

ESCROW AGREEMENT

RELATED TO  
REFUNDING AND DEFEASANCE OF CERTAIN  
PUBLIC UTILITIES COMMISSION  
OF THE CITY AND COUNTY OF SAN FRANCISCO  
WATER REVENUE BONDS

THIS ESCROW AGREEMENT, dated as of October \_\_, 2016, 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 Amended and Restated Indenture, dated as of August 1, 2002, by and between the Commission and U.S. Bank, N.A. (also known as U.S. Bank National Association), as trustee (the "Trustee"), as amended and supplemented (the "Indenture"), the Commission previously issued its: [LIST PRIOR BONDS] (collectively, the "Prior Bonds");

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") to authorize the issuance by the Commission of its revenue bonds or other forms of revenue financing, 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 Commission;

WHEREAS, on [September 13], 2016, the Commission passed Resolution No. 16-\_\_\_\_\_, and on June 24, 2016, the Board of Supervisors of the City passed Resolution No. 112-16, by a two-thirds vote, authorizing, among other things, the issuance of refunding water revenue bonds by the Commission, without limitation as to principal amount, under the authority granted pursuant to Section 9.109 of the Charter or Proposition E;

WHEREAS, under the authority granted the Charter and by the resolutions hereinabove mentioned, the Commission has determined to issue a series of Bonds under a Twenty-First Supplemental Indenture, designated "San Francisco Water Revenue Bonds, 2016 Sub-Series A (Refunding)" (the "2016 Sub-Series A Bonds"), in the original principal amount of \$\_\_\_\_\_, and a series of Bonds under a Twenty-Second Supplemental Indenture, designated "San Francisco Water Revenue Bonds, 2016 Sub-Series B (Refunding)" (the "2016 Sub-Series B Bonds") and together with the 2016 Sub-Series A Bonds, the "2016 Series AB

Bonds”), in the original principal amount of \$ \_\_\_\_\_, to refund and defease [INCLUDE ALL REFUNDED SERIES]: (i) all of the \_\_\_\_\_ Bonds (the “\_\_\_\_\_ Refunded Bonds”), and (ii) the \_\_\_\_\_ Bonds maturing \_\_\_\_\_ (the “\_\_\_\_\_ Refunded Bonds”) and together with the \_\_\_\_\_ Refunded Bonds, the “Refunded Bonds”), all as more specifically shown on Exhibit A, attached hereto;

WHEREAS, by irrevocably depositing with the Escrow Agent the proceeds of the 2016 Series AB Bonds, plus amounts relating to the Refunded Bonds held in the Principal Fund and Interest Fund established under the Indenture, and directing the Escrow Agent to invest such amounts in certain [United States Treasury Certificates, Notes and Bonds – State and Local Government Series (as further described herein, the “Initial Federal Securities”), the Escrow Agent will have sufficient moneys to pay: (a) on the dates interest becomes due and payable, the interest accruing on the Refunded Bonds, and (b) on the dates the principal or redemption price of the Refunded Bonds becomes due and payable, the principal or redemption price (as the case may be) of the Refunded Bonds;

WHEREAS, the Escrow Agent, in reliance on the verification report prepared by Causey Demgen & Moore P.C. (the “Verification Report”), which Verification Report shows that the Initial Federal Securities and un-invested cash in the Escrow Fund (hereinafter defined) are sufficient to provide for the timely payment of the Refunded Bonds, has determined that the Escrow Fund is sufficient for such purpose; and

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the Commission and the Escrow Agent agree as follows:

SECTION 1. Establishment of Escrow Fund. There is hereby created and established with the Escrow Agent a special, segregated and irrevocable escrow fund (the “Escrow Fund”) to be held in the custody of the Escrow Agent in escrow for the benefit of the registered owners of the Refunded Bonds, separate and apart from other funds of the Commission.

SECTION 2. Deposit of Moneys. The Commission hereby irrevocably deposits with the Escrow Agent the amount of \$ \_\_\_\_\_ in the Escrow Fund, representing the sum of (i) the amount of \$ \_\_\_\_\_ from the proceeds of the 2016 Sub-Series A Bonds and \$ \_\_\_\_\_ from the proceeds of the 2016 Sub-Series B Bonds, plus (ii) funds transfers of \$ \_\_\_\_\_ from the Principal Fund (representing the amount on deposit for the \_\_\_\_\_ Bonds) and (iii) \$ \_\_\_\_\_ from the Interest Fund (representing \$ \_\_\_\_\_ on deposit for the \_\_\_\_\_ Bonds).

The moneys in the Escrow Fund shall be applied solely as provided in this Escrow Agreement. The Commission has determined in reliance on the Verification Report 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 B.

