this Purchase Contract, Underwriters acknowledge that they are familiar with the provision of Section 15.103 of the City's Charter, Article III, Chapter 2 of City's Campaign and Governmental Conduct Code, and Section 87100 et seq. and Section 1090 et seq. of the Government Code of the State of California, and certifies that it does not know of any facts which constitute a violation of said provisions and agrees that it will immediately notify the City if it becomes aware of any such fact during the term of this Purchase Contract.

(b) *Proprietary or Confidential Information of City.* The Underwriters agree to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Purchase Contract, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Purchase Contract or the enforcement of rights hereunder, (f) subject to an agreement containing provisions substantially the same as those of this section, to (i) any assignee of or participant in, or any prospective assignee of or participant in, any of its rights or obligations under this Purchase Contract or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the City and its obligations, (g) with the consent of the City or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this section or (ii) becomes available to the Underwriters on a nonconfidential basis from a source other than the City. For the purposes of this Section, "Information" means all information received from the City relating to the City or its business, other than any such information that is available to the Issuing Underwriters on a nonconfidential basis prior to disclosure by the City; *provided* that, in the case of information received from the City after the date hereof, such information is clearly identified at the time of delivery as confidential. Any person required to maintain the confidentiality of Information as provided in this section shall be considered to have complied with its obligation to do so if such person has exercised the same degree of care to maintain the confidentiality of such Information as such person would accord to its own confidential information.

(c) *Ownership of Results.* Any interest of the Underwriters or their Subcontractors, in drawings, plans, specifications, blueprints, studies, reports, memoranda, computation sheets, computer files and media or other documents prepared by the Underwriters or their Subcontractors in connection with services to be performed under this Purchase Contract, shall become the property of and will be transmitted to City. However, the Underwriters may retain and use copies for reference and as documentation of its experience and capabilities.

(d) *Works for Hire.* If, in connection with services performed under this Purchase Contract, the Underwriters or their Subcontractors create artwork, copy, posters, billboards, photographs, videotapes, audiotapes, systems designs, software, reports, diagrams, surveys, blueprints, source codes or any other original works of authorship, such works of authorship shall be works for hire as defined under Title 17 of the United States Code, and all

copyrights in such works are the property of the City. If it is ever determined that any works created by the Underwriters or the Subcontractors under this Purchase Contract are not works for hire under U.S. law, the Underwriters hereby assign all copyrights to such works to the City, and agrees to provide any material and execute any documents necessary to effectuate such assignment. With the approval of the City, the Underwriters may retain and use copies of such works for reference and as documentation of its experience and capabilities.

(e) *Audit and Inspection of Records.* The Underwriters agree to maintain and make available to the City, during regular business hours, accurate books and accounting records relating to its work under this Purchase Contract. The Underwriters will permit City to audit, examine and make excerpts and transcripts from such books and records, and to make audits of all invoices, materials, payrolls, records or personnel and other data related to all other matters covered by this Purchase Contract, whether funded in whole or in part under this Purchase Contract. The Underwriters shall maintain such data and records in an accessible location and condition for a period of not less than five years after final payment under this Purchase Contract or until after final audit has been resolved, whichever is later. The State of California or any federal agency having an interest in the subject matter of this Purchase Contract shall have the same rights conferred upon City by this Section.

(f) *Subcontracting.* The Underwriters are prohibited from subcontracting this Purchase Contract or any part of it unless such subcontracting is first approved by City in writing. Neither party shall, on the basis of this Purchase Contract, contract on behalf of or in the name of the other party. An agreement made in violation of this provision shall confer no rights on any party and shall be null and void.

(g) *Assignment.* The services to be performed by the Underwriters are personal in character and neither this Purchase Contract nor any duties or obligations hereunder may be assigned or delegated by the Underwriters unless first approved by City by written instrument executed and approved in the same manner as this Purchase Contract.

(h) *Non-Waiver of Rights.* The omission by either party at any time to enforce any default or right reserved to it, or to require performance of any of the terms, covenants, or provisions hereof by the other party at the time designated, shall not be a waiver of any such default or right to which the party is entitled, nor shall it in any way affect the right of the party to enforce such provisions thereafter.

(i) *Earned Income Credit (EIC) Forms.* Administrative Code Section 120 requires that employers provide their employees with IRS Form W-5 (The Earned Income Credit Advance Payment Certificate) and the IRS EIC Schedule, as set forth below. Employers can locate these forms at the IRS Office, on the Internet, or anywhere that Federal Tax Forms can be found. Each Underwriter shall provide EIC Forms to each Eligible Employee at each of the following times: (i) within thirty days following the date on which this Purchase Contract becomes effective (unless such Underwriter has already provided such EIC Forms at least once during the calendar year in which such effective date falls); (ii) promptly after any Eligible Employee is hired by such Underwriter; and (iii) annually between January 1 and January 31 of each calendar year during the term of this Purchase Contract. Failure to comply with any

requirement contained in subparagraph (a) of this Section shall constitute a material breach by the Underwriters of the terms of this Purchase Contract. If, within thirty days after an Underwriter receive written notice of such a breach, such Underwriter fails to cure such breach or, if such breach cannot reasonably be cured within such period of thirty days, such Underwriter fails to commence efforts to cure within such period or thereafter fails to diligently pursue such cure to completion, the City may pursue any rights or remedies available under this Purchase Contract or under applicable law. Any Subcontract entered into by an Underwriter shall require the Subcontractor to comply, as to the Subcontractor's Eligible Employees, with each of the terms of this section. Capitalized terms used in this Section and not defined in this Purchase Contract shall have the meanings assigned to such terms in Section 120 of the San Francisco Administrative Code.

