
INDENTURE

by and between the

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

and

U.S. BANK, N.A., as Trustee

RELATING TO:

**\$396,270,000
PUBLIC UTILITIES COMMISSION
OF THE CITY AND COUNTY OF SAN FRANCISCO
CLEAN WATER REVENUE BONDS
2003 REFUNDING SERIES A**

Dated as of January 1, 2003

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EXHIBIT A Form of 2003 Refunding Series A Bond

INDENTURE

This INDENTURE, dated as of January 1, 2003 (this "Indenture"), 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, N.A., 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, the Board of Supervisors (the "Board of Supervisors") of the City and County of San Francisco (the "City") had the authority, pursuant to Section 7.300 of the previous Charter of the City, to issue revenue bonds, subject to certain limitations, for the purpose of acquiring, constructing, improving, financing and refinancing the municipal sanitary waste and storm water collection, treatment and disposal system of the City (the "Enterprise");

WHEREAS, the Board, on July 17, 1988, duly adopted its Resolution No. 542-88, providing for the issuance of \$100,000,000 principal amount of City and County of San Francisco General Purpose Sewer Revenue Bonds, Series 1988A (the "Series 1988A Bonds"); on August 29, 1988, duly adopted its Resolution No. 677-88, providing for the issuance of \$45,000,000 principal amount of City and County of San Francisco General Purpose Sewer Revenue Bonds, Series 1988B (the "Series 1988B Bonds"); and on July 15, 1991, duly adopted its Resolution No. 605-91, providing for the issuance of not to exceed \$170,000,000 principal amount of City and County of San Francisco General Purpose Sewer Revenue Bonds, Series 1991 (the "Series 1991 Bonds");

WHEREAS, the Board, on August 3, 1992, duly adopted its amended and restated Resolution No. 656-92 which, supplemented, amended and restated Resolution No. 542-88, Resolution No. 677-88 and Resolution No. 605-91 of the Board and which provided generally for the issuance of City and County of San Francisco General Purpose Sewer Revenue Bonds and, in particular, of not to exceed \$385,000,000 aggregate principal amount of City and County of San Francisco Sewer Revenue Refunding Bonds, Series 1992 (the "Series 1992 Bonds"); on January 24, 1994, duly adopted its Resolution No. 58-94, providing for the issuance of not to exceed \$190,000,000 aggregate principal amount of City and County of San Francisco Sewer Revenue Refunding Bonds, Series 1994 (the "Series 1994 Bonds"); and on May 8, 1995, duly adopted its Resolution No. 385-95 (Resolution No. 656-92, Resolution No. 58-94 and Resolution No. 385-95 are herein collectively called the "Prior Resolution"), providing for the issuance of not to exceed \$62,500,000 aggregate principal amount of City and County of San Francisco Sewer Revenue Bonds, Series 1995 (the "Series 1995 Bonds");

WHEREAS, the City has heretofore duly issued and sold \$100,000,000 aggregate principal amount of the Series 1988A Bonds, \$45,000,000 aggregate principal amount of the Series 1988B Bonds, \$170,000,000 aggregate principal amount of the Series 1991 Bonds, \$331,005,000 aggregate principal amount of the Series 1992 Bonds, \$174,980,000 aggregate principal amount of Series 1994 Bonds and \$55,512,147.10 aggregate principal amount of the Series 1995 Bonds;

WHEREAS, the Series 1988A Bonds, the Series 1988B Bonds, the Series 1991 Bonds and the Series 1995 Bonds were issued for the purpose of acquiring, improving and financing the Enterprise;

WHEREAS, the Series 1992 Bonds refunded in full the Series 1988A Bonds and Series 1988B Bonds and outstanding senior lien bonds of the City and discharged the resolutions pertaining thereto;

WHEREAS, the Series 1994 Bonds refunded a portion of the Series 1991 Bonds, and that portion of the Series 1991 Bonds not refunded has been retired in full prior to the date hereof;

WHEREAS, pursuant to Section 4.112 of the Charter of the City (the "Charter"), the Public Utilities Commission of the City and County of San Francisco (the "Commission") was given charge of the construction, management, supervision, maintenance, extension, operation, use and control of all water and energy supplies and utilities of the City, and the Enterprise was subsequently brought under the Commission's jurisdiction pursuant to Section 4.132 of the Charter;

WHEREAS, the Commission has determined that the Public Utilities Commission of the City and County of San Francisco Clean Water Revenue Bonds, 2003 Refunding Series A, in the aggregate initial principal amount of not to exceed \$396,270,000 (the "2003 Refunding Series A Bonds"), should be issued pursuant to this Indenture for the purposes of (i) refunding, on a current basis, all of the Series 1992 Bonds, (ii) refunding, on a current basis, all of the Series 1994 Bonds, (iii) refunding and defeasing, on an advance basis, all of the Series 1995 Bonds, (iv) paying costs of issuance, and (v) funding a Reserve Account for the 2003 Refunding Series A Bonds;

WHEREAS, the 2003 Refunding Series A Bonds may be issued without voter approval pursuant to Section 9.109 of the Charter in that the issuance of the 2003 Refunding Series A Bonds is expected to result in net debt service savings on a present value basis; and

WHEREAS, the execution and delivery of this Indenture have in all respects been duly and validly authorized by resolutions duly passed and approved by the Commission; and

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 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 Indenture;

NOW, THEREFORE, THIS INDENTURE WITNESSETH: it is expressly declared, that all Bonds issued and secured hereunder are to be issued, authenticated and delivered, and all said property, rights and interests, including, without limitation, the amounts hereby assigned and pledged, are to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and the Commission has agreed and covenanted, and does hereby agree and covenant, with the Trustee and with the respective Owners, from time to time, of the Bonds, or any part thereof, as follows:

ARTICLE I

DEFINITIONS; EQUAL SECURITY: CERTIFICATES AND OPINIONS

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

"Accreted Value" means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon from its date, compounded at the approximate interest rate thereof on each date specified in the Supplemental Indenture pursuant to which such Capital Appreciation Bonds are issued. The Accreted Value on any such date of compounding shall be the amount set forth in the Accreted Value Table and, with respect to any date other than a date on which compounding occurs, will be determined by straight-line interpolation (based on a year consisting of 12 30-day months), as calculated by the Trustee. The calculation of Accreted Value by the Trustee shall be binding and conclusive as to the Accreted Value of Capital Appreciation Bonds.

"Accreted Value Table" means, with respect to any Capital Appreciation Bonds, the corresponding table attached as an Exhibit to a Supplemental Indenture pursuant to which Additional Bonds constituting Capital Appreciation Bonds are issued.

"Additional Bonds" means bonds, notes or other obligations of the Commission (other than Parity State Loans) payable from Net Revenues and ranking on a parity with the Bonds and issued pursuant to a Supplemental Indenture in compliance with Sections 3.05, 3.06, 3.07 and 3.08, as applicable.

"Annual Debt Service" means 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.

"Arbitrage Certificate" means the arbitrage certificate or similar tax certificate delivered or to be delivered by the Commission at the time of issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in a accordance with its terms.

"Authorized Officer" of the Trustee means and includes the chairman of the board of directors, the president, every vice president, every assistant vice president, the cashier, every assistant cashier, every trust officer, and every other officer and assistant officer of the Trustee to whom any trust matter is referred because of his or her knowledge of, and familiarity with, a particular subject.

"Average Annual Debt Service" means, as of the date of calculation, total remaining Debt Service divided by the number of twelve-month periods ending on June 30 (including any fractional periods) remaining until the last maturity date of any Outstanding Bond, calculated by the Commission using the following assumptions:

- (a) In determining the principal amount due in each year, payment shall (unless a different subsection of this definition applies for purposes of determining

principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any Minimum Sinking Fund Account Payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or Payment Date of such Capital Appreciation Bond.

(b) If any of the Outstanding Series of Bonds constitute Balloon Indebtedness or Balloon Indebtedness and Variable Rate Indebtedness or if Bonds then proposed to be issued would constitute Balloon Indebtedness or Balloon Indebtedness and Variable Rate Indebtedness, then, for purposes of determining Average Annual Debt Service, such amounts as constitute Balloon Indebtedness shall be treated as if the principal amount of such Bonds were to be amortized from the date of their original issuance in substantially equal annual installments of principal and interest over a term of 25 years, and the interest rate used for such computation shall, in the case of Variable Rate Indebtedness, be the average rate quoted over the 10 years preceding the date of calculation as the BMA Municipal Swap Index of Municipal Market Data or, if such index is no longer available, the J.J. Kenny Index in each case as such term is defined in the 1992 ISDA U.S. Municipal Counterparty definitions.

(c) If any Outstanding Bonds constitute Tender Indebtedness or if Bonds then proposed to be issued would constitute Tender Indebtedness, then for purposes of determining the amounts of principal and interest due in any Fiscal Year on such Bonds, the options or obligations of the owners of such Bonds to tender the same for purchase or payment prior to their stated maturity or maturities shall be treated as a principal maturity occurring on the first date on which owners of such Bonds may or are required to tender such Bonds except that any such option or obligation to tender Bonds shall be ignored and not treated as a principal maturity, if (i) such Bonds are rated in one of the two highest long-term rating categories (without reference to gradations such as "plus" or "minus") by Moody's and by S&P, or such Bonds are rated in the highest short-term, note or commercial paper rating categories by Moody's and by S&P, and (ii) the obligation, if any, the Commission may have under a Letter of Credit Agreement with respect to such Bonds, other than its obligations on such Bonds, is either subordinated to the obligation of the Commission on the Bonds or is incurred under the conditions and meeting the tests for the issuance of Additional Bonds set forth in this Indenture.

(d) If any Outstanding Bonds constitute Variable Rate Indebtedness, or if Bonds proposed to be issued will be Variable Rate Indebtedness, the average rate quoted over the 10 years preceding the date of calculation as the BMA Municipal Swap Index of Municipal Market Data or, if such index is no longer available, the J.J. Kenny Index, in each case as such term is defined in the 1992 ISDA U.S. Municipal Counterparty definitions.

(e) If Defeasance Obligations have been deposited with and are held by the Trustee or another fiduciary to be used to pay principal or interest on specified Bonds, then the principal or interest to be paid from such Defeasance Obligations or from the earnings thereon shall be disregarded and not included in calculating Average Annual Debt Service.

"Balloon Indebtedness" means a Series of Bonds 25% or more of the principal of which matures on the same date and is not required by the documents governing such Bonds to be amortized by payment or redemption prior to such date. For purposes of this definition, an

optional or mandatory tender of Bonds for purchase as described within the definition of Tender Indebtedness shall not be treated as a maturity.

"Board of Supervisors" means the Board of Supervisors of the City from time to time or any other governing board of the City hereafter provided for by law.

"Bond Obligation" means, as of any given date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the most recent date of the compounding of interest thereon preceding such date of calculation (unless such date of calculation is a date on which interest thereon is compounded, in which case as of such date).

"Bondowner" or "Owner" means any person who is the registered owner of any Outstanding Bond, or the bearer of any Outstanding Bond that has a maturity of one year or less and is issued in bearer form.

"Bond Reserve Fund" means the fund by that name established under Section 5.02.

"Bond Reserve Fund Policy" means a financial guaranty issued to satisfy all or a portion of the Required Reserve for a Series of Bonds, which may be (a) a policy of insurance or surety bond issued by a Bond Reserve Fund Policy Provider, obligations insured by which have, at the time of the issuance of such financial guaranty, a rating by Moody's and S&P which is at least as high as the underlying rating on the related Series of Bonds (i.e., the rating given without regard to any municipal bond or financial guaranty insurance, letter of credit, or similar guaranty or credit enhancement on that Series of Bonds), or (b) a Letter of Credit issued by a Qualified Bank.

"Bond Reserve Fund Policy Provider" means a municipal bond insurance company or other insurance company that is the issuer of a Bond Reserve Fund Policy.

"Bonds" means the Clean Water Revenue Bonds authorized by, and at any time Outstanding under, this Indenture or any Supplemental Indenture, including any Additional Bonds authorized by, and at any time Outstanding under, this Indenture and any Supplemental Indenture.

"Business Day" means any day other than (a) a Saturday, Sunday or day upon which commercial banks in San Francisco, California, or New York, New York are authorized or required to be closed and (b) for purposes of payments and other actions relating to Bonds secured by a Letter of Credit, a day upon which commercial banks are authorized to be closed in the city in which is located the office of the Qualified Bank at which demands for payment under the Letter of Credit are to be presented.

"Capital Appreciation Bonds" means all or any portion of a Series of Bonds designated as Capital Appreciation Bonds and on which interest is compounded and paid either at maturity or on prior redemption.

"Capital Project Account" means each account by that name established within the Capital Project Fund.

"Capital Project Fund" means the fund by that name established under Section 3.04.

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

"Charter" means the Charter of the City as it now exists or as it may hereafter be amended, and any new or successor Charter.

"City" means the existing political subdivision known as the City and County of San Francisco, in the State of California, as the same is organized and existing under and by virtue of the Constitution and laws of the State of California and the Charter, and any public body hereafter created as a successor thereto.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commission" means the Public Utilities Commission of the City, and all commissions, agencies or public bodies hereafter created which succeed to or take over the powers and duties of the Commission with respect to the Enterprise.

"Consulting Engineers" means any engineer or firm of engineers retained by the Commission having a wide and favorable reputation for skill and experience in evaluating the construction and operation of public utilities, including public sanitary waste and storm water collection, treatment and disposal systems, or in other revenue producing publicly-owned enterprises, to perform the acts and carry out the duties provided for such consulting engineers in this Indenture.

"Controller" means the Controller of the City from time to time, and includes any deputy acting for the Controller.

"Credit Provider" means a Municipal Bond Insurer that has issued an outstanding policy of municipal bond or financial guaranty insurance or a Qualified Bank that has issued an outstanding Letter of Credit which, in each case, secures payment of principal of, and interest on, or tender price of, all or a portion of a Series of Bonds; provided that "Credit Provider" shall not refer to a Bond Reserve Fund Policy Provider.

"Current Interest Bonds" means all or any portion of a Series of Bonds designated as Current Interest Bonds and which pay interest at least semiannually to the Owners thereof excluding the first payment of interest thereon.

"Debt Service" means the sum of all principal and interest due on all Outstanding Bonds and Parity State Loans as of the date of calculation.

"Defeasance Obligations" means:

- (a) Cash;
- (b) Federal Securities;

(c) The interest component of Resolution Funding Corporation strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form;

(d) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P, provided that, if the issue is rated only by S&P (i.e., there is no Moody's rating), then the pre-refunded municipal bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals; and

(e) 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 Farmers Home Administration; (iii) participation certificates of the General Services Administration; (iv) Federal Financing Bank bonds and debentures; (v) guaranteed Title XI financings of the U.S. Maritime Administration; and (vi) 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.

"Enterprise" means the whole and each and every part of the municipal sanitary waste and storm water collection, treatment and disposal system and auxiliary or related facilities of the Commission, including all of the presently existing system of the Commission for the collection, treatment and disposal of sanitary waste and storm water, and all future additions, betterments, and extensions to that system or any part thereof.

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

"Federal Securities" means 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 and CATs and TGRS), and also 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.

"Financial Newspaper or Journal" means *The Wall Street Journal* or *The Bond Buyer*, or any other newspaper or journal publishing financial news and selected by the Trustee, whose decision shall be final and conclusive, printed in the English language, customarily published on each Business Day and circulated in San Francisco, California.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or such other fiscal year as may be adopted by the Commission for its general accounting purposes or the then current accounting period of the City if the Commission has no separate accounting period.

"Fitch" means Fitch, Inc., doing business as Fitch Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Commission.

"General Manager" means the general manager of the Commission appointed by the Mayor from time to time pursuant to the Charter or any other applicable provision of law, and includes any other person acting on behalf of the General Manager.

"Indenture" means this Indenture, dated as of January 1, 2003, by and between the Commission and the Trustee, as originally executed or as it may from time to time be supplemented or amended by any Supplemental Indenture delivered under the provisions hereof.

"Independent Certified Public Accountant" means any certified public accountant or firm of such accountants appointed and paid by the Commission, and who, or each of whom --

(a) is in fact independent and not under control of the City or the Commission;

(b) does not have any substantial interest, direct or indirect, with the City or the Commission; and

(c) is not connected with the City or the Commission as an officer or employee of the City or the Commission, but who may be regularly retained to make annual or other audits of the books of or reports to the City or the Commission.

"Information Services" means:

(a) Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor;

(b) Mergent/FIS, 5250 77 Center Drive, Suite 150, Charlotte, North Carolina, 28217, Attn: Called Bond Dept."; and

(c) Kenny S&P, 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department;

or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses or such other services providing information with respect to called bonds, or no such services, as the Commission may designate in a Written Request of the Commission delivered to the Trustee.

"Interest Payment Date" means those interest payment dates set forth for the 2003 Refunding Series A Bonds in Section 2.01(b), and those interest payment dates set forth for any Additional Bonds in a Supplemental Indenture in accordance with Section 3.05(c) or Section 3.06(b), as appropriate.

"Law" means the Charter, the San Francisco Administrative Code, and all laws of the State of California supplemental thereto, including the Revenue Bond Law of 1941 to the extent made applicable by the Charter or by the San Francisco Administrative Code. Whenever reference is made in this Indenture to the "Law," reference is made to the Law as in force on the date of this Indenture or any Supplemental Indenture, unless the context otherwise requires.

"Legal Investments" means bonds, notes, certificates of indebtedness, bills, acceptances or other securities in which funds of the Commission may now or hereafter be legally invested as provided by the law in effect at the time of such investment.

"Letter of Credit" means an irrevocable and unconditional letter of credit, a standby purchase agreement, a line of credit or other similar credit arrangement issued by a Qualified Bank to secure payment of Balloon Indebtedness, Variable Rate Indebtedness, Tender Indebtedness or a Series of Bonds, or to satisfy all or a portion of the Required Reserve.

"Letter of Credit Agreement" means an agreement between the Commission and a Qualified Bank pursuant to which the Qualified Bank agrees to issue a Letter of Credit and which sets forth the repayment obligation of the Commission to the Qualified Bank on account of any advances under the Letter of Credit.

"Letter of Representations" means the letter or letters of representation of the Commission delivered to and accepted by The Depository Trust Company setting forth the basis on which The Depository Trust Company serves as depository for the Bonds, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute depository.

"Maturity Date" means the maturity dates set forth for the 2003 Refunding Series A Bonds in Section 2.01(b), and each maturity date set forth for any Additional Bonds in a Supplemental Indenture in accordance with Section 3.05(c) or Section 3.06(b), as appropriate.

"Maximum Annual Debt Service" means, as of the date of calculation, the largest Annual Debt Service in the then current or any future Fiscal Year, calculated by the Commission using the following assumptions:

(a) In determining the principal amount due in each year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any Minimum Sinking Fund Account Payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or Payment Date of such Capital Appreciation Bond.

(b) If any of the Outstanding Series of Bonds constitute Balloon Indebtedness or Balloon Indebtedness and Variable Rate Indebtedness or if Bonds then proposed to be issued would constitute Balloon Indebtedness or Balloon Indebtedness and Variable Rate Indebtedness, then, for purposes of determining Maximum Annual Debt Service, such amounts as constitute Balloon Indebtedness shall be treated as if the principal amount of such Bonds were to be amortized from the date of their original issuance in substantially equal annual installments of principal and interest over a term of 25 years, and the interest rate used for such computation shall, in the case of Variable Rate Indebtedness, be the average rate quoted over the 10 years preceding the date of calculation as the BMA Municipal Swap Index of Municipal Market Data or, if such index is no longer available, the J.J. Kerry Index in each case as such term is defined in the 1992 ISDA U.S. Municipal Counterparty definitions.

(c) If any Outstanding Bonds constitute Tender Indebtedness or if Bonds then proposed to be issued would constitute Tender Indebtedness, then for purposes of determining the amounts of principal and interest due in any Fiscal Year on such Bonds, the options or obligations of the owners of such Bonds to tender the same for purchase or payment prior to their stated maturity or maturities shall be treated as a principal maturity occurring on the first date on which owners of such Bonds may or are required

to tender such Bonds except that any such option or obligation to tender Bonds shall be ignored and not treated as a principal maturity, if (i) such Bonds are rated in one of the two highest long-term rating categories (without reference to gradations such as "plus" or "minus") by Moody's and by S&P, or such Bonds are rated in the highest short-term, note or commercial paper rating categories by Moody's and by S&P, and (ii) the obligation, if any, the Commission may have under a Letter of Credit Agreement with respect to such Bonds, other than its obligations on such Bonds, is either subordinated to the obligation of the Commission on the Bonds or is incurred under the conditions and meeting the tests for the issuance of Additional Bonds set forth in this Indenture.

