

PRELIMINARY OFFICIAL STATEMENT DATED MAY 13, 2010

NEW ISSUE—Book-Entry Only

Ratings:
S&P: “AA-”
Moody’s: “Aa3”
(see “RATINGS”)

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, and Elizabeth C. Green, Esq., San Francisco, California, Co-Bond Counsel, subject, however, to certain qualifications described in this Official Statement, under existing law, the interest on the 2010 Series A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In the opinion of Co-Bond Counsel, under existing law, the interest on the 2010 Series B Bonds is not excluded from gross income for federal income tax purposes. In the further opinion of Co-Bond Counsel, interest on the 2010 Series A Bonds and the 2010 Series B Bonds is exempt from California personal income taxes. See “TAX MATTERS.”



\$48,320,000*
Public Utilities Commission
of the City and County of San Francisco
Wastewater Revenue Bonds,
2010 Series A

\$192,375,000*
Public Utilities Commission
of the City and County of San Francisco
Wastewater Revenue Bonds, 2010 Series B
(Federally Taxable – Build America
Bonds – Direct Payment)

Dated: Date of Delivery

Due: October 1, as shown on inside front cover

This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of the Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series A (the “2010 Series A Bonds”), and Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series B (Federally Taxable - Build America Bonds - Direct Payment) (the “2010 Series B Bonds” and, collectively with the 2010 Series A Bonds, the “2010 Series A/B Bonds.” Investors are instructed to read the entire Official Statement to obtain information essential to making an informed investment decision.

The Public Utilities Commission of the City and County of San Francisco (the “SFPUC”) is issuing the 2010 Series A/B Bonds pursuant to authority granted by the Charter of the City and County of San Francisco (the “City”), through Proposition E approved by voters of the City on November 5, 2002, and a First Supplemental Indenture, dated as of May 1, 2010, by and between the SFPUC and U.S. Bank National Association, as trustee (the “Trustee”), which supplements an Indenture, dated as of January 1, 2003, by and between the SFPUC and the Trustee, as amended by a First Amendment to Indenture, dated as of May 1, 2010, between the SFPUC and the Trustee (collectively, the “Indenture”). The 2010 Series A/B Bonds are payable on a parity with the Outstanding Public Utilities Commission of the City and County of San Francisco Clean Water Revenue Bonds, 2003 Refunding Series A previously issued by the SFPUC under the Indenture.

The 2010 Series A Bonds are being issued to refinance a portion of the costs of planning, design, construction and improvement of various capital projects in furtherance of the SFPUC’s Wastewater Enterprise Capital Improvement Program (the “CIP”). Proceeds of the 2010 Series A Bonds will be applied to refund commercial paper notes issued by the SFPUC to fund a portion of the CIP, to fund a reserve account for the 2010 Series A Bonds and to pay costs of issuance. Proceeds of the 2010 Series B Bonds will be applied to refund additional commercial paper notes, to fund an additional portion of the costs of the CIP and a portion of the costs of the SFPUC’s proposed Sewer System Improvement Program, to fund capitalized interest on the 2010 Series B Bonds, to fund a reserve account for the 2010 Series B Bonds and to pay costs of issuance.

The 2010 Series A/B Bonds will be available in denominations of \$5,000 or any integral multiple thereof and will mature in the years and amounts and accrue interest from their date of delivery at the rates set forth on the inside cover page of this Official Statement. Interest on the 2010 Series A/B Bonds is payable semiannually on April 1 and October 1 of each year, commencing October 1, 2010.

The 2010 Series A/B Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to ultimate purchasers (the “Beneficial Owners”), under the book-entry system maintained by DTC. Beneficial Owners will not receive physical certificates representing their interests in the 2010 Series A/B Bonds. The principal of, premium, if any, and interest on the 2010 Series A/B Bonds are payable to DTC by the Trustee, and, so long as DTC is acting as securities depository for the 2010 Series A/B Bonds, disbursements of such payments to DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC Participants.

The 2010 Series A/B Bonds are subject to optional and mandatory redemption prior to maturity as described in this Official Statement.

Under the Indenture, the SFPUC has irrevocably pledged the Net Revenues of its Wastewater Enterprise to the punctual payment of principal of, premium, if any, and interest on the Bonds, which consist of all outstanding parity revenue bonds issued under the Indenture, including the 2010 Series A/B Bonds, subject to the flow of funds contained in the Indenture.

The SFPUC is not obligated to pay the principal of, premium, if any, or interest on the 2010 Series A/B Bonds from any source of funds other than Net Revenues. The SFPUC has no taxing power. The General Fund of the City is not liable for the payment of the principal of, premium, if any, or interest on the 2010 Series A/B Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of, premium, if any, or interest on the 2010 Series A/B Bonds. The 2010 Series A/B Bonds are not secured by a legal or equitable pledge of, or charge, lien, or encumbrance upon, any of the property of the City or of the SFPUC or any of its income or receipts, except Net Revenues.

MATURITY SCHEDULE
(See inside cover)

The 2010 Series A Bonds and the 2010 Series B Bonds will be sold through respective competitive sales anticipated to be held on May 26, 2010.

The 2010 Series A/B Bonds are offered when, as and if issued by the SFPUC and received by the successful bidder, subject to the approval of validity by Jones Hall, A Professional Law Corporation, San Francisco, California, and Elizabeth C. Green, Esq., San Francisco, California, Co-Bond Counsel, and to certain other conditions. Certain matters will be passed upon for the SFPUC and the City by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Disclosure Counsel, and by the City Attorney of the City and County of San Francisco. Kitahata & Company, San Francisco, California, and Montague De Rose and Associates, LLC, Walnut Creek, California, Co-Financial Advisors to the SFPUC, assisted in the structuring of this financing. It is expected that the 2010 Series A/B Bonds in fully registered form will be available for delivery in book-entry form in New York, New York, on or about June 8, 2010.

The date of this Official Statement is May __, 2010.

* Preliminary, subject to change.

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

MATURITY SCHEDULE*

2010 Series A Bonds

\$ _____ Serial Bonds					
<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u> [†]	
\$		%	%		

\$ _____ % Term Bond Due October 1, 20__ Price - ____%

2010 Series B Bonds

\$ _____ Serial Bonds					
<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u> [†]	
\$		%	%		

\$ _____ % Term Bonds Due October 1, 20__ Price - ____%

\$ _____ % Term Bond Due October 1, 20__ Price - ____%

* Preliminary, subject to change.

[†] Copyright 2010, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the SFPUC nor the Underwriters take any responsibility for the accuracy of such CUSIP numbers.

OFFICIAL NOTICE OF SALE
\$48,320,000*
PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS
2010 SERIES A

NOTICE IS HEREBY GIVEN that proposals will be received in electronic form only and solely through PARITY® ("Parity"), in the manner described below, by the Public Utilities Commission of the City and County of San Francisco (the "Commission"), at the offices of the Commission on:

Wednesday, May 26, 2010
at 8:30 a.m., California time

(subject to postponement or cancellation in accordance with this Official Notice of Sale)

for the purchase of all of the revenue bonds of the Commission captioned above (the "Bonds"), which are more particularly described herein. See "TERMS OF SALE—Warnings Regarding Electronic Bids." Bidders are required to bid on all of the Bonds if any are bid for.

The Commission reserves the right to postpone, from time to time, the date established for receipt and opening of bids with respect to the Bonds. Notice of any postponement will be communicated through Parity as soon as practicable following postponement. See "TERMS OF SALE—Postponement or Cancellation of Sale."

The Commission reserves the right to cancel the sale of the Bonds. Notice of any such cancellation will be given through Parity as soon as practicable following such cancellation. See "TERMS OF SALE—Postponement or Cancellation of Sale."

Notice of any change in the terms of the sale of the Bonds will be given through Parity. See "TERMS RELATING TO THE BONDS—Adjustment of Principal Payments" and "TERMS OF SALE—Right to Modify or Amend." As an accommodation to bidders, telephone, facsimile or electronic notice of any amendment or modification of this Official Notice of Sale will be given to any bidder requesting such notice from either of the Commission's financial advisors (the "Financial Advisors"):

Kitahata & Company
137 Joost Avenue
San Francisco, California 94131
Attention: Gary Kitahata
Telephone: (415) 710-1251
Facsimile: (415) 276-3777
E-mail: gkitahata@aol.com

Montague DeRose and Associates
3100 Oak Road, Suite 210
Walnut Creek, California 94597
Attention: Chia Yang
Telephone: (925) 256-9797
Day of Sale Telephone: (925) 212-4889
Facsimile: (925) 256-9795
E-mail: yang@montaguederose.com

* Subject to adjustment in accordance with this Official Notice of Sale.

Failure of any bidder to receive any such supplemental notice shall not affect the sufficiency of any required notice or the legality of the sale.

Bidders are referred to the Preliminary Official Statement of the Commission dated the date hereof with respect to the Bonds (the "Preliminary Official Statement") for additional information regarding the Commission, the Wastewater Enterprise (as defined in the Preliminary Official Statement), the City and County of San Francisco (the "City"), the Bonds and the security therefor, and other matters. See "TERMS OF SALE—Official Statement" below.

This Official Notice of Sale will be submitted to Ipreo for posting at its website (www.ipreo.com) and in the Parity bid delivery system. If any summary of the terms of the sale of the Bonds posted by Ipreo or Parity conflicts with this Official Notice of Sale in any respect, the terms of this Official Notice of Sale shall control, unless a notice of an amendment is given as described herein.

TERMS RELATING TO THE BONDS

THE TERMS OF ISSUANCE, PURPOSE, PRINCIPAL AND INTEREST REPAYMENT, SECURITY, SOURCE OF PAYMENT, REDEMPTION PROVISIONS, DENOMINATIONS, TAX OPINION, AND ALL OTHER INFORMATION REGARDING THE BONDS ARE PRESENTED IN THE PRELIMINARY OFFICIAL STATEMENT, WHICH EACH BIDDER MUST HAVE OBTAINED AND REVIEWED PRIOR TO BIDDING FOR THE BONDS. THIS NOTICE GOVERNS ONLY THE TERMS OF SALE, BIDDING, AWARD AND CLOSING PROCEDURES. THE DESCRIPTION OF THE BONDS CONTAINED IN THIS OFFICIAL NOTICE OF SALE IS QUALIFIED IN ALL RESPECTS BY THE DESCRIPTION CONTAINED IN THE PRELIMINARY OFFICIAL STATEMENT.

Subject to the foregoing, the Bonds are generally described as follows:

Authority for the Bonds. The Commission is issuing the Bonds under the Charter of the City and under an Indenture dated as of January 1, 2003, by and between the Commission and U.S. Bank National Association, as trustee (the "Trustee"), as supplemented by a First Supplemental Indenture dated as of May 1, 2010, by and between the Commission and the Trustee.

Issue. The Bonds are fully registered bonds without coupons in book-entry form in denominations of \$5,000 or any integral multiple thereof, as designated by the successful bidder thereof (the "Purchaser"), all dated the date of their original execution and delivery. **Potential bidders will be notified via Parity, not later than 2:00 p.m. (California time) on the business day prior to the time prescribed for the receipt of bids, of any change to the principal payment schedule for the Bonds to be used for the bidding process. In addition, the Commission reserves the right, following the determination of the best bid for the Bonds, to adjust the actual principal payment schedule.** See "TERMS RELATING TO THE BONDS – Principal Payments" and "– Adjustment of Principal Payments" below.

Interest Rates. Interest on the Bonds will be payable semiannually on April 1 and October 1 of each year, commencing October 1, 2010 (each, an "Interest Payment Date"). Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day consecutive months.

Bidders must specify the rate or rates of interest which the Bonds for which they are bidding will bear; provided, that the following limitations apply:

- (i) the maximum interest rate bid may not exceed 12% per annum;
- (ii) each interest rate specified in any bid must be a multiple of 1/8 or 1/20 of 1% per annum and a zero rate of interest cannot be named;
- (iii) each Bond shall bear interest from its date to its stated maturity date at the single rate of interest specified in the bid; and
- (iv) all Bonds maturing at any one time shall bear the same rate of interest.

Principal Payments. The Bonds shall be serial and/or term bonds, as specified by each bidder, maturing on October 1 in any or all years 2016 through 2021, both inclusive. The principal amount of Bonds maturing or subject to mandatory sinking fund redemption in any year shall be in integral multiples of \$5,000. For any term Bonds specified, the principal amount for a given year may be allocated only to a single term bond and must be part of an uninterrupted annual sequence from the first mandatory sinking fund payment to the term bond maturity. An estimate of the principal payment schedule for the Bonds is set forth below.

<u>Date (October 1)</u>	<u>Principal Payment*</u>
2016	\$ 7,080,000
2017	7,445,000
2018	7,825,000
2019	8,225,000
2020	8,650,000
2021	9,095,000

Adjustment of Principal Payments. Potential bidders will be notified via Parity not later than 2:00 p.m. (California time) on the business day preceding the date then prescribed for the receipt of bids of any change to the principal payment schedule for the Bonds to be utilized for the bidding process. The Commission reserves the right to change the principal payment schedule set forth in this Official Notice of Sale for the Bonds after the determination of the winning bidder for the Bonds, by adjusting one or more principal payments of the Bonds in increments of \$5,000 by not more than 10% for any maturity in order to achieve its financing objectives; provided, however, that the aggregate principal amount of the Bonds shall not exceed \$53,155,000.*

NO PURCHASER MAY WITHDRAW ANY BID OR CHANGE THE INTEREST RATES BID OR THE REOFFERING PRICES IN ITS REOFFERING PRICE CERTIFICATE AS A RESULT OF ANY CHANGE MADE TO THE PRINCIPAL PAYMENTS OF THE BONDS IN ACCORDANCE WITH THIS OFFICIAL NOTICE OF SALE. FURTHER, IF THE COMMISSION CHANGES THE PRINCIPAL PAYMENT SCHEDULE FOR THE BONDS AFTER THE RECEIPT OF BIDS, THE UNDERWRITER'S DISCOUNT, EXPRESSED IN DOLLARS PER THOUSAND DOLLAR OF BONDS, WILL BE HELD CONSTANT. THE COMMISSION WILL NOT BE RESPONSIBLE IF AND TO THE EXTENT THAT ANY ADJUSTMENT AFFECTS (i) THE NET COMPENSATION TO BE REALIZED BY THE PURCHASER OR (ii) THE TRUE

* Preliminary, subject to change.

INTEREST COST OF THE WINNING BID OR THE RANKING OF ANY BID RELATIVE TO OTHER BIDS.

Premium and Discount. No bid offering to pay an amount less than 99% of aggregate par value of the Bonds will be accepted.

Tax Matters and Legal Opinion. Co-Bond Counsel will deliver an opinion with respect to the tax-exempt status of interest paid on the Bonds, as further described in the Preliminary Official Statement. A complete copy of the proposed form of legal opinion of Co-Bond Counsel is set forth in APPENDIX D to the Preliminary Official Statement. The legal opinion of Co-Bond Counsel with respect to the Bonds will be furnished to the Purchaser upon delivery of the Bonds.

TERMS OF SALE

Single Bid for the Bonds. Each bid for the Bonds must be for all, and not less than all, of the Bonds hereby offered for sale, and for not less than the aggregate principal amount thereof, less any discount or plus any premium as permitted herein, as may be specified in the bid. All bids must be unconditional.

Only Electronic Bids Through Parity Will Be Accepted. Only electronic bids submitted through Parity will be accepted. All such bids must conform with the procedures established by Parity.

No bid will be accepted after the time specified for receiving bids. To the extent any instructions or directions set forth in Parity conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about Parity, potential bidders may contact:

Ipree
1359 Broadway, 2nd Floor
New York, New York 10018
Telephone: (212) 849-5021

See "TERMS OF SALE – Warning Regarding Electronic Bids."

THE COMMISSION RETAINS ABSOLUTE DISCRETION TO DETERMINE WHETHER ANY BID IS TIMELY AND COMPLETE AND CONFORMS TO THIS OFFICIAL NOTICE OF SALE. THE COMMISSION TAKES NO RESPONSIBILITY FOR INFORMING ANY BIDDER PRIOR TO THE TIME FOR RECEIVING BIDS THAT ANY OF ITS BIDS IS INCOMPLETE OR NONCONFORMING OR HAS NOT BEEN RECEIVED.

WARNING REGARDING ELECTRONIC BIDS: THE COMMISSION WILL ACCEPT BIDS IN ELECTRONIC FORM SOLELY THROUGH PARITY ON THE OFFICIAL BID FORM CREATED FOR SUCH PURPOSE. EACH BIDDER SUBMITTING AN ELECTRONIC BID UNDERSTANDS AND AGREES BY DOING SO THAT IT IS SOLELY RESPONSIBLE FOR ALL ARRANGEMENTS WITH PARITY AND THAT PARITY IS NOT ACTING AS AN AGENT OF THE COMMISSION. INSTRUCTIONS AND FORMS FOR SUBMITTING ELECTRONIC BIDS MUST BE OBTAINED FROM PARITY, AND THE COMMISSION ASSUMES NO RESPONSIBILITY FOR ENSURING OR VERIFYING BIDDER COMPLIANCE WITH THE

PROCEDURES OF PARITY. THE COMMISSION SHALL ASSUME THAT ANY BID RECEIVED THROUGH PARITY HAS BEEN MADE BY A DULY AUTHORIZED AGENT OF THE BIDDER.

THE CITY, THE COMMISSION, THE CITY ATTORNEY, THE FINANCIAL ADVISORS AND CO-BOND COUNSEL ASSUME NO RESPONSIBILITY FOR ANY ERROR CONTAINED IN ANY BID SUBMITTED ELECTRONICALLY, OR FOR FAILURE OF ANY BID TO BE TRANSMITTED, RECEIVED OR OPENED AT THE OFFICIAL TIME FOR RECEIPT OF BIDS. EACH BIDDER EXPRESSLY ASSUMES THE RISK OF ANY INCOMPLETE, ILLEGIBLE, UNTIMELY OR NONCONFORMING BID SUBMITTED BY ELECTRONIC TRANSMISSION BY SUCH BIDDER, INCLUDING WITHOUT LIMITATION, BY REASON OF GARBLED TRANSMISSIONS, MECHANICAL FAILURE, ENGAGED TELECOMMUNICATIONS LINES, OR ANY OTHER CAUSE ARISING FROM SUBMISSION BY ELECTRONIC TRANSMISSION. THE OFFICIAL TIME FOR RECEIPT OF BIDS WILL BE DETERMINED BY THE COMMISSION AT THE PLACE OF BID OPENING, AND THE COMMISSION SHALL NOT BE REQUIRED TO ACCEPT THE TIME KEPT BY PARITY AS THE OFFICIAL TIME.

Additional Terms and Conditions. By submitting a bid, each bidder thereby agrees to the following terms and conditions:

(1) if any provision in this Official Notice of Sale with respect to the Bonds conflicts with information or terms provided or required by Parity, this Official Notice of Sale, including any amendments or modifications issued through Parity, will control;

(2) each bidder will be solely responsible for making necessary arrangements to access Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale;

(3) neither the Commission nor the City will have any duty or obligation to provide or assure access to Parity to any bidder, and neither the Commission nor the City will be responsible for proper operation of, or have any liability for, any delays, interruptions or damages caused by use of Parity or any incomplete, inaccurate or untimely bid submitted by any bidder through Parity;

(4) the Commission is permitting use of Parity as a communication mechanism, and not as an agent of the Commission or the City, to facilitate the submission of electronic bids for the Bonds; Parity is acting as an independent contractor, and is not acting for or on behalf of the Commission or the City;

(5) neither the Commission nor the City is responsible for ensuring or verifying bidder compliance with any procedures established by Parity;

(6) the Commission may regard the electronic transmission of a bid through Parity (including information regarding the purchase price for the Bonds or the interest rates for any maturity of the Bonds) as though the information were physically submitted and executed on the bidder's behalf by a duly authorized signatory;

(7) if a bidder's bid is accepted by the Commission, such bid, this Official Notice of Sale and the information that is transmitted electronically through Parity will form a contract, and the bidder will be bound by the terms of such contract; and

(8) information provided by Parity to bidders will form no part of any bid or of any contract between the Purchaser and the Commission unless that information is included in this Official Notice of Sale or the bid of the Purchaser with respect to the winning bid.

Multiple Bids. If multiple bids with respect to the Bonds are received from a single bidder, the Commission will have the right to accept the bid representing the lowest true interest cost to the Commission, and each bidder agrees by submitting any bid to be bound by such best bid.

Good Faith Deposit. A good faith deposit (a "Deposit") in the amount of \$500,000, payable to the order of the Commission, is required from the Purchaser subsequent to the award of the sale. The Purchaser is required to pay the Deposit to the Trustee, on behalf of the Commission, by wire transfer within 2 hours after the Commission has communicated the acceptance of an award, using the following wire instructions:

BANK:	U.S. BANK, N.A.
ABA#:	091000022
FBO:	U.S. BANK National Association
ACCT:	180121167365
REF:	SF PUC WW2010A Good faith deposit
ATTN:	Andrew Fung

If the Deposit is not received by that time, the Commission may rescind the award of sale. No interest on the Deposit will accrue to the Purchaser. The Deposit will be applied to the purchase price of the Bonds. If the Purchaser fails to honor its accepted bid, the Deposit will be retained by the Commission as and for full liquidated damages.