SECTION 3. Application of Moneys in the Escrow Fund. The Escrow Agent acknowledges receipt of the moneys described in Section 2 in the Escrow Fund and agrees, on October \_\_, 2016, to use such moneys to purchase, on behalf of and for the account of the Commission, the Initial Federal Securities (as more specifically described in Exhibit C) and to

hold \$\_\_\_\_\_ as un-invested cash. The Initial Federal Securities are not subject to redemption and are scheduled to mature on or before the times when they will be required for the payment of the interest on and the principal and redemption price of the applicable Refunded Bonds.

SECTION 4. Payment of the Refunded Bonds.

(a) Payment of the Refunded Bonds. From the moneys on deposit in the Escrow Fund, the Escrow Agent shall apply the moneys (a) to make all payments of interest on the Refunded Bonds, when due and (b) to pay the principal amounts of the Refunded Bonds on their respective payment or sinking fund dates and [(c) to redeem [in full] the \_\_\_\_\_ Refunded Bonds on \_\_\_\_\_, at a price of par,] [REPEAT FOR ALL REFUNDED BONDS] on the dates and in the amounts shown in the disbursement requirements set forth in Exhibit B hereto.

(b) Priority of Payments. The Owners of the Refunded Bonds of each Series 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 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 all Refunded Bonds shall be transferred by the Escrow Agent to or at the direction of the Commission.

SECTION 5. Incorporation of Definitions in Indenture; Application of Certain Terms of Indenture.

(a) Incorporation of Definitions. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Indenture.

(b) Application of Certain Terms. All of the terms of the Indenture relating to the making of payments of principal, interest and redemption price with respect to the applicable 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 6. 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 7. Escrow Agent's Authority to Make Investments. Except as provided in Section 8 of 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 8. Investment of Funds in the Escrow Fund.

(a) Except as otherwise provided in Section 2 hereof, amounts held in the Escrow Fund under this Escrow Agreement may be invested only in United States treasury notes, bonds, bills or certificates of indebtedness, or obligations for which the faith and credit of the United States of America are pledged for the payment of principal and interest (including obligations issued or held in book-entry form and securities which represent an undivided interest in such direct obligations); any securities now or hereafter authorized, both the principal of and interest on which is guaranteed directly by the full faith and credit of the United States of America, and including interest strips held in book-entry form by the Federal Reserve Bank of New York of bonds issued by the Resolution Funding Corporation; bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank, (ii) certificates of beneficial ownership of the Rural Economic Community Development Administration (formerly the Farmers Home Administration), (iii) obligations of the Federal Financing Bank, (iv) debentures of the Federal Housing Administration; (v) participation certificates of the General Services Administration, (vi) guaranteed Title XI financings of the U.S. Maritime Administration, and (vii) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development. Those obligations described in the preceding sentence are herein referred to as “Federal Securities.”

(b) At the direction of the Commission, the Escrow Agent shall redeem, transfer or exchange the Initial Federal Securities or any Federal Securities which are then held as an investment of the Escrow Fund and reinvest the proceeds thereof, together with the other moneys held in such Escrow Fund in Federal Securities, and may release to the Commission the excess amount then resulting in the Escrow Fund provided that the Commission delivers to the Escrow Agent the following:

(i) an opinion of an independent certified public accountant to the effect that, after such reinvestment the principal amount of Federal Securities, together with the interest thereon and other available moneys held in the Escrow Fund, will be sufficient without reinvestment to pay interest on, and the principal or redemption price of, the Refunded Bonds as provided in Section 4 hereof; and

(ii) an unqualified opinion of nationally recognized municipal bond counsel to the effect that (a) such investment will not cause either the Refunded Bonds, other Bonds issued under the Indenture, or the 2016 Sub-Series A Bonds or the 2016 Sub-Series B Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations thereunder in effect on the date of such investment, or otherwise cause the interest on any of such bonds to be included in the gross income of the recipients thereof for federal income tax purposes, and (b) such reinvestment complies with the Constitution and laws of the State of California and with all relevant documents relating to the issuance of the Refunded Bonds.

(c) If, at any time, the Initial Federal Securities or other Federal Securities then held as an investment of the Escrow Fund mature or payments are made thereon to the Escrow Agent or the Escrow Agent otherwise holds or receives cash in advance of the time same cash is needed to make payment on the Refunded Bonds, such amounts shall be held uninvested unless the Escrow Agent has received written instructions from the Commission directing the investment of such amounts and all of the following requirements have been met:

(i) such moneys shall be invested only in Federal Securities that mature not later than the date on which the funds invested therein will be needed to make payments on the Refunded Bonds;

(ii) such moneys shall be invested only in Federal Securities that mature in an amount, together with interest thereon, not less than the full amount paid by Escrow Agent to acquire such investments;

(iii) prior to any such reinvestment, the Escrow Agent shall receive from the Commission or the Commission's financial advisor a certificate to the effect that the investments to be acquired by the Escrow Agent meet the requirements of Subsections 8(c)(i) and 8(c)(ii) above; and