(d) If any Outstanding Bonds constitute Variable Rate Indebtedness, or if Bonds proposed to be issued will be Variable Rate Indebtedness, the average rate quoted over the 10 years preceding the date of calculation as the BMA Municipal Swap Index of Municipal Market Data or, if such index is no longer available, the J.J. Kenny Index, in each case as such term is defined in the 1992 ISDA U.S. Municipal Counterparty definitions.

(e) If Defeasance Obligations have been deposited with and are held by the Trustee or another fiduciary to be used to pay principal or interest on specified Bonds, then the principal or interest to be paid from such Defeasance Obligations or from the earnings thereon shall be disregarded and not included in calculating Maximum Annual Debt Service.

"Mayor" means the Mayor of the City from time to time.

"Minimum Sinking Fund Account Payments" means the aggregate amounts required by this Indenture and any subsequent Supplemental Indenture to be deposited in Sinking Fund Accounts for the payment of Term Bonds.

"Moody's" means Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Commission.

"Municipal Bond Insurer" means any insurance company or companies which is or are designated as such in this Indenture or a Supplemental Indenture, and which has or have issued a policy of municipal bond insurance or a financial guaranty insurance policy insuring payment of the principal of and interest on any of the Bonds of any Series of Bonds.

"Net Revenues" means all of the Revenues less all Operation and Maintenance Costs of the Enterprise, and less moneys to be paid to the State of California pursuant to any Senior State Loans.

"Operation and Maintenance Costs of the Enterprise" means the reasonable and necessary costs of operating and maintaining the Enterprise, calculated on 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 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 Commission may establish or the Board of Supervisors may require with respect to employees of the Commission, 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 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 and interest on any revenue bonds or other indebtedness heretofore or hereafter issued for Enterprise purposes and (e) such costs as are scheduled to be paid by the Commission from moneys other than Revenues, such moneys to be clearly available for such purpose.

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

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 9.03) all Bonds theretofore executed, issued and delivered by the Commission under this Indenture except --

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

(b) Bonds for the payment or redemption of which funds or securities in the necessary amount (as set forth in Section 10.01) have theretofore been deposited with a fiduciary (whether upon or prior to the maturity or redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption is given as in provided in Article IV, or provision satisfactory to the Trustee is made for the giving of such notice; and

(c) Bonds in lieu of or in substitution for which other Bonds have been executed, issued and delivered by the Commission pursuant to Section 2.08.

For purposes of this definition and within the meaning of Article X of this Indenture, any Bonds, the principal of or interest on which has been paid by a Credit Provider, shall not be deemed paid by or on behalf of the Commission, shall not be defeased and shall remain Outstanding under this Indenture until the Credit Provider has been paid or reimbursed for such payment by the Commission.

"Parity State Loans" means those loan agreements entered into between the Commission and the State of California (or any board, department or agency thereof) to finance additions, betterments, extensions, repairs, renewals or replacements to the Enterprise, which are entered into after the issuance of the 2003 Refunding Series A Bonds and which, by their terms, are payable from Net Revenues on a parity basis with debt service on the Bonds.

"Payment Date" means any date on which payment of the principal of or interest on the Bonds is due, or on which any Term Bonds are required to be redeemed from any Minimum Sinking Fund Account Payments.

"Permitted Investments" means any of the following, to the extent permitted by law and by any policy guidelines promulgated by the Commission or the City:

(a) Cash;

(b) Federal Securities;

(c) the interest component of Resolution Funding Corporation strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form;

(d) 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 Farmers Home Administration; (iii) Federal Housing Administration debentures; (iv) participation certificates of the General Services Administration; (v) Federal Financing Bank bonds and debentures; (vi) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (vii) guaranteed Title XI financings of the U.S. Maritime Administration; and (viii) 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;

(e) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities only as stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of the Fannie Mae; (iv) senior debt obligations of the Student Loan Marketing Association; (v) obligations of the Resolution Funding Corporation; and (vi) consolidated system-wide bonds and notes of the Farm Credit System;

(f) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of at least AAAM-G, AAAM or AAM, and a rating by Moody's of Aaa, Aa1 or Aa2 (such funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services);

(g) certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral described in (a) or (b) above, which have a maturity not greater than one year from the date of investment and which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1+" or better by S&P and "Prime-1" by Moody's, which collateral must be held by a third party and provided that the Trustee must have a perfected first security interest in such collateral;

(h) certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by FDIC, including BIF and SAIF;

(i) investment agreements, including guaranteed investment contracts, forward purchase agreements, reserve fund put agreements and collateralized investment agreements acceptable to the Credit Provider;

(j) commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P;

(k) bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies;

(l) federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's, and "A-1+" by S&P;

(m) the Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee; and

(n) Any other investment approved in writing by the Credit Provider.

"Policy Costs" means the amounts owing to a Bond Reserve Fund Policy Provider, including the principal amount of any draw on a Bond Reserve Fund Policy, interest thereon and reasonable expenses incurred by the Bond Reserve Fund Policy Provider in enforcing payment of Policy Costs, as more fully set forth in the agreement pursuant to which such Bond Reserve Fund Policy is issued.

"President" means the President of the Commission from time to time, or any other person acting on behalf of the President.

"Principal Payment Date" means the principal payment date set forth for the 2003 Refunding Series A Bonds in Section 2.01(b), and the principal payment date set forth for any Additional Bonds in a Supplemental Indenture in accordance with Section 3.05(c) or Section 3.06(b), as appropriate.

"Prior Resolution" means, collectively, Resolution No. 656-92 adopted by the Board of Supervisors on August 3, 1992, Resolution No. 58-94 adopted by the Board of Supervisors on January 24, 1994 and Resolution No. 385-95 adopted by the Board of Supervisors on May 8, 1995.

"Project" means any repairs, replacements, additions, enlargements, betterments, extensions and other improvements to or benefiting, and the equipping of, the Enterprise, including, without limitation, the acquisition of land therefor.

"Proportionate Basis," when used with respect to the redemption of Bonds, means that the amount of Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the amount of Bond Obligation of Bonds of such maturity bears to the amount of all Bond Obligation of Bonds to be redeemed, provided that if the amount available for redemption of Bonds of any maturity is insufficient to redeem a multiple of \$5,000 principal amount or Accreted Value payable at maturity, such amount shall be applied to the redemption of the highest possible integral multiple (if any) of \$5,000 principal amount or Accreted Value payable at maturity. For purposes of the foregoing, Term Bonds shall be deemed to mature in the years and in the amounts of the Minimum Sinking Fund Account Payments and Capital Appreciation Bonds and Current Interest Bonds maturing or subject to Minimum Sinking Fund Account Payments in the same year shall be treated as separate maturities.

When used with respect to the payment or purchase of Bonds, "Proportionate Basis" shall have the same meaning set forth above except that "pay" or "purchase" shall be substituted for "redeem" or "redemption" and "paid" or "purchased" shall be substituted for "redeemed."

"Qualified Bank" means a state or national bank or trust company or savings and loan association or a foreign bank with a domestic branch or agency which is organized and in good standing under the laws of the United States or any state thereof or any foreign country, which has a debt rating at least as high as the underlying rating on the related Series of Bonds at the time such Qualified Bank delivers a Letter of Credit or a Bond Reserve Fund Policy (i.e., the rating given without regard to any municipal bond or financial guaranty insurance, letter of credit, or similar guaranty or credit enhancement on that Series of Bonds) as provided by Moody's, by S&P or Fitch.

"Qualified Financial Advisor" means a person or a firm selected by the Commission who or which engages in the business of advising the management of public agencies similar to the Commission concerning the issuance of debt.

"Qualified Independent Consultant" means a person or a firm who or which engages in the business of advising the management of public agencies concerning the operation and financing of public utilities, including public municipal sanitary waste and storm water collection, treatment and disposal systems, and also including advice and consultation generally concerning the use and operation of public utilities, including public municipal sanitary waste and storm water collection, treatment and disposal systems, and which person or firm, by reason of his or its knowledge and experience, has acquired a reputation as a recognized consultant. Such Qualified Independent Consultant may include a person or firm rendering professional engineering or accounting services in addition to his or its occupation as a public utility consultant and may include any person or firm regularly employed by the City or the Commission as a consultant to the City or the Commission.

"Rebate Fund" means the fund established and so designated for a Series of Bonds.

"Required Reserve" means, for any Series of Bonds, as of any date of calculation, an amount equal to the lesser of:

- (i) Maximum Annual Debt Service on all Bonds (excluding from such calculation Parity State Loans, if any) then Outstanding; or
- (ii) 125% of Average Annual Debt Service on all Bonds (excluding from such calculation Parity State Loans, if any) then Outstanding;

provided, that in no event shall the Commission, 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.

"Reserve Account" means each account established in the Bond Reserve Fund with respect to each Series of Bonds issued under this Indenture.

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

"Revenues" means all gross revenues of the Enterprise, including all charges received for and all other income and receipts derived by the Commission from the operation of the

Enterprise, or arising from the Enterprise, including connection and installation charges, but excluding --

- (a) any money received by or for the account the Commission 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 Commission to be applied to construction,
- (e) moneys received constituting casualty insurance proceeds with respect to all or any part of the Enterprise (which shall be received and disposed of pursuant to Section 6.20) and moneys received constituting other insurance proceeds,
- (f) moneys received from the sale or disposition of all or any part of the Enterprise (which shall be received and disposed of pursuant to Sections 6.03),
- (g) moneys received upon the taking by or under the threat of eminent domain of all or any part of the Enterprise (which moneys shall be received and disposed of pursuant to Section 6.12),
- (h) proceeds from Bonds issued by the Commission or proceeds from loans or other indebtedness obtained by the Commission, and
- (i) moneys or securities received by the Commission 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 Commission) derived from the deposit or investment of any moneys in any fund or account established hereunder (excluding any Rebate Fund and any escrow fund pledged for the payment of defeased bonds) or in any fund or account of the Enterprise and legally available to pay Debt Service, and (ii) any other moneys, proceeds and other amounts that the Commission determines should be "Revenues" under this Indenture.

"Secretary" means the Secretary of the Commission from time to time.

"Securities Depositories" means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; or, in accordance with then-current guidelines of the Securities and Exchange Commission, to such other addresses or such other securities depositories, or no such depositories, as the Commission may designate in a Written Request of the Commission delivered to the Trustee.

"Senior State Loans" means those loan agreements entered into between the Commission and the State of California (or any board, department or agency thereof) to finance additions, betterments, extensions, repairs, renewals or replacements to the Enterprise, which (i) have been entered into and are in effect prior to the issuance of the 2003 Refunding Series A Bonds, or (ii) which are entered into after the issuance of the 2003 Refunding Series A Bonds and which, by their terms, are payable from Revenues on a basis senior to Debt Service. The Commission

acknowledges that the payment of the Senior State Loans described in (i) above is not, by the terms of such Senior State Loans, senior to the payment of Debt Service, but has, for purposes of this Indenture, elected to treat such payment of such Senior State Loans as senior to the payment of Debt Service.

"Serial Bonds" means all or any portion of a Series of Bonds designated as Serial Bonds and for which no Minimum Sinking Fund Account Payments are provided.

"Series" means any series of Bonds executed, authenticated and delivered pursuant to this Indenture and identified as a separate Series of Bonds, including any Additional Bonds issued pursuant to a Supplemental Indenture and Sections 3.05, 3.06 and 3.07 of this Indenture.

"Series 1995 Bonds" means the City and County of San Francisco Sewer Revenue Bonds, Series 1995.

"Series 1995 Escrow Agreement" means the Escrow Agreement dated as of January 1, 2003, between the Commission and the Series 1995 Escrow Agent pursuant to which the Series 1995 Bonds are being refunded.

"Series 1995 Escrow Agent" means U.S. Bank, N.A., or its successors and assigns.

"Series 1994 Bonds" means the City and County of San Francisco Sewer Revenue Refunding Bonds, Series 1994.

"Series 1994 Escrow Agreement" means the Escrow Agreement dated as of January 1, 2003, between the Commission and the Series 1994 Escrow Agent pursuant to which the Series 1994 Bonds are being refunded.

"Series 1994 Escrow Agent" means U.S. Bank, N.A., or its successors and assigns.

"Series 1992 Bonds" means the City and County of San Francisco Sewer Revenue Refunding Bonds, Series 1992.

"Series 1992 Escrow Agreement" means the Escrow Agreement dated as of January 1, 2003, between the Commission and the Series 1992 Escrow Agent pursuant to which the Series 1992 Bonds are being refunded.

"Series 1992 Escrow Agent" means U.S. Bank, N.A., or its successors and assigns.

"Sinking Fund Accounts" means any special account or accounts established by this Indenture or any Supplemental Indenture or Indentures in the Principal Fund (established pursuant to Section 5.04) for the payment of Term Bonds.

"S&P" means Standard & Poor's Ratings Services, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Commission.

"Supplemental Indenture" means any indenture amendatory of or supplemental to this Indenture that complies with the provisions of this Indenture for amendments and supplements, and includes any amended and restated indenture that complies with the provisions of this Indenture for amendments and supplements.

"Tender Indebtedness" means any Bonds or portions of Bonds a feature of which is an option, on the part of the Bondowners, or an obligation, under the terms of such Bonds, to tender all or a portion of such Bonds to the Commission, the Trustee or other fiduciary or agent for payment or purchase and requiring that such Bonds or portions of Bonds be purchased if properly presented.

"Term Bonds" means all or any portion of a Series of Bonds designated as Term Bonds and which are payable at or before their specified maturity date or dates from Minimum Sinking Fund Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

"Treasurer" means the Treasurer of the City and includes any deputy acting for the Treasurer.

"Trustee" means U.S. Bank, N.A., acting as an independent trustee with the duties and powers herein provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in Section 8.01.

"2003 Refunding Series A Bond Insurer" means MBIA Insurance Corporation, or any successor thereto or assignee thereof.

"2003 Refunding Series A Bond Insurance Policy" means the financial guaranty insurance policy issued by the 2003 Refunding Series A Bond Insurer guaranteeing the scheduled payment of the principal of and interest on the 2003 Refunding Series A Bonds when due.

"2003 Refunding Series A Bonds" has the meaning set forth in the preambles to this Indenture.

"2003 Refunding Series A Expenses Fund" means the fund by that name established under Section 3.03.

"2003 Refunding Series A Reserve Account" means the account by that name established within the Bond Reserve Fund pursuant to Section 5.05(d).

"Variable Rate Indebtedness" means any portion of indebtedness, the interest rate on which is not fixed at the time such indebtedness is incurred, and has not at some subsequent date been fixed for the entire term of the indebtedness.

"Written Request of the Commission," "Written Requisition of the Commission" and "Written Statement of the Commission" mean, respectively, a written request, requisition or statement signed by or on behalf of the Commission by the President or the General Manager or the Secretary or by any person (whether or not an officer of the Commission) who is authorized by resolution of the Commission (which resolution shall be provided to the Trustee) or otherwise to sign or execute such a document on its behalf.

SECTION 1.02. Equal Security. In consideration of the acceptance of the Bonds by those who shall hold the same from time to time, this Indenture shall be deemed to be and shall constitute a contract between the Commission, the Trustee and the Owners from time to time of the Bonds to secure the full and final payment of the interest and principal on the Bonds, subject to the agreements, conditions, covenants and terms contained herein; and the covenants and agreements herein set forth to be performed on behalf of the Commission or the Trustee shall be

for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the Series, number or date thereof or the time of issue, sale, execution or delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or herein.

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

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

ARTICLE II
THE BONDS

SECTION 2.01. Authorization; Terms of 2003 Refunding Series A Bonds.

(a) Issuance of Bonds.

(i) Bonds may be issued hereunder from time to time in order to obtain funds for the purposes authorized herein. The Bonds shall be issued under the Charter and the Law for the purpose of financing or refinancing the acquisition, construction, replacement, reconstruction, extension, improvement and development of the Enterprise.

(ii) The aggregate principal amount of Bonds which may be issued hereunder is not limited (subject, however, to the right of the Commission and the Board of Supervisors of the City, which is hereby reserved, to limit or restrict the aggregate principal amount of Bonds which may at any time be issued and Outstanding hereunder) and consists or may consist of one or more Series of varying denominations, dates, maturities, interest rates and other provisions, all issued and to be issued pursuant to this Indenture and the Law, subject to the limitations contained in Sections 3.05, 3.06, 3.07 and 3.08.

(iii) This Indenture constitutes a continuing agreement with the Owners of all of the Bonds issued or to be issued hereunder and then Outstanding to secure the full and final payment of the principal of and the premiums, if any, and the interest on all Bonds which may from time to time be executed and delivered hereunder, subject to the covenants, agreements, provisions and conditions herein contained.

(iv) The Bonds are designated generally as the "Clean Water Revenue Bonds," each Series thereof to bear such additional designation as may be necessary or appropriate to distinguish such Series from every other Series of Bonds. The Bonds may be issued in such Series as from time to time shall be established and authorized by the Commission, subject to the provisions and conditions contained in this Indenture.

(b) Terms of 2003 Refunding Series A Bonds.

(i) An initial Series of Bonds is hereby created and such Bonds are designated as the "Clean Water Revenue Bonds, 2003 Refunding Series A". The aggregate principal amount of the 2003 Refunding Series A Bonds which may be issued and Outstanding under this Indenture shall not exceed \$396,270,000, except as may be otherwise provided in Section 2.08. The 2003 Refunding Series A Bonds shall be of the tenor known as Current Interest Bonds in the aggregate principal amount of \$396,270,000.

(ii) The 2003 Refunding Series A Bonds shall be initially issued registered in the name of "Cede & Co.," as nominee of The Depository Trust Company, New York, New York, and shall be evidenced by one 2003 Refunding Series A Bond maturing on each maturity date, as the case may be, to be in a denomination corresponding to the total principal designated to mature on such date. Registered ownership of the 2003

Refunding Series A Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 2.09 of this Indenture.

(iii) The 2003 Refunding Series A Bonds shall be issued as fully registered Bonds without coupons in the denomination of \$5,000 or any integral multiple thereof; provided that no 2003 Refunding Series A Bond shall have principal maturing on more than one principal maturity date. The 2003 Refunding Series A Bonds shall be dated as of their date of delivery and shall accrue interest from such date.

(iv) The 2003 Refunding Series A Bonds shall bear interest at the rates per annum set forth in the table below, payable on each Interest Payment Date, which for the 2003 Refunding Series A Bonds shall mean October 1, 2003 and semiannually thereafter on April 1 and October 1 in each year, calculated on the basis of a 360-day year consisting of twelve 30-day consecutive months.

(v) Principal of the 2003 Refunding Series A Bonds is payable on each Principal Payment Date, which for the 2003 Refunding Series A Bonds shall mean each October 1 on which 2003 Refunding Series A Bonds mature (as set forth below). The 2003 Refunding Series A Bonds shall mature on each Maturity Date, which for the 2003 Refunding Series A Bonds shall mean October 1 in the following years and in the following amounts:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
<u>October 1</u>		
2006	\$33,445,000	3.00%
2007	34,500,000	3.00
2008	35,665,000	3.00
2009	37,130,000	5.00
2010	26,320,000	3.25
2011	22,010,000	4.00
2012	23,095,000	5.00
2013	24,395,000	5.00
2014	25,790,000	5.25
2015	27,325,000	5.25
2016	11,920,000	4.25
2017	12,575,000	5.25
2018	13,315,000	5.25
2019	14,120,000	5.25
2020	14,960,000	5.25
2021	15,835,000	5.00
2022	15,005,000	5.00
2023	2,610,000	4.75
2024	2,745,000	4.75
2025	3,510,000	4.75

(vi) All of the 2003 Refunding Series A Bonds are hereby designated as Serial Bonds.

(vii) The principal of and premium, if any, on the 2003 Refunding Series A Bonds shall be payable in lawful money of the United States of America to the Owner thereof, upon the surrender thereof at the principal corporate trust office of the Trustee, in St. Paul, Minnesota. The interest on the 2003 Refunding 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 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 he may have filed with the Trustee for that purpose.

(viii) Each 2003 Refunding 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 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 September 15, 2003, in which event it shall bear interest from the date of delivery of the 2003 Refunding Series A Bonds; provided, however, that if, at the time of authentication of any Current Interest 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.

(ix) Only those 2003 Refunding Series A Bonds that bear a certificate of authentication in the form herein recited, executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee shall be conclusive evidence that the 2003 Refunding Series A Bonds so authenticated have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

(x) The Trustee shall assign each 2003 Refunding 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.

(c) Due Authorization. The Commission has reviewed all proceedings heretofore taken relative to the authorization of the 2003 Refunding 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 2003 Refunding 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, to issue the 2003 Refunding Series A Bonds in the manner and form provided in this Indenture.

(d) Determination Regarding Refunding. The Commission has found and determined that the 2003 Refunding Series A Bonds shall be issued for the purpose of refunding the Series 1992 Bonds, the Series 1994 Bonds and the Series 1995 Bonds in order to produce net debt service savings to the Commission on a present value basis, calculated as provided in the Charter.