Basis of Award. Unless all bids with respect to the Bonds are rejected, as described below under "–Right of Rejection and Waiver of Irregularity," the Bonds will be awarded to the responsible bidder whose bid represents the lowest true interest cost ("TIC") to the Commission with respect to the Bonds prior to any change to the principal payment schedule in accordance with this Official Notice of Sale. The TIC will be that nominal annual interest rate which, when compounded semiannually using a 360-day year and used to discount to the dated date of the Bonds all payments of principal and interest payable on the Bonds, results in an amount equal to the purchase price of the Bonds to be received by the Commission.

The interest used in this computation will be the interest rates stated in the bid.

If two or more bidders offer bids for the Bonds at the same lowest TIC, the Commission will determine by lot which bidder will be awarded the Bonds. Bid evaluations or rankings made by Parity are not binding on the Commission.

Estimate of True Interest Cost. Each bidder is requested, but not required, to state in each bid the amount of interest payable on the Bonds during the life of the issue and the percentage true interest cost to the Commission (determined as described above), which will be considered as informative only and not binding on either the bidder or the Commission.

Right of Rejection and Waiver of Irregularity. The Commission reserves the right, in its sole and absolute discretion, to reject any and all bids, for the Bonds, for any reason. The Commission also reserves the right to waive any irregularity or informality in any bid.

Time of Award. The Commission, acting through its General Manager or its Assistant General Manager, Business and Financial Services and Chief Financial Officer, will take action awarding the Bonds or rejecting all bids not later than 2 hours after the date and time at which bids with respect to the Bonds are received, unless such period for award is waived by the Purchaser. Prompt notice of the award will be given to the Purchaser.

Confirmation of Bond Sizing. As described herein under “TERMS RELATING TO THE BONDS – Adjustment of Principal Payments” the actual principal amount of the Bonds and the actual maturity schedule (or sinking account payment schedule for term bonds) for the Bonds may be changed by the Commission after the determination of the winning bidder. Any such changes will be reported to the Purchaser by 4:00 p.m. (New York time) on the date the bids are received. Any such increase or decrease will be in \$5,000 increments with respect to each maturity date or sinking account payment date. If any such adjustment occurs, no rebidding or recalculation of the bids submitted will be required or permitted and no successful bid may be withdrawn. The Purchaser will not be permitted to change the interest rates in its bid. The dollar amount bid by the Purchaser will be adjusted to reflect any adjustments in the aggregate principal amount of the Bonds to be issued.

Qualification for Sale; Compliance with Blue Sky Laws. Compliance with Blue Sky and other securities laws and regulations, including the payment of any applicable fees, shall be the sole responsibility of the successful bidder. The Commission will furnish such information and take such action not inconsistent with law as a Purchaser may request and the Commission may deem necessary or appropriate to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Purchaser; provided, however, that the Commission will not execute a general or special consent to service of process or qualify to do business in connection with such qualification or determination in any jurisdiction.

The Purchaser may not sell, offer to sell or solicit any offer to buy, the Bonds in any jurisdiction where it is unlawful for the Purchaser to make such sale, offer or solicitation, and the Purchaser shall comply with the Blue Sky and other securities laws and regulations of the states and jurisdictions in which the Purchaser sells the Bonds.

Delivery and Payment. Delivery of the Bonds, in the form of one certificate for each maturity, will be made to the Purchaser through the facilities of DTC in New York, New York, or at any other location mutually agreeable to both the Commission and the Purchaser, as soon as practicable. The anticipated date of delivery of the Bonds is June 8, 2010. Payment for the Bonds (including any premium) must be made by wire transfer in immediately available funds. Any expense for making payment in immediately available funds shall be borne by the Purchaser.

Reoffering Price Certificate. Not later than the close of business on the third business day following the date on which the Bonds are awarded, the Purchaser must deliver to the Commission a certificate in the form attached hereto as Exhibit A (the “Reoffering Price Certificate”) for the Bonds. The Purchaser will also be required to provide to the Commission and Co-Bond Counsel such additional information as may be requested by Co-Bond Counsel. For this purpose, sales of Bonds to other securities brokers or dealers will not be considered sales to the general public. If the Reoffering Price Certificate is sent by fax transmission, a hard copy must also be sent by mail or courier service. Failure to demonstrate compliance with this requirement with respect to the Bonds will constitute a default by the Purchaser, entitling the Commission to retain the Purchaser’s Good Faith Deposit even though in such event the Commission will not deliver the Bonds to the Purchaser.

The Commission and the Financial Advisors will be relying on the indication of the reoffering prices in determining the arbitrage yield on the Bonds.

Bond Insurance. The Purchaser may purchase a policy of municipal bond insurance, if available, for some or all of the Bonds. However, the delivery of the Bonds shall not be conditioned upon the issuance of any such insurance policy. If the Purchaser elects to obtain a policy of municipal bond insurance, the premium for such insurance and the costs of any related ratings will be paid by the Purchaser, and the Commission will not have any responsibility for payment of such premium and costs. The Purchaser must provide the amount of the policy premium, if any, within one hour of the award of the Bonds and also must provide the Commission with the municipal bond insurance commitment, if any, as well as information with respect to the municipal bond insurance policy and insurance provider for inclusion in the final Official Statement within two business days following the award of the bid by the Commission. Failure of the insurance provider to issue its policy shall not justify failure or refusal by the Purchaser to accept delivery of, or pay for, the Bonds.

Additionally, the Purchaser, if it purchases a municipal bond insurance policy for all or a portion of the Bonds, will be expected to certify to the Commission as of the delivery date of the Bonds, in a certificate acceptable in form and substance to Co-Bond Counsel, that (A) the present value of fees for the municipal bond insurance policy is less than the present value of expected interest savings as a result of the municipal bond insurance policy, determined by using the yield of the Bonds (including the municipal bond insurance policy premium) as the discount rate in computing present value; and (B) based on the experience of the Underwriter in assisting issuers to obtain municipal bond insurance, the fees for the municipal bond insurance policy obtained for the Bonds do not exceed a reasonable arm’s length charge for transfer of the credit risk represented by the municipal bond insurance policy and do not include any payment for any direct or indirect services other than the transfer of credit risk.

No Litigation. The Commission will deliver a certificate of the Commission with respect to the Bonds stating that no litigation is pending with service of process having been accomplished, or, to the knowledge of the officer of the Commission executing such certificate, threatened, concerning the validity of the Bonds, the existence of the Commission, or the title of the officers of the Commission who will execute the Bonds to their respective offices.

CUSIP Numbers. It is anticipated that CUSIP numbers will be printed on the Bonds and in the Official Statement, but neither the failure to print such numbers nor any error with respect thereto will constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Official Notice of Sale. The expenses

associated with printing CUSIP numbers on the Bonds will be paid by the Commission, however, the CUSIP Service Bureau charge for the assignment of CUSIP numbers will be paid by the Purchaser. CUSIP data is provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers will be provided for convenience of reference only. Neither the Commission nor the City will take any responsibility for the accuracy of such numbers.

California Debt and Investment Advisory Commission Fee. Attention of bidders is directed to California Government Code Section 8856, which provides that the Purchaser of the Bonds will be charged the California Debt and Investment Advisory Commission fee. The Purchaser is responsible for determining the actual fee due. The Commission expects the Purchaser to pay the applicable fee promptly upon receipt of the invoice.

Certificate Regarding Official Statement. At the time of delivery of the Bonds, the Purchaser will receive a certificate, signed by an officer of the Commission, confirming to the Purchaser that, to the best knowledge of said officer, the final Official Statement relating to the Bonds (the "Official Statement") (excluding information regarding underwriting, the municipal bond insurance policy or policies and the bond reserve surety bond and the provider or providers thereof, if any, and The Depository Trust Company and its book-entry only system, as to which no view will be expressed) as of the date of sale of the Bonds and as of the date of delivery thereof, did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

Official Statement. Electronic copies of the Preliminary Official Statement prepared by the Commission will be furnished to any interested bidder upon request to the Financial Advisors. In accordance with Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"), the Commission deems such Preliminary Official Statement final as of its date, except for the omission of certain information permitted by Rule 15c2-12. Within seven business days after the date of award of the Bonds, the Purchaser of the Bonds will be furnished with a reasonable number of copies (not to exceed 300) of the Official Statement, without charge. If the Purchaser requests additional copies of the Official Statement within two days after the award of the Bonds, the Commission will supply such requested additional copies of the Official Statement at the expense of the Purchaser.

By making a bid for the Bonds, the bidder agrees, if awarded the Bonds, (i) to disseminate to all members of the underwriting syndicate, if any, copies of the Official Statement, including any supplements prepared by the Commission, and (ii) to take any and all other actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Bonds to the ultimate purchasers, including without limitation the delivery of an Official Statement to each investor who purchases Bonds.

The form and content of the Official Statement of the Commission is within the sole discretion of the Commission. The Purchaser's name will not appear on the cover of the Official Statement.

Continuing Disclosure. In order to assist the Purchaser in complying with Securities and Exchange Commission Rule 15c2-12(b)(5), the Commission will undertake, pursuant to a Continuing Disclosure Certificate, to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of this undertaking and a form of the Continuing Disclosure Certificate are set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

Right to Modify or Amend. The Commission reserves the right to modify or amend this Official Notice of Sale in any respect; provided, however, that any such modification or amendment will be communicated to potential bidders through Parity not later than 2:00 p.m. (California time) on the business day preceding the date for receiving bids. Failure of any potential bidder to receive notice of any modification or amendment will not affect the sufficiency of any such notice or the legality of the sale.

Postponement or Cancellation of Sale. The Commission reserves the right to postpone or cancel the sale of the Bonds at or prior to the time bids are to be received with respect to the Bonds. Notice of such postponement or cancellation will be given through Parity as soon as practicable following such postponement or cancellation. If the sale is postponed, notice of a new sale date will be given through Parity not later than 2:00 p.m. (California time) on the business day preceding the new sale date that bids are to be received. On any new sale date, any bidder may submit a bid for the purchase of the Bonds, which shall be in conformity in all respects with the provisions of this Official Notice of Sale *except for* the time or date and time of sale and any other changes announced through Parity.

Failure of any potential bidder to receive notice of cancellation or postponement shall not affect the sufficiency of any such notice. If a sale is postponed only, any subsequent bid submitted by a bidder with respect to such sale will supersede any prior bid made. If a sale is cancelled, bids with respect to such sale will be deemed cancelled.

Equal Opportunity. Pursuant to the spirit and intent of the City's Disadvantaged Business Enterprise ("DBE") Ordinance, Chapter 14A of the Administrative Code of the City, the Commission strongly encourages the inclusion of Disadvantaged Business Enterprises certified by the San Francisco Human Rights Commission on prospective proposing syndicate/teams. A list of certified DBEs can be obtained by contacting the San Francisco Human Rights Commission at 25 Van Ness Avenue, 8th Floor, San Francisco, California 94102, (415) 252-2500.

Dated: May 13, 2010

EXHIBIT A

REOFFERING PRICE CERTIFICATE

**PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS
2010 SERIES A**

**(TO BE DELIVERED BY THE PURCHASER AS DESCRIBED IN THE OFFICIAL NOTICE OF
SALE UNDER "TERMS OF SALE – REOFFERING PRICE CERTIFICATE")**

This certificate is being delivered by _____, on behalf of the underwriters (collectively, the "Underwriter") in connection with the issuance of the Public Utilities Commission of the City and County of San Francisco (the "Commission") of the revenue bonds captioned above (the "2010 Bonds"). Based upon its records and information available to it, which it believes to be correct, including the effect on the offering prices of any "derivative products" used in connection with the initial sale of any of the 2010 Bonds, the undersigned hereby certifies that:

A. Issue Price.

(i) Based upon reasonable expectations and actual facts which existed on _____, 2010, being the date upon which the Commission sold the 2010 Bonds to the Underwriter (the "Sale Date"), the Underwriter reasonably expected that the first prices at which a substantial amount of each maturity of the 2010 Bonds (being at least 10% of each maturity) would be offered and sold to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices, or in the case of obligations sold on a yield basis, at the respective yields set forth in Exhibit A attached hereto and by this reference incorporated herein (together the "Initial Offering Prices").

(ii) The aggregate of the Initial Offering Prices is \$_____.

(iii) The Initial Offering Prices of the 2010 Bonds of each maturity (and stated interest rate) reflected the assessment by the Underwriter of the fair market prices of the 2010 Bonds as of the Sale Date.

(iv) As of the date hereof, 100% of the 2010 Bonds of each maturity were actually offered to the general public in a bona fide public offering for the Initial Offering Prices.

(v) As of the Sale Date, the Underwriter, taking into account market conditions, had no reason to believe any of the 2010 Bonds would be initially sold to the general public at prices greater than the Initial Offering Prices.

(vi) As of the Sale Date, at least 10% of the principal amount of each maturity of the Bonds initially was sold at the respective Initial Offering Price for that maturity shown in Exhibit A except for the Bonds with the following maturities and stated interest rates.

<u>Maturity</u>	<u>Rate</u>

* * * * *

Capitalized terms used herein and not otherwise defined have the meanings ascribed thereto in the Indenture dated as of January 1, 2003, by and between the Commission and U.S. Bank National Association, as trustee, as amended and supplemented to date.

The Underwriter understands that Bond Counsel will rely upon this certificate, among other things, in reaching its conclusion that the Bonds do not constitute “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, provided, however, that nothing herein represents our interpretation of any laws, and in particular, regulations under Section 148 of the Internal Revenue Code.

Dated: _____, 2010

By: _____
Name: _____
Title: _____

EXHIBIT A

Maturity Date (<u>October 1</u>)	Principal <u>Amount</u>	Interest <u>Rate</u>	<u>Yield</u>	Reoffering <u>Price</u> * %
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* Stated as a percentage of par.

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OFFICIAL NOTICE OF SALE

\$192,375,000*

**PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS
2010 SERIES B**

(FEDERALLY TAXABLE – BUILD AMERICA BONDS – DIRECT PAYMENT)

NOTICE IS HEREBY GIVEN that proposals will be received in electronic form only and solely through PARITY® (“Parity”), in the manner described below, by the Public Utilities Commission of the City and County of San Francisco (the “Commission”), at the offices of the Commission on:

**Wednesday, May 26, 2010
at 9:00 a.m., California time**

(subject to postponement or cancellation in accordance with this Official Notice of Sale)

for the purchase of all of the revenue bonds of the Commission captioned above (the “Bonds”), which are more particularly described herein. See “TERMS OF SALE–Warnings Regarding Electronic Bids.” Bidders are required to bid on all of the Bonds if any are bid for.

The Commission reserves the right to postpone, from time to time, the date established for receipt and opening of bids with respect to the Bonds. Notice of any postponement will be communicated through Parity as soon as practicable following postponement. See “TERMS OF SALE–Postponement or Cancellation of Sale.”

The Commission reserves the right to cancel the sale of the Bonds. Notice of any such cancellation will be given through Parity as soon as practicable following such cancellation. See “TERMS OF SALE–Postponement or Cancellation of Sale.”

Notice of any change in the terms of the sale of the Bonds will be given through Parity. See “TERMS RELATING TO THE BONDS–Adjustment of Principal Payments” and “TERMS OF SALE–Right to Modify or Amend.” As an accommodation to bidders, telephone, facsimile or electronic notice of any amendment or modification of this Official Notice of Sale will be given to any bidder requesting such notice from either of the Commission's financial advisors (the “Financial Advisors”):

Kitahata & Company
137 Joost Avenue
San Francisco, California 94131
Attention: Gary Kitahata
Telephone: (415) 710-1251
Facsimile: (415) 276-3777
E-mail: gkitahata@aol.com

Montague DeRose and Associates
3100 Oak Road, Suite 210
Walnut Creek, California 94597
Attention: Chia Yang
Telephone: (925) 256-9797
Day of Sale Telephone: (925) 212-4889
Facsimile: (925) 256-9795
E-mail: yang@montaguederose.com

* Subject to adjustment in accordance with this Official Notice of Sale.

Failure of any bidder to receive any such supplemental notice shall not affect the sufficiency of any required notice or the legality of the sale.

Bidders are referred to the Preliminary Official Statement of the Commission dated the date hereof with respect to the Bonds (the "Preliminary Official Statement") for additional information regarding the Commission, the Wastewater Enterprise (as defined in the Preliminary Official Statement), the City and County of San Francisco (the "City"), the Bonds and the security therefor, and other matters. See "TERMS OF SALE—Official Statement" below.

This Official Notice of Sale will be submitted to Ipreo for posting at its website (www.ipreo.com) and in the Parity bid delivery system. If any summary of the terms of the sale of the Bonds posted by Ipreo or Parity conflicts with this Official Notice of Sale in any respect, the terms of this Official Notice of Sale shall control, unless a notice of an amendment is given as described herein.

TERMS RELATING TO THE BONDS

THE TERMS OF ISSUANCE, PURPOSE, PRINCIPAL AND INTEREST REPAYMENT, SECURITY, SOURCE OF PAYMENT, REDEMPTION PROVISIONS, DENOMINATIONS, TAX OPINION, AND ALL OTHER INFORMATION REGARDING THE BONDS ARE PRESENTED IN THE PRELIMINARY OFFICIAL STATEMENT, WHICH EACH BIDDER MUST HAVE OBTAINED AND REVIEWED PRIOR TO BIDDING FOR THE BONDS. THIS NOTICE GOVERNS ONLY THE TERMS OF SALE, BIDDING, AWARD AND CLOSING PROCEDURES. THE DESCRIPTION OF THE BONDS CONTAINED IN THIS OFFICIAL NOTICE OF SALE IS QUALIFIED IN ALL RESPECTS BY THE DESCRIPTION CONTAINED IN THE PRELIMINARY OFFICIAL STATEMENT.

Subject to the foregoing, the Bonds are generally described as follows:

Authority for the Bonds. The Commission is issuing the Bonds under the Charter of the City and under an Indenture dated as of January 1, 2003, by and between the Commission and U.S. Bank National Association, as trustee (the "Trustee"), as supplemented by a First Supplemental Indenture dated as of May 1, 2010, by and between the Commission and the Trustee.

Issue. The Bonds are fully registered bonds without coupons in book-entry form in denominations of \$5,000 or any integral multiple thereof, as designated by the successful bidder thereof (the "Purchaser"), all dated the date of their original execution and delivery. **Potential bidders will be notified via Parity, not later than 2:00 p.m. (California time) on the business day prior to the time prescribed for the receipt of bids, of any change to the principal payment schedule for the Bonds to be used for the bidding process. In addition, the Commission reserves the right, following the determination of the best bid for the Bonds, to adjust the actual principal payment schedule.** See "TERMS RELATING TO THE BONDS – Principal Payments" and "– Adjustment of Principal Payments" below.

Interest Rates. Interest on the Bonds will be payable semiannually on April 1 and October 1 of each year, commencing October 1, 2010 (each, an "Interest Payment Date"). Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day consecutive months.

Bidders must specify the rate or rates of interest which the Bonds for which they are bidding will bear; provided, that the following limitations apply:

- (i) the maximum interest rate bid may not exceed 12% per annum;
- (ii) each interest rate specified in any bid must be in a multiple of 1/1000th of one percent per annum;
- (iii) each Bond shall bear interest from its date to its stated maturity date at the single rate of interest specified in the bid; and
- (iv) all Bonds maturing at any one time shall bear the same rate of interest.

Principal Payments. The Bonds shall be serial and/or term bonds, as specified by each bidder, maturing on October 1 in any or all years 2022 through 2040, both inclusive. The principal amount of Bonds maturing or subject to mandatory sinking fund redemption in any year shall be in integral multiples of \$5,000. For any term Bonds specified, the principal amount for a given year may be allocated only to a single term bond and must be part of an uninterrupted annual sequence from the first mandatory sinking fund payment to the term bond maturity. An estimate of the principal payment schedule for the Bonds is set forth below.

<u>Date</u> <u>(October 1)</u>	<u>Principal Payment*</u>
2022	\$ 7,190,000
2023	7,425,000
2024	7,670,000
2025	7,935,000
2026	8,220,000
2027	8,530,000
2028	8,855,000
2029	9,190,000
2030	9,535,000
2031	9,895,000
2032	10,275,000
2033	10,665,000
2034	11,070,000
2035	11,495,000
2036	11,935,000
2037	12,390,000
2038	12,865,000
2039	13,360,000
2040	13,875,000

* Preliminary, subject to change.