(j) *Local Business Enterprise Utilization; Liquidated Damages*

i. The LBE Ordinance. Each Underwriter shall comply with all the requirements of the Local Business Enterprise and Non-Discrimination in Contracting Ordinance set forth in Chapter 14B of the San Francisco Administrative Code as it now exists or as it may be amended in the future (collectively the "LBE Ordinance"), provided such amendments do not materially increase such Underwriter's obligations or liabilities, or materially diminish such Underwriter's rights, under this Purchase Contract. Such provisions of the LBE Ordinance are incorporated by reference and made a part of this Purchase Contract as though fully set forth in this section. An Underwriter's willful failure to comply with any applicable provisions of the LBE Ordinance is a material breach of the Underwriters' obligations under this Purchase Contract and shall entitle City, subject to any applicable notice and cure provisions set forth in this Purchase Contract, to exercise any of the remedies provided for under this Purchase Contract, under the LBE Ordinance or otherwise available at law or in equity, which remedies shall be cumulative unless this Purchase Contract expressly provides that any remedy is exclusive. In addition, the Underwriters shall comply fully with all other applicable local, state and federal laws prohibiting discrimination and requiring equal opportunity in contracting, including subcontracting.

ii. Compliance and Enforcement. If an Underwriter willfully fails to comply with any of the provisions of the LBE Ordinance, the rules and regulations implementing the LBE Ordinance, or the provisions of this Purchase Contract pertaining to LBE participation, Underwriters shall be liable for liquidated damages in an amount equal to Underwriter's net profit on this Purchase Contract, or 10% of the total amount of this Purchase Contract, or \$1,000, whichever is greatest. The Director of the City's Human Rights Commission or any other public official authorized to enforce the LBE Ordinance (separately and collectively, the "Director of HRC") may also impose other sanctions against such Underwriter authorized in the LBE Ordinance, including declaring such Underwriter to be irresponsible and ineligible to contract with the City for a period of up to five years or revocation of the Underwriter's LBE certification. The Director of HRC will determine the sanctions to be imposed, including the amount of liquidated damages, after investigation pursuant to Administrative Code §14B.17. By entering into this Purchase Contract, each Underwriter acknowledges and agrees that any liquidated damages assessed by the Director of the HRC shall be payable to City upon demand. Each Underwriter further acknowledges and agrees that any liquidated damages assessed may be

withheld from any monies due to such Underwriter on any contract with City. Each Underwriter agrees to maintain records necessary for monitoring its compliance with the LBE Ordinance for a period of three years following termination or expiration of this Purchase Contract, and shall make such records available for audit and inspection by the Director of HRC or the Controller upon request.

(k) *Nondiscrimination; Penalties*

i. Underwriters Shall Not Discriminate. In the performance of this Purchase Contract, each Underwriter agrees not to discriminate against any employee, City and County employee working with such Underwriter or Subcontractor, applicant for employment with such Underwriter or Subcontractor, or against any person seeking accommodations, advantages, facilities, privileges, services, or membership in all business, social, or other establishments or organizations, on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, height, weight, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), or association with members of such protected classes, or in retaliation for opposition to discrimination against such classes.

ii. Subcontracts. Each Underwriter shall incorporate by reference in all subcontracts the provisions of §§12B.2(a), 12B.2(c)-(k), and 12C.3 of the San Francisco Administrative Code (copies of which are available from Purchasing) and shall require all Subcontractors to comply with such provisions. An Underwriter's failure to comply with the obligations in this subsection shall constitute a material breach of this Purchase Contract.

iii. Nondiscrimination in Benefits. Each Underwriter does not as of the date of this Purchase Contract and will not during the term of this Purchase Contract, in any of its operations in San Francisco, on real property owned by San Francisco, or where work is being performed for the City elsewhere in the United States, discriminate in the provision of bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits, as well as any benefits other than the benefits specified above, between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees, where the domestic partnership has been registered with a governmental entity pursuant to state or local law authorizing such registration, subject to the conditions set forth in §12B.2(b) of the San Francisco Administrative Code.

iv. Condition to Contract. As a condition to this Purchase Contract, each Underwriter shall execute the "Chapter 12B Declaration: Nondiscrimination in Contracts and Benefits" form (form HRC-12B-101) with supporting documentation and secure the approval of the form by the San Francisco Human Rights Commission.

v. Incorporation of Administrative Code Provisions by Reference. The provisions of Chapters 12B and 12C of the San Francisco Administrative Code are incorporated in this Section by reference and made a part of this Purchase Contract as though fully set forth herein. Each Underwriter shall comply fully with and be bound by all of the provisions that

apply to this Purchase Contract under such Chapters, including but not limited to the remedies provided in such Chapters. Without limiting the foregoing, each Underwriter understands that pursuant to §§12B.2(h) and 12C.3(g) of the San Francisco Administrative Code, a penalty of \$50 for each person for each calendar day during which such person was discriminated against in violation of the provisions of this Purchase Contract may be assessed against such Underwriter and/or deducted from any payments due such Underwriter.

(l) *MacBride Principles—Northern Ireland.* Pursuant to San Francisco Administrative Code §12F.5, the City and County of San Francisco urges companies doing business in Northern Ireland to move towards resolving employment inequities, and encourages such companies to abide by the MacBride Principles. The City and County of San Francisco urges San Francisco companies to do business with corporations that abide by the MacBride Principles. By signing below, the person executing this agreement on behalf of the Underwriters acknowledges and agrees that he or she has read and understood this section.

(m) *Tropical Hardwood and Virgin Redwood Ban.* Pursuant to §804(b) of the San Francisco Environment Code, the City and County of San Francisco urges the Underwriters not to import, purchase, obtain, or use for any purpose, any tropical hardwood, tropical hardwood wood product, virgin redwood or virgin redwood wood product.

(n) *Drug-Free Workplace Policy.* Each Underwriter acknowledges that pursuant to the Federal Drug-Free Workplace Act of 1989, the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance is prohibited on City premises. Each Underwriter agrees that any violation of this prohibition by such Underwriter, its employees, agents or assigns will be deemed a material breach of this Purchase Contract.

(o) *Resource Conservation.* Chapter 5 of the San Francisco Environment Code (“Resource Conservation”) is incorporated herein by reference. Failure by an Underwriter to comply with any of the applicable requirements of Chapter 5 will be deemed a material breach of contract.

(p) *Compliance with Americans with Disabilities Act.* Each Underwriter acknowledges that, pursuant to the Americans with Disabilities Act (ADA), programs, services and other activities provided by a public entity to the public, whether directly or through a Underwriter, must be accessible to the disabled public. Each Underwriter shall provide the services specified in this Purchase Contract in a manner that complies with the ADA and any and all other applicable federal, state and local disability rights legislation. Each Underwriter agrees not to discriminate against disabled persons in the provision of services, benefits or activities provided under this Purchase Contract and further agrees that any violation of this prohibition on the part of such Underwriter, its employees, agents or assigns will constitute a material breach of this Purchase Contract.