SECTION 2.02. Forms of 2003 Refunding Series A Bonds. The 2003 Refunding 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 form set forth as Exhibit A hereto, with necessary or appropriate variations, omissions and insertions as permitted or required by this Indenture.

SECTION 2.03. Execution of Bonds. (a) The Bonds shall be executed on behalf of the Commission by the manual or facsimile signatures of its President or General Manager and the

Controller and under the seal of the Commission attested by the manual or facsimile signature of the Secretary. Such seal may be in the form of a facsimile of the Commission's seal and may be imprinted or impressed upon the Bonds. The Bonds shall then be delivered to the Trustee for authentication by it. In case any of the officers who shall have signed or attested any of the Bonds shall cease to be such officer or officers before the Bonds so signed or attested shall have been authenticated or delivered by the Trustee or issued by the Commission, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Commission as though those who signed and attested the same had continued to be such officers, and also any Bond may be signed and attested on behalf of the Commission by such persons as on the actual date of the execution of such Bond shall be the President or General Manager or the Secretary or the Controller although at the nominal date of such Bond any such person shall not have held such title.

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

SECTION 2.04. Transfer of Bonds. (a) Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.06, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee duly executed.

(b) Whenever any Bond or Bonds shall be surrendered for transfer, the Commission shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds of the same Series, tenor and maturity, for a like aggregate principal amount. The Trustee shall require the payment by any Bondowner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

(c) No transfer of Current Interest Bonds shall be required to be made by the Trustee after the fifteenth day of the month next preceding each interest payment date, or, as to any Bonds called for redemption, within 30 days of the date fixed for redemption.

SECTION 2.05. Exchange of Bonds. (a) Bonds may be exchanged at the principal corporate trust office of the Trustee in San Francisco, California, for a like aggregate principal amount of Bonds of other authorized denominations of the same Series, tenor and maturity. The Trustee shall require the payment by the Bondowner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

(b) No exchange of Current Interest Bonds shall be required to be made by the Trustee after the fifteenth day of the month next preceding each interest payment date, or, as to any Bonds called for redemption, within thirty days of the date fixed for redemption.

SECTION 2.06. Bond Register. The Trustee will keep or cause to be kept, at the principal corporate trust office of the Trustee in St. Paul, Minnesota, sufficient books for the registration and transfer of the Bonds, which shall during regular business hours of the Trustee be open to inspection by the Commission; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as the Trustee may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as hereinbefore provided.

SECTION 2.07. Temporary Bonds. The Bonds may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Commission, shall be in registered form without coupons and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the Commission and be authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive fully registered Bonds. If the Commission issues temporary Bonds it will execute and furnish definitive Bonds without delay, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the principal corporate trust office of the Trustee in St. Paul, Minnesota, and the Trustee shall deliver in exchange for such temporary Bonds definitive Bonds of an equal aggregate principal amount of Bonds of the same Series, tenor and maturity or maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds executed and delivered hereunder.

SECTION 2.08. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond becomes mutilated, the Commission, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and number in exchange and substitution for the Bond so mutilated (except that such number may be preceded by a distinguishing prefix), but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and delivered to, or upon the order of, the Commission. If any Bond becomes lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Commission and the Trustee and, if such evidence is satisfactory to both and indemnity satisfactory to them shall be given, the Commission, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver a new Bond in lieu of and in substitution for the Bond so lost, destroyed or stolen (except that such number may be preceded by a distinguishing prefix). The Commission may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Commission and the Trustee in the premises. Any Bond issued under the provisions of this Section in exchange for any Bond mutilated or in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Commission, whether or not the Bond so mutilated or so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds secured by this Indenture. Neither the Commission nor the Trustee shall be required to treat both the original Bond and any duplicate Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued hereunder or for the purpose of determining any percentage of Bonds Outstanding hereunder, but both the original and duplicate Bond shall be treated as one and the same.

SECTION 2.09. Use of Depository. (a) The 2003 Refunding Series A Bonds shall be initially issued as provided in Section 2.01(b) hereof. Registered ownership of such 2003 Refunding 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) ("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 that The Depository Trust Company or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository; provided that no Substitute Depository which is not objected to by the Trustee can be obtained.

(b) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection (a) of this Section 2.09, upon receipt of all Outstanding 2003 Refunding Series A Bonds by the Trustee, together with a Written Request of the Commission to the Trustee designating the Substitute Depository, a single new 2003 Refunding Series A Bond, which the Commission shall prepare or cause to be prepared, shall be executed and delivered for each maturity of Current Interest Bond of such 2003 Refunding 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 2.09, upon receipt of all Outstanding 2003 Refunding Series A Bonds by the Trustee, together with a Written Request of the Commission to the Trustee, new 2003 Refunding Series A Bonds, which the Commission shall prepare or cause to be prepared, 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 2.01 hereof, provided that the Trustee shall not be required to deliver such new 2003 Refunding 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 a partial redemption or an advance refunding of any 2003 Refunding 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 2003 Refunding Series A Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. 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 2003 Refunding 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 2003 Refunding 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 2003 Refunding Series A Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2003 Refunding Series A Bonds.

(e) Notwithstanding any other provision of this Indenture and so long as all outstanding 2003 Refunding 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 redemption premium, if any, and interest on the 2003 Refunding 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, the provisions of which the Trustee may rely upon to implement the foregoing procedures notwithstanding any inconsistent provisions herein.

SECTION 2.10. Insurance Provisions Relating to the 2003 Refunding Series A Bonds

(a) Rights of 2003 Refunding Series A Bond Insurer.

(i) Each of the covenants and provisions contained in this Section 2.10 is for the benefit of the 2003 Refunding Series A Bond Insurer with respect to the 2003 Refunding Series A Bonds and shall be in effect only so long as the 2003 Refunding Series A Bond Insurer has in effect the 2003 Refunding Series A Bond Insurance Policy with respect to the 2003 Refunding Series A Bonds or any portion thereof.

(ii) Any covenant or provision contained in this Section 2.10 may be modified, amended or waived only with the written consent of the 2003 Refunding Series A Bond Insurer with respect to the 2003 Refunding Series A Bonds and without the consent of any Owner or Owners of the 2003 Refunding Series A Bonds.

(iii) The 2003 Refunding Series A Bond Insurer shall be deemed to be the sole holder of the 2003 Refunding Series A Bonds insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the 2003 Refunding Series A Bonds insured by it are entitled to take pursuant to the Indenture. The maturity of 2003 Refunding Series A Bonds insured by the 2003 Refunding Series A Bond Insurer shall not be accelerated without the consent of the 2003 Refunding Series A Bond Insurer.

(iv) Copies of any modification or amendment to the Indenture shall be sent to Standard & Poor's Rating Services and Moody's Investors Service, Inc. at least 10 days prior to the effective date thereof.

(v) The 2003 Refunding Series A Bond Insurer shall receive notice of the resignation or removal of the Trustee and the appointment of a successor thereto.

(vi) In connection with the issuance of Additional Bonds hereunder, the Commission shall deliver the official statement or other disclosure document, if any, circulated with respect to such Additional Bonds.

(vii) The 2003 Refunding Series A Bond Insurer shall receive copies of all notices delivered to the Owners and, on an annual basis, copies of the Commission's Enterprise Financial Statements (as defined in Section 6.07) and the annual budget for the Enterprise. ✓

(viii) The Commission agrees to reimburse the 2003 Refunding Series A Bond Insurer immediately and unconditionally upon demand, to the extent permitted by law, for all reasonable expenses, including attorneys' fees and expenses, incurred by the 2003 Refunding Series A Bond Insurer in connection with (i) the enforcement by the 2003 Refunding Series A Bond Insurer of the Commission's obligations, or the preservation or defense of any rights of the 2003 Refunding Series A Bond Insurer, under this Indenture and any other document executed in connection with the issuance of the 2003 Refunding

Series A Bonds, and (ii) any consent, amendment, waiver or other action with respect to the Indenture or any related document, whether or not granted or approved, together with interest on all such expenses from and including the date incurred to the date of payment at Citibank's Prime Rate plus 3% or the maximum interest rate permitted by law, whichever is less. In addition, the 2003 Refunding Series A Bond Insurer reserves the right to charge a fee in connection with its review of any such consent, amendment or waiver, whether or not granted or approved.

(ix) Amounts paid by the 2003 Refunding Series A Bond Insurer under the 2003 Refunding Series A Bond Insurance Policy shall not be deemed paid for purposes of the Indenture and shall remain Outstanding and continue to be due and owing until paid by the Commission in accordance with the Indenture. The 2003 Refunding Series A Bond Insurer shall, to the extent it makes any payment of principal of or interest on the 2003 Refunding Series A Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the 2003 Refunding Series A Bond Insurance Policy. The Indenture shall not be discharged unless all amounts due or to become due to the 2003 Refunding Series A Bond Insurer have been paid in full or duly provided for.

(b) Payments Under 2003 Refunding Series A Bond Insurance Policy.

(1) In the event that, on the second Business Day, and again on the Business Day prior to the payment date on the 2003 Refunding Series A Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the 2003 Refunding Series A Bonds due on the second following or following, as the case may be, Business Day, the Trustee shall immediately notify the 2003 Refunding Series A Bond Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

(2) If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the 2003 Refunding Series A Bond Insurer or its designee.

(3) In addition, if the Trustee has notice that any Owner of a 2003 Refunding Series A Bond has been required to disgorge payments of principal of or interest on the 2003 Refunding Series A Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner of a 2003 Refunding Series A Bonds within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the 2003 Refunding Series A Bond Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

(4) The Trustee is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Owners of the 2003 Refunding Series A Bonds as follows:

(i) If and to the extent there is a deficiency in amounts required to pay interest on the 2003 Refunding Series A Bonds, the Trustee shall (a) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the 2003 Refunding Series A Bond Insurance Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the 2003 Refunding Series A Bond Insurer as agent for the Owners of the 2003 Refunding Series A Bonds in any legal proceeding related to the

payment of such interest and an assignment to the 2003 Refunding Series A Bond Insurer of the claims for interest to which such deficiency relates and which are paid by the 2003 Refunding Series A Bond Insurer, (b) receive as designee of the respective Owners of the 2003 Refunding Series A Bonds (and not as Trustee) in accordance with the tenor of the 2003 Refunding Series A Bond Insurance Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (c) disburse the same to such respective Owners of the 2003 Refunding Series A Bonds; and

(ii) If and to the extent of a deficiency in amounts required to pay principal of the 2003 Refunding Series A Bonds, the Trustee shall (a) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the 2003 Refunding Series A Bond Insurer as agent for such Owners of the 2003 Refunding Series A Bonds in any legal proceeding relating to the payment of such principal and an assignment to the 2003 Refunding Series A Bond Insurer of any of the 2003 Refunding Series A Bonds surrendered to the Insurance Paying Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (b) receive as designee of the respective Owners of the 2003 Refunding Series A Bonds (and not as Trustee) in accordance with the tenor of the Insurance Policy payment therefor from the Insurance Paying Agent, and (c) disburse the same to such Owners of the 2003 Refunding Series A Bonds.

(5) Payments with respect to claims for interest on and principal of the 2003 Refunding Series A Bonds disbursed by the Trustee from proceeds of the 2003 Refunding Series A Bond Insurance Policy shall not be considered to discharge the obligation of the Commission with respect to such 2003 Refunding Series A Bonds, and the 2003 Refunding Series A Bond Insurer shall become the owner of such unpaid 2003 Refunding Series A Bonds, and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(6) Irrespective of whether any such assignment is executed and delivered, the Commission and the Trustee hereby agree for the benefit of the 2003 Refunding Series A Bond Insurer that,

(i) They recognize that to the extent the 2003 Refunding Series A Bond Insurer makes payments, directly or indirectly (as by paying through the Trustee), on account of principal or interest with respect to the 2003 Refunding Series A Bonds, the 2003 Refunding Series A Bond Insurer will be subrogated to the rights of the Owners of the 2003 Refunding Series A Bonds to receive the amount of such principal and interest from the Commission, with interest thereon as provided and solely from the sources stated in the Indenture and the 2003 Refunding Series A Bonds; and

(ii) They will accordingly pay to the 2003 Refunding Series A Bond Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the 2003 Refunding Series A Bond Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest with respect thereto as provided in the Indenture and the Series 2003 Bond, but only from the sources and in the manner provided therein for the payment of principal of and interest

on the 2003 Refunding Series A Bonds to the Owners of 2003 Refunding Series A Bonds, and will otherwise treat the 2003 Refunding Series A Bond Insurer as the owner of such rights to the amount of such principal and interest.

(c) Notices to 2003 Refunding Series A Bond Insurer. Any notice, report or correspondence to be delivered to the 2003 Refunding Series A Bond Insurer under the Indenture shall be addressed as follows:

MBIA Insurance Corporation
113 King Street
Armonk, New York, 10504
Attention: Insured Portfolio Management Department

In each case in which the notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

(d) 2003 Refunding Series A Bond Insurer As Third Party Beneficiary. To the extent that this Indenture confers upon or gives or grants to the 2003 Refunding Series A Bond Insurer any right, remedy or claim under or by reason of the Indenture, the 2003 Refunding Series A Bond Insurer is hereby explicitly recognized as being a third party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

SECTION 2.11. 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 2003 Refunding Series A Bonds, executed and delivered by the Commission in connection with the issuance of the 2003 Refunding Series A Bonds, as it may be supplemented and amended in accordance with its terms (the "2003 Refunding Series A Continuing Disclosure Certificate"). Notwithstanding any other provision of this Indenture, failure of the Commission to comply with the 2003 Refunding Series A Continuing Disclosure Certificate shall not be considered an Event of Default; however, any Participating Underwriter (as such term is defined in the 2003 Refunding Series A Continuing Disclosure Certificate) or any Bondholder 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 2003 Refunding Series A Continuing Disclosure Certificate shall be an action to compel performance.

ARTICLE III

ISSUANCE OF 2003 REFUNDING SERIES A BONDS; ADDITIONAL SERIES OF BONDS

SECTION 3.01. Issuance of 2003 Refunding Series A Bonds. At any time after the execution of this Indenture, the Commission may sell and execute and the Trustee may authenticate and, upon a Written Request or Certificate of the Commission, deliver 2003 Refunding Series A Bonds in the aggregate principal amount of \$396,270,000.

SECTION 3.02. Application of Proceeds of 2003 Refunding Series A Bonds; Defeasance of Series of 1992 Bonds, Series 1994 Bonds and Series 1995 Bonds. The proceeds received from the sale of the 2003 Refunding Series A Bonds, together with any amounts transferred by the trustee for the Series 1992 Bonds, the Series 1994 Bonds and Series 1995 Bonds, shall be deposited with the Trustee, who shall transfer those funds as follows:

- (1) The Trustee shall
 - (i) transfer to the Series 1992 Escrow Agent, \$169,561,931.19 for deposit under the Series 1992 Escrow Agreement;
 - (ii) transfer to the Series 1994 Escrow Agent, \$153,814,954.15 for deposit under the Series 1994 Escrow Agreement; and
 - (iii) transfer to the Series 1995 Escrow Agent, \$59,890,792.22 for deposit under the Series 1995 Escrow Agreement;

(2) The Trustee shall deposit in the 2003 Refunding Series A Reserve Account of the Bond Reserve Fund established pursuant to Section 5.05(d) with respect to the 2003 Refunding Series A Bonds the amount of \$32,424,473.20, being the Required Reserve.

(3) The Trustee shall set aside the remainder of such proceeds, being \$2,361,029.89, and funds in a separate fund to be known as the "2003 Refunding Series A Expenses Fund" which the Trustee hereby agrees to establish and maintain.

The Trustee may establish a temporary fund or account to facilitate such deposits and transfers.

SECTION 3.03. Expenses Fund. (a) The money in the 2003 Refunding Series A Expenses 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 2003 Refunding Series A Bonds and the refunding of all outstanding Series 1992 Bonds, Series 1994 Bonds and Series 1995 Bonds (or for making reimbursements to the Commission or any other person, firm or corporation for such costs theretofore paid by him, her or it).

(b) Before any payment is made by the Trustee to pay any expenses of issuance from the 2003 Refunding Series A Expenses Fund, the Commission shall cause to be filed with the Trustee a Written Requisition of the Commission that states the following (which shall be sufficient evidence to the Trustee of the facts stated):

- (i) the item number of the payment;
- (ii) the name and address of the person to whom payment is due;
- (iii) the amount to be paid;
- (iv) the purpose for which the obligation to be paid was incurred;
- (v) that obligations in the stated amounts have been incurred by the Commission and that each item thereof is a proper charge; and
- (vi) 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 thereof. 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.

(c) The Trustee shall transfer any balance of money remaining in the 2003 Refunding Series A Expenses Fund after the payment of all costs incidental to or connected with the issuance of the 2003 Refunding Series A Bonds, and the refunding of the outstanding Series 1992 Bonds, Series 1994 Bonds and Series 1995 Bonds, on July 28, 2003 to the 2003 Refunding Series A Reserve Account of the Bond Reserve Fund to the extent necessary at that time to restore the Bond Reserve Fund to the amount of the Required Reserve, and then transfer any remaining balance of money to deposit in the Interest Fund established pursuant to Section 5.01. Not less than fifteen (15) days prior to making such transfer(s), the Trustee shall send a notice to the Commission stating the date on which such transfer(s) will be made.

SECTION 3.04. Capital Project Fund.

(a) The Commission hereby covenants and agrees to maintain hereunder the separate fund known as the "Clean Water Revenue Bond Capital Project Fund" (herein called the "Capital Project Fund"). The Treasurer shall hold the amounts on deposit in the Capital Project Fund. The Controller shall maintain and account for the Capital Project Fund so long as any moneys are on deposit therein. The Commission shall establish within the Capital Project Fund separate Capital Project Accounts relating to separate Series of Bonds, to the extent needed for a Series of Bonds.

(b) Upon completion of the acquisition and construction of the Project, the Commission may direct the transfer of any remaining balance in the Capital Project Fund to the Interest Fund. Upon completion of acquisition or construction of the Project or any portion thereof, the Commission shall file with the Trustee a Certificate or Written Statement of the Commission stating the fact and date of such completion of construction.

(c) The moneys in the Capital Project Fund shall be held by the Treasurer in trust and applied to the costs of acquisition, construction, expansion, improvement, financing and refinancing of the 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 applicable Series of Bonds to the extent permitted by law, and the costs incurred in connection with the issuance of the applicable Series of Bonds to the extent not provided for.

(d) The Treasurer shall pay out moneys from the Capital Project Fund only upon warrants drawn by the Controller in the manner provided by law. No withdrawals shall be made from the Capital Project Fund for any purpose not authorized by law.

SECTION 3.05. Issuance of Additional Bonds. In addition to the 2003 Refunding Series A Bonds, the Commission may, subject to the requirements of the Law, by Supplemental Indenture establish one or more other Series of Bonds payable from Net Revenues on a parity with the 2003 Refunding Series A Bonds and secured by a lien upon and pledge of Net Revenues equal to the lien and pledge securing the 2003 Refunding Series A Bonds, and the Commission may issue and the Trustee may authenticate and deliver Bonds of any Series so established, in such principal amount and for such lawful purpose or purposes (including refunding of any Bonds issued hereunder and then Outstanding) as shall be determined by the Commission in said Supplemental Indenture, but only upon compliance by the Commission with the provisions of Section 3.07, and subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such additional Series of Bonds:

(a) No Event of Default shall have occurred and be continuing under this Indenture or any Supplemental Indenture and no event shall have 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.

(b) The Supplemental Indenture providing for the issuance of such additional Series of Bonds shall require that the amount on deposit in the Bond Reserve Fund to be established pursuant to Section 5.02 be increased, if and to the extent necessary, immediately upon the receipt of the proceeds of the sale of such additional Series of Bonds, to an amount equal to the Required Reserve. This deposit may be made from such proceeds or any other source, as provided in the Supplemental Indenture.

(c) The Supplemental Indenture providing for the issuance of such additional Series of Bonds shall provide for the payment of interest and principal as follows:

(i) Principal on such Additional Bonds shall be payable either semiannually on April 1 and October 1 of each year in which principal falls due or annually on October 1 of each year in which principal falls due, and Term Bonds of any Series shall have a principal maturity date of October 1. Interest on such Additional Bonds that are Current Interest Bonds shall be payable semiannually on April 1 and October 1 of each year excepting the first year, provided that the first installment of interest shall be payable on either April 1 or October 1 and shall be for a period of not longer than twelve months and that the interest shall be payable thereafter semiannually on April 1 and October 1.

(ii) Notwithstanding subsection (i), the Supplemental Indenture authorizing the issuance of such Additional Bonds may provide for the payment of principal and interest on dates other than those specified in subsection (i) if the Supplemental Indenture provides for the monthly payment of a portion of interest and principal becoming due and payable on the succeeding Interest Payment Date and Principal Payment Date, as applicable, as set forth in detail in the Supplemental Indenture.