Adjustment of Principal Payments. Potential bidders will be notified via Parity not later than 2:00 p.m. (California time) on the business day preceding the date then prescribed for the receipt of bids of any change to the principal payment schedule for the Bonds to be utilized for the bidding process. The Commission reserves the right to change the principal payment schedule set forth in this Official Notice of Sale for the

Bonds after the determination of the winning bidder for the Bonds, by adjusting one or more principal payments of the Bonds in increments of \$5,000 by not more than 10% for any maturity in order to achieve its financing objectives; provided, however, that the aggregate principal amount of the Bonds shall not exceed \$211,615,000.*

NO PURCHASER MAY WITHDRAW ANY BID OR CHANGE THE INTEREST RATES BID OR THE REOFFERING PRICES IN ITS REOFFERING PRICE CERTIFICATE AS A RESULT OF ANY CHANGE MADE TO THE PRINCIPAL PAYMENTS OF THE BONDS IN ACCORDANCE WITH THIS OFFICIAL NOTICE OF SALE. FURTHER, IF THE COMMISSION CHANGES THE PRINCIPAL PAYMENT SCHEDULE FOR THE BONDS AFTER THE RECEIPT OF BIDS, THE UNDERWRITER'S DISCOUNT, EXPRESSED IN DOLLARS PER THOUSAND DOLLAR OF BONDS, WILL BE HELD CONSTANT. THE COMMISSION WILL NOT BE RESPONSIBLE IF AND TO THE EXTENT THAT ANY ADJUSTMENT AFFECTS (i) THE NET COMPENSATION TO BE REALIZED BY THE PURCHASER OR (ii) THE TRUE INTEREST COST OF THE WINNING BID OR THE RANKING OF ANY BID RELATIVE TO OTHER BIDS.

Premium and Discount. No bid offering to pay an amount less than 99% of the par value of the Bonds will be accepted. No Bond to be issued as a serial bond may have a reoffering price that exceeds the par amount of such Bond by more than 0.25% multiplied by the number of whole years to the maturity date of such Bond, as set forth in the table below. Similarly, no Bond to be issued as a term bond may have a reoffering price that exceeds the par amount of such Bond by more than 0.25% multiplied by the number of whole years to the first sinking fund redemption date of such Bond, as set forth in the table below.

Maturity Date/ First Sinking Fund Redemption Date (October 1)	Allowable Premium	Years From Issuance
2022	103.00	12
2023	103.25	13
2024	103.50	14
2025	103.75	15
2026	104.00	16
2027	104.25	17
2028	104.50	18
2029	104.75	19
2030	105.00	20
2031	105.25	21
2032	105.50	22
2033	105.75	23
2034	106.00	24
2035	106.25	25
2036	106.50	26
2037	106.75	27
2038	107.00	28
2039	107.25	29
2040	107.50	30

* Preliminary, subject to change.

Limitation on Underwriter/Purchaser Compensation. To comply with the Build America Bonds provision of the Code that limits the amount of costs of issuance that may be financed by the issue (including discount or other compensation to the successful bidder), the difference between the aggregate initial public offering prices of the Bonds to the general public and the prices paid by the successful bidder to the Commission may not exceed 1.00% of the proceeds (aggregate issue price) of the Bonds.

Tax Matters and Legal Opinion. Co-Bond Counsel will deliver an opinion with respect to the Bonds, as further described in the Preliminary Official Statement. A complete copy of the proposed form of legal opinion of Co-Bond Counsel is set forth in APPENDIX D to the Preliminary Official Statement. The legal opinion of Co-Bond Counsel with respect to the Bonds will be furnished to the Purchaser upon delivery of the Bonds.

TERMS OF SALE

Single Bid for the Bonds. Each bid for the Bonds must be for all, and not less than all, of the Bonds hereby offered for sale, and for not less than the aggregate principal amount thereof, less any discount or plus any premium as permitted herein, as may be specified in the bid. All bids must be unconditional.

Only Electronic Bids Through Parity Will Be Accepted. Only electronic bids submitted through Parity will be accepted. All such bids must conform with the procedures established by Parity.

No bid will be accepted after the time specified for receiving bids. To the extent any instructions or directions set forth in Parity conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about Parity, potential bidders may contact:

Ipreo
1359 Broadway, 2nd Floor
New York, New York 10018
Telephone: (212) 849-5021

See "TERMS OF SALE – Warning Regarding Electronic Bids."

THE COMMISSION RETAINS ABSOLUTE DISCRETION TO DETERMINE WHETHER ANY BID IS TIMELY AND COMPLETE AND CONFORMS TO THIS OFFICIAL NOTICE OF SALE. THE COMMISSION TAKES NO RESPONSIBILITY FOR INFORMING ANY BIDDER PRIOR TO THE TIME FOR RECEIVING BIDS THAT ANY OF ITS BIDS IS INCOMPLETE OR NONCONFORMING OR HAS NOT BEEN RECEIVED.

WARNING REGARDING ELECTRONIC BIDS: THE COMMISSION WILL ACCEPT BIDS IN ELECTRONIC FORM SOLELY THROUGH PARITY ON THE OFFICIAL BID FORM CREATED FOR SUCH PURPOSE. EACH BIDDER SUBMITTING AN ELECTRONIC BID UNDERSTANDS AND AGREES BY DOING SO THAT IT IS SOLELY RESPONSIBLE FOR ALL ARRANGEMENTS WITH PARITY AND THAT PARITY IS NOT ACTING AS AN AGENT OF THE COMMISSION. INSTRUCTIONS AND FORMS FOR SUBMITTING ELECTRONIC BIDS MUST BE OBTAINED FROM PARITY, AND THE COMMISSION ASSUMES NO RESPONSIBILITY FOR ENSURING OR VERIFYING BIDDER COMPLIANCE WITH THE

PROCEDURES OF PARITY. THE COMMISSION SHALL ASSUME THAT ANY BID RECEIVED THROUGH PARITY HAS BEEN MADE BY A DULY AUTHORIZED AGENT OF THE BIDDER.

THE CITY, THE COMMISSION, THE CITY ATTORNEY, THE FINANCIAL ADVISORS AND CO-BOND COUNSEL ASSUME NO RESPONSIBILITY FOR ANY ERROR CONTAINED IN ANY BID SUBMITTED ELECTRONICALLY, OR FOR FAILURE OF ANY BID TO BE TRANSMITTED, RECEIVED OR OPENED AT THE OFFICIAL TIME FOR RECEIPT OF BIDS. EACH BIDDER EXPRESSLY ASSUMES THE RISK OF ANY INCOMPLETE, ILLEGIBLE, UNTIMELY OR NONCONFORMING BID SUBMITTED BY ELECTRONIC TRANSMISSION BY SUCH BIDDER, INCLUDING WITHOUT LIMITATION, BY REASON OF GARBLED TRANSMISSIONS, MECHANICAL FAILURE, ENGAGED TELECOMMUNICATIONS LINES, OR ANY OTHER CAUSE ARISING FROM SUBMISSION BY ELECTRONIC TRANSMISSION. THE OFFICIAL TIME FOR RECEIPT OF BIDS WILL BE DETERMINED BY THE COMMISSION AT THE PLACE OF BID OPENING, AND THE COMMISSION SHALL NOT BE REQUIRED TO ACCEPT THE TIME KEPT BY PARITY AS THE OFFICIAL TIME.

Additional Terms and Conditions. By submitting a bid, each bidder thereby agrees to the following terms and conditions:

(1) if any provision in this Official Notice of Sale with respect to the Bonds conflicts with information or terms provided or required by Parity, this Official Notice of Sale, including any amendments or modifications issued through Parity, will control;

(2) each bidder will be solely responsible for making necessary arrangements to access Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale;

(3) neither the Commission nor the City will have any duty or obligation to provide or assure access to Parity to any bidder, and neither the Commission nor the City will be responsible for proper operation of, or have any liability for, any delays, interruptions or damages caused by use of Parity or any incomplete, inaccurate or untimely bid submitted by any bidder through Parity;

(4) the Commission is permitting use of Parity as a communication mechanism, and not as an agent of the Commission or the City, to facilitate the submission of electronic bids for the Bonds; Parity is acting as an independent contractor, and is not acting for or on behalf of the Commission or the City;

(5) neither the Commission nor the City is responsible for ensuring or verifying bidder compliance with any procedures established by Parity;

(6) the Commission may regard the electronic transmission of a bid through Parity (including information regarding the purchase price for the Bonds or the interest rates for any maturity of the Bonds) as though the information were physically submitted and executed on the bidder's behalf by a duly authorized signatory;

(7) if a bidder's bid is accepted by the Commission, such bid, this Official Notice of Sale and the information that is transmitted electronically through Parity will form a contract, and the bidder will be bound by the terms of such contract; and

(8) information provided by Parity to bidders will form no part of any bid or of any contract between the Purchaser and the Commission unless that information is included in this Official Notice of Sale or the bid of the Purchaser with respect to the winning bid.

Multiple Bids. If multiple bids with respect to the Bonds are received from a single bidder, the Commission will have the right to accept the bid representing the lowest true interest cost to the Commission, and each bidder agrees by submitting any bid to be bound by such best bid.

Good Faith Deposit. A good faith deposit (a "Deposit") in the amount of \$2,000,000, payable to the order of the Commission, is required from the Purchaser subsequent to the award of the sale. The Purchaser is required to pay the Deposit to the Trustee, on behalf of the Commission, by wire transfer within 2 hours after the Commission has communicated the acceptance of an award, using the following wire instructions:

BANK:	U.S. BANK, N.A.
ABA#:	091000022
FBO:	U.S. BANK National Association
ACCT:	180121167365
REF:	SF PUC WW2010B Good faith deposit
ATTN:	Andrew Fung

If the Deposit is not received by that time, the Commission may rescind the award of sale. No interest on the Deposit will accrue to the Purchaser. The Deposit will be applied to the purchase price of the Bonds. If the Purchaser fails to honor its accepted bid, the Deposit will be retained by the Commission as and for full liquidated damages.

Basis of Award. Unless all bids with respect to the Bonds are rejected, as described below under "–Right of Rejection and Waiver of Irregularity," the Bonds will be awarded to the responsible bidder whose bid represents the lowest true interest cost ("TIC") to the Commission with respect to the Bonds prior to any change to the principal payment schedule in accordance with this Official Notice of Sale. The TIC will be that nominal annual interest rate which, when compounded semiannually using a 360-day year and used to discount to the dated date of the Bonds all payments of principal and interest payable on the Bonds, results in an amount equal to the purchase price of the Bonds to be received by the Commission.

The interest used in this computation will be based on the interest rates stated in the bid multiplied by 0.65.

If two or more bidders offer bids for the Bonds at the same lowest TIC, the Commission will determine by lot which bidder will be awarded the Bonds. Bid evaluations or rankings made by Parity are not binding on the Commission.

Estimate of True Interest Cost. Each bidder is requested, but not required, to state in each bid the amount of interest payable on the Bonds during the life of the issue and the percentage true interest cost to the Commission (determined as described above), which will be considered as informative only and not binding on either the bidder or the Commission.

Right of Rejection and Waiver of Irregularity. The Commission reserves the right, in its sole and absolute discretion, to reject any and all bids, for the Bonds, for any reason. The Commission also reserves the right to waive any irregularity or informality in any bid.

Time of Award. The Commission, acting through its General Manager or its Assistant General Manager, Business and Financial Services and Chief Financial Officer, will take action awarding the Bonds or rejecting all bids not later than 2 hours after the date and time at which bids with respect to the Bonds are received, unless such period for award is waived by the Purchaser. Prompt notice of the award will be given to the Purchaser.

Confirmation of Bond Sizing. As described herein under “TERMS RELATING TO THE BONDS – Adjustment of Principal Payments” the actual principal amount of the Bonds and the actual maturity schedule (or sinking account payment schedule for term bonds) for the Bonds may be changed by the Commission after the determination of the winning bidder. Any such changes will be reported to the Purchaser by 4:00 p.m. (New York time) on the date the bids are received. Any such increase or decrease will be in \$5,000 increments with respect to each maturity date or sinking account payment date. If any such adjustment occurs, no rebidding or recalculation of the bids submitted will be required or permitted and no successful bid may be withdrawn. The Purchaser will not be permitted to change the interest rates in its bid. The dollar amount bid by the Purchaser will be adjusted to reflect any adjustments in the aggregate principal amount of the Bonds to be issued.

Qualification for Sale; Compliance with Blue Sky Laws. Compliance with Blue Sky and other securities laws and regulations, including the payment of any applicable fees, shall be the sole responsibility of the successful bidder. The Commission will furnish such information and take such action not inconsistent with law as a Purchaser may request and the Commission may deem necessary or appropriate to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Purchaser; provided, however, that the Commission will not execute a general or special consent to service of process or qualify to do business in connection with such qualification or determination in any jurisdiction.

The Purchaser may not sell, offer to sell or solicit any offer to buy, the Bonds in any jurisdiction where it is unlawful for the Purchaser to make such sale, offer or solicitation, and the Purchaser shall comply with the Blue Sky and other securities laws and regulations of the states and jurisdictions in which the Purchaser sells the Bonds.

Delivery and Payment. Delivery of the Bonds, in the form of one certificate for each maturity, will be made to the Purchaser through the facilities of DTC in New York, New York, or at any other location mutually agreeable to both the Commission and the Purchaser, as soon as practicable. The anticipated date of delivery of the Bonds is June 8, 2010. Payment for the Bonds (including any premium) must be made by wire transfer in immediately available funds. Any expense for making payment in immediately available funds shall be borne by the Purchaser.

Reoffering Price Certificate. Not later than the close of business on the third business day following the date on which the Bonds are awarded, the Purchaser must deliver to the Commission a certificate in the form attached hereto as Exhibit A (the “Reoffering Price Certificate”) for the Bonds. The Purchaser will also be required to provide to the Commission and Co-Bond Counsel such additional information as may be requested by Co-Bond Counsel. For this purpose, sales of Bonds to other securities brokers or dealers will not be considered sales to the general public. If the Reoffering Price Certificate is sent by fax transmission, a hard copy must also be sent by mail or courier service. Failure to demonstrate compliance with this requirement with respect to the Bonds will constitute a default by the Purchaser, entitling the Commission to retain the Purchaser’s Good Faith Deposit even though in such event the Commission will not deliver the Bonds to the Purchaser.

The Commission and the Financial Advisors will be relying on the indication of the reoffering prices in determining the arbitrage yield on the Bonds.

No Litigation. The Commission will deliver a certificate of the Commission with respect to the Bonds stating that no litigation is pending with service of process having been accomplished, or, to the knowledge of the officer of the Commission executing such certificate, threatened, concerning the validity of the Bonds, the existence of the Commission, or the title of the officers of the Commission who will execute the Bonds to their respective offices.

CUSIP Numbers. It is anticipated that CUSIP numbers will be printed on the Bonds and in the Official Statement, but neither the failure to print such numbers nor any error with respect thereto will constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Official Notice of Sale. The expenses associated with printing CUSIP numbers on the Bonds will be paid by the Commission, however, the CUSIP Service Bureau charge for the assignment of CUSIP numbers will be paid by the Purchaser. CUSIP data is provided by Standard and Poor’s CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers will be provided for convenience of reference only. Neither the Commission nor the City will take any responsibility for the accuracy of such numbers.

California Debt and Investment Advisory Commission Fee. Attention of bidders is directed to California Government Code Section 8856, which provides that the Purchaser of the Bonds will be charged the California Debt and Investment Advisory Commission fee. The Purchaser is responsible for determining the actual fee due. The Commission expects the Purchaser to pay the applicable fee promptly upon receipt of the invoice.

Certificate Regarding Official Statement. At the time of delivery of the Bonds, the Purchaser will receive a certificate, signed by an officer of the Commission, confirming to the Purchaser that, to the best knowledge of said officer, the final Official Statement relating to the Bonds (the “Official Statement”) (excluding information regarding underwriting, the municipal bond insurance policy or policies and the bond reserve surety bond and the provider or providers thereof, if any, and The Depository Trust Company and its book-entry only system, as to which no view will be expressed) as of the date of sale of the Bonds and as of the date of delivery thereof, did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

Official Statement. Electronic copies of the Preliminary Official Statement prepared by the Commission will be furnished to any interested bidder upon request to the Financial Advisors. In accordance with Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"), the Commission deems such Preliminary Official Statement final as of its date, except for the omission of certain information permitted by Rule 15c2-12. Within seven business days after the date of award of the Bonds, the Purchaser of the Bonds will be furnished with a reasonable number of copies (not to exceed 300) of the Official Statement, without charge. If the Purchaser requests additional copies of the Official Statement within two days after the award of the Bonds, the Commission will supply such requested additional copies of the Official Statement at the expense of the Purchaser.

By making a bid for the Bonds, the bidder agrees, if awarded the Bonds, (i) to disseminate to all members of the underwriting syndicate, if any, copies of the Official Statement, including any supplements prepared by the Commission, and (ii) to take any and all other actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Bonds to the ultimate purchasers, including without limitation the delivery of an Official Statement to each investor who purchases Bonds.

The form and content of the Official Statement of the Commission is within the sole discretion of the Commission. The Purchaser's name will not appear on the cover of the Official Statement.

Continuing Disclosure. In order to assist the Purchaser in complying with Securities and Exchange Commission Rule 15c2-12(b)(5), the Commission will undertake, pursuant to a Continuing Disclosure Certificate, to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of this undertaking and a form of the Continuing Disclosure Certificate are set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

Right to Modify or Amend. The Commission reserves the right to modify or amend this Official Notice of Sale in any respect; provided, however, that any such modification or amendment will be communicated to potential bidders through Parity not later than 2:00 p.m. (California time) on the business day preceding the date for receiving bids. Failure of any potential bidder to receive notice of any modification or amendment will not affect the sufficiency of any such notice or the legality of the sale.

Postponement or Cancellation of Sale. The Commission reserves the right to postpone or cancel the sale of the Bonds at or prior to the time bids are to be received with respect to the Bonds. Notice of such postponement or cancellation will be given through Parity as soon as practicable following such postponement or cancellation. If the sale is postponed, notice of a new sale date will be given through Parity not later than 2:00 p.m. (California time) on the business day preceding the new sale date that bids are to be received. On any new sale date, any bidder may submit a bid for the purchase of the Bonds, which shall be in conformity in all respects with the provisions of this Official Notice of Sale *except for* the time or date and time of sale and any other changes announced through Parity.

Failure of any potential bidder to receive notice of cancellation or postponement shall not affect the sufficiency of any such notice. If a sale is postponed only, any subsequent bid

submitted by a bidder with respect to such sale will supersede any prior bid made. If a sale is cancelled, bids with respect to such sale will be deemed cancelled.

Equal Opportunity. Pursuant to the spirit and intent of the City's Disadvantaged Business Enterprise ("DBE") Ordinance, Chapter 14A of the Administrative Code of the City, the Commission strongly encourages the inclusion of Disadvantaged Business Enterprises certified by the San Francisco Human Rights Commission on prospective proposing syndicate/teams. A list of certified DBEs can be obtained by contacting the San Francisco Human Rights Commission at 25 Van Ness Avenue, 8th Floor, San Francisco, California 94102, (415) 252-2500.

Dated: May 13, 2010

EXHIBIT A

REOFFERING PRICE CERTIFICATE

PUBLIC UTILITIES COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO WASTEWATER REVENUE BONDS 2010 SERIES B

(FEDERALLY TAXABLE – BUILD AMERICA BONDS – DIRECT PAYMENT)

(TO BE DELIVERED BY THE PURCHASER AS DESCRIBED IN THE OFFICIAL NOTICE OF SALE UNDER “TERMS OF SALE – REOFFERING PRICE CERTIFICATE”)

This certificate is being delivered by _____, on behalf of the underwriters (collectively, the “Underwriter”) in connection with the issuance of the Public Utilities Commission of the City and County of San Francisco (the “Commission”) of the revenue bonds captioned above (the “2010 Bonds”). Based upon its records and information available to it, which it believes to be correct, including the effect on the offering prices of any “derivative products” used in connection with the initial sale of any of the 2010 Bonds, the undersigned hereby certifies that:

A. Issue Price.

(i) Based upon reasonable expectations and actual facts that existed on _____, 2010, being the date upon which the Commission sold the Bonds to the Underwriter (the “Sale Date”), the Underwriter reasonably expected that the first prices at which a substantial amount of each maturity of the Bonds (being at least 10% of each maturity) would be offered and sold to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices, or in the case of obligations sold on a yield basis, at the respective yields set forth in Exhibit A attached hereto and by this reference incorporated herein (together the “Initial Offering Prices”).

(ii) The aggregate of the Initial Offering Prices is \$_____.

(iii) The Initial Offering Prices of the 2010 Bonds of each maturity (and stated interest rate) reflected the assessment by the Underwriter of the fair market prices of the 2010 Bonds as of the Sale Date.

(iv) As of the date hereof, 100% of the 2010 Bonds of each maturity were actually offered to the general public in a bona fide public offering for the Initial Offering Prices.