(q) *Sunshine Ordinance.* In accordance with San Francisco Administrative Code §67.24(e), contracts, Underwriters’ bids, responses to solicitations and all other records of communications between City and persons or firms seeking contracts, shall be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure

of a private person or organization's net worth or other proprietary financial data submitted for qualification for a contract or other benefit until and unless that person or organization is awarded the contract or benefit. Information provided which is covered by this paragraph will be made available to the public upon request.

(r) *Public Access to Meetings and Records.* If an Underwriter receives a cumulative total per year of at least \$250,000 in City funds or City-administered funds and is a non-profit organization as defined in Chapter 12L of the San Francisco Administrative Code, such Underwriter shall comply with and be bound by all the applicable provisions of that Chapter. By executing this Purchase Contract, each Underwriter agrees to open its meetings and records to the public in the manner set forth in §§12L.4 and 12L.5 of the Administrative Code. Each Underwriter further agrees to make-good faith efforts to promote community membership on its Board of Directors in the manner set forth in §12L.6 of the Administrative Code. Each Underwriter acknowledges that its material failure to comply with any of the provisions of this paragraph shall constitute a material breach of this Purchase Contract. Each Underwriter further acknowledges that such material breach of the Purchase Contract shall be grounds for the City to terminate and/or not renew the Purchase Contract, partially or in its entirety.

(s) *Limitations on Contributions.* Through execution of this Purchase Contract, each Underwriter acknowledges that it is familiar with section 1.126 of the City's Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the sale or lease of any land or building, or for a grant, loan or loan guarantee, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or the board of a state agency on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. Each Underwriter acknowledges that the foregoing restriction applies only if the contract or a combination or series of contracts approved by the same individual or board in a fiscal year have a total anticipated or actual value of \$50,000 or more. Each Underwriter further acknowledges that the prohibition on contributions applies to each prospective party to the contract; each member of such Underwriter's board of directors; such Underwriter's chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 20 percent in such Underwriter; any Subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by such Underwriter. Additionally, each Underwriter acknowledges that such Underwriter must inform each of the persons described in the preceding sentence of the prohibitions contained in Section 1.126. Each Underwriter further agrees to provide to City the names of each person, entity or committee described above.

(t) *Requiring Minimum Compensation for Covered Employees*

i. *Each Underwriter agrees to comply fully with and be bound by all of the provisions of the Minimum Compensation Ordinance (MCO), as set forth in San Francisco*

Administrative Code Chapter 12P (Chapter 12P), including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 12P are incorporated herein by reference and made a part of this Purchase Contract as though fully set forth. The text of the MCO is available on the web at www.sfgov.org/olse/mco. A partial listing of some of each Underwriter's obligations under the MCO is set forth in this Section. Each Underwriter is required to comply with all the provisions of the MCO, irrespective of the listing of obligations in this Section.

ii. The MCO requires each Underwriter to pay such Underwriter's employees a minimum hourly gross compensation wage rate and to provide minimum compensated and uncompensated time off. The minimum wage rate may change from year to year and each Underwriter is obligated to keep informed of the then-current requirements. Any subcontract entered into by an Underwriter shall require the Subcontractor to comply with the requirements of the MCO and shall contain contractual obligations substantially the same as those set forth in this Section. It is each Underwriter's obligation to ensure that any Subcontractors of any tier under this Purchase Contract comply with the requirements of the MCO. If any Subcontractor under this Purchase Contract fails to comply, City may pursue any of the remedies set forth in this Section against such Underwriter.

iii. Each Underwriter shall not take adverse action or otherwise discriminate against an employee or other person for the exercise or attempted exercise of rights under the MCO. Such actions, if taken within 90 days of the exercise or attempted exercise of such rights, will be rebuttably presumed to be retaliation prohibited by the MCO.

iv. Each Underwriter shall maintain employee and payroll records as required by the MCO. If an Underwriter fails to do so, it shall be presumed that the Underwriter paid no more than the minimum wage required under State law.

v. The City is authorized to inspect each Underwriter's job sites and conduct interviews with employees and conduct audits of the Underwriter.

vi. Each Underwriter's commitment to provide the Minimum Compensation is a material element of the City's consideration for this Purchase Contract. The City in its sole discretion shall determine whether such a breach has occurred. The City and the public will suffer actual damage that will be impractical or extremely difficult to determine if the Underwriter fails to comply with these requirements. Such Underwriter agrees that the sums set forth in Section 12P.6.1 of the MCO as liquidated damages are not a penalty, but are reasonable estimates of the loss that the City and the public will incur for such Underwriter's noncompliance. The procedures governing the assessment of liquidated damages shall be those set forth in Section 12P.6.2 of Chapter 12P.

vii. Each Underwriter understands and agrees that if it fails to comply with the requirements of the MCO, the City shall have the right to pursue any rights or remedies available under Chapter 12P (including liquidated damages), under the terms of the contract, and under applicable law. If, within 30 days after receiving written notice of a breach of this Purchase Contract for violating the MCO, each Underwriter fails to cure such breach or, if such breach

cannot reasonably be cured within such period of 30 days, such Underwriter fails to commence efforts to cure within such period, or thereafter fails diligently to pursue such cure to completion, the City shall have the right to pursue any rights or remedies available under applicable law, including those set forth in Section 12P.6(c) of Chapter 12P. Each of these remedies shall be exercisable individually or in combination with any other rights or remedies available to the City.

viii. Each Underwriter represents and warrants that it is not an entity that was set up, or is being used, for the purpose of evading the intent of the MCO.

ix. If an Underwriter is exempt from the MCO when this Purchase Contract is executed because the cumulative amount of agreements with this department for the fiscal year is less than \$25,000, but such Underwriter later enters into an agreement or agreements that cause such Underwriter to exceed that amount in a fiscal year, such Underwriter shall thereafter be required to comply with the MCO under this Purchase Contract. This obligation arises on the effective date of the agreement that causes the cumulative amount of agreements between the Underwriters and this department to exceed \$25,000 in the fiscal year.