(iv) if the yield on such reinvestment is greater than 0.00% or the reinvestment is being made pursuant to an agreement providing for the purchase of Federal Securities at a future time or times, then prior to any such reinvestment, the Commission shall deliver to the Escrow Agent an unqualified opinion of nationally recognized municipal bond counsel to the effect that such reinvestment will not cause either the Refunded Bonds, other Bonds issued under the Indenture or the 2016 Sub-Series A Bonds or the 2016 Sub-Series B Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code, and the regulations thereunder in effect on the date of such investment, or otherwise cause the interest on any of such bonds to be included in the gross income of the recipients thereof for federal income tax purposes; provided that, if such investment is made pursuant to the terms of an agreement between the Escrow Agent and a supplier of securities which agreement is entered into by the Escrow Agent at the written direction of the Commission and provides for investments to be provided at a future time or times, then the requirement set forth in this Subsection 8(c)(iv) shall be met if the opinion described herein is provided prior to the time the agreement is entered into and relates to all investments made in accordance with the terms of such agreement.

(d) In addition to the requirements and restrictions set forth above in Subsection 8(c), if the Refunded Bonds then carry a rating assigned by Moody's and/or Standard & Poor's on the basis of the security provided by the Escrow Fund, then the Commission shall not direct the Escrow Agent to enter into an agreement providing for the purchase of securities at a future time or times as an investment of the Escrow Fund unless prior to the time the Escrow Agent enters into such agreement, the Commission has been notified by the rating agency or agencies then maintaining such rating or ratings that entering into the agreement will not cause the rating or ratings then assigned to the Refunded Bonds to be reduced or withdrawn.

SECTION 9. 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 10. 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 of the Commission.]

SECTION 11. 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 12. Term. This Escrow Agreement shall commence upon its execution and delivery and shall terminate on the date on 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 4(c) of this Escrow Agreement.

SECTION 13. 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 14. 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 15. Governing Law. THIS ESCROW AGREEMENT SHALL BE CONSTRUED UNDER THE LAWS OF THE STATE OF CALIFORNIA.

SECTION 16. Insufficient Funds. If at any time the moneys and investments in the Escrow Fund, including the anticipated proceeds of the Initial Federal Securities or any future Federal Securities pursuant to Section 8 hereof, 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, 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 Defeasance; Notice of Redemption. The Escrow Agent, in its capacity as Trustee under the Indenture, shall give notice of (i) the defeasance of the Refunded Bonds, and [(ii) the redemption of the \_\_\_\_\_ Refunded Bonds and the \_\_\_\_\_ Refunded Bonds, on the redemption dates of such Bonds as shown in Section 4 hereof], in each case 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.

SECTION 19. Notification to Moody's and S&P. The Commission hereby directs the Escrow Agent to notify Moody's Investor's Service and Standard & Poor's Ratings Service of any amendment to this Agreement by mail at the following addresses: Moody's Investors Service, Seven World Trade Center, New York, New York 10007, Attention: Public Finance Department, and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041, Attention: Public Finance Department.

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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: \_\_\_\_\_  
Andrew Fung  
Vice President

PUBLIC UTILITIES COMMISSION OF THE  
CITY AND COUNTY OF SAN FRANCISCO

By: \_\_\_\_\_  
Harlan L. Kelly, Jr.  
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**  
**REFUNDED BONDS**

\_\_\_\_\_ SERIES \_\_ REFUNDED BONDS

Maturity of Bonds	Outstanding Principal Amount	CUSIP (Base No.: 79765R)
11/1/____		
11/1/____		
11/1/____		
11/1/____		
11/1/____		
11/1/____		
11/1/____		
11/1/____		
11/1/____		
11/1/____		
11/1/____		
11/1/____		
11/1/____		
11/1/____ <sup>(T)</sup>		
11/1/____ <sup>(T)</sup>		
11/1/____ <sup>(T)</sup>		
Total:		

<sup>(T)</sup> Term Bonds.

\_\_\_\_\_ SERIES \_\_ REFUNDED BONDS

Maturity of Bonds	Outstanding Principal Amount	CUSIP (Base No.: 79765R)
11/1/____		
11/1/____		
11/1/____		
11/1/____		
Total:		

**EXHIBIT B**

**DISBURSEMENT REQUIREMENTS**

\_\_\_\_\_ SERIES \_\_ REFUNDED BONDS

<u>Period Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal Redeemed</u>	<u>Total</u>

\_\_\_\_\_ SERIES \_\_ REFUNDED BONDS

<u>Period Ending</u>	<u>Interest</u>	<u>Principal Redeemed</u>	<u>Total</u>

## EXHIBIT C

### INITIAL FEDERAL SECURITIES

Type of Security	Maturity Date	Par Amount	First Interest Payment Date	Rate	Total Cost
Total:					