(v) As of the Sale Date, the Underwriter, taking into account market conditions, had no reason to believe any of the 2010 Bonds would be initially sold to the general public at prices greater than the Initial Offering Prices.

(vi) As of the Sale Date, at least 10% of the principal amount of each maturity of the Bonds initially was sold at the respective Initial Offering Price for that maturity shown in Exhibit A except for the Bonds with the following maturities and stated interest rates.

Maturity	Rate

Capitalized terms used herein and not otherwise defined have the meanings ascribed thereto in the Indenture dated as of January 1, 2003, by and between the Commission and U.S. Bank National Association, as trustee, as amended and supplemented to date.

The Underwriter understands that Bond Counsel will rely upon this certificate, among other things, in reaching its conclusion that the Bonds do not constitute “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, provided, however, that nothing herein represents our interpretation of any laws, and in particular, regulations under Section 148 of the Internal Revenue Code.

Dated: _____, 2010

By: _____
Name: _____
Title: _____

EXHIBIT A

Maturity Date (<u>October 1</u>)	Principal <u>Amount</u>	Interest <u>Rate</u>	<u>Yield</u>	Reoffering <u>Price</u> * %
---------------------------------------	----------------------------	-------------------------	--------------	-----------------------------------

* Stated as a percentage of par.

WASTEWATER ENTERPRISE MAJOR FACILITIES

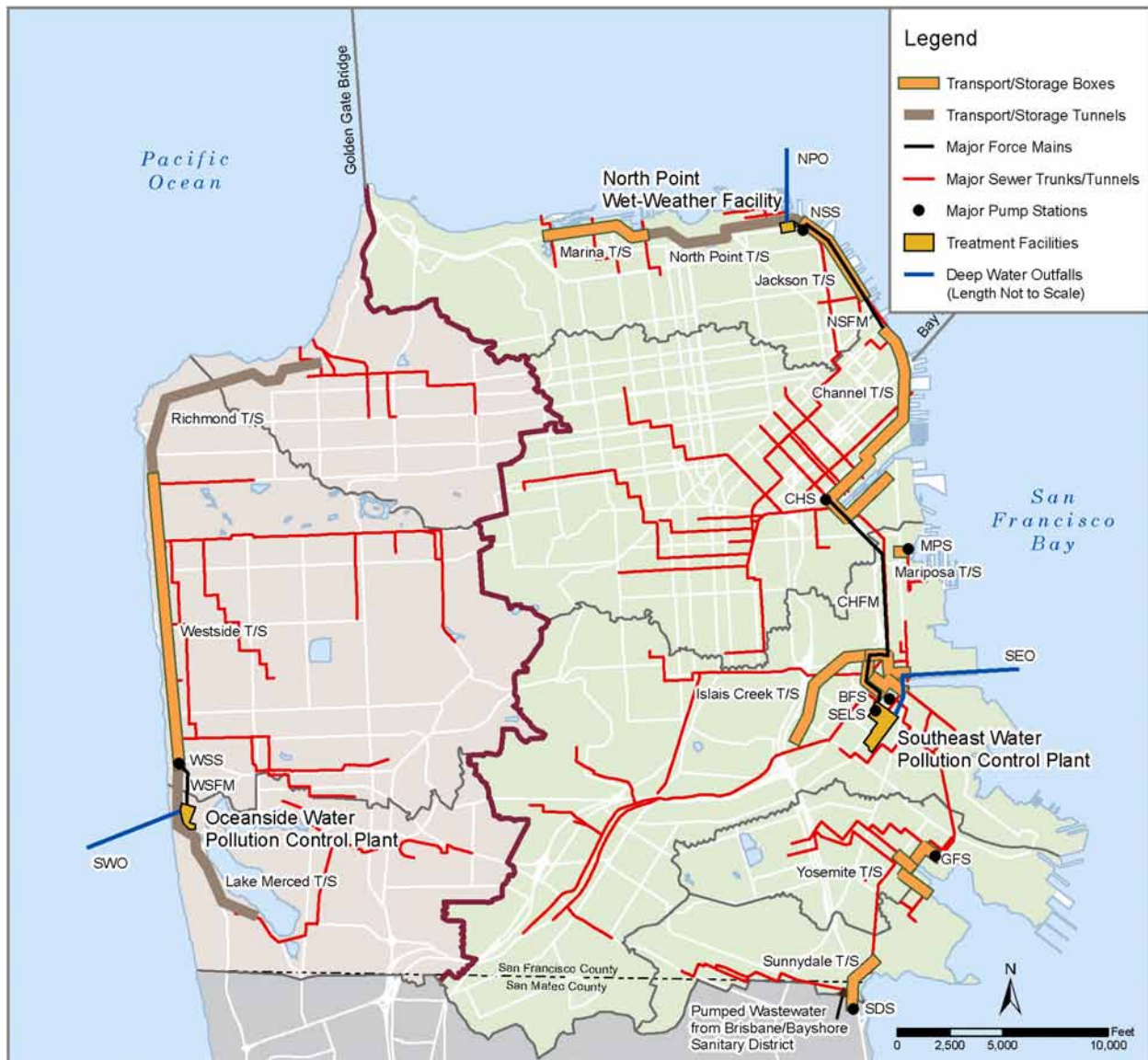


Figure 1-1 – SFPUC Wastewater Enterprise – Major Facilities (Not to Scale)

The 2010 Series A/B Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the SFPUC or of its income or receipts, except Net Revenues. See “SECURITY FOR THE BONDS” herein.

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

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2010 Series A/B Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the initial purchasers of the 2010 Series A/B Bonds. Any statement made in this Official Statement involving any forecast or matter of estimates or opinion, whether or not expressly so stated, is intended solely as such and not as a representation of fact. The information set forth herein other than that provided by the SFPUC, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the SFPUC or the City since the date hereof.

The City maintains a website at <http://www.sfgov.org> and the SFPUC maintains a website at <http://www.sfwater.org>. The information contained in such websites is not incorporated by reference and should not be relied upon in making an investment in the 2010 Series A/B Bonds.

The issuance and sale of the 2010 Series A/B Bonds have not been registered under the Securities Act of 1933 in reliance upon the exemption provided thereunder by Section 3(a)2 for the potential issuance and sale of municipal securities.

IN CONNECTION WITH THE OFFERING OF THE 2010 SERIES A/B BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2010 SERIES A/B BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Official Statement is delivered for use in connection with the issuance, sale and delivery of the 2010 Series A/B Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

FORWARD-LOOKING STATEMENTS

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

SAN FRANCISCO PUBLIC UTILITIES COMMISSION

F. X. Crowley, President
Francesca Vietor, Vice President
Ann Moller Caen, Commissioner
Juliet Ellis, Commissioner
Anson B. Moran, Commissioner

PUBLIC UTILITIES COMMISSION STAFF

Edward M. Harrington, General Manager
Michael Carlin, Deputy General Manager and Chief Operating Officer
Todd L. Rydstrom, Assistant General Manager, Business Services and Chief Financial Officer
Tommy T. Moala, Assistant General Manager, Wastewater
Steve Ritchie, Assistant General Manager, Water
Barbara Hale, Assistant General Manager, Power
Harlan Kelly, Jr., Assistant General Manager, Infrastructure
Tyrone Jue, Acting Assistant General Manager, External Affairs

CITY AND COUNTY OF SAN FRANCISCO MAYOR

Gavin Newsom

BOARD OF SUPERVISORS

David Chiu, Board President, District 3	
Michela Alioto-Pier, District 2	Bevan Dufty, District 8
John Avalos, District 11	Sean Elsbernd, District 7
David Campos, District 9	Eric Mar, District 1
Carmen Chu, District 4	Sophie Maxwell, District 10
Chris Daly, District 6	Ross Mirkarimi, District 5

CITY ATTORNEY

Dennis J. Herrera

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Kitahata & Company
San Francisco, California

Montague DeRose and Associates, LLC
Walnut Creek, California

Trustee

U.S. Bank National Association
San Francisco, California

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OFFICIAL STATEMENT

\$48,320,000*
**PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS,
2010 SERIES A**

\$192,375,000*
**PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS,
2010 SERIES B (FEDERALLY TAXABLE - BUILD
AMERICA BONDS – DIRECT PAYMENT)**

INTRODUCTION

This Official Statement, including the cover page and Appendices hereto, is provided to furnish certain information in connection with the offering by the Public Utilities Commission of the City and County of San Francisco (the “SFPUC”) of its Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series A, in the aggregate principal amount of \$48,320,000* (the “2010 Series A Bonds”), and its Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series B (Federally Taxable – Build America Bonds – Direct Payment), in the aggregate principal amount of \$192,375,000* (the “2010 Series B Bonds” and, collectively with the 2010 Series A Bonds, the “2010 Series A/B Bonds”).

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

The 2010 Series A/B Bonds are being issued to finance and refinance a portion of the costs of planning, design, construction and improvement of various capital projects in furtherance of the Capital Improvement Program (the “CIP”) and the proposed Sewer System Improvement Program (the “SSIP”) of the SFPUC’s Wastewater Enterprise (the “Wastewater Enterprise”). Proceeds of the 2010 Series A Bonds will be applied to refund a portion of the SFPUC’s Commercial Paper Notes (Wastewater Series) (the “Wastewater Commercial Paper Notes”) issued to fund a portion of the costs of the CIP, to fund the 2010 Series A Reserve Account established under the Indenture in an amount equal to the Required Reserve for the 2010 Series A Bonds and to pay costs of issuance of the 2010 Series A Bonds. Proceeds of the 2010 Series B Bonds will be applied to refund additional Wastewater Commercial Paper Notes, to make a deposit to the 2010 Series B Project Fund established under the Indenture to fund an additional portion of the CIP and a portion of the SSIP, to make a deposit to the 2010 Series B Capitalized Interest Account established under the Indenture to pay capitalized interest on the 2010 Series B Bonds, to fund the 2010 Series B Reserve Account established under the Indenture in an amount equal to the Required Reserve for the 2010 Series B Bonds and to pay costs of issuance of the 2010 Series B Bonds. See “PLAN OF FINANCE” and “CAPITAL IMPROVEMENT PROGRAM AND SEWER SYSTEM IMPROVEMENT PROGRAM.”

The SFPUC issued its Public Utilities Commission of the City and County of San Francisco Clean Water Revenue Bonds, 2003 Refunding Series A (the “2003 Series A Bonds”), in the aggregate principal amount of \$396,270,000 on January 28, 2003 to refund all of the then Outstanding revenue bonds previously issued by the SFPUC for the Wastewater Enterprise. As of March 31, 2010, \$255,530,000 in aggregate principal amount of 2003 Series A Bonds remained Outstanding. The Indenture permits, upon the satisfaction of certain conditions, the issuance of additional bonds secured by a pledge of Net Revenues on a parity with the 2003 Series A Bonds and the 2010 Series A/B Bonds (the “Additional Bonds”). See “SECURITY FOR THE BONDS – Additional Series of Bonds”. The 2003 Series A Bonds, the 2010 Series A/B Bonds and any Additional Bonds issued under the Indenture on a parity with the 2010 Series A/B Bonds are referred to herein collectively as the “Bonds.”

* Preliminary, subject to change.

The SFPUC is a department of the City responsible for the maintenance, operation and development of three utility enterprises. See “THE PUBLIC UTILITIES COMMISSION”. The Wastewater Enterprise provides sanitary water and stormwater collection, treatment and disposal services to residential, commercial and industrial customers in the City, as well as three municipal sewer service providers serving residents and businesses in northern San Mateo County. The Wastewater Enterprise’s sanitary waste and stormwater collection, treatment and disposal services are provided through (i) a combined sanitary waste and stormwater system that collects sanitary waste and stormwater, (ii) three wastewater treatment plants and (iii) effluent outfalls to the San Francisco Bay and Pacific Ocean. The collection system consists of approximately 993 miles of underground sewer mains and approximately 923 miles of side sewers and culverts throughout the City. During dry weather, the Wastewater Enterprise’s two all-weather treatment plants treat and discharge an average of approximately 79 million gallons per day (“mgd”) to the San Francisco Bay and Pacific Ocean, based on 2003 to 2007 actual dry-weather average flows. The design average dry-weather capacity is 106 mgd. During wet weather, with additional facilities and increased operations, the plants can treat up to 465 mgd of combined flows. Transport/storage structures around the perimeter of the City allow for an additional 110 mgd of decant treatment for a total infrastructure capacity of 575 mgd during wet weather. See “WASTEWATER FACILITIES.”

The CIP is a multimillion dollar, multi-year capital improvement program to address immediate Wastewater Enterprise needs in the areas of flood control, odor control and replacement or improvement of aging wastewater facilities. The CIP is a precursor to the proposed SSIP, a long-term plan to address the needs of the Wastewater Enterprise’s service area for the next 30 years. See “CAPITAL IMPROVEMENT PROGRAM AND SEWER SYSTEM IMPROVEMENT PROGRAM.”

The other two enterprises of the SFPUC deliver retail water services to the City and wholesale water to users in three other Bay Area counties and power (predominantly hydroelectric) for City government operations and to other users.

Under the Indenture, the SFPUC has irrevocably pledged the Net Revenues of the Wastewater Enterprise to the punctual payment of principal of, premium, if any, and interest on the Bonds, which consist of any parity revenue bonds issued under the Indenture, including the 2010 Series A/B Bonds, subject to the flow of funds contained in the Indenture. The Indenture defines “Net Revenues” as all Revenues (as defined in the Indenture), less all Operation and Maintenance Costs of the Enterprise (as defined below), and less moneys required to be paid to the State pursuant to any Senior State Loans (as defined below). The Revenues, from which Net Revenues are derived, are generated principally from the sewer service charges to customers for the sanitary waste and stormwater collection, treatment and disposal services of the Wastewater Enterprise. Sewer service revenues in Fiscal Year 2008-09 were \$199.3 million, approximately 94% of the Wastewater Enterprise’s total revenues. The 2010 Series A/B Bonds and all other Bonds are secured by a parity lien on Net Revenues. Net Revenues in Fiscal Year 2008-09 were \$71.13 million, approximately 34% of the Wastewater Enterprise’s total revenues. Wastewater rates for customers are set by the SFPUC, subject to rejection by resolution of the Board of Supervisors of the City (the “Board of Supervisors”). See “FINANCIAL OPERATIONS.”

Under the Indenture, the SFPUC may enter into loan agreements with the State, and any board, department or agency thereof, in order to finance certain categories of projects relating to the facilities of the Wastewater Enterprise. These loans may be payable from Revenues prior to the payment of the Bonds (the “Senior State Loans”), or from Net Revenues on a parity with the Bonds (the “Parity State Loans”), or on a subordinated lien basis relative to the Bonds, as determined by the SFPUC. The SFPUC has previously entered into fourteen loan contracts (collectively, the “SRF Loans” and each a “Senior State Loan”) with the State of California Water Resources Control Board (the “State Water Board”) in the original principal amount of \$281,982,872, of which thirteen SRF Loans in the aggregate principal amount of \$63,351,092 remained outstanding as of March 31, 2010. See “OBLIGATIONS PAYABLE FROM REVENUES—Other Outstanding Parity and Senior Obligations – State and Federal Loans,” “SECURITY FOR THE BONDS—Additional Senior and Parity Obligations” and “APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

The SFPUC is not obligated to pay the principal of, premium, if any, or interest on the 2010 Series A/B Bonds from any source of funds other than Net Revenues (as defined in the Indenture). The SFPUC has no taxing power. The General Fund of the City is not liable for the payment of the principal of, premium, if any, or interest on the 2010 Series A/B Bonds, and neither the credit nor the taxing power of the

City is pledged to the payment of the principal of, premium, if any, or interest on the 2010 Series A/B Bonds. The 2010 Series A/B Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or of SFPUC or any of its income or receipts, except Net Revenues.

Brief descriptions of the 2010 Series A/B Bonds, the security and sources of payment for the 2010 Series A/B Bonds, the SFPUC, the Wastewater Enterprise, the CIP and the SSIP are provided herein. Such descriptions do not purport to be comprehensive or definitive. Definitions of certain capitalized terms used herein may be found in “APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” All references made to various documents herein are qualified in their entirety by reference to the forms thereof, all of which are available for inspection at the office of the SFPUC at:

San Francisco Public Utilities Commission
1155 Market, 11th Floor
San Francisco, CA 94103
Attention: Assistant General Manager, Business Services and Chief Financial Officer
(415) 554-3155

THE 2010 SERIES A/B BONDS

General

The 2010 Series A/B Bonds will be dated as of their date of delivery and will accrue interest from the date of delivery at the rates per annum set forth on the inside cover page of this Official Statement. Interest on the 2010 Series A/B Bonds is payable on April 1 and October 1 of each year, beginning October 1, 2010. Interest on the 2010 Series A/B Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months.

The 2010 Series A/B Bonds will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. The 2010 Series A/B Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple of \$5,000.

Securities Depository and Book-Entry System

The 2010 Series A/B Bonds will be issued in fully registered form, registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”), New York, New York, as the Owner of the 2010 Series A/B Bonds.

So long as DTC, or its nominee, Cede & Co., is the Owner of the 2010 Series A/B Bonds, all payments on the 2010 Series A/B Bonds will be made directly to DTC. Disbursement of such payments to the DTC Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners of the 2010 Series A/B Bonds will be the responsibility of the DTC Participants. See “APPENDIX F—SECURITIES DEPOSITORY AND THE BOOK-ENTRY SYSTEM.”

Redemption*

Optional Redemption – 2010 Series A Bonds. The 2010 Series A Bonds are not subject to redemption prior to their stated maturity dates.

Optional Redemption 2010 Series B Bonds. The 2010 Series B Bonds of a particular maturity are subject to redemption prior to the maturity date of such maturity, at the option of the SFPUC, in whole or in part (and if in part, as described in the sub-section “—Selection of Bonds for Redemption – 2010 Series B Bonds” below), on any Business Day at the respective Make-Whole Redemption Price for such maturity.

* Preliminary, subject to change.

The “Make-Whole Redemption Price” for a particular maturity means the greater of (i) 100% of the initial public offering price of such maturity, but in no case less than the principal amount of the 2010 Series B Bonds of such maturity to be redeemed, or (ii) the sum of the present value of the remaining scheduled payments of principal of and interest on the 2010 Series B Bonds of such maturity to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2010 Series B Bonds of such maturity are to be redeemed, discounted to the date on which the 2010 Series B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” (defined below) plus 25 basis points, plus, in each case, accrued and unpaid interest with respect to the 2010 Series B Bonds of such maturity to be redeemed on the redemption date.

The Make-Whole Redemption Price will be determined by an independent accounting firm, investment banking firm, or financial advisor retained by the SFPUC at the SFPUC’s expense to make such calculation. The Trustee and the SFPUC may conclusively rely on such determination and will not be liable for such reliance.

For the purpose of determining the Make-Whole Redemption Price, the following definitions apply:

“Treasury Rate” means, with respect to any redemption of a particular 2010 Series B Bond, the rate per annum truncated to the fifth decimal, expressed as a percentage of such 2010 Series B Bond, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Comparable Treasury Issue” means, with respect to any redemption date of a particular 2010 Series B Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the 2010 Series B Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the 2010 Series B Bonds to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular 2010 Series B Bond: (i) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or (ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the SFPUC.

“Reference Treasury Dealer” means each of the four firms, specified by the SFPUC from time to time, that are primary United States Government securities dealers in the City of New York (each a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the SFPUC will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for the principal of a particular 2010 Series B Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the third Business Day preceding such redemption date.

“Valuation Date” means the fifth Business Day preceding the redemption date.

Extraordinary Optional Redemption – 2010 Series B Bonds. The 2010 Series B Bonds are subject to extraordinary optional redemption at the option of the SFPUC prior to their respective stated maturities, as a whole or in part (and if in part, as described in the sub-section “—Selection of Bonds for Redemption – 2010 Series B

Bonds” below) on any date, upon the occurrence of an Extraordinary Event, at the Extraordinary Optional Redemption Price.

“Extraordinary Optional Redemption Price” means the greater of (i) 100% of the principal amount of the 2010 Series B Bonds to be redeemed, and (ii) the sum of the present value of the remaining scheduled payments of principal of and interest on the 2010 Series B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2010 Series B Bonds are to be redeemed, discounted to the date on which such Bonds are to be redeemed on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (defined above) plus 100 basis points, plus, in each case, accrued interest on the 2010 Series B Bonds to be redeemed on the redemption date.

The Extraordinary Optional Redemption Price will be determined by an independent accounting firm, investment banking firm, or financial advisor retained by the SFPUC at its expense to make such calculation. The Trustee and the SFPUC may conclusively rely on such determination and will not be liable for such reliance.