(u) *Requiring Health Benefits for Covered Employees*

Each Underwriter agrees to comply fully with and be bound by all of the provisions of the Health Care Accountability Ordinance (HCAO), as set forth in San Francisco Administrative Code Chapter 12Q, including the remedies provided, and implementing regulations, as the same may be amended from time to time. The provisions of Chapter 12Q are incorporated by reference and made a part of this Purchase Contract as though fully set forth herein. The text of the HCAO is available on the web at www.sfgov.org/olse. Capitalized terms used in this Section and not defined in this Purchase Contract shall have the meanings assigned to such terms in Chapter 12Q.

i. For each Covered Employee, each Underwriter shall provide the appropriate health benefit set forth in Section 12Q.3 of the HCAO. If an Underwriter chooses to offer the health plan option, such health plan shall meet the minimum standards set forth by the San Francisco Health Commission.

ii. Notwithstanding the above, if an Underwriter is a small business as defined in Section 12Q.3(e) of the HCAO, it shall have no obligation to comply with part (a) above.

iii. An Underwriter's failure to comply with the HCAO shall constitute a material breach of this agreement. City shall notify the Underwriter if such a breach has occurred. If, within 30 days after receiving City's written notice of a breach of this Purchase Contract for violating the HCAO, such Underwriter fails to cure such breach or, if such breach cannot reasonably be cured within such period of 30 days, such Underwriter fails to commence efforts to cure within such period, or thereafter fails diligently to pursue such cure to completion, City shall have the right to pursue the remedies set forth in 12Q.5.1 and 12Q.5(f)(1-6). Each of these remedies shall be exercisable individually or in combination with any other rights or remedies available to City.

iv. Any Subcontract entered into by an Underwriter shall require the Subcontractor to comply with the requirements of the HCAO and shall contain contractual obligations substantially the same as those set forth in this Section. Each Underwriter shall notify City's Office of Contract Administration when it enters into such a Subcontract and shall certify to the Office of Contract Administration that it has notified the Subcontractor of the obligations under the HCAO and has imposed the requirements of the HCAO on Subcontractor through the Subcontract. Each Underwriter shall be responsible for its Subcontractors' compliance with this Chapter. If a Subcontractor fails to comply, the City may pursue the remedies set forth in this Section against the Underwriter based on the Subcontractor's failure to comply, provided that City has first provided the Underwriter with notice and an opportunity to obtain a cure of the violation.

v. An Underwriter shall not discharge, reduce in compensation, or otherwise discriminate against any employee for notifying City with regard to such Underwriter's noncompliance or anticipated noncompliance with the requirements of the HCAO, for opposing any practice proscribed by the HCAO, for participating in proceedings related to the HCAO, or for seeking to assert or enforce any rights under the HCAO by any lawful means.

vi. Each Underwriter represents and warrants that it is not an entity that was set up, or is being used, for the purpose of evading the intent of the HCAO.

vii. Each Underwriter shall maintain employee and payroll records in compliance with the California Labor Code and Industrial Welfare Commission orders, including the number of hours each employee has worked on the City Contract.

viii. Each Underwriter shall keep itself informed of the current requirements of the HCAO.

ix. Each Underwriter shall provide reports to the City in accordance with any reporting standards promulgated by the City under the HCAO, including reports on Subcontractors and Subtenants, as applicable.

x. Each Underwriter shall provide City with access to records pertaining to compliance with HCAO after receiving a written request from City to do so and being provided at least ten business days to respond.

xi. Each Underwriter shall allow City to inspect such Underwriter's job sites and have access to such Underwriter's employees in order to monitor and determine compliance with HCAO.

xii. City may conduct random audits of each Underwriter to ascertain its compliance with HCAO. Each Underwriter agrees to cooperate with City when it conducts such audits.

xiii. If an Underwriter is exempt from the HCAO when this Purchase Contract is executed because its amount is less than \$25,000 (\$50,000 for nonprofits), but such Underwriter later enters into an agreement or agreements that cause such Underwriter's aggregate amount of all agreements with City to reach \$75,000, all the agreements shall be thereafter subject to the HCAO. This obligation arises on the effective date of the agreement that causes the cumulative

amount of agreements between such Underwriter and the City to be equal to or greater than \$75,000 in the fiscal year.

(v) *Prohibition on Political Activity with City Funds.* In accordance with San Francisco Administrative Code Chapter 12.G, an Underwriter may not participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure (collectively, "Political Activity") in the performance of the services provided under this Purchase Contract. Each Underwriter agrees to comply with San Francisco Administrative Code Chapter 12.G and any implementing rules and regulations promulgated by the City's Controller. The terms and provisions of Chapter 12.G are incorporated herein by this reference. In the event an Underwriter violates the provisions of this section, the City may, in addition to any other rights or remedies available hereunder, (i) terminate this Purchase Contract, and (ii) prohibit the Underwriter from bidding on or receiving any new City contract for a period of two (2) years. The Controller will not consider an Underwriter's use of profit as a violation of this section.

(w) *Preservative-treated Wood Containing Arsenic.* An Underwriter may not purchase preservative-treated wood products containing arsenic in the performance of this Purchase Contract unless an exemption from the requirements of Chapter 13 of the San Francisco Environment Code is obtained from the Department of the Environment under Section 1304 of the Code. The term "preservative-treated wood containing arsenic" shall mean wood treated with a preservative that contains arsenic, elemental arsenic, or an arsenic copper combination, including, but not limited to, chromated copper arsenate preservative, ammoniacal copper zinc arsenate preservative, or ammoniacal copper arsenate preservative. The Underwriters may purchase preservative-treated wood products on the list of environmentally preferable alternatives prepared and adopted by the Department of the Environment. This provision does not preclude an Underwriter from purchasing preservative-treated wood containing arsenic for saltwater immersion. The term "saltwater immersion" shall mean a pressure-treated wood that is used for construction purposes or facilities that are partially or totally immersed in saltwater.