(iii) Interest on any Bonds constituting Variable Rate Indebtedness or Tender Indebtedness may be payable on such Payment Dates as shall be specified in the Supplemental Indenture.

(d) Fixed serial maturities or mandatory Minimum Sinking Fund Account Payments, or any combination thereof, shall be established in amounts sufficient to provide for the retirement of all of the Bonds of such additional Series on or before their respective maturity dates, unless such Bonds are Balloon Indebtedness.

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

(f) After the sale of the Series of Additional Bonds proposed to be issued (but prior to the issuance and delivery thereof and receipt of payment therefor), the Commission shall file the following documents with the Trustee; these documents shall, with respect to such Series of Additional Bonds, be based upon the actual interest rate or rates determined at the time of sale thereof (except that, with respect to Variable Rate Indebtedness, the interest rate for the Series of Additional Bonds shall be calculated in accordance with the provisions of subsection (d) of the definitions of Average Annual Debt Service and Maximum Annual Debt Service).

(i) If any portion of the proceeds of such Series of Bonds is to be used to finance construction of a Project, a certificate of the Consulting Engineers setting forth (A) 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 (B) an estimate of the cost of construction of such portion of the Project and of any other uncompleted portion of the Project.

(ii) 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 (A) Revenues, (B) Operation and Maintenance Costs of the Enterprise and (3) Net Revenues.

(iii) A Certificate of the Commission setting forth (A) the estimates of Net Revenues, as set forth in the Certificate of the Commission pursuant to paragraph (ii) 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), (B) 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 (C) demonstrating that the estimated Net Revenues (together with any fund balances of the Commission which are available for the payment of Debt Service but excluding the Bond Reserve Fund) in each of the Fiscal Years set forth in (ii) above is at least equal to 1.25 times the Annual Debt Service for such respective Fiscal Years.

(iv) A Certificate of the Commission that all of the requirements of this Section 3.05 have been met.

SECTION 3.06. Issuance of Additional Bonds for Refunding. In addition to the 2003 Refunding Series A Bonds, the Commission may, subject to the requirements of the Law, by Supplemental Indenture establish one or more other Series of Bonds payable from Net Revenues on a parity with the 2003 Refunding Series A Bonds and secured by a lien upon and pledge of Net Revenues equal to the lien and pledge securing the 2003 Refunding Series A Bonds, and the Commission may issue, and the Trustee may authenticate and deliver, Bonds of any Series so established, for the purpose of refunding any Bonds issued hereunder and then Outstanding, but only upon compliance by the Commission with the provisions of Section 3.07, and subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such additional Series of Bonds:

(a) No Event of Default shall have occurred and be continuing under this Indenture or any Supplemental Indenture and no event shall have 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.

(b) The Supplemental Indenture providing for the issuance of such additional Series of Bonds shall require that the amounts on deposit in the Bond Reserve Fund to be established pursuant to Section 5.02 be increased, if necessary, upon the receipt of the proceeds of the sale of such additional Series of Bonds to an amount equal to the Required Reserve. This deposit may be made from such proceeds or any other source, as provided in the Supplemental Indenture.

(c) The Supplemental Indenture providing for the issuance of such additional Series of Bonds shall provide for the payment of interest and principal as follows:

(i) Principal on such Additional Bonds shall be payable either semiannually on April 1 and October 1 of each year in which principal falls due or annually on October 1 of each year in which principal falls due, and Term Bonds of any Series shall have a principal maturity date of October 1. Interest on such Additional Bonds that are Current Interest Bonds shall be payable semiannually on April 1 and October 1 of each year excepting the first year, provided that the first installment of interest shall be payable on either April 1 or October 1 and shall be for a period of not longer than twelve months and that the interest shall be payable thereafter semiannually on April 1 and October 1.

(ii) Notwithstanding subsection (i), the Supplemental Indenture authorizing the issuance of such Additional Bonds may provide for the payment of principal and interest on dates other than those specified in subsection (i) if the Supplemental Indenture provides for the monthly payment of a portion of interest and principal becoming due and payable on the succeeding Interest Payment Date and Principal Payment Date, as applicable, as set forth in detail in the Supplemental Indenture.

(iii) Interest on any Bonds constituting Variable Rate Indebtedness or Tender Indebtedness may be payable on such Payment Dates as shall be specified in the Supplemental Indenture providing for the issuance of such Bonds.

(d) Fixed serial maturities or mandatory Minimum Sinking Fund Account Payments, or any combination thereof, shall be established in amounts sufficient to provide for the retirement of all of the Bonds of such additional Series on or before their respective maturity dates, unless such Bonds are Balloon Indebtedness.

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

(f) The proceeds of the Bonds of such additional Series shall be used, together with any other available moneys, to refund (by defeasance, current refunding or crossover refunding) all or a portion of the Bonds then Outstanding, and the Average Annual Debt Service for the Bonds of such additional Series (during the period from their issuance to their last maturity date) shall be equal to or less than the Average Annual Debt Service on the Bonds to be refunded (during the period from the issuance of the additional Series to the last maturity date of the Bonds to be refunded).

(g) After the sale of the additional Series of Bonds proposed to be issued (but prior to the issuance and delivery thereof and receipt of payment therefor), the Commission shall file the following documents with the Trustee; these documents shall, with respect to such additional Series of Bonds, be based upon the actual interest rate or rates determined at the time of sale thereof.

(i) A Certificate of the Commission that all of the requirements of this Section 3.06 have been met.

(ii) A certificate of one or more Qualified Financial Advisors that the requirements of subsection (e) of this Section have been met.

SECTION 3.07. Proceedings for the Issuance of Additional Series of Bonds.

(a) Whenever the Commission determines to issue an additional Series of Bonds pursuant to Section 3.05 or 3.06, as the case may be, the Commission shall execute or adopt a Supplemental Indenture providing for the issuance of such additional Series of Bonds.

(b) Such Supplemental Indenture shall specify the maximum principal amount of Bonds of such Series, provide for the distinctive designation of Bonds of such Series, and prescribe the other terms and conditions of such additional Series of Bonds in accordance with this Indenture and subject to the provisions of Section 3.05 or 3.06, as the case may be. The Commission may by such Supplemental Indenture prescribe any provisions respecting the Bonds of such Series not inconsistent with the terms of this Indenture, including registration, transfer and exchange provisions, provisions for the payment of principal and interest and sinking fund provisions.

(c) Before such additional Series of Bonds may be issued and delivered, the Commission shall file the following documents with the Trustee:

(i) An Opinion of Counsel setting forth (1) that such counsel has examined the Supplemental Indenture and found it to be in compliance with the requirements of this Indenture; (2) that the execution and delivery of the additional Series of Bonds have been sufficiently and duly authorized by the Commission; (3) that said additional Series of Bonds, when duly executed by the Commission and, if required, authenticated and delivered by the Trustee, will be valid and binding special obligations of the Commission, payable from Net Revenues as provided herein; and (4) that the issuance

of the additional Series of Bonds will not adversely affect the exclusion from federal income taxation of interest on any Bonds then Outstanding.

(ii) The certificates and reports required by Section 3.05 (if the Additional Bonds constitute an additional lien on the Net Revenues) or 3.06 (if the Additional Bonds are issued to refund any Outstanding Bonds), as appropriate.

(iii) The Supplemental Indenture, duly executed or certified and approved by the Trustee.

(d) Upon the delivery to the Trustee of the foregoing instruments, the Trustee shall authenticate and deliver said additional Series of Bonds, in the aggregate principal amount specified in such Supplemental Indenture, to, or upon the Written Request of, the Commission, when such additional Series of Bonds shall have been presented to it for that purpose.

SECTION 3.08. No Issuance of Additional Bonds or Other Obligations Except as Permitted Herein; Exceptions. So long as any of the Bonds remain Outstanding, the Commission may issue any Additional Bonds or obligations payable from Net Revenues on a parity with the Bonds only pursuant to Sections 3.05, 3.06 and 3.07, *except* under any of the following conditions, in which case none of the limitations or restrictions on the issuance of additional Series of Bonds set forth in Sections 3.05, 3.06 and 3.07 shall be applicable:

(a) if the Owners of a majority in aggregate amount of the Bond Obligation and any Credit Provider consent in writing to the issuance of such Additional Bonds or obligations, or

(b) the obligation constitutes debt of the Commission (including without limitation loan agreements entered into between the Commission and the State of California (or any board, department or agency thereof) to finance or refinance additions, betterments, extensions, repairs, renewals or replacements to the Enterprise) payable by its terms from Net Revenues on a subordinate basis to the payment of Debt Service on the Bonds.

In addition, the Commission may enter into additional Senior State Loans and into Parity State Loans if no Event of Default has occurred and is continuing under this 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) and, in connection with the execution and delivery of such Senior State Loans or Parity State Loans, as applicable, the Commission delivers 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 Commission which are available for Debt Service, but excluding the Bond Reserve Fund), in each of such Fiscal Years is at least equal to 1.25 times the Annual Debt Service.

SECTION 3.09. Validity of Bonds. The validity of the authorization and issuance of the Bonds shall not be dependent on or affected in any way by any proceedings taken by the Commission for the improvement of the Enterprise, or by any contracts made by the Commission in connection therewith, or the failure to construct the Project, the Enterprise or any part thereof. The recital contained in the Bonds that they are regularly issued pursuant to the Law shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

ARTICLE IV

REDEMPTION OF 2003 REFUNDING SERIES A BONDS; GENERAL REDEMPTION PROVISIONS

SECTION 4.01. Terms of Redemption.

(a) Optional Redemption. 2003 Refunding Series A Bonds due on or before October 1, 2012, are not subject to redemption before their respective stated maturities. 2003 Refunding Series A Bonds due on or after October 1, 2013 are subject to optional redemption prior to their respective stated maturities, 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 April 1, 2013, by such maturities or portions of maturities as shall be determined by the Commission if less than all of the 2003 Refunding Series A Bonds are to be called for prior redemption and by lot within any such maturity if less than all of the 2003 Refunding Series A Bonds of such maturity are to be redeemed, at the principal amount of 2003 Refunding Series A Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

(b) Notice of Optional Redemption. 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) above, of the fact and date of redemption and of the principal amount of 2003 Refunding Series A Bonds, and the maturities or portions thereof to be redeemed.

(c) Redemption of Additional Series of Bonds. Any Series of Bonds, other than 2003 Refunding Series A Bonds, may be made subject to redemption prior to maturity, as a whole or in part, at such time or times, and upon payment of the principal amount thereof plus such premium or premiums, if any, as may be determined by the Commission at the time such Series is authorized and as shall be set forth in the Supplemental Indenture authorizing such Series.

SECTION 4.02. Selection of Bonds for Redemption. Whenever less than all of the Bonds of any one maturity and tenor of any Series are called for redemption and such Bonds are redeemable by lot, the Trustee shall select the Bonds of such maturity and tenor to be redeemed, from the Outstanding Bonds of such maturity and tenor, by lot or by any other manner which the Trustee deems fair and equitable. For purposes of such selection, Bonds shall be deemed to be composed of \$5,000 portions (of principal in the case of Current Interest Bonds or of Accreted Value at maturity in the case of Capital Appreciation Bonds) and any such portion may be redeemed separately. The Trustee shall promptly notify the Commission in writing of the numbers of the Bonds so selected for redemption.

SECTION 4.03. Notice of Redemption. (a) The Trustee shall mail notice of redemption, not less than 30 nor more than 60 days prior to the redemption date, to (i) the respective Owners of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, (ii) the Securities Depositories and (iii) one or more Information Services.

(b) Each notice of redemption shall state the date of such notice, the Series of Bonds to be redeemed, the date of issue of such Series of Bonds, the redemption date, the redemption price including, in the case of Capital Appreciation Bonds, the Accreted Value thereof, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the Bonds of such

maturity, to be redeemed, and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the principal amount thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and the premium, if any, thereon (such premium to be specified) and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice.

(c) Failure by the Trustee to give notice pursuant to this Section 4.03 to any one or more of the Information Services or Securities Depositories, or the insufficiency of any such notices shall not affect the sufficiency of the proceedings for redemption. Neither failure by the Trustee to mail notice of redemption pursuant to this Section 4.03 to any one or more of the respective Owners of any Bonds designated for redemption nor any defect in such notice shall affect the sufficiency of the proceedings for redemption with respect to the Owners to whom such notice was mailed.

(d) Notice of redemption of Bonds shall be given by the Commission or, at the request of the Commission, by the Trustee for and on behalf and at the expense of the Commission.

SECTION 4.04. Partial Redemption of Bond. Upon surrender of any Bond redeemed in part only (except as otherwise provided in Section 2.09(c)), the Commission shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Commission, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bond surrendered and of the same Series, tenor, interest rate and maturity.

SECTION 4.05. Effect of Redemption. (a) When notice of redemption has been duly given under this Indenture, and moneys for payment of the redemption price are held by the Trustee, the Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice; and from and after the date so designated, interest on the Bonds so called for redemption shall cease to accrue, those Bonds shall cease to be entitled to any benefit or security under this Indenture, and the Owners of those Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof. The Trustee shall, upon surrender for payment of any of said Bonds (except as otherwise provided in Section 2.09(c)), pay such Bonds at the redemption price as aforesaid, together with accrued interest thereon.

(b) All Bonds redeemed pursuant to the provisions of this Article shall be cancelled upon surrender, and no Bonds shall be issued in place thereof.

SECTION 4.06. Rescission of Notice of Redemption. The Commission may, at its option, prior to the date fixed for redemption in any notice of redemption rescind and cancel such notice of redemption by Written Request to the Trustee and the Trustee shall mail notice of such cancellation to the recipients of the notice of redemption being cancelled.

ARTICLE V

REVENUES AND FUNDS

SECTION 5.01. Pledge and Assignment of Net Revenues; Revenue Fund.

(a) Establishment of Revenue Fund. In accordance with the Charter, but subject to the budget and fiscal provisions of the Charter, whenever revenue bonds issued by the Commission pursuant to the Charter or refunding bonds of such revenue bonds are Outstanding, all of the Revenues of the Enterprise shall be set aside and deposited into a fund in the City treasury heretofore established and known as the "Enterprise Revenue Fund" (herein called the "Revenue Fund"). All amounts paid into the Revenue Fund shall be maintained by the Treasurer separate and apart from all other City funds. Separate accounts shall be kept of the Revenue Fund with respect to receipts and disbursements. The Revenue Fund shall be exempted from the requirements of the Charter.

(b) Priority of Disbursements from Revenue Fund. Moneys in the Revenue Fund, including earnings thereon, shall be appropriated, transferred, expended or used for the following purposes, and only in accordance with the following priority:

- (i) the payment of the Operation and Maintenance Costs of the Enterprise;
- (ii) the payment of Senior State Loans;
- (iii) the payment of Bonds, Parity State Loans, Policy Costs and amounts due as reimbursement under any Letter of Credit Agreement, as provided in this Article V and, as applicable, any Supplemental Indenture; and
- (iv) any other lawful purpose of the Commission.

(c) Pledge of Net Revenues; Perfection of Lien. (i) Subject to the provisions of subsections (a) and (b) above, all of the Net Revenues (except amounts on deposit in the various Rebate Funds) are hereby irrevocably pledged to the punctual payment of the principal of and interest and redemption premium, if any, on the Bonds and the Policy Costs, and the Net Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding or Policy Costs remain unpaid; except that the Net Revenues may be used for such purposes as are expressly permitted in the Charter and herein. Pursuant to Section 5451 of the California Government Code, said pledge shall constitute a lien on and security interest in the Net Revenues for the payment of the Bonds and the Policy Costs in accordance with the terms thereof and hereof, and shall immediately attach to the collateral and be effective, binding, and enforceable against the Commission, its successors, purchasers of the Net Revenues, creditors and all others asserting any rights thereto, irrespective of whether such parties have notice of such pledge and without the need for any physical delivery, recordation, filing or further act.

(ii) The Commission will not take any action which alters the pledge of Net Revenues or the order of priority of payment of the Net Revenues used for the payment of principal of and interest on the Bonds.

(d) Disposition of Excess Amounts in Revenue Fund. Except as otherwise provided in a Supplemental Indenture, all moneys remaining in the Revenue Fund on each October 5 (or on such earlier day as the amounts required for the transfers set forth in Sections 5.03, 5.04 and 5.05 are on deposit in the Revenue Fund), after the setting aside and transferring of all of the

amounts required to be set aside or transferred by the Treasurer under Sections 5.03, 5.04 and 5.05, shall be applied for any lawful purpose of the Commission.

SECTION 5.02. Establishment and Maintenance of Funds for Net Revenues; Use and Withdrawal of Revenues. (a) The Trustee shall establish and maintain, in trust, so long as any Bonds are Outstanding, the Interest Fund, Principal Fund, and Bond Reserve Fund. The Trustee shall hold all amounts deposited in each of these funds in trust and apply, use and withdraw those funds only for the purposes authorized in this Indenture.

(b) After the making of the payments required by subsections 5.01(b)(i) and (ii) the Commission shall transfer all Net Revenues in the Revenue Fund, on a parity basis, as follows: (i) to the Trustee, at the times and in the amounts set forth in Sections 5.03, 5.04 and 5.05 hereof, for deposit in the following funds, to the extent necessary, in the following order of priority: the Interest Fund, Principal Fund, and Bond Reserve Fund, and (ii) as needed for the payment of any Parity State Loans. The requirements of the Interest Fund, the Principal Fund and the Reserve Fund at the time of deposit shall be satisfied before any transfer is made to any fund subsequent in priority. The Trustee shall disburse amounts on deposit in these funds in accordance with Sections 5.03, 5.04 and 5.05 hereof.

SECTION 5.03. Interest Fund.

(a) On or before 5 Business Days before each Interest Payment Date, the Treasurer shall pay to the Trustee for deposit in the Interest Fund an amount equal to the interest becoming due and payable on the Outstanding Current Interest Bonds on that Interest Payment Date (taking into account amounts on deposit in the Interest Fund and available for the payment of interest on such Interest Payment Date and excluding any interest for which there is moneys deposited in the Interest Fund or the Capital Project Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay such interest on such Interest Payment Date).

(b) The Trustee shall use and withdraw moneys in the Interest Fund solely for the purpose of paying the interest on the Bonds as it becomes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity under this Indenture).

SECTION 5.04. Principal Fund; Sinking Fund Accounts.

(a) On or before 5 Business Days before each Principal Payment Date, the Treasurer shall pay to the Trustee for deposit in the Principal Fund an amount equal to at least the following:

(i) the aggregate amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having a maturity date on the next succeeding Principal Payment Date, plus

(ii) the aggregate of the Minimum Sinking Fund Account Payments to be paid on the next succeeding Principal Payment Date into the respective Sinking Fund Accounts for the Term Bonds of all Series for which Sinking Fund Accounts have been created (all such Minimum Sinking Fund Account Payments shall be made without priority of any payment into any one such Sinking Fund Account over any other such payment), plus

(iii) if any Balloon Indebtedness is Outstanding and principal is due on such Balloon Indebtedness on or prior to the next succeeding Principal Payment Date, sufficient amounts to pay when due the Balloon Indebtedness, plus

(iv) if any Letter of Credit Agreement has been entered into on a parity with the Bonds, sufficient amounts to pay when due the obligations of the Commission under such Letter of Credit Agreement due on the next succeeding Maturity Date.

(b) If the moneys in the Principal Fund on any Principal Payment Date are less than the amount of Bond Obligation and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such Principal Payment Date, plus the Balloon Indebtedness and the obligations of the Commission under any Letter of Credit Agreements due on such Principal Payment Date, then the moneys in the Principal Fund shall be applied on a Proportionate Basis and in such proportion as the Serial Bonds, Term Bonds, Balloon Indebtedness and Letter of Credit Agreement obligations bear to each other.

(c) No deposit need be made into the Principal Fund so long as it contains an amount equal to an amount sufficient to make the payment required under subsection (a) above.

(d) The Trustee shall use and withdraw all moneys in the Principal Fund solely for the purpose of paying the Bond Obligation of the Bonds, any Balloon Indebtedness and any Letter of Credit Agreement obligations when due and payable, except that the Trustee shall use and withdraw all moneys in any Sinking Fund Account (except as otherwise provided in Article VII hereof) only to purchase or to redeem or to pay at maturity Term Bonds of the Series for which such Sinking Fund Account was created, as provided in this Indenture or in any Supplemental Indenture.

SECTION 5.05. Bond Reserve Fund; Reserve Accounts.

(a) On or before 5 Business Days before each Interest Payment Date, the Treasurer shall pay to the Trustee for deposit in the Bond Reserve Fund the aggregate amount of each unreplenished prior withdrawal from the Bond Reserve Fund until there is on deposit in the Bond Reserve Fund a balance equal to the Required Reserve.