“Extraordinary Event” means a determination by the SFPUC that any material amendment or modification has occurred to Section 54AA or Section 6431 of the Code, or guidance has been published by the U.S. Treasury or the Internal Revenue Service interpreting those sections, or any other determination has been made by said Federal agencies or by a court of competent jurisdiction, pursuant to which subsidy payments from the U.S. Treasury with respect to the 2010 Series B Bonds are reduced or eliminated, other than as the result of an act or omission by the SFPUC which results in a failure of the 2010 Series B Bonds to satisfy the requirements under Section 54AA or Section 6431 of the Code to qualify for or receive the Refundable Credits.

Mandatory Sinking Fund Redemption of 2010 Series A Bonds. The 2010 Series A Bonds maturing on October 1, 20__ (the “20__ Term Bonds”), are further subject to redemption prior to their stated maturity, from 2010 Series A Sinking Fund Account payments on any October 1 on or after October 1, 20__, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium.

The 20__ Term Bonds are subject to mandatory redemption as follows:

Redemption Date (October 1)	Principal Amount
	\$

In lieu of mandatory sinking fund redemption as described above, such 2010 Series A Bonds may be purchased by the SFPUC at a public or private sale as and when and at such prices as the SFPUC may in its discretion determine. The par amount of any of such 2010 Series A Bonds so purchased by the SFPUC in any twelve-month period ending on August 1 in any year will be credited towards and reduce the par amount of the 2010 Series A Bonds required to be redeemed pursuant to the Indenture on the next succeeding October 1.

Upon any partial optional redemption of the 2010 Series A Bonds, the total amount of all future 2010 Series A Sinking Fund Account payments will be reduced by the aggregate principal amount of the 2010 Series A Bonds so redeemed, to be allocated among such sinking fund payments as determined by the SFPUC.

Mandatory Sinking Fund Redemption of 2010 Series B Bonds. The 2010 Series B Bonds maturing on October 1, 20__ (the “20__ Term Bonds”), are further subject to redemption prior to their stated maturity, from 2010 Series B Sinking Fund Account payments on any October 1 on or after October 1, 20__, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium.

The 20__ Term Bonds are subject to mandatory redemption as follows:

Redemption Date (October 1)	Principal Amount
	\$

The 2010 Series B Bonds maturing on October 1, 20__ (the “20__ Term Bonds”), are further subject to redemption prior to their stated maturity, from 2010 Series B Sinking Fund Account payments on any October 1 on or after October 1, 20__, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium.

The 20__ Term Bonds are subject to mandatory redemption as follows:

Redemption Date (October 1)	Principal Amount
	\$

Upon any partial optional redemption or partial extraordinary optional redemption of the 2010 Series B Bonds, the total amount of all future 2010 Series B Sinking Fund Account payments will be reduced by the aggregate principal amount of the 2010 Series B Bonds so redeemed, to be allocated among such sinking fund payments as determined by the SFPUC.

Selection of Bonds for Redemption – 2010 Series A Bonds. Subject to DTC’s procedures relating to the selection of bonds for redemption (see “APPENDIX F–SECURITIES DEPOSITORY AND THE BOOK-ENTRY SYSTEM”), whenever less than all of the 2010 Series A Bonds of any one maturity and tenor are called for redemption and those 2010 Series A Bonds are redeemable by lot, the Trustee will select the 2010 Series A Bonds of the maturity to be redeemed from the Outstanding 2010 Series A Bonds of that maturity and tenor, by lot or by any other manner the Trustee deems fair and equitable. For purposes of such selection, 2010 Series A Bonds will be deemed to be made up of \$5,000 portions of principal, any of which may be redeemed separately.

Selection of Bonds for Redemption – 2010 Series B Bonds. Subject to DTC’s procedures relating to the selection of bonds for redemption (see “APPENDIX F–SECURITIES DEPOSITORY AND THE BOOK-ENTRY SYSTEM”), whenever less than all of the 2010 Series B Bonds of any one maturity and tenor are called for redemption and those 2010 Series B Bonds are redeemable by lot, the Trustee will select the 2010 Series B Bonds of the maturity to be redeemed from the Outstanding 2010 Series B Bonds of that maturity and tenor, by lot or by any other manner the Trustee deems fair and equitable. For purposes of such selection, 2010 Series B Bonds will be deemed to be made up of \$5,000 portions of principal, any of which may be redeemed separately.

Notice of Redemption. The Trustee will mail notice of redemption not less than 30 nor more than 60 days prior to the redemption date to DTC (so long as the DTC Book-Entry System is used). The actual receipt by the owner of any 2010 Series A/B Bond of notice of such redemption is not a condition precedent to redemption, and failure to receive a redemption notice or any defect in a redemption notice will not affect the validity of the proceedings for the redemption of such 2010 Series A/B Bonds or the cessation of the accrual of interest on the date fixed for such redemption. See “APPENDIX F–SECURITIES DEPOSITORY AND THE BOOK-ENTRY SYSTEM.”

Rescission of Notice of Redemption. The SFPUC may, at its option, prior to the date fixed for redemption in any notice of optional redemption, rescind and cancel such notice of redemption by written request to the Trustee and the Trustee will mail notice of such cancellation to the recipients of the notice of redemption being cancelled.

Effect of Redemption. When notice of redemption has been duly given as described above, and moneys for payment of the redemption price are held by the Trustee, the 2010 Series A/B Bonds called for redemption will, 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 2010 Series A/B Bonds called for redemption will cease to accrue, and such 2010 Series A/B Bonds will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2010 Series A/B Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. The Trustee, upon surrender for payment of any of said 2010 Series A/B Bonds, will pay such 2010 Series A/B Bonds at the redemption price, together with accrued interest thereon. All 2010 Series A/B Bonds redeemed will be cancelled upon surrender and no 2010 Series A/B Bonds will be issued in place thereof.

PLAN OF FINANCE*

The 2010 Series A/B Bonds are being issued to finance and refinance a portion of the planning, design, construction and improvement of various capital projects in furtherance of the CIP and the proposed SSIP. See “CAPITAL IMPROVEMENT PROGRAM AND SEWER SYSTEM IMPROVEMENT PROGRAM.” A portion of the proceeds of the 2010 Series A Bonds and a portion of the proceeds of the 2010 Series B Bonds will be used to refund \$137,500,000 aggregate principal amount of Wastewater Commercial Paper Notes issued to fund a portion of the CIP. See “OBLIGATIONS PAYABLE FROM REVENUES—Subordinate Debt and Commercial Paper.” Proceeds of the 2010 Series A Bonds will also be applied to fund the 2010 Series A Reserve Account in an amount equal to the Required Reserve for the 2010 Series A Bonds and to pay costs of issuance of the 2010 Series A Bonds. Proceeds of the 2010 Series B Bonds will also be applied to make a deposit to the 2010 Series B Project Fund to fund an additional portion of the costs of the CIP and a portion of the costs of the SSIP, to make a deposit to the 2010 Series B Capitalized Interest Account to pay a portion of the interest on the 2010 Series B Bonds through the period during which the projects funded with the proceeds of the 2010 Series B Bonds are acquired or constructed, to fund the 2010 Series B Reserve Account in an amount equal to the Required Reserve for the 2010 Series B Bonds and to pay costs of issuance of the 2010 Series B Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2010 Series A/B Bonds are expected to be applied as follows:

<u>Sources of Funds</u>	<u>2010 Series A</u>	<u>2010 Series B</u>
Par Amount	\$	\$
Net Original Issue Premium/Discount	_____	_____
Total Sources	\$ <u> </u>	\$ <u> </u>
<u>Uses of Funds</u>		
Deposit to Refunding Fund ⁽¹⁾	\$	\$
Deposit to Project Fund		
Deposit to Capitalized Interest Account ⁽²⁾		
Deposit to 2010 Series A Reserve Account		
Deposit to 2010 Series B Reserve Account		
Underwriter's Discount		
Costs of Issuance ⁽³⁾	_____	_____
Total Uses	\$ <u> </u>	\$ <u> </u>

⁽¹⁾ To refund Wastewater Commercial Paper Notes.

⁽²⁾ To pay a portion of the interest on the 2010 Series B Bonds through the period during which the projects financed by the 2010 Series B Bonds are acquired or constructed.

⁽³⁾ The costs of issuance include amounts for legal fees, Trustee's fees, financial advisory fees, fees of the Public Utilities Commission Revenue Bond Oversight Committee, rating agency fees, printing costs, and other issuance costs relating to the issuance of the 2010 Series A/B Bonds.

SECURITY FOR THE BONDS

Pledge of Net Revenues

General. Under the Indenture, the SFPUC has irrevocably pledged the Net Revenues of the Wastewater Enterprise to the punctual payment of principal of, redemption premium, if any, and interest on the Bonds, which consist of any parity revenue bonds issued under the Indenture, including the 2010 Series A/B Bonds, the 2003 Series A Bonds, and any Additional Series of Bonds. This pledge is subject to the flow of funds contained in the Indenture, as described below. See “– Flow of Funds” below. The SFPUC has also pledged Refundable Credits (as defined below) received with respect to Build America Bonds, including Refundable Credits to be received in

* Preliminary, subject to change.

connection with the 2010 Series B Bonds, to the payment of debt service on Build America Bonds. See “-Refundable Credits” below. The facilities comprising the Wastewater Enterprise have not been pledged or mortgaged and do not otherwise secure payment of the Bonds.

Pursuant to Section 5451 of the California Government Code, the pledge of, lien on and security interest in Net Revenues, the Refundable Credits and certain other funds granted by the Indenture is valid and binding in accordance with the terms thereof from the time of issuance of the 2010 Series A/B Bonds; the Net Revenues, the Refundable Credits and such other funds shall be immediately subject to such pledge; and such pledge shall constitute a lien and security interest which shall immediately attach to such Net Revenues, Refundable Credits and other funds and shall be effective, binding and enforceable against the SFPUC, its successors, creditors, and all others asserting rights therein to the extent set forth and in accordance with the terms of the Indenture irrespective of whether those parties have notice of such pledge and without the need for any physical delivery, recordation, filing or other further act. Such pledge, lien and security interest are not subject to the provisions of Article 9 of the California Uniform Commercial Code.

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

Limited Obligation. THE SFPUC IS NOT OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2010 SERIES A/B BONDS EXCEPT FROM NET REVENUES. THE SFPUC HAS NO TAXING POWER. THE GENERAL FUND OF THE CITY IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2010 SERIES A/B BONDS, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE 2010 SERIES A/B BONDS. THE 2010 SERIES A/B BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE CITY OR OF THE SFPUC OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT NET REVENUES.

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

Net Revenues. The Indenture defines “Net Revenues” as all of the Revenues, less all Operation and Maintenance Costs of the Enterprise, and less moneys required to be paid to the State pursuant to any Senior State Loans. See “OBLIGATIONS PAYABLE FROM REVENUES—Other Outstanding Parity and Senior Obligations – State and Federal Loans State and Federal Loans.”

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

- (a) any money received by or for the account of the SFPUC from the levy or collection of taxes,
- (b) moneys received from the State of California and the United States of America and required to be deposited in restricted funds,
- (c) refundable deposits made to establish credit,
- (d) advances and contributions made to the SFPUC to be applied to construction,
- (e) moneys received constituting casualty insurance proceeds with respect to all or any part of the Wastewater Enterprise (which shall be received and disposed of pursuant to the Indenture) and moneys received constituting other insurance proceeds,

- (f) moneys received from the sale or disposition of all or any part of the Wastewater Enterprise (which shall be received and disposed of pursuant to the Indenture),
- (g) moneys received upon the taking by or under the threat of eminent domain of all or any part of the Wastewater Enterprise (which moneys shall be received and disposed of pursuant to the Indenture),
- (h) proceeds from Bonds issued by the SFPUC or proceeds from loans or other indebtedness obtained by the SFPUC, and
- (i) moneys or securities received by the SFPUC as gifts or grants the use of which is restricted by the donor or grantor.

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

The Indenture defines “Operation and Maintenance Costs of the Enterprise” as the reasonable and necessary costs of operating and maintaining the Wastewater Enterprise, calculated on the basis of generally accepted accounting principles, including (among other things) salaries and wages, fees for services, costs of materials, supplies and fuel, reasonable expenses of management, legal fees, accounting fees, repairs and other expenses necessary to maintain and preserve the Wastewater Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any), and the payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the SFPUC may establish or the Board of Supervisors may require with respect to employees of the SFPUC, as provided in the Charter. However, the term “Operation and Maintenance Costs of the Enterprise” excludes in all cases (a) depreciation and obsolescence charges or reserves therefor, (b) amortization of intangibles or other bookkeeping entries of a similar nature, (c) costs of capital additions, replacements, betterments, extensions or improvements to the Wastewater Enterprise, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (d) charges for the payment of principal of and interest on any revenue bonds or other indebtedness issued before or after the date of the Indenture for Wastewater Enterprise purposes and (e) such costs as are scheduled to be paid by the SFPUC from moneys other than Revenues, such moneys to be clearly available for such purpose.

Flow of Funds

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

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

Net Revenues deposited in the Revenue Fund as described in (c) above will be applied to pay interest and principal on the Bonds and to make deposits to the Bond Reserve Fund if the amounts therein are less than the Required Reserve. See “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—REVENUES AND FUNDS—Pledge and Assignment of Net Revenues; Revenue Fund.”

Rate Covenants

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

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

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

“Annual Debt Service” 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. Subsequent to the effectiveness of certain provisions of the First Amendment to Indenture, in determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Bonds that were issued as Build America Bonds, including the 2010 Series B Bonds, amounts equal to the Refundable Credits the SFPUC is scheduled to receive during each such twelve-month period ending June 30 shall be deducted from such interest. See “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions.” **By their purchase of 2010 Series A/B Bonds, the purchasers of 2010 Series A/B Bonds consent to the First Amendment to Indenture.**

Bond Reserve Fund

The Indenture requires that the Bond Reserve Fund be established with the Trustee and funded in an amount equal to the “Required Reserve.”

The Indenture currently defines the “Required Reserve” as 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 SFPUC, in connection with the 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 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. See “APPENDIX A – SUMMARY OF CERTAIN

PROVISIONS OF THE INDENTURE – Definitions.” The Required Reserve for the 2010 Series A Bonds and the Required Reserve for the 2010 Series B Bonds will be determined with respect to the Annual Debt Service on the 2010 Series A/B Bonds collectively.

Subsequent to the effectiveness of certain provisions of the First Amendment to Indenture, “Required Reserve” will mean, with respect to any Series of Bonds issued prior to the date on which such provisions became effective (including, without limitation, the 2010 Series A/B Bonds) (collectively, the “Prior Series of Bonds”), 50% of Maximum Annual Debt Service on all such Series of Bonds (excluding from such calculation Parity State Loans, if any) then Outstanding. See “–Amendment Affecting Bond Reserve Fund Requirements.” After the effectiveness of such provisions, the SFPUC will maintain monies in the Reserve Fund for the 2010 Series A/B Bonds in the reduced amount permitted by the Indenture as amended. See “APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—First Amendment to Indenture—Amendments Relating to the Required Reserve, the Bond Reserve Fund and the Reserve Account.”

Subsequent to the effectiveness of certain provisions of the First Amendment to Indenture, for the purpose of calculating Maximum Annual Debt Service and Average Annual Debt Service, in determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Bonds that are issued as Build America Bonds under Section 54AA of the Code, including the 2010 Series B Bonds, amounts equal to the Refundable Credits the SFPUC is scheduled to receive during each such twelve-month period ending June 30 shall be deducted from such interest. **By their purchase of 2010 Series A/B Bonds, the purchasers of 2010 Series A/B Bonds consent to the First Amendment to Indenture.** See “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions.”

Amounts on deposit in the Bond Reserve Fund shall be applied to the payment of the Bonds. Cash amounts on deposit in the Bond Reserve Fund shall be used and withdrawn by the Trustee solely to pay 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 to pay or redeem all Outstanding Bonds.

On or before five Business Days before each Interest Payment Date, the Treasurer shall pay to the Trustee from the Revenue Fund 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. So long as the SFPUC is not in default under the Indenture, and there is a balance in the Bond Reserve Fund equal to the Required Reserve, any amount in the Bond Reserve Fund in excess of the Required Reserve shall be withdrawn semiannually (on March 15 and September 15) by the Trustee and transferred to the Treasurer for deposit in the Revenue Fund, or during the period of construction of a Project, the Capital Project Fund. Notwithstanding the foregoing, the SFPUC shall have the right to request the Trustee to withdraw excess amounts on deposit in the Bond Reserve Fund at any time.

Establishment of 2010 Series A and 2010 Series B Reserve Accounts. The Indenture requires the establishment of a bond reserve account (each, a “Reserve Account”) within the Bond Reserve Fund for each Series of Bonds issued under the Indenture, and requires the deposit in each bond reserve account of an amount equal to the Required Reserve for the related Series of Bonds. See “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions.”

Pursuant to the Indenture, the Trustee has established the 2010 Series A Reserve Account (the “2010 Series A Reserve Account”) for the 2010 Series A Bonds and the 2010 Series B Reserve Account (the “2010 Series B Reserve Account”) for the 2010 Series B Bonds. The Required Reserve for the 2010 Series A Bonds is \$_____ and the Required Reserve for the 2010 Series B Bonds is \$_____.

Pursuant to the Indenture, the Required Reserve for any Series of Bonds may be funded through a Bond Reserve Fund Policy, which is a policy of insurance or surety bond issued by a Municipal Bond Insurer, or a letter of credit issued by a Qualified Bank.

Satisfaction of Required Reserves. The SFPUC intends to fund the 2010 Series A Reserve Account through the deposit of proceeds of the 2010 Series A Bonds in an amount equal to the Required Reserve for the 2010

Series A Bonds and to fund the 2010 Series B Reserve Account through the deposit of proceeds of the 2010 Series B Bonds in an amount equal to the Required Reserve for the 2010 Series B Bonds.

Existing 2003 Refunding Series A Bonds Reserve Account. In connection with the issuance of the 2003 Series A Bonds, the Trustee previously established the 2003 Refunding Series A Bonds Reserve Account within the Bond Reserve Fund. A surety bond issued by National Public Finance Guarantee Corporation with a policy limit of \$34,199,283.65 is currently on deposit in the 2003 Refunding Series A Bonds Reserve Account. Proceeds of such surety bond are not available to pay the principal of, premium, if any, or interest on the 2010 Series A/B Bonds.

The ratings of National Public Finance Guarantee Corporation (formerly MBIA Insurance Corporation) have been reduced subsequent to the deposit of such surety bond in the 2003 Refunding Series A Reserve Account. The Indenture does not require that the rating of any surety bond held in a Reserve Account be maintained after the date of deposit. In the event of a financial failure of a surety bond provider, the SFPUC may elect to fund a cash reserve in place of the affected surety bond or bonds.

Amendment Affecting Bond Reserve Fund Requirements. The First Amendment to Indenture provides for amendments to the Indenture relating to the Bond Reserve Fund. One such amendment modifies the definition of Annual Debt Service in a manner that will reduce the Required Reserve for the 2010 Series B Bonds to \$_____. Pursuant to the other such amendment, the Required Reserve for each Series of Bonds then Outstanding, including the Required Reserve for the 2010 Series A Bonds and the Required Reserve for the 2010 Series B Bonds, will be reduced to an amount equal to 50% of Maximum Annual Debt Service on the respective Series of Bonds, and thereafter, excess amounts, if any, on deposit in the Reserve Accounts in the Bond Reserve Fund for such Series will be withdrawn and transferred as provided in the Indenture. Further a Reserve Account need not be established for any Series of Bonds issued subsequent to the effectiveness of such amendment. A Reserve Account for each such Series of Bonds will be established only if and to the extent required by, and will be funded in an amount, if any, specified in, such Supplemental Indenture; provided, however, that in no event will the SFPUC, in connection with issuance of a Series of Additional Bonds, be obligated to deposit an amount in the Bond Reserve Fund which is in excess of the amount permitted by the applicable provisions of the Code to be so deposited from the proceeds of tax-exempt bonds without having to restrict the yield of any investment purchased with any portion of such deposit. If the Supplemental Indenture relating to such Series of Bonds establishes a Required Reserve and Reserve Account, such Reserve Account will be available only to pay Debt Service on such Series of Bonds, and will not be available to pay Debt Service on any other Series of Bonds, unless otherwise provided in such Supplemental Indenture. Subsequent to the effectiveness of these provisions of the First Amendment to Indenture, the Reserve Accounts with respect to the Prior Series of Bonds (each a “Prior Reserve Account”) will be available to pay the Debt Service on all the Prior Series of Bonds, except that the Trustee shall apply any Bond Reserve Fund Policy on deposit in a Prior Reserve Account solely to the payment of Debt Service on the Prior Series of Bonds to which such Prior Reserve Account relates, and such Bond Reserve Fund Policy shall not be available for payment of any other Series of Bonds. “APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—First Amendment to Indenture—Amendments Relating to the Required Reserve, the Bond Reserve Fund and the Reserve Account.” **By their purchase of 2010 Series A/B Bonds, the purchasers of the 2010 Series A/B Bonds consent to the First Amendment to Indenture.**

Refundable Credits with Respect to the 2010 Series B Bonds

The 2010 Series B Bonds are designated and delivered as “Build America Bonds” for purposes of Section 54AA of the Internal Revenue Code of 1986, as amended (the “Code”). Under the Code, and subject to certain potential deductions, the U.S. Treasury will pay (either in advance or as reimbursement) to the Trustee as the agent of the SFPUC, 35% of the interest payable with respect to the 2010 Series B Bonds on each Interest Payment Date (such amounts payable by the U.S. Treasury constitute “Refundable Credits” and the SFPUC may receive Refundable Credits in connection with the issuance of Additional Bonds). Upon receipt, the Trustee will deposit any Refundable Credits it receives in the Interest Fund.