(x) *Compliance with Laws.* Each Underwriter shall keep itself fully informed of the City's Charter, codes, ordinances and regulations of the City and of all state, and federal laws in any manner affecting the performance of this Purchase Contract, and must at all times comply with such local codes, ordinances, and regulations and all applicable laws as they may be amended from time to time.

(y) *Protection of Private Information.* Each Underwriter has read and agrees to the terms set forth in San Francisco Administrative Code Sections 12M.2, "Nondisclosure of Private Information," and 12M.3, "Enforcement" of Administrative Code Chapter 12M, "Protection of Private Information," which are incorporated herein as if fully set forth. Each Underwriter agrees that any failure of Contactor to comply with the requirements of Section 12M.2 of this Chapter shall be a material breach of the Contract. In such an event, in addition to any other remedies available to it under equity or law, the City may terminate the Contract, bring a false claim action against the Underwriter pursuant to Chapter 6 or Chapter 21 of the Administrative Code, or debar the Underwriter.

(z) *Graffiti Removal.* Graffiti is detrimental to the health, safety and welfare of the community in that it promotes a perception in the community that the laws protecting public and private property can be disregarded with impunity. This perception fosters a sense of disrespect of the law that results in an increase in crime; degrades the community and leads to urban blight; is detrimental to property values, business opportunities and the enjoyment of life; is inconsistent with the City's property maintenance goals and aesthetic standards; and results in additional graffiti and in other properties becoming the target of graffiti unless it is quickly removed from public and private property. Graffiti results in visual pollution and is a public nuisance. Graffiti must be abated as quickly as possible to avoid detrimental impacts on the City and County and its residents, and to prevent the further spread of graffiti. Each Underwriter shall remove all graffiti from any real property owned or leased by the Underwriter in the City and County of San Francisco within forty eight (48) hours of the earlier of the Underwriter's (a) discovery or notification of the graffiti or (b) receipt of notification of the graffiti from the Department of Public Works. This section is not intended to require an Underwriter to breach any lease or other agreement that it may have concerning its use of the real property. The term "graffiti" means any inscription, word, figure, marking or design that is affixed, marked, etched, scratched, drawn or painted on any building, structure, fixture or other improvement, whether permanent or temporary, including by way of example only and without limitation, signs, banners, billboards and fencing surrounding construction sites, whether public or private, without the consent of the owner of the property or the owner's authorized agent, and which is visible from the public right-of-way. "Graffiti" shall not include: (1) any sign or banner that is authorized by, and in compliance with, the applicable requirements of the San Francisco Public Works Code, the San Francisco Planning Code or the San Francisco Building Code; or (2) any mural or other painting or marking on the property that is protected as a work of fine art under the California Art Preservation Act (California Civil Code Sections 987 et seq.) or as a work of visual art under the Federal Visual Artists Rights Act of 1990 (17 U.S.C. §§ 101 et seq.).

Any failure of an Underwriters to comply with this section of this Purchase Contract shall constitute an Event of Default of this Purchase Contract.

(aa) *Food Service Waste Reduction Requirements.* Each Underwriter agrees to comply fully with and be bound by all of the provisions of the Food Service Waste Reduction Ordinance, as set forth in San Francisco Environment Code Chapter 16, including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 16 are incorporated herein by reference and made a part of this Purchase Contract as though fully set forth. This provision is a material term of this Purchase Contract. By entering into this Purchase Contract, each Underwriter agrees that if it breaches this provision, City will suffer actual damages that will be impractical or extremely difficult to determine; further, each Underwriter agrees that the sum of one hundred dollars (\$100) liquidated damages for the first breach, two hundred dollars (\$200) liquidated damages for the second breach in the same year, and five hundred dollars (\$500) liquidated damages for subsequent breaches in the same year is reasonable estimate of the damage that City will incur based on the violation, established in light of the circumstances existing at the time this Purchase Contract was made. Such amount shall not be considered a penalty, but rather agreed monetary damages sustained by City because of such Underwriter's failure to comply with this provision.

(bb) *Cooperative Drafting.* This Purchase Contract has been drafted through a cooperative effort of both parties, and both parties have had an opportunity to have the Purchase Contract reviewed and revised by legal counsel. No party shall be considered the drafter of this Purchase Contract, and no presumption or rule that an ambiguity shall be construed against the party drafting the clause shall apply to the interpretation or enforcement of this Purchase Contract.

(cc) *Submitting False Claims; Monetary Penalties.* Pursuant to San Francisco Administrative Code Section 21.35, any contractor, subcontractor or consultant who submits a false claim shall be liable to the City for three times the amount of damages which the City sustains because of the false claim. A contractor, subcontractor or consultant who submits a false claim shall also be liable to the City for the costs, including attorneys' fees, of a civil action brought to recover any of those penalties or damages, and may be liable to the City for a civil penalty of up to \$10,000 for each false claim. A contractor, subcontractor or consultant will be deemed to have submitted a false claim to the City if the contractor, subcontractor or consultant: (i) knowingly presents or causes to be presented to an officer or employee of the City a false claim or request for payment or approval; (ii) knowingly makes, uses, or causes to be made or used a false record or statement to get a false claim paid or approved by the City; (iii) conspires to defraud the City by getting a false claim allowed or paid by the City; (iv) knowingly makes, uses, or causes to be made or used a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to the City; or (v) is a beneficiary of an inadvertent submission of a false claim to the City, subsequently discovers the falsity of the claim, and fails to disclose the false claim to the City within a reasonable time after discovery of the false claim.

(dd) *City a Third Party Beneficiary.* The City is hereby designated as a third party beneficiary for the purpose of enforcing all of the obligations of this Purchase Contract.