(b) If a Bond Reserve Fund Policy satisfies all or a portion of the Required Reserve and a drawing is made on the Bond Reserve Fund Policy, on or before 5 Business Days before each Interest Payment Date, the Treasurer shall pay to the Trustee or to the Bond Reserve Fund Policy Provider, with notice to the Trustee, an amount at least equal to the aggregate amount of Policy Costs owing with respect to such Bond Reserve Fund Policy. If the Trustee receives such payment, it shall immediately remit the same to the Bond Reserve Fund Policy Provider.

(c) No deposit need be made into the Bond Reserve Fund so long as there exists in the Bond Reserve Fund an amount equal to the Required Reserve, or when and if the sum of the amounts contained (excluding all Bond Reserve Fund Policies) therein and in the Interest Fund and in the Principal Fund is at least equal to the sum of the aggregate principal amount of all of the Bonds then Outstanding and all of the interest then due or thereafter to become due on all such Bonds.

(d) The Trustee shall establish and hold within the Bond Reserve Fund a 2003 Refunding Series A Reserve Account with respect to the 2003 Refunding Series A Bonds and a similar account for each additional Series of Bonds issued hereunder. There shall be deposited into each Reserve Account an amount equal to that portion of the Required Reserve funded

from the Series to which it relates upon the issuance of such Series. Upon the issuance of Additional Bonds, the Commission shall advise the Trustee of the portion of the Required Reserve to be maintained in each Reserve Account.

(e) The Trustee shall use and withdraw cash amounts on deposit in the respective Reserve Accounts within the Bond Reserve Fund on a proportionate basis solely to pay the principal of, Minimum Sinking Fund Account Payments with respect to, and interest on, any of the Outstanding Bonds in the event that no other moneys are available therefor, or for payment or redemption of Outstanding Bonds. However, the Trustee shall apply any Bond Reserve Fund Policy on deposit in a Reserve Account solely to the payment of the Series of Bonds to which such Reserve Account relates, and such Bond Reserve Fund Policy shall not be available for payment of any other Series of Bonds.

(f) Following application of all other funds held in the Reserve Account relating to a Series of Bonds, the Trustee shall draw under any Bond Reserve Fund Policy issued with respect to such Series of Bonds, in a timely manner and pursuant to the terms of such Bond Reserve Fund Policy, to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, Minimum Sinking Fund Account Payments with respect to, and interest on such Series of Bonds when due.

(g) If the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from its Bondowner under the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to the terms of the Bond Reserve Fund Policy, if any, securing the Series of Bonds of which such Bond is a part, shall so notify the Bond Reserve Fund Policy Provider and draw on such policy to the lesser of the extent required or the maximum amount of such policy in order to pay to such Bondowners the principal of and interest so recovered.

(h) If and to the extent that more than one Bond Reserve Fund Policy satisfies the portion of the Required Reserve relating to a Series of Bonds, drawings under such Bond Reserve Fund Policies and payment of Policy Costs with respect to such Bond Reserve Fund Policies shall be made on a pro rata basis (calculated by reference to the maximum amounts of such Bond Reserve Fund Policies).

(i) If a Bond Reserve Fund Policy is deposited in a Reserve Account in which cash has been previously deposited in satisfaction of the Required Reserve for the applicable Series of Bonds, the Trustee shall release cash from that Reserve Account in an amount equal to the Bond Reserve Fund Policy being deposited, and shall transfer the cash so released to the Commission to be used for any lawful purpose, *provided, however*, that the Commission shall ensure that the use of any cash so released will not adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code.

(j) Deposits to the Bond Reserve Fund shall be applied on a pro rata basis to the respective Reserve Accounts, calculated by reference to the amounts initially deposited in such Reserve Accounts, and within each Reserve Account first to satisfying any portion of the Required Reserve to be maintained within such Reserve Account not covered by a Bond Reserve Fund Policy, and second to the pro rata payment of Policy Costs until satisfied.

(k) So long as the Commission is not in default hereunder, and in each Reserve Account there is a balance equal to the Required Reserve for the Series of Bonds relating to that Reserve Account, the Trustee shall withdraw any amount in the Bond Reserve Fund in excess of the Required Reserve, semiannually on March 15 and September 15 of each year, and transfer that amount to the Treasurer for deposit in the Revenue Fund or, during the period of

construction of the Project or any portion thereof, the Capital Project Account for the related Series of Bonds. Notwithstanding the foregoing, the Commission shall have the right to request the Trustee to withdraw excess amounts on deposit in the Bond Reserve Fund at any time.

(l) Unless otherwise provided in a Supplemental Indenture, amounts on deposit in any Reserve Account shall be available for the payment of Debt Service, but only with respect to the Bonds.

SECTION 5.06. Deposit and Investment of Moneys in Funds.

(a) All moneys held by the Treasurer in the Revenue Fund or the Capital Project Fund may be invested in Legal Investments, maturing not later than the date on which such moneys are required for payment by the Treasurer.

(b) All moneys held by the Trustee and allocated to any of the funds held by it, subject to the restrictions set forth in the Arbitrage Certificate, shall be invested in Permitted Investments, as directed by the Commission, maturing not later than the date on which such moneys are required for payment by the Trustee, except that moneys in the Bond Reserve Fund shall be deposited or invested in Permitted Investments which mature not more than seven years from the date of investment or the final date of maturity of the Outstanding Bonds, whichever is earlier.

(c) If at any time any of the investments stated to be Permitted Investments under this Indenture cease to be a Legal Investment for the funds held hereunder, the Commission shall so advise the Trustee by a Written Statement. The Trustee shall not be responsible for making any investment which is not a Legal Investment if the Commission has not previously delivered a Written Request or Statement correctly advising the Trustee that such investment was no longer a Legal Investment.

(d) Permitted Investments on deposit in the Bond Reserve Fund or in any account therein shall not have a maturity extending beyond five years from the date of acquisition thereof unless otherwise approved by the Credit Provider or unless such Permitted Investment is described in clause (i) of the definition thereof.

(e) For the purpose of determining the amount of money in the Bond Reserve Fund, all investments of moneys therein shall be valued at least annually at the market value of such investments.

(f) All interest received on any moneys held and invested by the Treasurer or the Trustee under this Indenture shall be deposited in the Revenue Fund, except:

(i) all interest received on any moneys invested in the Principal Fund, Interest Fund or Rebate Fund shall remain in the Principal Fund, Interest Fund or Rebate Fund, respectively, and

(ii) prior to receipt by the Trustee of notice of completion of construction of the Project or any portion thereof, all interest received on any moneys invested in the Capital Project Fund shall remain in the Capital Project Fund held by the Treasurer; and

(iii) all interest on any amounts on deposit in the Bond Reserve Fund to the extent that amounts on deposit in the Bond Reserve Fund exceed the Required Reserve shall be deposited in the Interest Fund.

(g) The Trustee may sell or present for redemption any obligations so purchased by it whenever it is necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss resulting from such investment. The Trustee may act as principal or agent in the acquisition or disposition of any investment. The Trustee may commingle any of the moneys held by it under this Indenture for investment purposes only; provided, however, that the Trustee shall account separately for the moneys belonging to each fund or account established pursuant to this Indenture and held by it.

SECTION 5.07. Interest Rate Swaps.

(a) The Commission may and the Trustee shall, upon the Written Request or Statement of the Commission, enter into an interest rate swap agreement corresponding to the interest rate or rates payable on a Series of Bonds or any portion thereof, provided that the Trustee is supplied with an Opinion of Counsel to the effect that (i) such action is permitted under the laws of the State of California, (ii) entering into the interest rate swap agreement will not adversely affect the tax-exempt status of interest on the bonds, and (iii) entering into the interest rate swap agreement complies with the terms of this Indenture. The amounts received by the Commission or the Trustee, if any, under such a swap agreement may be applied to the deposits required hereunder. The entity with which the Commission or the Trustee may contract for an interest rate swap is limited to entities that are rated in one of the two highest short-term or long-term debt rating categories by Moody's and S&P. If the Commission so designates, amounts payable under the interest rate swap agreement shall be made on a parity basis with payments on the Bonds and, in such event, the Commission shall pay to the Trustee for deposit in the Interest Fund, at the times and in the manner provided by Section 5.03, the amounts to be paid under such interest rate swap agreement, as if such amounts were additional interest due on the Bonds to which such interest rate swap relates.

(b) Notwithstanding subsection (a) above, the Commission shall not enter into an interest rate swap agreement without first making the determination required pursuant to Section 5922 of the California Government Code.

ARTICLE VI

COVENANTS OF THE COMMISSION

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

SECTION 6.02. Against Encumbrances.

(a) Subject to any rights of the United States of America or the State of California, and subject to Section 6.03 below, the Commission will not mortgage or otherwise encumber, pledge or place any charge upon the Enterprise or any part thereof, or upon any of the Net Revenues, prior to or on a parity with the Bonds, provided that Letter of Credit Agreements entered into in connection with Balloon Indebtedness, Variable Rate Indebtedness or Tender Indebtedness may be payable on a parity with the Bonds.

(b) So long as any Bonds are Outstanding, the Commission will not issue any bonds or obligations payable from Net Revenues or secured by a pledge, lien or charge upon Net Revenues prior to or on a parity with the Bonds, other than the Bonds, provided that Letter of Credit Agreements entered into in connection with Balloon Indebtedness, Variable Rate Indebtedness, or Tender Indebtedness may be payable on a parity with the Bonds.

(c) Nothing in this Indenture, and particularly nothing in subsections (a) or (b) of this Section 6.02, shall prevent the Commission from authorizing and issuing bonds, notes, warrants, certificates or other obligations or evidences of indebtedness which as to principal or interest, or both, (i) are payable from Net Revenues after and subordinate to the payment from Net Revenues of the principal of and interest on the Bonds, or (ii) are payable from moneys which are not Revenues as such term is defined in this Indenture.

SECTION 6.03. Sale or Other Disposition of Property.

(a) The Commission will not sell or otherwise dispose of the Enterprise or any part thereof essential to the proper operation of the Enterprise or to the maintenance of the Revenues except as herein expressly permitted. The Commission will not enter into any lease or agreement which impairs the operation of the Enterprise or impedes the rights of the Owners of the Bonds with respect to the Net Revenues or the operation of the Enterprise, but the Commission may enter into any lease or agreement concerning all or any part of the Enterprise if such lease or agreement will not impair the operation of the Enterprise or impede the rights of the Owners of the Bonds with respect to the Net Revenues or the operation of the Enterprise.

(b) Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Enterprise, or any material or equipment which has worn out, may be sold if all of the net proceeds of such sale (less any amounts payable to the United States of America or the State of California or required by the United States of America or the State of California to be deposited in a restricted fund) are deposited in the Revenue Fund.

(c) The Commission hereby expressly reserves the right to sell all or a portion of the Enterprise, and to enter into and execute agreements for and to complete such sale, but subject to the following specific conditions, which are hereby made conditions precedent to such sale:

(i) The Commission shall be in compliance with all covenants set forth in this Indenture and in all Supplemental Indentures theretofore adopted by the Commission, and no Event of Default shall have occurred and be continuing under this Indenture or any Supplemental Indentures theretofore adopted by the Commission (and no event shall have occurred which but for the passage of time would constitute an Event of Default under the Indenture or any Supplemental Indenture). The Commission shall file a Certificate of the Commission to that effect with the Trustee.

(ii) The Commission shall determine by resolution whether the net proceeds of the sale (less any amounts payable to the United States of America or the State of California or required to be deposited in a restricted fund) are to be used for the redemption of Bonds or for the making of additions or improvements to or extensions of the Enterprise.

(iii) If the Commission determines that the net proceeds of the sale (less any amounts payable to the United States of America or the State of California or required to be deposited in a restricted fund) are to be used for the redemption of Bonds, such proceeds of the sale shall be deposited with the Trustee, and the following conditions shall be satisfied:

(A) The Commission shall adopt a resolution providing for the redemption of the maximum principal amount of Bonds which can be redeemed from such proceeds of such sale, or, if no Bonds are subject to redemption on the next succeeding Interest Payment Date, directing the Trustee (1) to hold such proceeds in trust, (2) to invest such proceeds in the investments permitted in Section 5.06 until any Bonds shall become redeemable, subject to any restrictions imposed by Section 6.17 hereof, (3) to deposit the interest and income on such proceeds in the Revenue Fund as such interest and income is received, and (D) to use such proceeds to redeem Bonds in the amount and manner specified in this Indenture and any Supplemental Indenture on the first Interest Payment Date on which the Bonds can be redeemed; and a certified copy of such resolution shall have been filed with the Trustee along with a Written Request or Certificate of the Commission containing such direction.

(B) If such proceeds are not to be immediately used for the redemption of Bonds but instead are to be held by the Trustee until Bonds become redeemable, the Commission shall file with the Trustee a written report of an Independent Certified Public Accountant stating (1) the amount of proceeds to be deposited with the Trustee from such sale, (2) an estimate of the total amount of Bond Obligation and the amount of Bonds of each maturity which could be redeemed from such proceeds on the first Interest Payment Date on which Bonds are redeemable, and (3) the estimated annual interest and income to be earned on such proceeds while held and invested by the Trustee. Such interest and income on such proceeds upon receipt by the Trustee shall be deposited in the Revenue Fund and shall be treated as Revenues for all purposes of this Indenture, including determining whether the Commission is in compliance with the covenant contained in Section 6.13.

(C) If such proceeds of such sale are to be immediately used to redeem Bonds, the Net Revenues for the last Fiscal Year or last recorded twelve-month period preceding the date of the adoption by the Commission of the resolution authorizing such sale, less a deduction for the portion of such Net Revenues attributable to the portion of the Enterprise to be sold, all as shown by a certificate or opinion of an Independent Certified Public Accountant or a written report of a Qualified Independent Consultant, shall have produced a sum equal to at least 1.25 times Maximum Annual Debt Service on the Bonds to be Outstanding following the redemption of Bonds from the proceeds of such sale.

(D) If such proceeds are not to be immediately used for the redemption of Bonds but instead are to be held by the Trustee until Bonds become redeemable, the Net Revenues for the last Fiscal Year or last recorded twelve-month period preceding the date of adoption by the Commission of the resolution authorizing such sale, less a deduction for the portion of such Net Revenues attributable to the portion of the Enterprise to be sold, plus an allowance for the estimated annual interest or income to be earned on the invested proceeds of such sale while held and invested by the Trustee, all as shown by a certificate or opinion of an Independent Certified Public Accountant or a written report of a Qualified Independent Consultant, shall have produced a sum equal to at least 1.25 times Maximum Annual Debt Service.

(iv) If the Commission determines that the net proceeds of the sale (less any amounts payable to the United States of America or the State of California or required to be deposited in a restricted fund) are to be used for the making of additions or improvements to or extensions of the Enterprise, such proceeds of the sale shall be deposited by the Treasurer in a special fund in trust to be held by the Treasurer to be used for the making of additions or improvements to or extensions of the Enterprise, and the condition set forth in the following sentence shall have been satisfied. The Net Revenues for the last Fiscal Year or last recorded twelve-month period preceding the date of the adoption by the Commission of the resolution authorizing such sale, less a deduction for the portion of such Net Revenues attributable to the portion of the Enterprise to be sold, all as shown by a written report of an Independent Certified Public Accountant, plus

(A) An allowance for Net Revenues from any additions or improvements to or extensions of the Enterprise to be made with the proceeds of such sale or with the proceeds of Bonds previously issued, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but which, during all or any part of such Fiscal Year or recorded twelve-month period, were not in service, all in an amount equal to 100% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first twenty-four months in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a Qualified Independent Consultant; and

(B) An allowance for earnings arising from any increase in the charges made for the use of the Enterprise which has become effective prior to such sale, but which, during all or any part of such Fiscal Year or recorded twelve-month period, was not in effect, in an amount equal to 100% of the amount by which the Net Revenues would have been increased if such increase

in charges had been in effect during the whole of such Fiscal Year or recorded twelve-month period, as shown by the certificate or opinion of a Qualified Independent Consultant;

shall have produced a sum equal to at least 1.25 times the Maximum Annual Debt Service on the Bonds then Outstanding. Any balance of such proceeds from any such sale not required by the Commission for the purposes aforesaid shall be deposited in the Revenue Fund established pursuant to Section 5.01 and applied as provided in Sections 5.03, 5.04 and 5.05.

SECTION 6.04. Operation and Maintenance of Enterprise. The Commission will maintain and preserve the Enterprise in good repair and working order at all times from the Revenues available for such purposes, in conformity with standards customarily followed for municipal sanitary waste and storm water collection, treatment and disposal systems of like size and character. The Commission will from time to time make all necessary and proper repairs, renewals, replacements and substitutions to the properties of the Enterprise, so that at all times business carried on in connection with the Enterprise shall and can be properly and advantageously conducted in an efficient manner and at reasonable cost, and will operate the Enterprise in an efficient and economical manner, consistent with the protection of the Owners of the Bonds, and shall not commit or allow any waste with respect to the Enterprise.

SECTION 6.05. Liens and Claims. Subject to any rights of the United States of America or the State of California, the Commission shall keep the Enterprise and all parts thereof free from judgments, from mechanics' and materialmen's liens and from all liens and claims of whatsoever nature or character, to the end that the security provided pursuant to this Indenture may at all times be maintained and preserved, and the Commission shall keep the Enterprise and the Revenues free from any liability which might hamper the Commission in conducting its business or operating the Enterprise. Subject to the provisions of Section 8.03, the Trustee at its option (after first giving the Commission thirty days' written notice to comply therewith and failure of the Commission to so comply within said thirty-day period) may defend against any and all actions or proceedings in which the validity of this Indenture is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against such actions or proceedings or in paying or compromising such claims or demands, the Trustee shall not in any event be deemed to have waived or released the Commission from liability for or on account of any of its covenants and warranties contained herein, or from its liability hereunder to defend the validity of this Indenture and the pledge herein made and to perform such covenants and warranties.

SECTION 6.06. Insurance. The Commission shall procure, and maintain at all times while any of the Bonds shall be Outstanding, adequate fidelity insurance or bonds on all officers and employees handling or responsible for any Revenues or funds of the Enterprise, such insurance or bonds to be in an aggregate amount at least equal to the maximum amount of such Revenues or funds at any one time in the custody of all such officers and employees or in the amount of \$1,000,000, whichever is less.

The insurance described above may be provided as a part of any comprehensive fidelity and other insurance and not separately for the Enterprise.

The Commission may purchase, on all or any of the Bonds of any Series, insurance assuring the Bondowners that the principal of and interest on the insured Bonds will be paid when due and payable. The purchase of any such insurance shall not constitute a preference or priority of the insured Bonds over any Bonds not so insured, and all Bonds Outstanding,

irrespective of the providing of such insurance on some of the Bonds, shall be equally and proportionately secured hereby.

SECTION 6.07. Books and Accounts; Financial Statements. (a) The Commission will keep proper books of record and accounts of the Enterprise, separate from all other records and accounts of the Commission, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Trustee (who shall have no duty to inspect) or of any Owner of Bonds then Outstanding or their representatives authorized in writing, at reasonable hours, upon reasonable prior notice and under reasonable conditions.

(b) So long as any of the Bonds are Outstanding, the Commission will prepare and file with the Trustee annually, within seven months after the close of each Fiscal Year, financial statements of the Enterprise for the preceding Fiscal Year, prepared in accordance with generally accepted accounting principles applied on a consistent basis from year to year ("Enterprise Financial Statements"), which shall include a statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows. The Enterprise Financial Statements shall be examined by and include the certificate or opinion of an Independent Certified Public Accountant. The Trustee shall not be required to review any such statement.

(c) The Commission will furnish a copy of the Enterprise Financial Statements to any Bondowner upon request, and will furnish to the Trustee such reasonable number of copies thereof (not exceeding 100 copies) as may be required by the Trustee for distribution to investment bankers, security dealers and others interested in the Bonds and to the Owners of Bonds requesting copies thereof. The Trustee shall not be required to incur any nonreimbursable expenses in making such distribution.

SECTION 6.08. Enterprise Budgets. The Commission shall prepare and submit to the Mayor for review and submission to the Board of Supervisors for approval an annual budget for the Enterprise for each Fiscal Year. Such budget shall set forth in reasonable detail the Revenues anticipated to be derived in such Fiscal Year, the expenditures anticipated to be paid or provided for therefrom in such Fiscal Year, and the amounts required to provide for the payment of the principal of and interest and redemption premium, if any, on the Bonds during such Fiscal Year, to pay or provide for Operation and Maintenance Costs of the Enterprise for such Fiscal Year, to make up any deficiencies in any fund or account anticipated for the then current Fiscal Year, and to pay or provide for the payment of all other claims or obligations required to be paid from Revenues in such Fiscal Year, and shall show that Net Revenues shall be at least adequate to satisfy the requirements of Section 6.13. Such budget shall comply with any conditions or restrictions set forth in any agreements between the Commission and users of the Enterprise. The Commission shall take all action available and necessary to obtain approval or acceptance of the budget by the Mayor and the Board of Supervisors. The Commission shall supply to the Trustee and to any Bondowners who shall so request in writing a copy of the annual budget for the Fiscal Year covered by such budget. Such budget shall be open for inspection by any Owner at the principal corporate trust office of the Trustee during normal business hours.