The SFPUC has pledged all Refundable Credits received by the SFPUC to the payment of the 2010 Series B Bonds. To this end, the SFPUC agrees in the Indenture to (i) file (or cause to be filed) claims to receive Refundable Credits with the U.S. Treasury on a timely basis, and (ii) take all actions necessary to assure that the proceeds of the 2010 Series B Bonds are expended and all federal tax requirements are met so as to cause the 2010

Series B Bonds to be treated as Build America Bonds and “Qualified Bonds” within the meaning of Section 54AA(g)(2) of the Tax Code, and therefore be eligible for the Refundable Credits. However, the SFPUC cannot ensure that it, or the Trustee as its agent, will receive Refundable Credits, and the SFPUC makes no representations or assurances that the Refundable Credits will be disbursed at the times and in the amounts it expects. See “RISK FACTORS—Risk of Non-Payment of Direct Subsidy Payments.”

Under the Indenture, the SFPUC is obligated to make payments of principal of and interest on the 2010 Series B Bonds without regard to the receipt or deposit of Refundable Credits, although the amount the SFPUC is required to advance to the Trustee to the payment of interest on the 2010 Series B Bonds will be net of any Refundable Credits then held by the Trustee and available for such purpose. See “APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Interest Fund and – Principal Fund; Sinking Fund Accounts.”

Additional Series of Bonds

The Charter and the Indenture authorize the issuance of Additional Bonds payable from Net Revenues on a parity with the 2010 Series A/B Bonds upon satisfaction of the conditions set forth therein. The SFPUC expects to issue Additional Bonds to finance the costs of additional improvements included in the CIP and the SSIP. See “FINANCING OF THE CIP AND THE SSIP” and “RISK FACTORS—Costs of the SSIP and Additional Debt; Timely Completion of the SSIP.”

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

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

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

Indenture Requirements. The Indenture provides that Additional Bonds secured on a parity with the Bonds may be issued for any lawful purpose if no Event of Default has occurred and is continuing under the Indenture or any Supplemental Indenture and no event 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 and prior to the issuance of such Additional Bonds, the SFPUC files with the Trustee, among other documents, the following:

- (a) a Certificate of the Commission demonstrating that the SFPUC has complied with the rate covenant under the Indenture and that the requirements for issuing Additional Bonds under the Indenture have been met;
- (b) if any portion of the proceeds of such Series of Bonds is to be used to finance construction, a certificate of the Consulting Engineers setting forth (i) the estimated date of completion for the portion of the Project for which such Series of Bonds is being issued and for any other uncompleted portion of the Project, and (ii) an estimate of the cost of construction of such portion of the Project and of any other uncompleted portion of the Project;

(c) a Certificate of the Commission setting forth for each of the next three Fiscal Years (and, if any portion of the proceeds of such Series of Bonds is to be used to finance construction, the three Fiscal Years following the Fiscal Year in which the Consulting Engineers estimate such portion of the Project will be completed), estimates of (i) Revenues, (ii) Operation and Maintenance Costs of the Enterprise and (iii) Net Revenues, and

(d) a Certificate of the Commission setting forth (i) the estimates of Net Revenues as set forth in the Certificate of the SFPUC pursuant to paragraph (c) above for each of such three Fiscal Years (and, if any portion of the proceeds of such Series of Bonds is to be used to finance construction, the three Fiscal Years following the Fiscal Year in which the Consulting Engineers estimate such portion of the Project will be completed); (ii) the Annual Debt Service for each of such Fiscal Years, including Annual Debt Service as estimated in such Certificate of the Commission with respect to future Series of Bonds, if any, which such Certificate of the Commission shall estimate will be required to complete payment of the cost of construction of such portion of the Project and any other uncompleted portion of the Project; and (iii) demonstrating that the estimated Net Revenues (together with any fund balances of the SFPUC which are available for the payment of Debt Service but excluding the Bond Reserve Fund) in each of the Fiscal Years set forth in (c) above is at least equal to 1.25 times the Annual Debt Service for such respective Fiscal Years.

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

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

Additional Senior and Parity Obligations

Certain Senior State Loans have priority over the 2010 Series A/B Bonds in payment of principal and interest from the Revenues. See “OBLIGATIONS PAYABLE FROM REVENUES—Other Outstanding Parity and Senior Obligations – State and Federal Loans.”

Pursuant to the Charter, the SFPUC can incur indebtedness, including additional state loans, without voter approval, but subject to Board of Supervisors approval. The Indenture permits the SFPUC to enter into additional Senior State Loans, Parity State Loans or loans on a subordinated lien basis relative to the Bonds, as determined by the SFPUC. Under the Indenture, the SFPUC may enter into additional Senior State Loans and into Parity State Loans if no Event of Default has occurred and is continuing under the Indenture or any Supplemental Indenture (and no event has occurred which, but for the passage of time or the giving of notice, would constitute an Event of Default under the Indenture or any Supplemental Indenture) and, in connection with the execution and delivery of such Senior State Loans or Parity State Loans, as applicable, the SFPUC 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 SFPUC which are available for Debt Service, but excluding the Bond Reserve Fund), in each of such three Fiscal Years is at least equal to 1.25 times the Annual Debt Service. See “SECURITY FOR THE BONDS - Rate Covenants.”

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

qualifying projects on the priority list which may be funded through Senior State Loans, Parity State Loans or subordinate loans.

Subordinate Obligations; Obligations Not Payable from Revenues

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

OBLIGATIONS PAYABLE FROM REVENUES

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

The Charter authorizes the SFPUC to issue revenue bonds and commercial paper notes and to incur other obligations payable from or secured by a pledge of Revenues.

On November 5, 2002 the voters approved Proposition E, which authorizes the SFPUC, subject to the referendum process, to issue revenue bonds, notes and other forms of indebtedness when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors of the City (the “Board of Supervisors”), for the purpose of reconstructing, replacing, expanding, preparing or improving water facilities or wastewater facilities or combinations of water and wastewater facilities under the jurisdiction of the SFPUC. Board action to authorize or issue bonds under this provision is subject to certain additional conditions, requiring certification by an independent engineer and certification by the San Francisco Planning Department, as discussed in “APPENDIX B—SUMMARIES OF CERTAIN LOCAL INITIATIVES (PROPOSITIONS E AND P).” The ordinance authorizing the issuance of indebtedness will become effective thirty days after its adoption unless it is opposed through the referendum process. Opposition may be made by filing with the Board of Supervisors a petition protesting the passage of that ordinance. Such petition must be signed by voters in a number equal to at least 10% of the votes cast for all candidates for Mayor in the last preceding general municipal election for Mayor. If a referendum passes, the ordinance is suspended from becoming effective. The Board of Supervisors may reconsider the ordinance. If it is not entirely repealed, the Board of Supervisors is required to submit the ordinance to voters at the next general municipal or statewide election or at a special municipal election and will not become effective until approved by voters at such an election.

Ordinance No. 68-10 (the “Ordinance”), authorizing the issuance of \$282,400,000 of revenue bonds by the SFPUC to fund capital projects for the Wastewater Enterprise, was passed by the Board of Supervisors on March 30, 2010. The 2010 Series A/B Bonds are being issued by the SFPUC pursuant to the authority granted by the Ordinance through Proposition E.

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

Revenue Bond Oversight Committee

On November 5, 2002, the voters of the City adopted Proposition P, an ordinance that established the Public Utilities Revenue Bond Oversight Committee (“RBOC”) to report publicly to the Mayor, the SFPUC and the Board of Supervisors regarding the expenditure of revenue bond proceeds on the repair, replacement, upgrading and expansion of the Water Enterprise, the Wastewater Enterprise and the Power Enterprise (each as defined herein). The RBOC has seven members appointed as follows: two by the Mayor, two by the Board of Supervisors, one by the City Controller, one by the Bay Area Water Users Association (“BAWUA”) under the auspices of the Bay Area Water Supply and Conservation Agency (“BAWSCA”). The seventh member is the City’s Budget Analyst or his or her representative. The work of the RBOC is funded by 1/20th of 1% of the gross bond proceeds of revenue bond issuances or sales. Under Proposition P, the RBOC sunsets in 2013, unless extended by the Board.

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

Outstanding Parity Revenue Bonds

The 2003 Series A Bonds described in the table below (the “Outstanding Bonds”) have been issued pursuant to the Indenture and are secured by a pledge of Net Revenues on a parity with the 2010 Series A/B Bonds.

Series of Bonds	Purpose	Initial Principal Amount	Principal Amount Outstanding as of March 31, 2010
Clean Water Revenue Bonds, 2003 Refunding Series A	Refunding of revenue bonds issued for repair and replacement of wastewater facilities	\$396,270,000	\$255,530,000
Total		\$396,270,000	\$255,530,000

Other Outstanding Parity and Senior Obligations – State and Federal Loans

The SFPUC has entered into 14 SRF Loans with the State Water Board in the aggregate original principal amount of \$281,982,872, of which thirteen SRF Loans in the aggregate principal amount of \$63,351,092 remained outstanding as of March 31, 2010. The seven SRF Loans entered into by the SFPUC prior to January 1, 1993 were silent as to the payment thereof in relation to outstanding debt of the Wastewater Enterprise, including the 2010 Series A/B Bonds. The seven SRF Loans entered into since such date provide that they will be either senior to or on parity with all future debt of the Wastewater Enterprise. ***Notwithstanding the foregoing, under the Indenture, the SRF Loans are Senior State Loans, payable from the Revenues prior to payments of principal of, premium, if any, and interest on the Bonds.*** For additional information regarding the SRF Loans, see “APPENDIX C – SAN FRANCISCO PUBLIC UTILITIES COMMISSION WASTEWATER ENTERPRISE FINANCIAL STATEMENTS”.

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

Subordinate Debt and Commercial Paper

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

Commercial Paper Program. In 2007, the SFPUC established a commercial paper program (authorized by Proposition E) to fund construction costs relating to the CIP. The Wastewater Commercial Paper Notes are secured and payable from Net Revenues on a basis subordinate to the payment of debt service on the Bonds. The Wastewater Commercial Paper Notes are supported by an irrevocable, direct-pay letter of credit issued by BNP Paribas, acting through its New York Branch, with a stated expiration date of February 13, 2012. As of May 1, 2010, \$137.5 million aggregate principal amount of Wastewater Commercial Paper Notes was outstanding, all of which will be refunded with the proceeds of the 2010 Series A Bonds. Upon the issuance of the 2010 Series A Bonds and the application of the proceeds thereof, no Wastewater Commercial Paper Notes will remain outstanding.

Contingent Payment Obligations

The Wastewater Enterprise has no interest rate swaps, caps or hedges or other contingent payment obligations payable from Revenues. The Wastewater Enterprise may in the future, however, incur contingent payment obligations payable from Revenues. Such contingent payment obligations may be payable on a parity with the Bonds if the conditions for the issuance of parity debt under the Indenture are met. See “SECURITY FOR THE BONDS—Additional Series of Bonds.”

Other Obligations Payable from Revenues

The SFPUC purchased and cleared a parcel at 525 Golden Gate Avenue, one block north of City Hall, and is constructing a 13-story new office building on this site to house the administrative offices of the SFPUC’s three utility enterprises that are now located in various leased facilities. Total project costs are expected to be approximately \$190 million and are being financed with land sale proceeds, fund balances, grants and the proceeds from Certificates of Participation issued in two series on October 7, 2009, representing interests in a City General Fund lease. Construction of the building commenced in January 2010 and substantial completion is expected by April 2012. Pursuant to a Memorandum of Understanding between the City and the SFPUC, the SFPUC will reimburse the City General Fund for all debt service in connection with this City financing. The SFPUC will allocate such payment obligations internally among its three utility enterprises based on percentage usage. The Wastewater Enterprise has been allocated approximately 18.9% of such obligation, payable from Net Revenues on a basis subordinate to the payment of principal of and interest on the Bonds.

Debt Service Requirements

Set forth in the following table are debt service requirements for the SRF Loans, the 2003 Series A Bonds, the 2010 Series A Bonds and the 2010 Series B Bonds.

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DEBT SERVICE REQUIREMENTS ON OUTSTANDING BONDS

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>SRF Loans</u> <u>Repayment Obligations</u>	<u>2003 Series A Bonds</u>	<u>2010 Series A Bonds</u>		<u>2010 Series B Bonds</u>		<u>Combined</u> <u>Repayment</u> <u>Obligations And</u> <u>Debt Service</u>
			<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest⁽²⁾</u>	
2010	\$16,505,200	\$ 50,312,700	\$	\$	\$	\$	\$
2011	16,503,560	38,146,750					
2012	10,982,879	32,968,850					
2013	9,421,497	33,036,275					
2014	9,040,461	33,149,025					
2015	6,287,512	33,257,163					
2016	5,267,636	33,397,894					
2017	3,619,138	17,022,313					
2018	1,751,426	17,093,919					
2019	1,751,426	17,154,306					
2020	1,751,426	17,239,138					
2021	1,751,426	17,315,788					
2022		17,402,213					
2023		15,801,213					
2024		2,969,100					
2025		2,976,919					
2026		3,593,363					
2027							
2028							
2029							
2030							
2031							
2032							
2033							
2034							
2035							
2036							
2037							
2038							
2039							
2040							
Total ⁽¹⁾	<u>\$84,638,588</u>	<u>\$382,836,925</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

⁽¹⁾ Totals may not add due to rounding

⁽²⁾ Net of anticipated Refundable Credits

RISK FACTORS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the 2010 Series A/B Bonds. This section is provided for convenience and is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the 2010 Series A/B Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the 2010 Series A/B Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the 2010 Series A/B Bonds or adversely affect the ability of the SFPUC to make timely payments of principal of or interest on the 2010 Series A/B Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Limited Obligation

The ability of the SFPUC to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest on the 2010 Series A/B Bonds may be adversely affected by actions and events outside of the control of the SFPUC and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay fees and charges. Among other matters, general and local economic conditions and changes in law and government regulations could adversely affect the amount of Revenues realized by the SFPUC or significantly raise the cost of operating the Wastewater Enterprise. In addition, the realization of future Revenues is subject to, among other things, the capabilities of management of the SFPUC, the ability of the SFPUC to provide service to its customers, the ability of the SFPUC to establish, maintain and collect charges from its customers and the ability of the SFPUC to establish, maintain and collect rates and charges sufficient to pay for Operation and Maintenance Costs of the Enterprise, the State Senior Loans, the Bonds and other obligations payable from Revenues. See “FINANCIAL OPERATIONS” and “OBLIGATIONS PAYABLE FROM REVENUES.”

If the SFPUC defaults on its obligations to make debt service payments on the Bonds, the Trustee has the right under the Indenture to accelerate the total unpaid principal amount of the Bonds. However, in the event of a default and such acceleration, there can be no assurance that the SFPUC, and correspondingly the Trustee, will have sufficient moneys available for payment of the 2010 Series A/B Bonds.

The SFPUC is not obligated to pay the principal of, premium, if any, or interest on the 2010 Series A/B Bonds except from Net Revenues of the Wastewater Enterprise. The SFPUC has no taxing power. The General Fund of the City is not liable for the payment of the principal of, premium, if any, or interest on the 2010 Series A/B Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of, premium, if any, or interest on the 2010 Series A/B Bonds. The 2010 Series A/B Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or of the SFPUC or any of its income or receipts, except Net Revenues.

Physical Condition of Wastewater Enterprise Facilities

The reliability of the facilities of the SFPUC’s Wastewater Enterprise is affected by a number of factors, including physical and operational vulnerabilities of such facilities. Certain of the Wastewater Enterprise’s facilities are near the end of their useful life. Long-lived assets result in decreased reliability due to sewer line breakage and unplanned outages and place a greater maintenance burden on Wastewater Enterprise operations. Average useful life of the sewer system’s collecting sewers (i.e., gravity pipes 36 inches or less in diameter) is approximately 110 years, though many conditions, including pipe material and soil conditions, affect actual pipe lifespan. The Wastewater Enterprise has approximately 780 miles of collecting sewers, approximately 25% of which (195 miles) are over 100 years old and 60% of which (468 miles) are over 70 years old. The recent historical rate of replacement for the Wastewater Enterprise’s sewer pipes has been at a 200-year replacement cycle. Aging sewers, if left unaddressed, would result in increasing sinkholes in the street, reduced system reliability and possibly public health and safety risks. Extensive efforts are being made to increase the replacement rate significantly and to address the aging infrastructure, with the objective of ultimately achieving a 110-year replacement cycle. The CIP and

proposed SSIP will increase sewer inspections and condition assessments in order to more effectively prioritize areas of pipeline replacement and to increase the aggregate miles of sewer replaced each year.

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

Cost of the SSIP; Timely Completion of the SSIP

When fully developed, the proposed SSIP will be a major capital improvement program significantly beyond the scope of any capital improvement program previously undertaken by the SFPUC for the Wastewater Enterprise. The SSIP is still in the planning stage. The SFPUC has not yet identified the final scope of the proposed program. The SFPUC intends to finance the SSIP through the issuance of Additional Bonds and other indebtedness. If the SSIP is completed at the cost and on the schedule presently under consideration by the SFPUC, the cost of the SSIP could be in the range of \$4 to \$6 billion over an approximately twenty year capital planning horizon, which would result in a significant increase in the amount of debt payable from Revenues. Rate increases for SFPUC customers have been approved through 2014 following the most recent five-year rate study in 2009. The next five year rate study and subsequent revisions to rates will take into account future debt service requirements. See “FINANCING OF THE CIP AND THE SSIP.” Historical and projected debt service coverage levels through 2015 for the Bonds are described herein. See “HISTORICAL OPERATING RESULTS” and “PROJECTED OPERATING RESULTS.”

The completion of various portions of the proposed SSIP could be delayed and the overall cost of the SSIP could be increased for a variety of reasons, including, but not limited to, environmental challenges and related litigation. See “CAPITAL IMPROVEMENT PROGRAM AND SEWER SYSTEM IMPROVEMENT PROGRAM—Potential Delays and Cost Increases.” Were the SSIP delayed or the cost of the SSIP to increase, the SFPUC would be required to eliminate project improvements, or to incur more debt payable from Revenues or cash fund those costs from Revenues and increase rates payable by SFPUC customers to levels higher than presently anticipated by the SFPUC, which could result in lower debt service coverage ratios than presently anticipated by the SFPUC.

Increases in the SFPUC’s cost of borrowing, including higher interest rates on municipal bonds of the character of the Bonds, illiquidity and other adverse conditions in the credit and capital markets in the United States, adverse changes to interest rate exposures, and other adverse changes in the SFPUC’s borrowing arrangements could result in increased borrowing costs in connection with the issuance of Additional Bonds and decreased debt service coverage, and changes to the SFPUC’s contemplated timetable for implementation of the SSIP.

If the SFPUC is unable to complete the SSIP or to complete the SSIP on the anticipated schedule, or if the cost of the SSIP is greater than anticipated, the ability of the SFPUC to pay obligations payable from Revenues, including the 2010 Series A/B Bonds, may be adversely affected.

Limitations on the Issuance of Additional Revenue Bonds

Over the next five years the SFPUC expects to issue additional revenue bonds to fund the CIP and the proposed SSIP. In addition to the 2010 Series A/B Bonds, the SFPUC anticipates issuing approximately \$2.4 billion in aggregate principal amount of Additional Bonds during this period. The issuance by the SFPUC of revenue bonds is subject to various approval requirements. See “OBLIGATIONS PAYABLE FROM REVENUES—Authority for the Issuance of Revenue Bonds and Other Obligations Payable from Revenues.” SFPUC issuance of revenue bonds could also be prohibited by the RBOC. See “OBLIGATIONS PAYABLE FROM REVENUES—Revenue Bond Oversight Committee.” In addition, to issue bonds on a parity with the Bonds, the SFPUC will need to satisfy the conditions set forth in the Indenture. See “SECURITY FOR THE BONDS—Additional Series of Bonds.” The ability of the SFPUC to issue additional revenue bonds to finance the CIP and the SSIP may also be adversely affected by any adverse change in the financial position of the SFPUC or by general market conditions. There can be no assurance that the SFPUC will be able to issue revenue bonds in an aggregate amount sufficient to finance all of the costs of completing the CIP and the SSIP.