Section 12. Notices. Any notice or other communication to be given under this Purchase Contract to the Commission or the Underwriters may be given by delivering the same in writing at the addresses set forth below:

If to the Commission:

Public Utilities Commission of the
City and County of San Francisco
525 Golden Gate Avenue, 13th Floor
San Francisco, California 94102
Attention: Chief Financial Officer
Telephone: (415) 554-3155
Fax: (415) 554-3161

With a copy to:

City and County of San Francisco
Office of Public Finance
City Hall, Room 336
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102
Telephone: (415) 554-5956
Fax: (415) 554-4864

If to the Underwriters:

_____, as Representative

Telephone: _____

Fax: _____

Section 13. Entire Agreement. This Purchase Contract, when accepted by the Commission, shall constitute the entire agreement between the Commission and the Underwriters and is made solely for the benefit of the Commission and the Underwriters (including the successors or assigns of any Underwriter with the consent of the Commission) and no other person shall acquire or have any right hereunder by virtue hereof. All of the Commission's representations, warranties and agreements in this Purchase Contract shall remain operative and in full force and effect, regardless of (a) any investigation made by or on behalf of the Underwriters, (b) delivery of and payment for the Bonds hereunder, and (c) any termination of this Purchase Contract.

Section 14. Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument. This Purchase Contract may be signed in counterparts, and upon delivery to the other party of such signed Purchase Contract, which delivery may be by facsimile transmission, shall constitute the binding agreement of each party to this Purchase Contract.

Section 15. Mutual Reliance on Representations and Warranties. The Commission hereby acknowledges that the Underwriters, in executing this Purchase Contract and in paying for the Bonds as provided herein, are relying upon the representations and warranties of the Commission set forth herein. The Underwriters hereby acknowledge that the Commission, in executing this Purchase Contract and issuing the Bonds described herein, is relying upon the representations and warranties of the Underwriters set forth herein.

Section 16. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof, but this Purchase

Contract shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

Section 17. State of California Law Governs. The validity, interpretation and performance of this Purchase Contract shall be governed by the laws of the State of California. This Purchase Contract shall be enforceable in the State of California, and any action arising out of this Purchase Contract shall be filed with and maintained in City and County of San Francisco Superior Court, San Francisco, California; provided, that the Commission may waive the requirement of venue.

Section 18. Limited Liability. The obligations and liabilities of the Commission hereunder are limited obligations of the Commission payable solely from Revenues as defined and set forth in the Indenture. None of the Commissioners, the officers or employees of the Commission, or any person executing this Purchase Contract shall be liable personally for the obligations of the Commission hereunder or be subject to any personal liability or accountability by reason of the execution hereof. Neither of the faith and credit nor the taxing power of the State or any political subdivision thereof, including the City, is pledged to the obligations of the Commission hereunder.

Section 19. No Advisory or Fiduciary Role. The Commission acknowledges and agrees that: (i) the transaction contemplated by this Purchase Contract is an arm's length, commercial transaction between the Commission and the Underwriters in which the Underwriters are acting solely as a principal and are not acting as a municipal advisor, financial advisor or fiduciary to the Commission; (ii) the Underwriters have not assumed any advisory or fiduciary responsibility to the Commission with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriters have provided other services or are currently providing other services to the Commission on other matters); (iii) the only obligations the Underwriters have to the Commission with respect to the transaction contemplated hereby expressly are set forth in this Purchase Contract; (iv) the Underwriters certify compliance with all required MSRB and SEC rules in connection with the issuance of the Bonds; and (v) the Commission has consulted its own legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate. Nothing in the foregoing paragraph is intended to limit the Underwriters' obligations of fair dealing under MSRB Rule G-17.

Very truly yours,

as Representative

By: _____
Authorized Officer

Accepted as of the date first stated above:

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

By: _____
General Manager

Approved as to Form:

DENNIS J. HERRERA
City Attorney

By: _____
Mark D. Blake, Deputy City Attorney

SCHEDULE I
TO THE PURCHASE CONTRACT
MATURITY SCHEDULE

\$ _____
2013 Series _____
()

ESCROW AGREEMENT
RELATING TO

\$ _____ AGGREGATE PRINCIPAL AMOUNT OF
PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS, 2013 SERIES A
(REFUNDING)

THIS ESCROW AGREEMENT, dated as of January 1, 2013, is by and between the PUBLIC UTILITIES COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO (the "Commission"), a commission duly constituted under the Charter (the "Charter") of the City and County of San Francisco (the "City") and U.S. BANK NATIONAL ASSOCIATION, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, as escrow agent (the "Escrow Agent") hereunder in connection with the Refunded Bonds referred to below.

W I T N E S S E T H:

WHEREAS, pursuant to an Indenture, dated as of January 1, 2003, by and between the Commission and the U.S. Bank National Association, as trustee (previously known as U.S. Bank, N.A.) (the "Trustee"), as amended, the Commission previously issued Clean Water Revenue Bonds, 2003 Refunding Series A (the "2003 Series A Bonds") in the original principal amount of \$396,270,000; Wastewater Revenue Bonds, 2010 Series A (the "2010 Series A Bonds") in the original principal amount of \$47,050,000; and Wastewater Revenue Bonds, 2010 Series B (the "2010 Series B Bonds") in the original principal amount of \$192,515,000 (collectively, the "Prior Bonds");

WHEREAS, pursuant to Section 9.109 of the City Charter, the Board of Supervisors of the City (the "Board") is authorized to provide for the issuance of bonds of the City for the purpose of refunding any revenue bonds of the City then outstanding without voter approval, provided that such refunding is expected to result in net debt service savings to the City on a present value basis;

WHEREAS, on June 12, 2012, the Board passed by a two-thirds vote its Ordinance No. 115-12, signed by the Mayor of the City on June 18, 2012, approving the issuance and sale of wastewater revenue bonds pursuant to Article VIII B of the City Charter to finance various capital projects benefiting the Wastewater Enterprise, as well as paying the costs of issuance and other incidental costs relating thereto, in an aggregate principal amount not to exceed \$522,810,000;

WHEREAS, on October __, 2012, the Commission passed its Resolution No. __, and on October __, 2012, the Board passed its Resolution No. __, signed by the Mayor on October __, 2012, approving, among other things, (i) the issuance of not to exceed \$ _____ aggregate principal amount of wastewater revenue bonds to refund outstanding wastewater revenue bonds (including certain outstanding State Revolving Fund Loans used to finance various capital projects benefiting the Wastewater Enterprise) pursuant to Section 9.109 of the City Charter and California Government Code Section 53580 et seq., and (ii) the issuance of not to exceed \$ _____ aggregate principal amount of wastewater revenue bonds to finance and refinance (through the retirement of commercial paper notes) various capital projects benefiting the Wastewater Enterprise (including reimbursing the Commission for certain capital costs previously paid with proceeds of wastewater commercial paper notes or from other moneys), pursuant to Section 8B.124 of the City Charter and ordinances duly adopted thereunder;