SECTION 6.09. Maintenance of Revenues. The City shall not acquire, construct, operate or maintain, and shall not within the scope of its powers permit any other public or private corporation, political subdivision, district or agency or any person whatsoever to acquire, construct, operate or maintain, within the City or any part thereof, any system or utility competitive with the Enterprise. The Commission will have in effect, or cause to have in effect, at all times an ordinance or resolution requiring all customers of the Enterprise to pay the fees,

rates and charges applicable to the municipal sanitary waste and storm water collection, treatment and disposal services and facilities furnished by the Enterprise. The Commission will not provide any service of the Enterprise free of charge to any person, firm or corporation, or to any public agency (including the United States of America, the State of California and any public corporation, political subdivision, city, county, district or agency of any thereof), except (i) for free use by the City and its agencies, (ii) to the extent that any such free use is required by the terms of any existing contract or agreement and (iii) for incidental insignificant free use so long as such free use does not prevent the Commission from satisfying the other covenants of this Indenture, including, without limitation, Section 6.13 hereof.

SECTION 6.10. Payment of Taxes, Etc. The Commission will pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Commission on account of the Enterprise or any portion thereof or upon any Revenues and which, if unpaid, might impair the security of the Bonds, when the same shall become due, but nothing herein contained shall require the Commission to pay any such tax, assessment or charge so long as it shall in good faith contest the validity thereof. The Commission will duly observe and conform with all valid requirements of any governmental authority relative to the Enterprise or any part thereof.

SECTION 6.11. Acquisition and Construction of Improvements. The Commission will commence and will continue to completion the acquisition and construction of the improvements to the Enterprise proposed to be financed from any Series of Bonds, in a timely manner in accordance with sound engineering practice, and said improvements will be acquired, constructed and completed in a sound and economical manner and in conformity with law.

SECTION 6.12. Eminent Domain Proceeds. If all or any part of the Enterprise shall be taken by or under threat of eminent domain proceedings, the net proceeds realized by the Commission or the City therefrom (excluding any portion thereof payable to the United States of America or the State of California or required by the United States of America or the State of California to be deposited in a restricted fund) shall be deposited by the Treasurer in a special fund in trust and applied and disbursed by the Treasurer subject to the following conditions:

(a) If such eminent domain proceedings have had a material adverse effect upon the Revenues and the security of the Bonds, the Commission shall by resolution determine to apply such proceeds for one of the following purposes:

(i) The Commission may determine to apply such proceeds to the purchase, defeasance or redemption of Bonds then Outstanding. In that event, the Treasurer shall transfer such proceeds to the Trustee who shall apply such proceeds on a Proportionate Basis to the redemption of Bonds of each Series then Outstanding in the proportion which the Bond Obligation amount of each Series bears to the aggregate Bond Obligation amount of all Bonds then Outstanding. If no Bonds are subject to redemption on the next succeeding Interest Payment Date, the Commission shall direct the Trustee (A) to hold such proceeds in trust, (B) to invest such proceeds in the investments permitted in Section 5.06 until any Bonds become redeemable, subject to any restrictions imposed by Section 6.17 hereof, (C) to deposit the interest and income on such proceeds in the Revenue Fund as such interest and income is received, and (D) to use such proceeds to redeem Bonds in the amount and manner specified in this Indenture and any Supplemental Indenture on the first Interest Payment Date on which the Bonds can be redeemed. Additionally, in such event, the Commission shall file with the Trustee a written report of an Independent Certified Public Accountant stating

(A) the amount of proceeds to be deposited with the Trustee from such eminent domain proceedings, (B) an estimate of the total amount of Bond Obligation and the amount of Bonds of each maturity that could be redeemed from such proceeds on the first Interest Payment Date on which Bonds are redeemable, and (C) the estimated annual interest and income to be earned on such proceeds while held and invested by the Trustee. Such interest and income on such proceeds upon receipt by the Trustee shall be deposited in the Revenue Fund and shall be treated as Revenues for all purposes of this Indenture, including determining whether the Commission is in compliance with the covenant contained in Section 6.13.

(ii) The Commission may determine to apply such proceeds to the cost of additions or improvements to or extensions of the Enterprise if (A) the Commission first secures and files with the Trustee a written report of a Qualified Independent Consultant showing (1) the loss in annual Revenues, if any, suffered, or to be suffered, by the Commission by reason of such eminent domain proceedings, (2) a general description of the additions, improvements or extensions then proposed to be acquired by the Commission from such proceeds, and (3) an estimate of the additional Revenues to be derived from such additions, improvements or extensions; and (B) such written report states that such additional Revenues will sufficiently offset the loss of Revenues resulting from such eminent domain proceedings so that the ability of the Commission to meet its obligations hereunder will not be substantially impaired. The Commission shall then promptly proceed with the construction of the additions, improvements or extensions substantially in accordance with such written report. Payments for such construction shall be made by the Commission from such proceeds. Any balance of such proceeds not required by the Commission for the purposes aforesaid shall be deposited in the Revenue Fund and applied as provided in Sections 5.02, 5.03, 5.04 and 5.05.

(b) If such eminent domain proceedings has had no effect, or at the most a relatively immaterial effect, upon the Revenues and the security of the Bonds, and a Qualified Independent Consultant so concludes in a written report filed with the Trustee, the Commission may determine to apply such proceeds to the costs of additions or improvements to or extensions of the Enterprise or may deposit such proceeds in the Revenue Fund, to be applied as provided in Sections 5.02, 5.03, 5.04 and 5.05.

SECTION 6.13. Amounts of Rates and Charges. (a) The Commission 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 storm water collection, treatment and disposal services and facilities furnished by the 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:

(i) The interest on and principal of the Bonds as they become due and payable (but not including 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).

(ii) All other payments required for compliance with the terms of this Indenture and of any Supplemental Indenture providing for the issuance of additional Series of Bonds pursuant to Article III.

(iii) All other payments to meet any other obligations of the Commission which are charges, liens or encumbrances upon, or payable from, the Revenues.

(iv) All current Operation and Maintenance Costs of the Enterprise (but not including such Operation and Maintenance Costs as are scheduled to be paid by the Commission from moneys other than Revenues, such moneys to be clearly available for such purpose).

(b) In addition to the requirements of the foregoing subsection (a), at all times while any of the Bonds remain Outstanding, rates, fees and charges in connection with the sanitary waste and storm water collection, treatment and disposal services and facilities furnished by the Enterprise shall be established, fixed, prescribed and collected so as to yield Net Revenues during the then immediately ensuing period of twelve months which (together with any fund balances of the Commission or the 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 equal to at least 1.25 times 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.

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

SECTION 6.14. Compliance with Indenture. The Commission will faithfully observe and perform all the covenants, conditions and requirements of this Indenture, and will not suffer or permit any default to occur hereunder, or do or permit to be done, in, upon or about the Enterprise, or any part thereof, anything that might in any way weaken, diminish or impair the security intended to be given pursuant to this Indenture.

SECTION 6.15. Observance of Laws and Regulations. The Commission shall comply promptly, fully and faithfully with and abide by any statute, law, ordinance, order, rule or regulation, judgment, decree, direction or requirement now in force or hereafter enacted, adopted or entered by any competent governmental authority or agency applicable or with respect to or affecting the acquisition, construction or reconstruction of the Enterprise or any part thereof or applicable or with respect to or affecting the operation, manner, use or condition of the Enterprise or any part or parcel thereof or adjoining public ways; provided that the Commission need not comply with any such statute, law, ordinance, rule, regulation, judgment, decree, direction or requirement if and so long as the Commission in good faith shall be contesting or permitting or causing to be contested the applicability or validity thereof by appropriate proceedings diligently prosecuted, even though such contest may result in the imposition of a lien or charge against the Enterprise or the Revenues, if (1) the Commission shall effectively prevent foreclosure or enforcement of any such lien or charge and (2) the foreclosure or enforcement of any such lien or charge shall be stayed, and if said stay thereafter expires, the Commission shall forthwith discharge such lien or charge or cause the same to be discharged, so that pending such proceedings the Enterprise and the Revenues thereof shall not be affected thereby, and the security of the Bonds shall not be impaired.

SECTION 6.16. Prosecution and Defense of Suits. The Commission shall promptly from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Enterprise hereafter developing, and shall prosecute all such suits,

actions and other proceedings as may be appropriate for such purposes and, to the extent permitted by law, shall indemnify and save the Trustee and every Bondowner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The Commission shall defend against every suit, action or proceeding at any time brought against the Trustee or any Bondowner upon any claim arising out of the receipt, application or disbursement of any of the Revenues or involving the rights of the Trustee or any Bondowner under this Indenture; provided, that the Trustee or any Bondowner at its or his election may appear in and defend any such suit, action or proceeding. The Commission shall, to the extent permitted by law and without making any representation as to the enforceability of the covenants in this paragraph, indemnify and hold harmless the Trustee and the Bondowners against any and all liability claimed or asserted by any person arising out of such receipt, application or disbursement, and shall indemnify and hold harmless the Bondowners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation to which any of them may become a defendant by reason of his ownership of Bonds. The Commission, to the extent permitted by law, shall promptly reimburse any Bondowner in the full amount of any attorneys' fees or other expenses which he may incur in litigation or otherwise in order to enforce his rights under this Indenture or the Bonds, provided that such litigation shall be concluded favorably to such Bondowner's contentions therein. Notwithstanding any contrary provision hereof, this covenant shall remain in full force and effect, even though all indebtedness and obligations issued hereunder may have been fully paid and satisfied, until the Commission shall have been dissolved.

SECTION 6.17. Rebate and Tax Covenants.

(a) Rebate Fund. (i) The Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder designated as the "2003 Refunding Series A Bonds Rebate Fund". Subject to the transfer provisions provided in paragraph (a)(v) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as such term is defined in the Arbitrage Certificate), for payment to the federal government of the United States of America, and neither the Commission nor the Owner of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section and by the Arbitrage Certificate (which is incorporated herein by reference). The Trustee shall be deemed conclusively to have complied with the provisions of this Section 6.17 and the Arbitrage Certificate if it follows the written directions of the Commission including supplying all necessary information in the manner provided in the Arbitrage Certificate, and except as otherwise expressly provided in the Indenture shall not be required to take any actions thereunder 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 Arbitrage Certificate or this Section.

(ii) Upon the Commission's written direction, an amount shall be deposited to the Rebate Fund by the Trustee from deposits by the Commission, if and to the extent required, so that the balance of the amount on deposit thereto shall be equal to the Rebate Requirement. Computations of the Rebate Requirement shall be furnished by or on behalf of the Commission in accordance with the Arbitrage Certificate.

(iii) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section, other than from moneys held in the funds and accounts created under the Indenture or from other moneys provided to it by the Commission.

(iv) The Trustee shall invest all amounts held in the Rebate Fund in Federal Securities as directed by the Commission, subject to the restrictions set forth in the Arbitrage Certificate. Money shall not be transferred from the Rebate Fund except as provided in paragraph (a)(v) below.

(v) Upon receipt of the Commission's written directions, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States of America, as so directed. In addition, if the Commission so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the Commission's written directions. Any funds remaining in the Rebate Fund after redemption and payment of all of the 2003 Refunding Series A Bonds and payment and satisfaction of any Rebate Requirement, or provision made therefor satisfactory to the Trustee, shall be withdrawn and remitted to the Commission.

(vi) Notwithstanding any other provision of the Resolution, including in particular Article X, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of this Section and the Arbitrage Certificate shall survive the defeasance or payment in full of the 2003 Refunding Series A Bonds.

(b) Tax Covenants. The Commission will not directly or indirectly use or permit the use of any proceeds of the 2003 Refunding Series A Bonds or any other funds of the Commission or take or omit to take any action that would cause the 2003 Refunding Series A Bonds to be "private activity bonds" within the meaning of Section 141 of the Code, or obligations which are "federally guaranteed" within the meaning of Section 149(b) of the Code.

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 2003 Refunding 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 2003 Refunding Series A Bonds or any other funds of the Commission, or take or omit to take any action, that would cause the 2003 Refunding 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 2003 Refunding Series A Bonds. In the event that 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 may be necessary in accordance with 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 of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the 2003 Refunding Series A Bonds from time to time. This covenant shall survive payment in full or defeasance of the 2003 Refunding Series A Bonds. The Commission specifically covenants to pay or cause to be paid to the United States of America at the times and in the amounts determined under this Section the Rebate Requirement, as described in the Arbitrage Certificate. The Trustee agrees to comply with all instructions of the Commission given in accordance with the Arbitrage Certificate.

Notwithstanding any provision of this Section, if the Commission shall provide to the Trustee an opinion of nationally recognized bond counsel to the effect that any action required under this Section 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 Bonds pursuant to 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.

None of the covenants of the Commission or the Trustee contained herein relating to the exclusion from gross income of interest on Bonds under Section 103 of the Code shall be applicable to or prevent the issuance of Bonds issued by the Commission and specifically designated by the Commission as not being issued in compliance with Section 103 of the Code.

SECTION 6.18. Governmental Approvals. The Commission will perform any construction, reconstructions and restorations of, improvements, betterments and extensions to, and equippings and furnishings of, and will operate and maintain the Enterprise at standards required in order that the same may continue to be approved by the proper and competent authority or authorities of the State of California as a public municipal sanitary waste and storm water collection, treatment and disposal system.

SECTION 6.19. Further Assurances. Whenever and so often as requested so to do by the Trustee or any Bondowner, the Commission will promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Bondowners all rights, interest, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by this Indenture.

SECTION 6.20. Casualty Insurance; Use of Proceeds.

(a) The Commission shall at all times maintain such insurance on the Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Enterprise is damaged or destroyed, or such damage or destruction have had a material adverse effect upon the Revenues and the security of the Bonds, the Commission shall by resolution determine to apply the proceeds of any insurance for such loss or damage for one of the following purposes:

(i) The Commission may determine to apply such proceeds to the purchase, defeasance or redemption of Bonds then Outstanding. In that event, the Treasurer shall transfer such proceeds to the Trustee who shall apply such proceeds on a Proportionate Basis to the redemption, defeasance or purchase of Bonds of each Series then Outstanding in the proportion which the Bond Obligation amount of each Series bears to the aggregate Bond Obligation amount of all Bonds then Outstanding. If no Bonds are subject to redemption on the next succeeding Interest Payment Date, the Commission shall direct the Trustee (A) to hold such insurance proceeds in trust, (B) to invest such insurance proceeds in the investments permitted in Section 5.06 until any Bonds shall become redeemable, subject to any restrictions imposed by Section 6.17 hereof, (C) to deposit the interest and income on such insurance proceeds in the Revenue Fund as such interest and income is received, and (D) to use such insurance proceeds to redeem Bonds in the amount and manner specified in this Indenture and any Supplemental Indenture on the first interest payment date on which the Bonds can be redeemed. Additionally, in such event, the Commission shall file with the Trustee a written report of an Independent Certified Public Accountant stating (A) the amount of insurance proceeds to be deposited with the Trustee in connection with any insured loss or damage, (B) an estimate of the total amount of Bond Obligation and the amount of Bonds of each maturity which could be redeemed from such proceeds on the first

interest payment date on which Bonds are redeemable, and (C) the estimated annual interest and income to be earned on such insurance proceeds while held and invested by the Trustee. Such interest and income on such insurance proceeds upon receipt by the Trustee shall be deposited in the Revenue Fund and shall be treated as Revenues for all purposes of this Indenture, including determining whether the Commission is in compliance with the covenant contained in Section 6.13.

(ii) The Commission may determine to apply such insurance proceeds to the cost of additions or improvements to or extensions of the Enterprise if (A) the Commission first secures and files with the Trustee a written report of a Qualified Independent Consultant showing (A) the loss in annual Revenues, if any, suffered, or to be suffered, by the Commission by reason of the loss or damage to the Enterprise, (B) a general description of the additions, improvements or extensions then proposed to be acquired by the Commission from such proceeds, and (C) an estimate of the additional Revenues to be derived from such additions, improvements or extensions; and (B) such written report states that such additional Revenues will sufficiently offset the loss of Revenues resulting from such insured loss or damage so that the ability of the Commission to meet its obligations hereunder will not be substantially impaired. The Commission shall then promptly proceed with the construction of the additions, improvements or extensions substantially in accordance with such written report. Payments for such construction shall be made by the Commission from such insurance proceeds. Any balance of such proceeds not required by the Commission for the purposes aforesaid shall be deposited in the Revenue Fund and applied as provided in Sections 5.02, 5.03, 5.04 and 5.05.

(b) If such insured loss, damage or destruction has had no effect, or at the most a relatively immaterial effect, upon the Revenues and the security of the Bonds, and a Qualified Independent Consultant so concludes in a written report filed with the Trustee, the Commission may determine to apply such proceeds to the costs of additions or improvements to or extensions of the Enterprise, or such proceeds may be used for any other lawful purpose of the Enterprise.

(c) Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the Commission, or may be in the form of self-insurance by the Commission. The Commission shall establish such fund or funds or reserves as it determines, in its sole judgement, are necessary to provide for its share of any such self-insurance.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF BONDOWNERS

SECTION 7.01. Events of Default; Acceleration; Waiver of Default. If one or more of the following events (herein called "Events of Default") shall happen, that is to say--

- (a) if default is made in the due and punctual payment of the principal of, or the premium (if any) on, any Bond when and as the same becomes due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or if default shall be made in the redemption from any Sinking Fund Account of any Term Bonds in the amounts and at the times provided therefor;
- (b) if default is made in the due and punctual payment of any installment of interest on any Bond when and as such interest installment becomes due and payable;
- (c) if default is made by the Commission in the observance of any of the other covenants, agreements or conditions on its part in this Indenture or in the Bonds contained, and such default continues for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, is given to the Commission by the Trustee or by a Credit Provider, or to the Commission and the Trustee by the Owners of not less than 25% of the Bond Obligation; or
- (d) if the Commission or the City files a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction approves a petition, filed with or without the consent of the Commission or the City, as the case may be, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction assumes custody or control of the Commission or the City or of the whole or any substantial part of the property of either;

then and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written request of the Owners of not less than a majority in aggregate amount of the Bond Obligation or of a Credit Provider shall, upon notice in writing to the Commission, declare the principal of all of the Current Interest Bonds then Outstanding, and the interest accrued thereon, and of all Capital Appreciation Bonds then Outstanding, in the amount of the Accreted Value thereof, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Bonds contained to the contrary notwithstanding.

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the Commission shall deposit with the Trustee a sum sufficient to pay all principal and Accreted Value of the Bonds maturing prior to such declaration and all matured installments of interest (if any) upon all the Current Interest Bonds, with interest on such overdue payments of principal and Accreted Value and interest installments at the rate or rates of interest borne by the respective Bonds, and the reasonable expenses of the Trustee, and any and all other defaults

known to the Trustee (other than in the payment of principal and Accreted Value of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, (i) if such declaration shall have been made by the Trustee, the Trustee, or (ii) if such declaration shall have been made upon the written request of Bondowners, the Owners of not less than a majority in aggregate amount of the Bond Obligation of the Bonds then Outstanding, or (iii) if such declaration shall have been made upon the written request of a Credit Provider, such Credit Provider, may, by written notice to the Commission and, in cases (ii) and (iii) above, to the Trustee, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

SECTION 7.02. Application of Funds Upon Acceleration. All of the Revenues, including all sums in all of the funds provided for in Sections 3.04, 5.01, 5.02, 5.03, 5.04 and 5.05 and 5.06 upon the date of the declaration of acceleration as provided in Section 7.01 and all sums thereafter received by the Commission or the Trustee hereunder, shall, if received by the Commission, be transmitted to the Trustee and be applied by the Trustee in the order following, upon presentation of the several Bonds, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid--

First, to the payment of the costs and expenses of the Bondowners in declaring such Event of Default, including reasonable compensation to their agents, attorneys and counsel; and to the payment of the costs and expenses of the Trustee, including but not limited to reasonable compensation to its agents, attorneys and counsel;

Second, to the payment of the whole amount of Bond Obligation then owing and unpaid upon the Bonds, with interest on, with respect to the Current Interest Bonds, the overdue principal and installments of interest, and, with respect to the Capital Appreciation Bonds, the Accreted Value thereof, at the rate or rates of interest borne by the respective Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such principal and interest and Accreted Value without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest and Accreted Value; and

Third, to the payment of all Policy Costs, and in case such moneys shall be insufficient to pay in full all Policy Costs owing and unpaid, then to the payment of such Policy Costs pro rata (calculated by reference to the maximum amounts available under the respective Bond Reserve Fund Policies).