Limitations on Rate-Setting

The generation of Revenues sufficient to satisfy the requirements of the Indenture and to pay the principal of and interest on the 2010 Series A/B Bonds will require the SFPUC to raise wastewater rates payable by its customers. The increase of wastewater rates is subject to various substantive and procedural requirements and limitations. See “CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS.” A 5-year schedule of rate increases was adopted in 2009. See “FINANCIAL OPERATIONS—Wastewater Service Charge Revenues.”

Initiative, Referendum and Charter Amendments

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

Statutory and Regulatory Compliance

The Wastewater Enterprise is subject to a variety of State and Federal statutory and regulatory requirements. SFPUC’s failure to comply with applicable laws and regulations could result in significant fines and penalties. In addition to claims by private parties, changes in the scope and standards for public agency wastewater systems such as the Wastewater Enterprise may also lead to administrative orders issued by Federal or State regulators. Future compliance with such orders could also impose substantial additional costs. See “REGULATORY MATTERS.” No assurance can be given that the cost of compliance with such laws, regulations and orders would not adversely affect the ability of the Wastewater Enterprise to generate Net Revenues sufficient to pay the principal of or interest on the Bonds.

Future Legislation

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

Seismic Considerations

The City is in a seismically active region of California. During the past 150 years, the San Francisco Bay Area has experienced several major and numerous minor earthquakes. The largest was the 1906 San Francisco earthquake along the San Andreas Fault with an estimated magnitude of 8.2 on the Richter scale. The most recent significant earthquake was the October 1989 Loma Prieta earthquake with a magnitude of 7.1 on the Richter scale and an epicenter near Santa Cruz, approximately 55 miles south of the City. The San Andreas Fault lies immediately west of the City, and the Hayward fault is approximately 15 miles to the east. According to a recent United States Geological Survey, a significant earthquake along these or other faults is probable during the period the 2010 Series A/B Bonds will be outstanding.

During an earthquake, soft fill areas are more likely to experience intensified ground shaking concomitant with liquefaction when saturated with groundwater. Liquefaction can cause lateral spreading and subsidence of the soil, as well as floatation of underground structures that tends to increase the damage to buildings and underground pipes. The official State of California and City and County of San Francisco Seismic Hazard Zones Map illustrates the potential liquefaction and earthquake-induced landslide zones of the City, and reflects that significant portions of the Wastewater Enterprise are located in such zones.

As a result of the 1989 Loma Prieta earthquake the City suffered damage to sidewalk and pavement, pipes and other buried utilities, and structures. Major damage was concentrated in the Marina District, North Beach, Embarcadero waterfront and South Beach, all of which are bay-ward of the City’s 1852 shoreline and, as such, the

soil conditions in these areas are characterized by fill, loose sand and weak clay layers. A number of buildings were destroyed or badly damaged. The Marina District subsided as much as 5 inches during the 1989 Loma Prieta earthquake and many buildings and pipelines were damaged requiring 20% of the Marina wastewater collection lines to be repaired or replaced. Damage estimates resulting from the Loma Prieta earthquake to sewers in the above mentioned areas amounted to approximately \$3.2 million, with \$1.7 million sustained in the Marina District, which contained approximately 38,000 feet of sewer, and \$1.5 million sustained in the other areas with approximately 116,000 feet of sewer.

In general, sewer pipelines would likely continue to function to some extent after a major earthquake, even though they may be damaged. However, portions of a key sewer conveyance structure, such as the Channel Force Main (located between Islais Creek and the Mission Creek Channel), are vulnerable to the effects of liquefaction in the event of a future major earthquake. The segment which appears to be the most vulnerable extends between the Channel Pump Station and Mariposa Street. Along this segment, the fill is highly variable and some of it is likely to be liquefiable. Also, a low-to-moderate risk of liquefaction and/or lateral deformations exists along the segment of this sewer line south of 25th Street. A major capital project to be funded with the proceeds of the 2010 Series A/B Bonds is the construction of a conveyance tunnel to provide full redundant back-up to the vulnerable existing Channel Force Main. Further, were a dry-weather wastewater treatment plant to be damaged by a major earthquake, the SFPUC has no present ability to reroute flows to the Wastewater Enterprise's other dry-weather wastewater treatment plant.

The primary concern in connection with sewer dysfunction following an earthquake is its impact on public health. However, it is not economically feasible to replace all sewer lines made of seismically weak materials as a mitigation measure. Mitigation measures being undertaken by the City include training sewer repair crews in emergency response to earthquakes, maintaining an inventory of or access to large capacity sewer pumps, maintaining an inventory of emergency construction materials and equipment, adopting seismic resistant design standards in those areas susceptible to soil liquefaction, and having full redundancy of critical infrastructure and systems.

Approximately 85 percent of the City's water supply comes from the Hetch Hetchy Reservoir in the Sierra Nevada mountains approximately 150 miles east of the City, and the balance of the 15 percent from the local storage located in Alameda County approximately 40 miles east of the City and in San Mateo County approximately 10 miles south of the City. The Hetch Hetchy and Alameda water supply is transported to the City through the Irvington Tunnel, a 12,300 foot long, 10.5 foot diameter tunnel bored through the bedrock of the Sunol grade in Alameda County. The Irvington Tunnel is located in the vicinity of the Hayward Fault, which is a major fault line. In the event of a significant earthquake on that fault, the Irvington Tunnel or the four major pipelines that branch from it could be seriously damaged. The Water Enterprise would attempt to repair any damage as quickly as possible, but the amount of time required to return the facilities to service would depend on the nature and extent of damage incurred. Disruption of the City's water supply would have a significant effect on the operations of the Wastewater Enterprise's sewer system.

A prolonged reduction of the City's water supply resulting from a major earthquake on the Hayward Fault, or other earthquake faults in the area, could have a material adverse effect on the Revenues of the Wastewater Enterprise. In such event, the SFPUC could reduce Operating and Maintenance Costs of the Enterprise, negotiate a deferral in payments on outstanding Senior State Loans and Parity State Loans, if any, and/or increase rates.

Potential Impacts of Climatic Change and Sea Level Rise

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

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

Low-lying, subsided regions of the City are also at risk for flooding, especially during seasonal high tides coupled with a rain event. This would be exacerbated with predicted sea level rise and possible higher-intensity storms. In response, the CIP and proposed SSIP have major flood improvement projects in areas with known flooding problems.

Safety and Security

The safety of the facilities of the Wastewater Enterprise is maintained via a combination of regular inspections by SFPUC employees, electronic monitoring, and analysis of unusual incident reports. All above-ground facilities operated and maintained by the SFPUC, are controlled access facilities with fencing, gates, closed circuit television systems and security officers at certain points. Smaller, above-ground and subterranean pumping stations, operated and maintained by the SFPUC, are locked with padlocks or internal locking mechanisms, and most are monitored via access/intrusion alarms. Security improvements are evaluated on an ongoing basis. The electronic operations and controls have been evaluated and exposure reduced through a series of technology systems enhancements and integration.

Military conflicts and terrorist activities may adversely impact the operations of the Wastewater Enterprise or the finances of the SFPUC. The SFPUC continually plans and prepares for emergency situations and immediately responds to ensure services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the assets of the Wastewater Enterprise or that costs of security measures will not be greater than presently anticipated. Further, damage to the Wastewater Enterprise could require the SFPUC to increase expenditures for repairs significantly enough to adversely impact the SFPUC's ability to pay the principal of or interest on the 2010 Series A/B Bonds.

Casualty Losses

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

Limitations on Remedies

The remedies available to the owners of the 2010 Series A/B Bonds upon the occurrence of an event of default under the Indenture in many respects depend upon judicial actions which are themselves often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the 2010 Series A/B Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against charter cities and counties in the State. The opinions to be delivered by Co-Bond Counsel, concurrently with the issuance of the 2010 Series A/B Bonds, that the 2010 Series A/B Bonds constitute valid and binding limited obligations of the SFPUC and the

Indenture constitutes a valid and binding obligation of the SFPUC will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. See “APPENDIX D—PROPOSED FORMS OF OPINIONS OF CO-BOND COUNSEL.”

If the SFPUC fails to comply with its covenants under the Indenture or to pay principal of or interest on the 2010 Series A/B Bonds, there can be no assurance that the available legal remedies will be adequate to protect the interests of the holders of the 2010 Series A/B Bonds.

Uncertainties of Projections, Forecasts and Assumptions

Compliance with certain of the covenants contained in the Indenture is based upon assumptions and projections including, but not limited to, those described under “PROJECTED OPERATING RESULTS.” Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the SFPUC assumes no responsibility for the accuracy of such projections. See also “FORWARD-LOOKING STATEMENTS” above.

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

As discussed under “TAX MATTERS”, interest on the 2010 Series A Bonds could fail to be excluded from the gross income of the owners thereof for purposes of federal income taxation retroactive to the date of the issuance of the 2010 Series A Bonds as a result of future acts or omissions of the SFPUC in violation of its covenants to comply with requirements of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2010 Series A Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Indenture.

In December 1999, as a part of a larger reorganization of the Internal Revenue Service (“IRS”), the IRS commenced operation of its Tax Exempt and Government Entities Division (the “TE/GE Division”), as the successor to its Employee Plans and Exempt Organizations division. The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations is expected to increase significantly under the new TE/GE Division. There is no assurance that, if an IRS examination of the 2010 Series A Bonds issued by the SFPUC as tax-exempt bonds was undertaken, it would not adversely affect the secondary market value of the 2010 Series A Bonds.

Risk of Non-Payment of Refundable Credits

A portion of the payments of the principal of and interest on the 2010 Series B Bonds is expected to be paid with Refundable Credits that the SFPUC and the Trustee, as agent of the SFPUC, expect to receive. The Refundable Credits do not constitute a full faith and credit guarantee of the United States with respect to the 2010 Series B Bonds, but are required to be paid by the U.S. Treasury upon proper application by the SFPUC or the Trustee as its agent. The U.S. Treasury may offset any Refundable Credit to which the SFPUC is otherwise entitled against any other tax liability of the SFPUC payable to the U.S. Treasury, such as withholding or payroll taxes, or other penalties or interest that may be owed at any time to the U.S. Treasury. The SFPUC’s entitlement to receive Refundable Credits with respect to the 2010 Series B Bonds is also subject to audit by the IRS.

The Code contains broad legislative regulatory authority to prescribe such regulations and other guidance as may be necessary or appropriate to carry out the Build America Bond and the Refundable Credit provisions. The IRS and the U.S. Treasury will continue to consider the need to develop any special rules to adapt or tailor the procedural framework implementing provisions in the Code respecting Build America Bonds and the Refundable Credits and may promulgate further regulations. No assurance is given that the U.S. Treasury will make payment of the Refundable Credits in the amounts to which the SFPUC believes it will be entitled, nor that such payments will be made in a timely manner. No assurance can be given that Congress will not amend or repeal provisions of the program, which amendments could affect the payment of Refundable Credits. The SFPUC is obligated under the

Indenture to make payments of principal of and interest on the Bonds without regard to the receipt or deposit of Refundable Credits.

Failure to Maintain Credit Ratings

The SFPUC undertakes no responsibility to maintain its current credit ratings on the 2010 Series A/B Bonds or to oppose any such downward revision, suspension or withdrawal. See “RATINGS” herein. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies. Any such downward revision or withdrawal of such ratings could be expected to have an adverse effect on the market price of the 2010 Series A/B Bonds.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2010 Series A/B Bonds or, if a secondary market exists, that the 2010 Series A/B Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

THE CITY AND COUNTY OF SAN FRANCISCO

The City is the economic and cultural center of the San Francisco Bay Area and northern California. The corporate limits of the City encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay (the “Bay”). The City is located at the northern tip of the San Francisco Peninsula, bounded by the Pacific Ocean to the west, the Bay to the east, the entrance to the Bay and the Golden Gate Bridge to the north, and San Mateo County to the south. Silicon Valley is about a 40-minute drive to the south, and the wine country is about an hour’s drive to the north. The City’s Comprehensive Annual Financial Report for Fiscal Year 2008-09 estimated the City’s 2009 population at 818,887.

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

The City is a major convention and tourist destination. According to the San Francisco Convention & Visitors Bureau, a non-profit membership organization, during the calendar year 2009, approximately 15.4 million people visited the City and spent an estimated \$7.8 billion. The City is also a leading center for financial activity in California and is the headquarters of the Twelfth Federal Reserve District, the Eleventh District Federal Home Loan Bank, and the San Francisco regional Office of Thrift Supervision.

The City benefits from a highly skilled, educated and professional labor force. The Controller of the City estimates that the per-capita personal income of the City for 2009 was approximately \$71,764. The San Francisco Unified School District operates 67 elementary school sites, 14 middle schools, 19 senior high schools, 2 adult education programs, and 42 state-funded preschool sites, and sponsors 9 independent charter schools. Higher education institutions located in the City include the University of San Francisco, California State University-San Francisco, University of California-San Francisco (a medical school and health science campus), Hastings College of the Law, the University of the Pacific’s School of Dentistry, Golden Gate University, City College of San Francisco (a public community college), the Art Institute of California – San Francisco, the San Francisco Conservatory of Music, the California Culinary Academy, and the Academy of Art University.

San Francisco International Airport (“SFO”), located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County and owned and operated by the City, is the principal commercial service

airport for the Bay Area and one of the nation's principal gateways for Pacific traffic. In fiscal year 2008-09, SFO serviced approximately 36.4 million passengers and handled 420,784 metric tons of cargo. The City is also served by the Bay Area Rapid Transit District (electric rail commuter service linking the City with the East Bay and the San Francisco Peninsula), Caltrain (a conventional commuter rail line linking the City with the Peninsula), and bus and ferry services between the City and residential areas to the north, east and south of the City. San Francisco Municipal Railway, operated by the City, provides bus and streetcar service within the City. The Port of San Francisco (the "Port"), which administers 7.5 miles of Bay waterfront held in "public trust" by the Port on behalf of the people of California, promotes a balance of maritime-related commerce, fishing, recreational, industrial and commercial activities and natural resource protection.

The City is governed by a Board of Supervisors elected from eleven districts to serve four-year terms, and a Mayor who serves as chief executive officer, elected citywide to a four-year term. Gavin Newsom has served as the Mayor of the City since 2004. The City's fiscal year 2009-10 adopted budget includes \$6.6 billion of expenditures and reserves, of which \$3.1 billion was allocated to the General Fund of the City and \$3.5 billion was allocated to all other funds, including enterprise fund departments, such as the San Francisco International Airport, San Francisco Municipal Transportation Authority, and the San Francisco Public Utilities Commission. The City's fiscal year 2009-10 budget funds 26,721 full-time equivalent employees. Fiscal year 2009-10 total assessed valuation of taxable property in the City is approximately \$157.6 billion.

THE GENERAL FUND OF THE CITY IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2010 SERIES A/B BONDS, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2010 SERIES A/B BONDS. THE 2010 SERIES A/B BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE CITY.

THE PUBLIC UTILITIES COMMISSION

General

The SFPUC is a department of the City responsible for the maintenance, operation and development of three utility enterprises: the Water Enterprise, the Wastewater Enterprise and the Hetch Hetchy Water and Power Project ("Hetch Hetchy Water and Power"). The Water Enterprise provides drinking water to retail customers in the City, to certain retail customers outside the City and to wholesale customers in three other Bay Area counties (the "Water Enterprise"). The Wastewater Enterprise provides wastewater and stormwater collection, treatment and disposal services for the City. Hetch Hetchy Water and Power operates the Hetch Hetchy Project, comprised of dams (including O'Shaughnessy Dam), reservoirs (including Hetch Hetchy Reservoir), hydroelectric generator and transmission facilities and water transmission facilities from Hetch Hetchy Valley to the connection with the Water Enterprise and, through the SFPUC's Power Enterprise, provides hydroelectric, solar and other power for municipal and public infrastructure, services and facilities (the "Power Enterprise"). Each of the SFPUC's enterprises is operated and managed as a separate financial entity and separate enterprise funds are maintained.

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

Organization, Purposes and Powers

Water Enterprise. Nearly 2.5 million people rely on water supplied by the SFPUC to meet their daily water needs through its Water Enterprise. The Water Enterprise consists of over 280 miles of pipeline, over sixty miles of tunnels, eleven reservoirs, five pump stations, and two water treatment plants located outside of the City (the "Regional Water System") and over 1,250 miles of pipeline, twelve reservoirs, nine storage tanks, twelve pump stations, eight hydro pneumatic stations and seventeen chlorination stations located within the city limit of the City (the "In-City Distribution System"). The SFPUC serves as the retail water supplier for the City and is responsible for water deliveries to residents and institutions within the city limits, as well as to a number of retail accounts

outside of the city limits of the City. The retail customers in the City receive water via the Regional Water System and the In-City Distribution System.

In addition, the SFPUC sells water to twenty-seven wholesale customer entities in San Mateo, Alameda and Santa Clara Counties under contractual agreements. The wholesale customers collectively constitute BAWSCA, which is a public agency separate and apart from the twenty-seven wholesale customers.

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

Hetch Hetchy – Water and Power Operations. Hetch Hetchy Water and Power operates the Hetch Hetchy Project, which provides water for distribution through the Water Enterprise and hydroelectric power to the Power Enterprise. The Power Enterprise was created in February 2005 as a separate system within Hetch Hetchy Water and Power. The Power Enterprise focuses on providing adequate and reliable supplies of electric power to meet the municipal requirements of the City, including power to operate municipal streetcars and electric buses, street and traffic lights, municipal buildings and other City facilities, including San Francisco International Airport. Additionally, the Power Enterprise provides power to the Modesto and Turlock Irrigation Districts, located in the central valley of California, and to other commercial customers consistent with prescribed contractual obligations and federal law. The costs of operating the Hetch Hetchy Project (including both operating costs and capital costs) are allocated between the Power Enterprise and the Water Enterprise.

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

Wastewater Enterprise. The Wastewater Enterprise’s collection and treatment system consists of a combined sewer collection system conveying wastewater and stormwater flows within the City to three water pollution control plants, also located within the City. Treated effluent flows are then discharged through deep-water outfalls into the San Francisco Bay and Pacific Ocean. The wastewater system consists of approximately 993 miles of sewer lines ranging from 8-inch diameter clay pipes to 44-foot by 25-foot reinforced-concrete structures. During dry weather, the SFPUC treatment plants can process and discharge up to 106 mgd of wastewater. The average dry-weather flow between 2003 and 2007 was 79 mgd. This number can increase to 465 mgd of combined (wastewater and stormwater) flows during wet weather. Transport/storage structures around the perimeter of the City allow for an additional 110 mgd of decant treatment for a total infrastructure capacity of 575 mgd during wet weather. See “THE WASTEWATER ENTERPRISE.”

Commission Members

Under the Charter, the SFPUC is given exclusive charge of the operation and management of all water, wastewater and municipal customers’ energy supplies and utilities of the City as well as the real, personal and financial assets under the SFPUC’s jurisdiction. The SFPUC is governed by the San Francisco Public Utilities Commission (the “Commission”). In June 2008, an initiative measure amended the Charter, changing the process for Commission appointments, and establishing qualifications for commissioners. The Commission consists of five members appointed by the Mayor, subject to confirmation by a majority of the Board of Supervisors. Seat 1 shall be a member with experience in environmental policy and an understanding of environmental justice issues. Seat 2 shall be a member with experience in ratepayer or consumer advocacy. Seat 3 shall be a member with experience in project finance. Seat 4 shall be a member with expertise in water systems, power systems, or public utility management, and Seat 5 shall be an at-large member. In order to stagger the terms of the commissioners, the members appointed to Seats 2 and 4 shall serve for an initial term of two years from August 1, 2008. The remaining three members appointed to Seats 1, 3, and 5 shall serve for an initial term of four years from August 1, 2008, and thereafter the terms of all members shall be four years. Members may be suspended by the Mayor and may be removed by a three-fourths vote of the Board of Supervisors for official misconduct.

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

Name and Title	Seat	Originally Appointed	Term Expires
Francis X. Crowley, President	5	February 2008	August 2012
Francesca Vietor, Vice President	1	September 2008	August 2012
Ann Moller Caen	3	March 1997	August 2012
Juliet Ellis	2	December 2008	August 2010
Anson B. Moran	4	July 2009	August 2010

Management

Management of the SFPUC is led by the General Manager. The General Manager is appointed by the Mayor from candidates submitted by the Commission. Once appointed by the Mayor, the General Manager serves at the pleasure of the Commission; however, the Commission also has Charter authority to employ the General Manager under an individual contract. Brief biographies of the General Manager and principal members of the senior management of the SFPUC are set forth below.