WHEREAS, under the authority granted under the City Charter and by the resolutions hereinabove mentioned, the Commission has determined to issue a series of Bonds under a Second Supplemental Indenture designated "Wastewater Revenue Bonds, 2013 Series A (Refunding)" (the "2013 Series A Bonds") in the original principal amount of \$ _____ to, among other things, refund all of the outstanding 2003 Series A Bonds pursuant to Section 9.109 of the City Charter and California Government Code Section 53580 et seq.;

WHEREAS, a portion of the proceeds of the 2013 Series A Bonds will be used to refund all of the outstanding 2003 Series A Bonds, described in Exhibit A, (the "Refunded Bonds"); and

WHEREAS, by irrevocably depositing with the Escrow Agent a specified amount of the proceeds from the sale of the 2013 Series A Bonds [plus funds transferred from the Interest Fund], and directing the Escrow Agent to invest certain of such amounts in Defeasance Obligations (as described in Section 10.01 of the Indenture), the Escrow Agent will have money sufficient to pay and redeem the 2003 Series A Bonds on April 1, 2013;

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the Commission and the Escrow Agent agree as follows:

SECTION 1. Deposit of Moneys. The Commission hereby irrevocably deposits with the Escrow Agent the amount of \$ _____, comprised of \$ _____ in net proceeds from the sale of the 2013 Series A Bonds[, plus \$ _____ transferred from the Interest Fund]. Such amounts shall be held in irrevocable trust by the Escrow Agent separate and apart from other funds of the Commission and shall be deposited into the 2013 Series A Refunding Fund (the "Escrow Fund") established pursuant to the Second Supplemental Indenture. The moneys in the Escrow Fund shall be applied solely as provided in this Escrow Agreement. The Commission has determined that the moneys set forth above are at least equal to an amount sufficient to defease the Refunded Bonds by paying when due the amounts shown in Exhibit C.

SECTION 2. Application of Moneys in Escrow Fund. The Escrow Agent acknowledges receipt of the moneys described in Section 1 in the Escrow Fund and agrees: (a) to use \$ _____ to purchase the Defeasance Obligations described in Exhibit B; and (b) to hold the balance of such moneys in cash in the Escrow Fund uninvested.

SECTION 3. Payment of Refunded Bonds.

(a) Payment of the Refunded Bonds. From the moneys on deposit in the Escrow Fund, the Escrow Agent shall apply \$_____ to redeem on April 1, 2013 all of the outstanding 2003 Series A Bonds. Each redemption shall be at a price set forth in Exhibit C, plus accrued interest to the date of redemption, without premium. Any redeemed 2003 Series A Bond shall be cancelled by the Trustee.

(b) Priority of Payments. The Owners of the Refunded Bonds shall have a lien on, and the Commission hereby irrevocably pledges and grants a security interest in, the moneys and securities in the Escrow Fund which are allocable and sufficient to pay the related Refunded Bonds in accordance with this Escrow Agreement, until such moneys and such securities are used and applied as provided in this Escrow Agreement.

(c) Transfer of Excess Funds in Escrow Fund. Any amounts remaining in the Escrow Fund following the redemption of the Refunded Bonds on April 1, 2013 that are not required for the payment of any Refunded Bonds shall be transferred by the Escrow Agent to or upon the order of the Commission.

SECTION 4. Application of Certain Terms of Indenture. All of the terms of the Indenture relating to the making of payments of principal, interest and redemption price with respect to the Refunded Bonds and relating to the notices of defeasance and redemption are incorporated in this Escrow Agreement as if set forth in full herein. The procedures set forth in the Indenture relating to the resignation and removal of the Trustee thereunder are also incorporated in this Escrow Agreement as if set forth in full herein and shall be the procedures to be followed with respect to any resignation or removal of the Escrow Agent hereunder.

SECTION 5. Performance of Duties. The Escrow Agent agrees to perform only the duties set forth herein and shall have no responsibility to take any action or omit to take any action not set forth herein.

SECTION 6. Escrow Agent's Authority to Make Investments. Except as provided in this Escrow Agreement, the Escrow Agent shall have no power or duty to invest any funds held under this Escrow Agreement or to sell, transfer or otherwise dispose of the moneys held hereunder.

SECTION 7. Indemnity. The Commission hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Escrow Agent and its respective successors, assigns, agents, officers, directors, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatever kind and nature which may be imposed on, incurred by, or asserted against, the Escrow Agent at any time (whether or not also indemnified against the same by the Commission or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Escrow Agreement, the establishment hereunder of the Escrow Fund, the acceptance of the funds and securities

deposited therein, and any payment, transfer or other application of moneys or securities by the Escrow Agent in accordance with the provisions of this Escrow Agreement; provided, however, that the Commission shall not be required to indemnify the Escrow Agent against the Escrow Agent's own negligence or willful misconduct or the negligence or willful misconduct of the Escrow Agent's respective agents and employees or the willful breach by the Escrow Agent of the terms of this Escrow Agreement. In no event shall the Commission or the Escrow Agent be liable to any person by reason of the transactions contemplated hereby other than to each other as set forth in this Section. The indemnities contained in this Section shall survive the termination of this Escrow Agreement.

SECTION 8. Responsibilities of Escrow Agent. The Escrow Agent and its agents and servants shall not be held to any personal liability whatsoever, in tort, contract, or otherwise, in connection with the execution and delivery of this Escrow Agreement, the establishment of the Escrow Fund, the acceptance of the moneys or securities deposited therein, or any payment, transfer or other application of moneys or obligations by the Escrow Agent in accordance with the provisions of this Escrow Agreement or by reason of any non-negligent act, non-negligent omission or non-negligent error of the Escrow Agent made in good faith in the conduct of its duties. The recitals of fact contained in the "Whereas" clauses herein shall be taken as the statements of the Commission, and the Escrow Agent assumes no responsibility for the correctness thereof. The Escrow Agent makes no representation as to the validity of this Escrow Agreement as to the Commission and, except as otherwise provided herein, the Escrow Agent shall incur no liability in respect thereof. The Escrow Agent shall not be liable in connection with the performance of its duties under this Escrow Agreement except for its own negligence, willful misconduct or willful breach, and the duties and obligations of the Escrow Agent shall be determined by the express provisions of this Escrow Agreement. The Escrow Agent shall be under no obligation to inquire into or be in any way responsible for the performance or nonperformance by the Commission of its obligations. The Escrow Agent may consult with counsel, who may or may not be counsel to the Commission, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Escrow Agreement, such matter may be deemed to be conclusively established by a certificate signed by the General Manager and the Assistant General Manager, Business Services and Chief Financial Officer of the Commission.