SECTION 7.03. Suits at Law or in Equity and Mandamus. In case one or more of the Events of Default shall happen, then and in every such case the Owner of any Bond at the time Outstanding shall be entitled to proceed to protect and enforce the rights vested in such Owner by this Indenture by such appropriate judicial proceeding as such Owner shall deem most effectual to protect and enforce any such right, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in this Indenture, or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Owners of Bonds by this Indenture or by law; provided, however, that no such Bondowner shall have the right to institute any such judicial proceeding pursuant to this Section unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default hereunder; (b) the Owners of at least ten percent (10%)

in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have made written request to the Trustee to exercise the powers herein granted or to institute such action, suit or proceeding in its own name; (c) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) the Trustee shall not have received contrary directions from the Owners of a majority in aggregate amount of Bond Obligation of the Bonds Outstanding. The provisions of this Indenture shall constitute a contract with the Owners of the Bonds, and such contract and duties of the Commission and of the Commission members and of the officers and employees of the Commission and of the City shall be enforceable by any Bondowner by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction.

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

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

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Bondowners, the Commission and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

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

SECTION 7.06. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of Bonds is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise and may

be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

SECTION 7.07. Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of at least ten percent (10%) in aggregate amount of the Bond Obligation, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default hereunder, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in aggregate amount of the Bond Obligation hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

SECTION 7.08. Remedies of Bond Reserve Fund Policy Provider. If the Commission fails to pay Policy Costs to a Bond Reserve Fund Policy Provider to the extent and at the times required by the provisions of Section 5.05 and such failure continues for 30 days after written notice of such default is received by the Commission and the Trustee from such Bond Reserve Fund Policy Provider or if an Event of Default set forth in Section 7.01(d) occurs and is continuing, then the Bond Reserve Fund Policy Provider may exercise any remedy provided hereunder to the Trustee or available at law or in equity to protect and enforce its right to receive payment of Policy Costs; provided, that, in no event, shall the Bond Reserve Fund Policy Provider be able to declare the principal and Accreted Value of the Bonds and the interest accrued thereon to be due and payable immediately or to exercise any remedy that the Trustee, in its sole discretion, determines would adversely affect the Bondowners.

SECTION 7.09. Rights of Credit Provider. Each Credit Provider, during any period in which an Event of Default has occurred and is continuing, will be recognized as the Owner of each Bond which it guarantees or insures for the purposes of exercising all rights and privileges available to Bondowners. Any acceleration of principal payments with respect to Bonds guaranteed or insured by a Credit Provider are subject to such Credit Provider's prior written direction or consent (but only if such Credit Provider is not in default under its guaranty or insurance policy). Each Credit Provider shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as an Owner of the Bonds that such Credit Provider guarantees or insures.

ARTICLE VIII

THE TRUSTEE

SECTION 8.01. Appointment and Duties of Trustee. The Trustee hereby accepts the trusts imposed upon it as Trustee hereunder for the purpose of receiving all moneys which the Commission is required to deposit with the Trustee hereunder and agrees to allocate, use and apply the same as provided in this Indenture and otherwise to hold all the offices and to perform all the functions and duties provided in this Indenture to be held and performed by the Trustee and agrees to perform such duties and obligations, subject to the terms and conditions set forth in this Indenture. The Commission agrees that it will maintain a Trustee having an office in San Francisco or Los Angeles, California, so long as any Bonds are Outstanding and unpaid.

The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

So long as there is no Event of Default hereunder, the Commission may remove the Trustee, by giving written notice to such Trustee and by giving Bondowners notice by mail, first class postage prepaid, of such removal, and any successor thereto, and may appoint a successor or successors thereto; provided that any such successor shall be a bank or trust company doing business and having an office in San Francisco or Los Angeles, California, having a combined capital and surplus of at least \$100,000,000, and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice to the Commission and by giving the Bondowners notice by mail, first class postage prepaid, of such resignation. Upon receiving such notice of resignation, the Commission shall promptly appoint a successor Trustee by an instrument in writing. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within forty-five days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondowner (on behalf of himself or herself and all other Bondowners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee.

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under this Section 8.01, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

SECTION 8.02. Authorization of Trustee. The Trustee is hereby authorized to pay the principal of and interest and redemption premium, if any, on the Bonds when due and payable, or on call and redemption or on purchase by the Trustee prior to maturity, and to cancel all Bonds upon payment thereof and to return the same so cancelled to the Commission, subject to the provisions of Section 11.05. The Trustee shall keep accurate records of all funds administered by it and of all Bonds and interest payments paid and discharged.

The Trustee and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if the Trustee was not the Trustee under this Indenture. The Trustee may in good faith hold any other form of indebtedness of the Commission or of the City, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of the Commission and make disbursements for the Commission and enter into any commercial or business arrangement therewith, without limitation.

SECTION 8.03. Fees and Expenses. The Commission shall compensate the Trustee for its services rendered pursuant to the provisions of this Indenture, and also for all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under this Indenture. The obligations of the Commission under this Section to compensate the Trustee for services and to pay or reimburse the Trustee for disbursements, liabilities and advances shall constitute additional indebtedness hereunder.

SECTION 8.04. Liability of Trustee. (a) The recitals of facts, covenants and agreements herein and in the Bonds contained shall be taken as statements, covenants and agreements of the Commission, and the Trustee assumes no responsibility for the correctness of the same, does not make any representations as to the validity or sufficiency of this Indenture or of the Bonds, and shall not incur any responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Bonds expressly assigned to or imposed upon it. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or default.

(b) The Trustee shall not be liable for any error of judgment made in good faith by an Authorized Officer of the Trustee, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate amount of Bond Obligations of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(d) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Bondowners pursuant to the provisions of this Indenture unless such Bondowners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

(e) The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

(f) The Trustee shall not be deemed to have knowledge of any Event of Default hereunder unless and until it shall have actual knowledge thereof, or shall have received written notice thereof, at its principal corporate trust office in San Francisco, California. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds or the delivery of the Bonds, or as to the existence of an Event of Default thereunder. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it. The Trustee shall not be responsible for the recording or filing of any document relating to this Indenture or of financing statements (or continuation statements in connection therewith) or of any supplemental instruments or documents of further assurance as may be required by law in order to perfect the security interests in any collateral given to or held by it.

(g) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

(h) The Commission further agrees to indemnify, to the extent permitted by law and without making any representation as to the enforceability of this covenant, and save the Trustee, its directors, officers, employees and agents harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, including but not limited to costs and expenses incurred in defending against any claim or liability, which are not due to its negligence or default.

(i) The provisions of this Section 8.04 shall survive the resignation or removal of the Trustee, payment of the Bonds and discharge of this Indenture.

SECTION 8.05. Rights of Trustee to Rely Upon Documents. The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, direction, Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel to the Commission or to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered hereunder in good faith and in accordance therewith.

The Trustee shall not be bound to recognize any person as the Owner of a Bond unless and until his title thereto is satisfactorily established, if disputed.

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

ARTICLE IX

MODIFICATION OR AMENDMENT OF THE INDENTURE

SECTION 9.01. Amendments Permitted. (a)(i) This Indenture and the rights and obligations of the Commission and of the Owners of the Bonds and of the Trustee may be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consents of the Owners of a majority in aggregate amount of the Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding, exclusive of Bonds disqualified as provided in Section 9.03 hereof, and of each Credit Provider (so long as such Credit Provider is not in default under the policy of municipal bond insurance or Letter of Credit issued by it in connection with any Series of Bonds) shall have been filed with the Trustee (provided, that no such Credit Provider shall unreasonably withhold consent to such modification or amendment). (ii) This Indenture and the rights and obligations of the Commission and of the Owners of the Bonds and of the Trustee may also be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consents of each Credit Provider shall have been filed with the Trustee, provided that at such time the payment of the principal of and interest on all Outstanding Bonds shall be insured by a policy or policies of municipal bond insurance or payable under a Letter of Credit issued by a Credit Provider. (iii) No such modification or amendment shall (A) extend the fixed maturities of the Bonds, or extend the time for making any Minimum Sinking Fund Account Payments, or reduce the rate of interest thereon, or extend the time of payment of interest, or reduce the amount of principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Owner of each Bond so affected, or (B) reduce the aforesaid percentage of the Bond Obligation the consent of the Owners of which is required for the execution of any amendment or modification of this Indenture, or (C) modify any of the rights or obligations of the Trustee without its written consent thereto.

(b) This Indenture and the rights and obligations of the Commission and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption, without the consent of any Bondowners or any Credit Provider (but with notice to each Credit Provider), but only to the extent permitted by law and only if the Trustee determines, which determination may be based upon a good faith reliance upon an Opinion of Counsel, that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners, including, without limitation, for any one or more of the following purposes --

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

(ii) to cure, correct or supplement any ambiguous or defective provision or omission or mistake contained in this Indenture or in regard to questions arising under this Indenture, as the Commission may deem necessary or desirable;

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

(iv) to provide additional security for the Bonds.

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

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

After the Owners of the required percentage of Bond Obligation and each Credit Provider shall have filed their consents to the Supplemental Indenture, the Commission shall mail a notice to the Bondowners in the manner hereinbefore provided in this Section for the mailing of the Supplemental Indenture, stating in substance that the Supplemental Indenture has been consented to by the Owners of the required percentage of Bond Obligation and each Credit Provider and will be effective as provided in this Section (but failure to mail copies of said notice shall not affect the validity of the Supplemental Indenture or consents thereto), and proof of the mailing of such notice shall be filed with the Trustee. A record, consisting of the papers required by this Section to be filed with the Trustee, shall be proof of the matters therein stated until the contrary is proved. The Supplemental Indenture shall become effective upon the filing with the Trustee of the proof of the mailing of such last-mentioned notice.

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

SECTION 9.03. Disqualified Bonds. Bonds owned or held by or for the account of the Commission or of the City (but excluding Bonds held in any pension or retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided for in this Article or Indenture, and shall not be entitled to consent to or take any other action provided for in this Article or Indenture. For the purpose hereof no bank organized under the laws of the State of California and no national banking association doing business in said State, or elsewhere, shall be deemed to be an agency of the Commission.

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

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

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

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

ARTICLE X

DEFEASANCE

SECTION 10.01. Discharge of Indenture. (a) If the Commission shall pay and discharge the entire indebtedness on all Bonds Outstanding in any one or more of the following ways--

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

(2) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money which, together with the amounts then on deposit in the Principal Fund, the Interest Fund and the Bond Reserve Fund, is fully sufficient to pay or redeem all Bonds Outstanding, including all principal, interest and redemption premiums, if any; or

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

(4) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, Defeasance Obligations in such amount which, in the determination of an Independent Certified Public Accountant, who shall certify such determination to the Trustee, shall, together with the income or increment to accrue thereon and any other moneys of the Commission made available for such purpose, be fully sufficient to pay and discharge the indebtedness on all Bonds (including all principal, interest and redemption premiums, if any) at or before their respective maturity dates;

and if the Commission shall also pay or cause to be paid all other sums payable hereunder by the Commission, including all Policy Costs, then and in that case, at the election of the Commission (evidenced by a Certificate of the Commission signifying its intention to pay and discharge all such indebtedness, which shall be filed with the Trustee), and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Net Revenues and other funds provided for in this Indenture and all other obligations of the Commission under this Indenture shall cease, terminate and be completely discharged, except only as provided in Section 10.02, and the Owners of the Bonds not so surrendered and paid shall thereafter be entitled to payment only out of the Defeasance Obligations deposited with the Trustee, escrow agent or other fiduciary as aforesaid for their payment; subject, however, to the provisions of Section 10.03. The discharge of the obligations of the Commission under this Indenture shall be without prejudice to the rights of the Trustee to charge for and be reimbursed by the Commission for any expenditures which it may thereafter incur in connection herewith.

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

(b) In the event that any portion or all of the Bonds are to be paid and discharged pursuant to Section 10.01(a)(4), the Credit Provider shall be provided with 15 days advance notice and shall be provided with a draft copy of any proposed escrow agreement establishing the defeasance trust, the form of the Independent Certified Public Accountant's certificate or letter, the preliminary official statement of the refunding issue (if applicable) and the form of Opinion of Counsel to the effect that upon the deposit of funds and investments under the escrow or other applicable agreement, the Bonds being paid and discharged shall no longer be deemed to be outstanding hereunder. Substitution of securities held in trust under the escrow agreement shall not be permitted unless there shall have first been delivered to the escrow agent (1) a certificate of Independent Certified Public Accountant to the effect that the escrow investments, as substituted, are sufficient to pay debt service on the Bonds being paid and discharged whether to maturity or date of redemption, as applicable, and (2) an Opinion of Counsel to the effect that the substitution is permitted under the escrow agreement and does not, in and of itself, adversely affect the exclusion from gross income of interest on the Bonds being so paid and discharged for purposes of federal income taxation.

A final copy of any such escrow agreement and the Independent Certified Public Accountant's certificate stating that the escrow is sufficient to meet the standards of Section 10.01(a)(4), the final official statement for the refunding issue (if applicable), the approving opinion of bond counsel with respect to the refunding issue, the Trustee's receipt, and the Trustee's certification as to the application of funds shall be furnished to the Credit Provider no later than 10 days (or such later date which is the first date practicable to deliver such items in the event that the refunding issue is not sold early enough to provide such items 10 days prior to the date of defeasance) prior to the defeasance of Bonds by the Commission.

If a forward purchase or supply contract is employed in connection with the defeasance of any of the Bonds, the verification report relating to the defeasance of such Bonds shall expressly state that the adequacy of the escrow to accomplish the defeasance relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement shall be controlling. Additionally, any forward purchase contract with respect to an escrow established for the 2003 Refunding Series A Bonds shall be subject to the following additional requirements:

(i) such forward purchase contract shall be subject to the approval of the 2003 Refunding Series A Bond Insurer, which approval shall occur at least five (5) days prior to the proposed execution date of the forward purchase contract;

(ii) the forward purchase contract, by its terms, must provide that the securities delivered under the forward supply are sufficient (together with other funds remaining in the escrow) to make the payments regarding the 2003 Refunding Series A Bonds;

(iii) the 2003 Refunding Series A Bond Insurer shall have received an opinion from a nationally recognized bankruptcy counsel that the securities in escrow and payments to owners of the 2003 Series A Refunding Bonds will not constitute assets of the forward supply contract supplier and will not be subject to automatic stay in the event of bankruptcy and/or insolvency of the supplier;

(iv) the supplier of the securities delivered under the forward supply contract must affirm in the forward supply agreement that it has no rights to or interest in the monies or securities held in the escrow;

(v) the escrow agent must be acceptable to the 2003 Refunding Series A Bond Insurer and the 2003 Refunding Series A Bond Insurer shall have the right to replace the escrow agent for cause;

(vi) the supplier shall have no right to substitute the original escrow securities, and shall only substitute securities previously delivered by the supplier under the forward supply contract only if:

(A) the substituted securities mature on a date that is later than the previously delivered securities would have matured; and

(B) the substituted securities mature prior to the date needed to pay principal and/or interest on the 2003 Refunding Series A Bonds;

(vii) two days before each delivery date for the forward supply securities, the escrow agent must notify the 2003 Refunding Series A Bond Insurer in writing of the securities to be delivered, the maturity amount of the securities and the maturity date; and

(viii) the forward supply contract shall not be amended or modified without the 2003 Refunding Series A Bond Insurer 's written consent.

(c) In the event that the 2003 Refunding Series A Bonds are discharged and the payment in full of such 2003 Refunding Series A Bonds from the escrow established for such purpose will occur within 60 days of the establishment of the escrow, the following additional requirements shall apply, unless otherwise waived in writing by the 2003 Refunding Series A Bond Insurer:

(i) the escrow for the defeasance and redemption of the 2003 Refunding Series A Bonds shall be sufficient, without regard to any reinvestment income, to pay the principal of and interest on the 2003 Refunding Series A Bonds through and including the date set for redemption of the 2003 Refunding Series A Bonds;

(ii) in the event that moneys on deposit in the escrow established for the 2003 Refunding Series A Bonds are invested, such investment(s) shall mature in an amount and at such time so that sufficient cash will be available to redeem the 2003 Refunding Series A Bonds on the date set for redemption (as confirmed by the escrow agent or the Trustee to the 2003 Refunding Series A Bond Insurer in writing); and

(iii) such escrow shall be invested solely in Federal Securities.

(d) Notwithstanding anything herein to the contrary, in the event that the principal and/or interest due of the Bonds is paid by any Credit Provider in accordance with the terms hereof, such Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Commission, and the assignment and pledge of the Net Revenues and other assets hereunder and all covenants, agreements and other obligations of the Commission to the Owners so paid shall continue to exist and shall run to the benefit of Credit Provider, and the Credit Provider shall be subrogated to the rights of such Owners, as applicable.

SECTION 10.02. Discharge of Liability on Bonds. Upon the deposit with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, of Defeasance Obligations in the necessary amount to pay or redeem Outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Commission in respect of such Bonds shall cease, determine and be completely discharged, except only that thereafter the Owners thereof shall be entitled to payment of the principal of and interest on such Bonds by the Commission, and the Commission shall remain liable for such payment, but only out of the Defeasance Obligations deposited in an escrow fund established for this purpose and held by the Trustee, an escrow agent, or other fiduciary, as aforesaid for their payment, subject, however, to the provisions of Section 10.03.

SECTION 10.03. Payment of Bonds after Discharge of Indenture. Notwithstanding any provisions of this Indenture, any moneys deposited in trust for the payment of the principal of, or interest or premium on, any Bonds and remaining unclaimed for two years after the principal of all the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in this Indenture) shall then be repaid to the Commission upon its Written Request, and the Owners of such Bonds shall thereafter be entitled to look only to the Commission for payment thereof, and all liability of the Trustee or any other fiduciary with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Commission as aforesaid, the Trustee may (at the cost of the Commission) first publish at least once in a Financial Newspaper or Journal a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Commission of the moneys held for the payment thereof. In the event of the repayment of any such moneys to the Commission as aforesaid, the Owners of the Bonds in respect of which such moneys were deposited shall thereafter be deemed to be general creditors of the Commission for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the Commission (without interest thereon).

ARTICLE XI
MISCELLANEOUS

SECTION 11.01. Liability of Commission Limited to Net Revenues.

(a) Notwithstanding anything in this Indenture contained, the Commission shall not be required to advance any moneys derived from the proceeds of any taxes levied or collected by the City, or from any source of income other than the Net Revenues, for the payment of the principal of or interest on the Bonds, for the operation and maintenance of the Enterprise, for the performance of any covenants herein contained or for the payment of any obligations hereunder, including indemnification. The Commission may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the Commission for such purpose without incurring indebtedness.

(b) The Bonds shall be revenue bonds, payable exclusively from the Net Revenues as in this Indenture provided. The general fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the Bonds or their interest. The Owners of the Bonds shall never have the right to compel the exercise of the taxing power of the City or the forfeiture of any property of the Commission or of the City. The principal of and interest on the Bonds and any premiums upon the redemption of any thereof shall not be a debt of the Commission or the City, nor a legal or equitable pledge, charge, lien or encumbrance upon any property of the Commission or of the City or upon any of its income, receipts or revenues except the Net Revenues pledged to the payment thereof as in this Indenture provided.

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

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

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

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

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

SECTION 11.07. Notice to Commission and Trustee. Any notice to or demand upon the Trustee may be served or presented, and such demand may be made, at the principal corporate trust office of the Trustee in San Francisco, California, which at the date of adoption of this Indenture is located at 1 California Street, Suite 2550, San Francisco, California 94111 Attention: Corporate Trust Department, or at such other address as may have been filed in writing by the Trustee with the Commission. Any notice to or demand upon the Commission shall be deemed to have been sufficiently given or served for all purposes by being deposited, postage prepaid, in a post office letter box, addressed to the Commission, c/o the Director, Financial Services, 1155 Market Street, San Francisco, California 94103, or to the Commission at such other address as may be filed in writing by the Commission with the Trustee.

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

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

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

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

SECTION 11.09. Credit Provider and Bond Reserve Fund Policy Provider Provisions. Any provisions herein requiring consent from the Credit Providers shall have no force or effect with respect to a Credit Provider or a Bond Reserve Fund Policy Provider during any period in which such Credit Provider or a Bond Reserve Fund Policy Provider is in default in its obligations under the related Letter of Credit, insurance policy or Bond Reserve Fund Policy. The provisions with respect to the Credit Provider and Bond Reserve Fund Policy Provider may

be disregarded if no Credit Providers or Bond Reserve Fund Policy Providers are in existence with respect to the Outstanding Bonds.

SECTION 11.10. Article and Section Headings and References. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Indenture.