SECTION 9. Amendments. This Escrow Agreement is made for the benefit of the Commission and the Owners from time to time of the Refunded Bonds and it shall not be repealed, revoked, altered or amended without the written consent of all such Owners, the Escrow Agent and the Commission; provided, however, that the Commission and the Escrow Agent may, without the consent of, or notice to, such Owners, amend this Escrow Agreement or enter into such agreements supplemental to this Escrow Agreement as shall not adversely affect the rights of such Owners and as shall not be inconsistent with the terms and provisions of this Escrow Agreement or the Indenture, for any one or more of the following purposes: (i) to cure any ambiguity or formal defect or omission in this Escrow Agreement; (ii) to grant to, or confer upon, the Escrow Agent for the benefit of the Owners of the Refunded Bonds, any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such Owners or the Escrow Agent; and (iii) to include under this Escrow Agreement additional funds,

securities or properties. The Escrow Agent shall be entitled to rely conclusively upon an unqualified opinion of nationally recognized municipal bond attorneys with respect to compliance with this Section, including the extent, if any, to which any change, modification, addition or elimination affects the rights of the Owners of the Refunded Bonds or that any instrument executed hereunder complies with the conditions and provisions of this Section.

SECTION 10. Term. This Escrow Agreement shall commence upon its execution and delivery and shall terminate on the date upon which the Refunded Bonds shall have been paid in full in accordance with this Escrow Agreement and any amounts remaining in the Escrow Fund shall have been paid to the Commission as required under Section 3(c) of this Escrow Agreement.

SECTION 11. Compensation. The Escrow Agent shall receive its reasonable fees and expenses as previously agreed to by the Escrow Agent and the Commission; provided, however, that under no circumstances shall the Escrow Agent be entitled to any lien whatsoever on any moneys or obligations in the Escrow Fund for the payment of fees and expenses for services rendered or expenses incurred by the Escrow Agent under this Escrow Agreement.

SECTION 12. Severability. If any one or more of the covenants or agreements provided in this Escrow Agreement on the part of the Commission or the Escrow Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenants or agreements shall be null and void and shall be deemed separate from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Escrow Agreement.

SECTION 13. Governing Law. This Escrow Agreement shall be construed under the laws of the State of California.

SECTION 14. Insufficient Funds. If at any time the moneys and investments in the Escrow Fund, including the anticipated proceeds of the Federal Securities and earnings thereon, will not be sufficient to make all payments required by this Escrow Agreement, the Escrow Agent shall notify the Commission in writing, immediately upon obtaining actual knowledge of such insufficiency of funds or failure to receive instructions, of the amount thereof and, to the extent known to it, the reason therefor, provided the Escrow Agent shall not be liable for any delay or failure to notify the Commission of such events.

SECTION 17. Notice of Redemption and Defeasance. The Trustee shall give notice of the redemption and defeasance of the Refunded Bonds in the time, form and manner required by the Indenture.

SECTION 18. Counterparts. This Escrow Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as an original but all of which shall constitute and be but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Escrow Agreement to be executed by their duly authorized officers as of the date first above written.

U.S. BANK NATIONAL ASSOCIATION,
as escrow agent

By: _____
Vice President

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

By: _____
General Manager

ATTEST:

Secretary of the Public Utilities
Commission of the City and County
of San Francisco

Approved as to form:

Dennis J. Herrera, City Attorney

By: _____
Mark D. Blake, Deputy City Attorney

EXHIBIT A

2003 SERIES A BONDS

Principal Amount	Maturity Date (October 1)	Interest Rate	CUSIP No. (797709A)
\$24,395,000	2013	5.00%	H5
25,790,000	2014	5.25	J1
27,325,000	2015	5.25	K8
11,920,000	2016	4.25	L6
12,575,000	2017	5.25	M4
13,315,000	2018	5.25	N2
14,120,000	2019	5.25	P7
14,960,000	2020	5.25	Q5
15,835,000	2021	5.00	R3
15,005,000	2022	5.00	S1
2,610,000	2023	4.75	T9
2,745,000	2024	4.75	U6
3,510,000	2025	4.75	V4

EXHIBIT B
DEFEASANCE OBLIGATIONS

[See Attached]

EXHIBIT C

DISBURSEMENT REQUIREMENTS OF THE 2003 SERIES A BONDS

<u>Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Redemption Price</u>
_____	\$ _____	\$ _____	\$ _____	____%

OFFICE OF THE MAYOR
SAN FRANCISCO



EDWIN M. LEE
MAYOR

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: Mayor Edwin M. Lee *EL*
RE: 2013 Wastewater Revenue Bonds Issuance
DATE: November 20, 2012

Attached for introduction to the Board of Supervisors is the resolution approving the issuance of wastewater revenue bonds to be issued by the Public Utilities Commission of the City and County of San Francisco in aggregate principal amounts (i) not to exceed \$250,000,000 to refund outstanding wastewater revenue bonds pursuant to the Charter of the City and California Government Code Sections 53580 et seq., and (ii) not to exceed \$420,000,000 to finance capital projects benefiting the Wastewater Enterprise pursuant to amendments to the Charter of the City and County of San Francisco enacted by voters on November 5, 2002 as Proposition E; affirming covenants contained in the indenture pursuant to which the wastewater revenue bonds are issued; authorizing the taking of appropriate actions in connection therewith; and related matters.

I request that this item be calendared in Budget and Finance Committee.

Should you have any questions, please contact Jason Elliott (415) 554-5105.

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