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

SECTION 11.11. Funds and Accounts. Any fund required by this Indenture to be established and maintained by the Commission or the Controller or the Treasurer or the City or the Trustee may be established and maintained in the accounting records of the Commission or the Controller or the Treasurer or the City or the Trustee either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with generally accepted accounting practices and with due regard for the protection of the security of the Bonds and the rights of every Owner thereof.

SECTION 11.12. Repeal of Inconsistent Resolution. Any resolution of the Commission, and any part of any resolution, inconsistent with this Indenture, is hereby repealed to the extent of such inconsistency.

SECTION 11.13. Waiver of Personal Liability. No Commission member or officer, agent or employee of the Commission or of the City shall be individually or personally liable for the payment of the principal of or interest on the Bonds; but nothing herein contained shall relieve any such Commission member or officer, agent or employee from the performance of any official duty provided by law.

SECTION 11.14. Governing Law. This Indenture shall be construed and governed in accordance with the laws of the State of California.

SECTION 11.15. Business Day. Except as specifically set forth in a Supplemental Indenture, any payments or transfers which would otherwise become due on any day which is not a Business Day shall become due or shall be made on the next succeeding Business Day.

SECTION 11.16. Effective Date of Indenture. This Indenture shall take effect upon its execution and delivery.

SECTION 11.17 Execution in Counterparts. This 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 XII
CITY REQUIREMENTS

SECTION 12.01. MacBride Principles - Northern Ireland Pursuant to San Francisco Administrative Code Section 12.F.5, the City urges companies doing business in Northern Ireland to move toward resolving employment inequities, and encourages such companies to abide by the MacBride Principles. The City urges San Francisco companies to do business with corporations that abide by the MacBride Principles.

SECTION 12.02. Tropical Hardwood and Virgin Redwood Bank Pursuant to San Francisco Administrative Code Section 12I.5(b), the City urges companies not to import, purchase, obtain, or use for any purpose, any tropical hardwood or tropical hardwood product or any virgin redwood or virgin redwood product.

SECTION 12.03. City Requirements

(a) Trustee Shall Not Discriminate. In the performance of this Indenture, the Trustee agrees not to discriminate on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, sex, sexual orientation, gender identity, domestic partner status, marital status, weight, height, disability or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status) against any employee of, any City employee working with, or applicant for employment with the Trustee in any of the Trustee's operations within the United States, or against any person seeking accommodations, advantages, facilities, privileges, services or membership in all business, social or other establishments or organizations operated by the Trustee.

(b) Subcontracts. The Trustee shall incorporate by reference in all subcontracts made in fulfillment of its obligations hereunder the provisions of Section 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 Indenture.

(c) Non-Discrimination in Benefits. The Trustee does not as of the date of this Indenture and will not during the term of this Indenture, in any of its operations in San Francisco, or on real property owned by San Francisco, or where the work is being performed for the City elsewhere within 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 Section 12B.2(b) of the San Francisco Administrative Code.

(d) HRC Form. 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 ("HRC").

(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 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 Indenture under such Chapters of the Administrative Code, including but not limited to the remedies provided in such Chapters. Without limiting the foregoing, the Trustee understands that pursuant to Section 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 Indenture may be assessed against the Trustee and/or deducted from any payments due the Trustee, provided, however that such damages shall not be set off against the payment of rental or other contract related to bonds, certificates of participation or other debt obligation of the City or the Commission.

(f) (1) Compliance

The Trustee understands and agrees to comply fully with all provisions of Chapter 12D.A ("Minority/Women/Local Business Utilization Ordinance-IV") of the San Francisco Administrative Code and agrees to include this paragraph in all subcontracts made in fulfillment of the Trustee's obligations under this Indenture. Said provisions are incorporated herein by reference and made a part of this Indenture as though fully set forth. Trustee's willful failure to comply with Chapter 12D.A is a material breach of contract.

(2) Enforcement

If the Trustee willfully fails to comply with any of the provisions of Chapter 12D.A, the rules and regulations implementing Chapter 12D.A, or the provisions of this Indenture pertaining to MBE or WBE participation, the Trustee shall be liable for liquidated damages in an amount equal to Trustee's net profit on this Indenture, or ten percent (10%) of the total amount of this Indenture, or one thousand dollars (\$1,000), whichever is greatest. The Director of the City's Human Rights Commission (HRC) may also impose other sanctions against the Trustee authorized in Chapter 12D.A, 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 MBE or WBE certification. The Director of HRC will determine the sanctions to be imposed, including the amount of liquidated damages, after investigation pursuant to Section 12D.A.16C.

By entering into this 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, provided, however, that such damages shall not be set-off against the payment or rental or other amount under any lease or other contract related to bonds, certificates of participation or other debt obligations of the City or the Commission.

The Trustee agrees to maintain records necessary for monitoring its compliance with Chapter 12D.A for a period of three years following termination of this contract.

SECTION 12.04. Resource Conservation; Liquidated Damages Chapter 21A of the San Francisco Administrative Code ("Resource Conservation") is incorporated herein by reference. Failure by the Trustee to comply with any of the requirements of Chapter 21A shall be deemed a material breach of this Indenture. In the event the Trustee fails to comply in good faith with any of the provisions of Chapter 21A, the Trustee shall be liable for liquidated damages in an

amount equal to the Trustee's net profit under the contract, or five percent (5%) of the total amount of the contract dollars, whichever is greatest. The Trustee acknowledges and agrees that the liquidated damages assessed shall be payable to City upon demand and may be set off against any moneys due to the Trustee from any agreement with the City; provided, however, that such liquidated damages shall not be set off against the payment of rental or other amounts under any lease or other contract related to bonds, certificates of participation or other debt obligation of the City or the Commission.

SECTION 12.05. Contractors Doing Business with the City Prohibited from Making Contributions The Trustee acknowledges that no person who contracts with the City, for the rendition of personal services, or the furnishing of any material, supplies or equipment to the City, or for selling any land or building to the City, whenever such transaction would require approval by a City elective officer, or the board on which that City elective officer serves, shall make any contribution to such an officer, or candidates for such an office, or committee controlled by such officer or candidate at any time between commencement of negotiations and either the completion of, or the termination of, negotiations for such contract.

SECTION 12.06. Requiring Minimum Compensation for Employees 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 Indenture as though fully set forth. The text of the MCO is available on the web at www.ci.sf.ca.us\MCO. Capitalized terms used in this Section and not defined in this Indenture shall have the meanings assigned to such terms in Chapter 12P. Consistent with the requirements of the MCO, the Trustee agrees to all of the following:

(a) For each hour worked by a Covered Employee during a Pay Period on work funded under the City contract during the term of this Indenture, the Trustee shall provide to the Covered Employee no less than the Minimum Compensation, which includes a minimum hourly wage and compensated and uncompensated time off consistent with the requirements of the MCO. For the minimum hourly gross compensation portion of the MCO, the Trustee shall pay \$9.00 an hour through December 31, 2001. On January 1, 2002, the Trustee shall increase the minimum hourly gross compensation to \$10.00 an hour; provided, however, that if the Trustee is a Nonprofit Corporation or a public entity, it shall be required to pay the increased amount only if the City makes the finding required by Section 12P.3(a)(ii) of the San Francisco Administrative Code. If the Trustee is required to increase the minimum gross hourly compensation to \$10.00 an hour, it shall provide the 2.5% annual increase required by the MCO for each of the next three years.

(b) The Trustee shall not discharge, reduce in compensation, or otherwise discriminate against any employee for complaining to the City with regard to the Trustee's compliance or anticipated compliance with the requirements of the MCO, for opposing any practice proscribed by the MCO, for participating in proceedings related to the MCO, or for seeking to assert or enforce any rights under the MCO by any lawful means.

(c) The Trustee understands and agrees that the failure to comply with the requirements of the MCO shall constitute a material breach by the Trustee of the terms of this Indenture. The City, acting through the Contracting Department, shall determine whether such a breach has occurred.

(d) If, within 30 days after receiving written notice of a breach of this 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, acting through the Contracting Department, shall have the right to pursue the following rights or remedies and any rights or remedies available under applicable law:

(i) The right to charge the Trustee an amount equal to the difference between the Minimum Compensation and any compensation actually provided to a Covered Employee, together with interest on such amount from the date payment was due at the maximum rate then permitted by law;

(ii) The right to set off all or any portion of the amount described in Subsection (d)(1) of this Section against amounts due to the Trustee under this Indenture;

(iii) The right to terminate this Indenture in whole or in part;

(iv) In the event of a breach by the Trustee of the covenant referred to in Subsection (b) of this Section, the right to seek reinstatement of the employee or to obtain other appropriate equitable relief; and

(v) The right to bar Trustee from entering into future contracts with the City for three (3) years.

Each of the rights provided in this Subsection (d) shall be exercisable individually or in combination with any other rights or remedies available to the City. Any amounts realized by the City pursuant to this subsection shall be paid to the Covered Employee who failed to receive the required Minimum Compensation.

(e) 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.

(f) Trustee shall keep itself informed of the current requirements of the MCO, including increases to the hourly gross compensation due Covered Employees under the MCO, and shall provide prompt written notice to all Covered Employees of any increases in compensation, as well as any written communications received by the Trustee from the City, which communications are marked to indicate that they are to be distributed to Covered Employees.

(g) Trustee shall provide reports to the City in accordance with any reporting standards promulgated by the City under the MCO, including reports on subcontractors.

(h) The Trustee shall provide the City with access to pertinent records after receiving a written request from the City to do so and being provided at least five (5) business days to respond.

(i) The City may conduct random audits of Trustee. Random audits shall be (1) noticed in advance in writing; (2) limited to ascertaining whether Covered Employees are paid at least the minimum compensation required by the MCO; (3) accomplished through an examination of pertinent records at a mutually agreed upon time and location within ten (10) days of the written notice; and (4) limited to one audit of the Trustee every two years for the duration of this Indenture. Nothing in this Indenture is intended to preclude the City from investigating any report of an alleged violation of the MCO.

(j) 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. A subcontract means an agreement between the Trustee and a third party which requires the third party to perform all or a portion of the services covered by this Indenture. The Trustee shall notify the Department of Administrative Services when it enters into such a subcontract and shall certify to the Department of Administrative Services that it has notified the subcontractor of the obligations under the MCO and has imposed the requirements of the MCO on the subcontractor through the provisions of the subcontract. It is the Trustee's obligation to ensure that any subcontractors of any tier under this Indenture comply with the requirements of the MCO. If any subcontractor under this Indenture fails to comply, the City may pursue any of the remedies set forth in this Section against the Trustee.

(k) Each Covered Employee is a third-party beneficiary with respect to the requirements of subsections (a) and (b) of this Section, and may pursue the following remedies in the event of a breach by Trustee of subsections (a) and (b), but only after the Covered Employee has provided the notice, participated in the administrative review hearing, and waited the 21-day period required by the MCO. The Trustee understands and agrees that if the Covered Employee prevails in such action, the Covered Employee may be awarded: (1) an amount equal to the difference between the Minimum Compensation and any compensation actually provided to the Covered Employee, together with interest on such amount from the date payment was due at the maximum rate then permitted by law; (2) in the event of a breach by the Trustee of subsections (a) or (b), the right to seek reinstatement or to obtain other appropriate equitable relief; and (3) in the event that the Covered Employee is the prevailing party in any legal action or proceeding against the Trustee arising from this Indenture, the right to obtain all costs and expenses, including reasonable attorney's fees and disbursements, incurred by the Covered Employee. The Trustee also understands that the MCO provides that if the Trustee prevails in any such action, the Trustee may be awarded costs and expenses, including reasonable attorney's fees and disbursements, from the Covered Employee if the court determines that the Covered Employee's action was frivolous, vexatious or otherwise an act of bad faith.

(l) If the Trustee is exempt from the MCO when this Indenture is executed because the cumulative amount of agreements with this department for the fiscal year is less than \$25,000 (\$50,000 for nonprofits), but the Trustee later enters into an agreement or agreements that cause Trustee to exceed that amount in a fiscal year, the Trustee shall thereafter be required to comply with the MCO under this Indenture. This obligation arises on the effective date of the agreement that causes the cumulative amount of agreements between the Trustee and this department to exceed \$25,000 (\$50,000 for nonprofits) in the fiscal year.

SECTION 12.07. Compliance with Americans with Disabilities Act Without limiting any other provisions of this Indenture, the Trustee shall provide the services specified in this Indenture in a manner that complies with the Americans with Disabilities Act (ADA) Title 24, 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 Indenture and further agrees that any violation of this prohibition on the part of the Trustee, its employees, agents or assigns shall constitute a material breach of this Indenture.

SECTION 12.08. 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 (the "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 agreement as though fully set forth. The text of the HCAO is available on the web at www.ci.sf.ca.us/HCAO. Capitalized terms used in this Section 12.08 and not defined in this 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 agreement. The City shall notify the Trustee if such a breach has occurred. If, within 30 days after receiving the City's written notice of a breach of this 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, the 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 the 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 12.08 the Trustee shall notify the City's Purchasing Department when it enters into such a Subcontract and shall certify to the Purchasing Department that it has notified the Subcontractor of the obligations under the HCAO and has imposed the requirements of the HCAO on the Subcontractor through the Subcontract. The Trustee shall be responsible for its Subcontractors' compliance with these provisions. If a Subcontractor fails to comply, the City may pursue the remedies set forth in this Section 12.08 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 the City with regard to the Trustee's compliance or anticipated compliance 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 keep itself informed of the current requirements of the HCAO.

(h) 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.

(i) 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 five (5) business days to respond.

(j) The City may conduct random audits of the Trustee to ascertain its compliance with HCAO. The Trustee agrees to cooperate with the City when it conducts such audits.

(k) If the Trustee is exempt from the HCAO when this 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 the City to reach \$75,000, all the agreements shall be thereafter subject to the HCAO. This obligation arises on the effective date of this Indenture that causes the cumulative amount of agreements between the Trustee and the Commission to be equal to or greater than \$75,000 in the fiscal year.

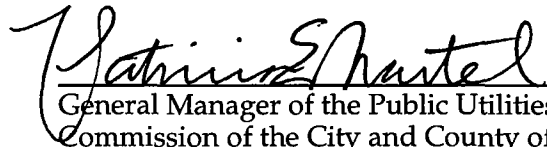
SECTION 12.09 Repeal of Administrative Code Provisions. To the extent that the City repeals any provision of the Administrative Code incorporated, set forth or referenced in Section 12.01 through 12.08 hereof, other than pursuant to a restatement or amendment of any such provision, such provision, as incorporated, set forth or referenced herein, shall not longer apply to this Indenture or the Trustee.

SECTION 12.10. Notification of Limitations on Contributions. San Francisco Campaign and Governmental Conduct Code (the "Conduct Code") Section 3.700 et. seq., and San Francisco Ethics Commission Regulations 3.710(a)-1 - 3.730-1, prohibit the public officials who approved this Indenture from receiving (1) gifts, honoraria, emoluments or pecuniary benefits of a value in excess of \$50; (2) any employment for compensation; or (3) any campaign contributions for any elective office for a period of up to six years from individuals and entities who are "public benefit recipients" of this Indenture. "Public benefit recipients" of this Indenture are: (a) the individual, corporation, firm, partnership, association, or other person or entity that is a party to this Indenture; (b) an individual or entity that has a direct 10% equity, or direct 10% participation, or direct 10% revenue interest in that party at the time the public benefit is awarded; or (c) an individual who is a trustee, director, partner or officer of the contracting party at the time the public benefit is awarded.

The Trustee understands that any public official who approved this Indenture may not accept campaign contributions, gifts, or future employment from the Trustee except as provided under the Conduct Code. The Trustee agrees to notify any other individuals or entities that may be deemed "public benefit recipients" under the Conduct Code because of this Indenture. Upon request, the Trustee agrees to furnish, before this Indenture is entered into, such information as any public official approving this Indenture may require in order to ensure such official's compliance with the Conduct Code. Upon request, the City agrees to provide, before this Indenture is entered into, the Trustee with a list of public officials who, under the Conduct Code, approved this Indenture. Failure of any public official who approved this Indenture to abide by the Conduct Code shall not constitute a breach by either the City or the Trustee of this Indenture. Notwithstanding anything to the contrary in this Indenture, neither party shall have the right to terminate this Indenture due to any failure by the other party to provide the information described in this paragraph.

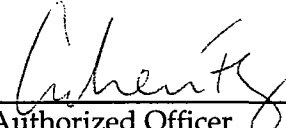
IN WITNESS WHEREOF, the parties hereto have executed this Indenture by their officers thereunto duly authorized as of the day and year first written above.

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN
FRANCISCO



General Manager of the Public Utilities
Commission of the City and County of San
Francisco

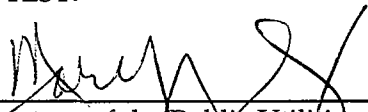
U.S. BANK, N.A., as trustee

By 

Authorized Officer

(Seal)

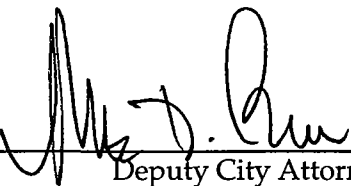
ATTEST:



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

EXHIBIT A
FORM OF 2003 REFUNDING 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
CLEAN WATER REVENUE BOND
2003 REFUNDING SERIES A

Dated Date

Interest Rate

Maturity Date
October 1, 20__

CUSIP No.

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 net 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 in lawful money of the United States of America, and to pay (but only out of the net 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 September 15, 2003, in which event it shall bear interest from January 28, 2003; 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 October 1, 2003 and semiannually thereafter on April 1 and October 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, N.A., 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 his or her address as it 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 "Clean Water Revenue Bonds" (herein called the "Bonds"), of the series and designation indicated on the face hereof (herein called the "2003 Refunding Series A Bonds") and is a Current Interest Bond (as such term is defined in the Indenture hereinafter referred to). The issue of Bonds is not limited in aggregate principal amount to \$396,270,000 and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as provided in the Indenture, all issued and to be issued under the Indenture and the Charter of the City and County of San Francisco (the "City") 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 (the "Indenture"), between the Trustee and the Commission, authorizing the issuance of the Commission's 2003 Refunding Series A Bonds. 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 Net 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. 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, her or its 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 2003 Refunding Series A Bonds are issued to refund in full certain outstanding bonds of the City entitled "City and County of San Francisco Sewer Revenue Refunding Bonds, Series 1992," "City and County of San Francisco Sewer Revenue Refunding Bonds, Series 1994," and "City and County of San Francisco Sewer Revenue Bonds, Series 1995," all 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 net revenues of the Enterprise (which, as more particularly defined in the Indenture, are therein and herein called the "Net Revenues"). All of the Bonds are equally secured by a pledge of, and charge and lien upon, all of the Net Revenues; but nevertheless, out of Net Revenues, amounts shall and may be applied for other purposes as provided in the Indenture. Additional series of Bonds and other obligations payable from the Net 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 Bond are payable solely from the Net Revenues, and the Commission is not obligated to pay them except from the Net 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 Net 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 2003 Refunding Series A Bonds maturing on or before October 1, 2012 are not subject to redemption before their respective stated maturities. The 2003 Refunding Series A Bonds maturing on or after October 1, 2013 are subject to redemption prior to their respective stated maturities, 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 April 1, 2013, by such maturities or portions of maturities as shall be determined by the Commission if less than all of the 2003 Refunding Series Bonds are to be called for prior redemption and by lot within any such maturity if less than all of the 2003 Refunding Series A Bonds of such maturity are to be redeemed, at the principal amount of the 2003 Refunding Series A Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

As provided in the Indenture, notice of redemption shall be mailed, not less than 30 nor more than 60 days prior the redemption date, to the registered owner of this Bond.

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

The 2003 Refunding 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 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, 2003 Refunding Series A Bonds may be exchanged for a like aggregate principal amount of Bonds of the same series, tenor and maturity of other authorized denominations.

This 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 Bond. Upon such transfer a new fully registered Bond or 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 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 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 Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been 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 under the official seal of the Commission or a facsimile thereof, signed by the manual or facsimile signatures of its President 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 January 28, 2003.

**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

(Seal)

Countersigned:

Secretary of the Commission

STATEMENT OF INSURANCE

STATEMENT OF INSURANCE

MBIA Insurance Corporation (the "Insurer") has issued a policy containing the following provisions, such policy being on file at U.S. Bank, N.A., San Francisco, California.

The Insurer, in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Public Utilities Commission of the City and County of San Francisco (the "Issuer") to U.S. Bank, N.A., San Francisco, California, or its successor, as trustee (the "Paying Agent"), of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

\$396,270,000
PUBLIC UTILITIES COMMISSION
OF THE CITY AND COUNTY OF SAN FRANCISCO
CLEAN WATER REVENUE BONDS
2003 REFUNDING SERIES A

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancelable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

MBIA INSURANCE CORPORATION

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION
AND REGISTRATION TO APPEAR ON THE 2003 REFUNDING 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, N.A.,
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.