Edward M. Harrington. Ed Harrington is General Manager of the SFPUC. Mr. Harrington was nominated for the role of General Manager by Mayor Gavin Newsom in January 2008 and was approved by the Commission in March 2008. From 1991 to 2008, Mr. Harrington served as the Controller of the City, where he administered the City's then \$6.1 billion budget. Mr. Harrington's responsibilities as Controller included receiving and disbursing City funds, estimating the cost of ballot measures, providing payroll services for the City's then 28,000 employees, issuing the City's financial statements and directing performance and financial audits of City activities. Before becoming Controller, Mr. Harrington was the Assistant General Manager and Finance Director of the SFPUC and was responsible for the financial activities for the Muni Railway, Water Department and Hetch Hetchy Water and Power System. Mr. Harrington is a Certified Public Accountant. In 2003 he was elected President of the Government Finance Officers Association of the United States and Canada. Until 2008, he served as President of the California State Association of County Auditors. In 2008, Mr. Harrington was elected to the Board of Trustees of the Financial Accounting Foundation which oversees the activities of the Governmental Accounting Standards Board ("GASB") and the Financial Accounting Standards Board ("FASB"). Mr. Harrington attended the University of San Francisco and received his B.A. in Accounting from San Francisco State University.

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

Todd L. Rydstrom. Todd L. Rydstrom serves as the Assistant General Manager and Chief Financial Officer, where he manages the Business & Financial Services Bureau comprised of 300 staff in Customer Service, Information Technology, Finance, Human Resources, Fleet Management, and Assurance & Internal Controls. Prior to joining the SFPUC in June 2008, Mr. Rydstrom served as the Director of Budget, Analysis & Accounting Reconciliation in the Controller's Office, where he managed the City's then \$6.1 billion Budget, Revenue, Property Tax, Accounting Reconciliation and Office of Economic Analysis functions. In 2006, Mr. Rydstrom was awarded the Public Managerial Excellence Award for outstanding public service in the City. Prior to joining the City Controller's Office in November 2001, Mr. Rydstrom served as the City of Oakland's Acting Budget Director and Principal Financial Analyst. Mr. Rydstrom has nearly twenty years of experience in investment and government finance. His work experience includes investment operations and business development with The Principal Financial Group, one of the largest Fortune 500 pension fund companies in the US, as well as public sector finance

and budgeting with Bay Area governments including the City of Emeryville, the City of Oakland, and the City and County of San Francisco. Mr. Rydstrom received his M.P.P. from the Goldman School of Public Policy at the University of California, Berkeley, where he was awarded the Smolensky Prize for Outstanding Advanced Policy Analysis for his work titled Municipal & Redevelopment Strategic Fiscal Planning. He earned his undergraduate degree in Investment Finance from Iowa State University.

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

Harlan Kelly, Jr. Harlan Kelly, Jr. is the Assistant General Manager of Infrastructure. As head of Infrastructure, he oversees Project Management, Engineering Management, Construction Management, Program Controls, Environmental Management and Contracts Administration for capital programs. Mr. Kelly has over twenty-five years of engineering experience including eighteen years in management capacities. He began his career in the mid-1980s in San Francisco Department of Public Works where he advanced to progressively responsible positions in both functional and project management. In 1996, then-Mayor Willie Brown, Jr. appointed Mr. Kelly to the position of City Engineer of San Francisco, as well as Public Works Deputy Director. At the age 34, Mr. Kelly was the youngest person and first African American in the City's history to serve in this leadership role. He also served as the Acting Director of Public Works for an interim period beginning in May 2000. As City Engineer, Mr. Kelly managed the Bureaus of Engineering, Architecture, Construction Management, and Street Use and Mapping, which included engineering design, sewer design and repair, street construction, disability access for public structures, subdivision and mapping, permitting and geographic information systems. He also oversaw the design and construction of major City facilities and structures. Prior to his tenure as City Engineer, Mr. Kelly held a number of engineering positions at the Department of Public Works including Section Engineer, Resident Engineer, and Systems Manager. As a Project Manager, he led multiple projects for Public Health, Clean Water Program, Recreation and Park, and Earthquake Safety Bond Improvements. Mr. Kelly is a registered Professional Civil Engineer and a graduate of the University of California at Berkeley. He is a member of the American Society of Civil Engineers and the National Society of Black Engineers. He is the recipient of the Eminent Engineer Award from the National Engineering Honor Society, the Stanley Lim Award from the San Francisco Human Rights Commission, and the Mayor's Fiscal Advisory Council Award for Excellence.

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

Tommy T. Moala. Tommy T. Moala is the Assistant General Manager of the Wastewater Enterprise, which protects public health and safety through the collective treatment of raw sewage and stormwater runoff. San Francisco's unique and award-winning combined sewer system treats on average more than 79 mgd of sewage and stormwater during dry weather periods. Mr. Moala oversees operations, equipment and facilities maintenance,

structural design and governmental compliance for the City's three wastewater treatment plants, 993-mile long sewer system and network of wastewater pumping stations. A former Naval Propulsion Engineer, Mr. Moala has more than 15 years experience in wastewater in-plant management. He began his 20-year career with the SFPUC as a Stationary Engineer, moving up steadily through the ranks to Senior Engineer, Chief Stationary Engineer and Operations Manager, and setting the Enterprise's standard for zero-violations along the way. A team recipient of the National Protection Agency O & M Award and the National Association of Clean Water Agency Award, Mr. Moala has also received Mayor Gavin Newsom's Public Managerial Excellence Award and the SFPUC O'Shaughnessy Award for organizing the SFPUC Emergency Response Team dispatched to Hurricane Katrina. He is a member of the Water Environment Federation, the California Water Environment Federation, the National Association of Clean Water Agencies and the American Water Works Association.

Tyrone Jue. Tyrone Jue, Acting Assistant General Manager for External Affairs, is the primary spokesman for the SFPUC and is responsible for the SFPUC's communications, outreach, education and legislative matters. From 2002-2004 Mr. Jue served as a district communications liaison under Mayors Willie L. Brown, Jr. and Gavin Newsom in the Mayor's Office of Neighborhood Services. Since joining the SFPUC in 2004, he has managed the media and public outreach for the upcoming Sewer System Improvement Program, three successful multi-year water/wastewater rate increases, and many of the SFPUC's successful environmental initiatives. For more than 6 years, Mr. Jue was the volunteer Executive Director for the True Sunshine Youth Programs, a non-profit program based in San Francisco's Chinatown district, offering free math, science and English tutoring. He holds a B.S. in Cell Biology and a B.A. in Psychology from the University of California, Davis.

Employee Relations

During the Fiscal Year 2009-10, the SFPUC's operating budget includes annual funding for 1,549 full-time positions. Authorization exists for 2,154 full time positions for Fiscal Year 2009-10, which includes operations and capital budget positions in infrastructure along with an assumption of vacant positions.

The Charter governs the SFPUC's employment policies and authorizes the San Francisco Civil Service Commission to establish rules and procedures to implement those policies. Since 1976, the Charter has prohibited strikes by City employees. Pursuant to the Charter, employee organizations representing City workers are permitted to negotiate wages, hours, benefits and other conditions of employment through collective bargaining. The decision to elect collective bargaining is irrevocable. All SFPUC employees now bargain collectively. There are presently fourteen labor unions representing SFPUC employees. Most SFPUC employees collectively bargain every three years. Conflicts between the employees and the City in collective bargaining are resolved by an arbitration board whose decision is final. There have been no strikes by City employees since the adoption of the strike prohibition in 1976.

THE WASTEWATER ENTERPRISE

Background and History

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

Today the Wastewater Enterprise provides sanitary waste and stormwater collection, treatment and disposal services through (i) a combined sanitary waste and stormwater system that collects sanitary waste and stormwater, (ii) two all-weather wastewater treatment plants and one wet-weather facility and (iii) effluent outfalls to the San Francisco Bay and Pacific Ocean. Most of the City is serviced by the combined sanitary wastewater and stormwater system that reduces pollution in the San Francisco Bay and Pacific Ocean by treating wastewater and urban runoff. Of an estimated total combined wastewater flow of 40 billion gallons per year, approximately 34 billion gallons per year receives full secondary treatment, 4.5 billion gallons per year receives primary or decant treatment and is discharged to deep-water outfalls and 1.5 billion gallons per year receives primary or decant treatment and is discharged through nearshore outfalls. New redevelopment projects such as Mission Bay, Treasure Island and the Hunter's Point Naval Shipyard are implementing green infrastructure techniques or low impact design elements that allow for separate storm and sanitary collection and discharge systems. The stormwater is treated by natural

techniques such as vegetated swales, infiltration and other approved methods prior to discharge into the receiving waters. The sanitary waste is transmitted to treatment plants for processing prior to discharge.

The facilities of the Wastewater Enterprise collect, treat and discharge an average of approximately 79 mgd of sanitary wastewater during dry-weather periods. When the three treatment facilities and elements of the collection system are fully operational, the San Francisco combined sewer infrastructure can provide 465 mgd of combined wastewater and stormwater treatment. Transport/storage structures around the perimeter of the City allow for an additional 110 million gallons of decant treatment for a total infrastructure capacity of 575 mgd during wet weather (193 mgd of secondary treatment, 272 mgd of primary treatment, and 110 mgd of decant treatment). Deep-water outfalls can discharge 435 mgd. Another 140 mgd of secondary treated effluent can be discharged through a shallow water outfall to Islais Creek during peak wet-weather events. The wastewater treatment plants produce approximately 85,000 wet tons per year of treated biosolids.

Prior to July 1, 1996, the Department of Public Works of the City operated the Wastewater Enterprise. On July 1, 1996, the Mayor transferred the operation of the Wastewater Enterprise from the Department of Public Works to the SFPUC pursuant to the Charter.

Service Area

The Wastewater Enterprise serves a population equivalent* of approximately 830,000, which includes residents of the City and of northern San Mateo County through arrangements with three municipal sewer service providers: North San Mateo County Sanitation District, the Bayshore Sanitary District and the City of Brisbane (the “Municipal Customers”). Customers include residential, commercial and industrial users. The combined sewer service area is approximately 29,773 acres. See “FINANCIAL OPERATIONS – Customer Base.”

Combined Sanitary Waste and Stormwater System

General. For San Francisco, the average annual rainfall for the years 1914 through 2006 is about 21 inches per year. Approximately 84% of the rainfall occurs from November to March with 40% occurring during December and January. Depending on the duration, intensity and storm pattern, runoff of combined flows of sanitary wastes and stormwater can exceed the collection and treatment system capacity. Prior to construction of the City’s transport/storage structures beginning in the 1970’s, when this occurred, up to 20% of the combined wastewater bypassed the treatment plants and was discharged untreated out of overflow structures along the City’s perimeter an average of 80 times a year, with a total discharge of approximately 7.5 billion gallons per year of untreated wastewater.

In order to address the combined sewer overflow problem during wet-weather periods, the City built a series of large underground transport/storage structures (box sewers and tunnels) around the perimeter of the City to intercept, temporarily store, and transport the mixture of storm runoff and wastewater to new or upgraded treatment facilities. The primary purpose of this moat of transport/storage structures was to reduce the incidence and volume of discharges in wet weather. Prior to their construction, untreated combined sewer overflows occurred throughout the City whenever rainfall occurred at a rate of 0.02 inches per hour. By providing both storage volume and detention time, the transport/storage structures allow for delayed treatment of the stored combined wastewater and stormwater flows at the treatment plants after storms. In addition, the retention of the combined flows in the transport/storage structures allows solids to settle, and weir and baffle structures retain floatable materials, providing the equivalent of wet-weather “primary treatment” (i.e., decant treatment).

With these improvements, the facilities of the Wastewater Enterprise are designed to minimize the number of wet weather discharge events to ten each year, with as few as one per year at some locations. In all cases of discharge, the combined sewage receives some treatment.

* Population equivalent is often used to account for a service area’s employment base contribution to wastewater flow. This is typically based on the estimated time each population group stays in the City each day.

Sewer Lines and Storage Structures. The Wastewater Enterprise’s collection and transport system currently has a storage capacity of approximately 197 million gallons, and includes approximately 993 miles of sewer lines of which 781 miles is made up of collecting sewers of 36 inches or less in diameter. All dry-weather flows from the Bayside Watershed (64% of the total city service area - 18,597 acres) as well as the Municipal Customers, are channeled from drains to the Southeast Water Pollution Control Plant (the “SEP”) for treatment and pumped through the Southeast Bay Outfall and discharged 810 feet from Pier 80 into the San Francisco Bay. All dry-weather flow collected from the Westside Watershed (11,176 acres) and some small flows from northern San Mateo County drain to the Oceanside Water Pollution Control Plant (the “OSP”) for treatment and gravity discharge approximately four miles off shore in the Pacific Ocean through the Southwest Ocean Outfall. Included in these two major watersheds are the Federal lands of Presidio Park and Hunters Point Shipyard, whose sanitary flows are transported to SFPUC treatment facilities. The SEP serves approximately two-thirds of the City’s residents and the Municipal Customers.

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

TABLE 1
SEWER SYSTEM BY PIPE LENGTH IN MILES AND AGE

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

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

Source: SFPUC, Wastewater Enterprise

Average useful life of the sewer system’s collecting sewers (i.e., gravity pipes 36 inches or less in diameter) is approximately 110 years, though many conditions, including pipe material and soil conditions, affect actual pipe lifespan. The Wastewater Enterprise has approximately 780 miles of collecting sewers, approximately 25% of which are over 100 years old. The recent historical rate of replacement for the Wastewater Enterprise’s sewer pipes has been at a 200-year replacement cycle. Aging sewers, if left unaddressed, would result in increasing sinkholes in the street, reduced system reliability and possibly public health and safety risks. Extensive efforts are being made to increase the replacement rate significantly and to address the aging infrastructure, with the objective of ultimately achieving a 110-year replacement cycle. The SFPUC is increasing sewer inspections and condition assessments in order to more effectively prioritize areas of pipeline replacement and to increase the aggregate miles of sewer replaced each year.

In addition to sewer lines, the Wastewater Enterprise maintains underground transport/storage structures to capture overflow due to stormwater. These structures were built between 1979 and 1996. The largest of these structures, the Westside Transport structure, is approximately 2 miles long, 45 feet deep and 25 feet wide. The transport/storage structures were designed with sufficient storage to reduce combined sewer overflows and protect beneficial uses of receiving waters for the San Francisco Bay and the Pacific Ocean. Thirty six permitted near shore discharge sites from the transport/storage structures exist around the perimeter of the City. Discharges through these

permitted sites receive decant treatment. The performance of the transport/storage structures complies with the requirements of the National Combined Sewer Overflow Control Policy incorporated in the discharge permits issued on behalf of the United States Environmental Protection Agency (the “EPA”) by the San Francisco Bay Regional Water Quality Control Board (the “Regional Water Board”). See “REGULATORY MATTERS – Regulatory Trends – NPDES Permits.”

Pump Stations. The preferred method of moving sewage to treatment plants and eventually to the discharge location is gravity. However, when gravity flow is not possible, pump stations are used. The sewer system has 27 pump stations. There are six major all-weather pump stations and two major wet-weather pump stations, 18 minor pump stations, and one major effluent pump station for bayside effluent discharge.

Outfalls and Nearshore Discharge Structures. The Wastewater Enterprise currently has three offshore outfalls that discharge to deep waters — Southeast Bay Outfall, North Point Outfalls, and Southwest Ocean Outfall — and one that discharges to shallow waters (Quint Street Outfall). In addition to these outfalls, thirty six combined sewer discharge (“CSD”) structures, or near shore outfalls, serve as relief points of the combined sewer system. These CSD structures operate infrequently during large storm events and allow for discharge from the transport/storage structures to relieve the collection system and treatment plants.

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

Wastewater Treatment

Wastewater Treatment Plants. The Wastewater Enterprise operates three San Francisco treatment facilities in addition to the decant treatment facilities operated as combined sewer discharges. The bayside treatment facilities include the SEP and the North Point Wet-Weather Facility (the “NPF”); the sole treatment facility on the west side is the OSP. During dry weather, the SEP and the OSP provide up to 106 mgd of primary and secondary treatment of wastewater flow. The average dry weather flow between 2003 and 2007 at SEP and OSP was 79 mgd. The NPF can provide up to 150 mgd of primary treatment during wet weather.

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

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

Source: SFPUC, Wastewater Enterprise

Southeast Water Pollution Control Plant. The SEP, the only bayside dry-weather facility, occupies 39.9 acres bounded by Evans, Phelps, Quint, and Rankin streets, with Jerrold Avenue separating the north and south sides of the facility. It is a secondary wastewater treatment plant that serves the wastewater treatment needs of the Bayside Watershed plus 1.65 mgd of flow from Municipal Customers. During wet weather, the SEP wet-weather

facilities are engaged to provide primary treatment to an additional 100 mgd of combined wastewater flow. Located in the Bayview District, among a mixture of industrial, commercial, and residential neighborhoods, the SEP serves about two-thirds of the City's residents. The service areas include the Marina, Financial District, South of Market Area, the Mission, Hunters Point, and Visitacion Valley. The SEP also provides treatment for the Municipal Customers.

The SEP was constructed in 1952 as a primary treatment facility. In order to meet the mandates of the 1972 Clean Water Act, the SEP was expanded in the early 1980's to provide secondary treatment of all bayside dry-weather flows with a daily average design capacity of approximately 85 mgd and peak-hour design flow of 142 mgd. In 1996, the plant's wet weather capacity was increased to 250 mgd, with 150 mgd receiving primary treatment prior to disinfection and discharge. The SEP provides primary treatment and secondary treatment using the high-purity-oxygen activated sludge process before effluent disinfection. Sludge treatment consists of gravity-belt thickening, anaerobic digestion, chemical conditioning and dewatering. Plant effluent is discharged during dry weather into the San Francisco Bay through an outfall in the vicinity of Pier 80. During wet weather, effluent is discharged through the outfall near Pier 80 and at an additional outfall at the shoreline of Islais Creek (Quint Street Outfall).

Oceanside Water Pollution Control Plant. The OSP, located at 3500 Great Highway and adjacent to Lake Merced and the San Francisco Zoo, is a 12-acre primary and secondary wastewater treatment plant that serves the Westside Watershed and the San Mateo County flows that drain to this basin. Land use in the OSP's service area is primarily residential. The OSP was constructed in 1993 and provides primary and secondary treatment using the high-purity-oxygen activated sludge process. Sludge treatment consists of gravity belt thickening, anaerobic digestion, chemical conditioning and dewatering. The OSP began operations in September 1993 and complies with all dry- and wet-weather discharge requirements.

North Point Wet-Weather Facility. The NPF, a wet-weather-only facility, located at 111 Bay Street, is a 6.5 acre facility that provides primary treatment to wet-weather flows from the northeast portion of the Bayside Watershed. Land use in the NPF's service area is predominantly commercial and residential. The NPF is a wet-weather facility consisting of screening, grit removal, sedimentation, disinfection and de-chlorination. Effluent from the NPF is discharged into the San Francisco Bay through an outfall system at Piers 33 and 35. At the conclusion of each wet-weather event, grit and solids are flushed out of the sedimentation tanks and directed to the Channel Pump Station, which pumps them to the SEP for treatment. The NPF was originally constructed in 1951 as an all-weather primary treatment facility. In response to the mandates of the 1974 Clean Water Act, the NPF was converted into a strictly wet-weather treatment plant in 1983, providing up to 150 mgd of primary treatment. The current plan for NPF calls for upgrades to the existing plant- electric, seismic, control, treatment. The NPF's capacity may be expanded above the current 150 mgd at some point in the future.

Biosolids Management. The SEP and the OSP produce approximately 85,000 wet tons per year of sludge or biosolids, which is highly treated and anaerobically digested. During wet-weather months, all of the sludge produced by the Wastewater Enterprise is trucked to the Hay Road Landfill outside of Vacaville, California, where it is stored during the winter. During dry weather, it is dried to 50 percent or less water content and mixed with compost and solids to create an "engineered soil" that is used as the daily soil cap on the active face of the landfill.

During dry-weather months, the treated, dewatered biosolids from both the SEP and the OSP is trucked to various ranches in Solano and Sonoma Counties and is applied directly as a soil amendment for wheat and safflower farming or for land used as pasture pursuant to disposal contracts. The Wastewater Enterprise coordinates the application, testing and sampling procedures required by the applicable regulatory agencies. A small portion of the biosolids are trucked to a Merced County composting site and are processed into a Class A biosolids compost. Because disposal in Solano County may not offer a long-term solution, the SFPUC is exploring other means of reusing of biosolids and upgrading the level of treatment.

Treatment Capacity and Projected Needs

Estimated projections indicate an increase in City's residential population between 2000 and 2030 from 756,000 to 848,000. However, the City's total water demands are expected to increase annually at the projected long-term rate of general population growth (0.53% per year). This results in relatively flat growth and is

attributable to a decrease in average per capita water usage due to conservation, including the significant use of low-flow plumbing fixtures. For wastewater production, this translates to less influent flow to the treatment plants, but more solids loading. The Wastewater Enterprise's existing treatment plants have sufficient excess capacity to address this increase in loading, so no significant expansion is expected to be required in order to meet the needs of the City based upon these population growth projections alone. However, should the City proceed with plans for the conversion of the former Treasure Island Naval Station to residential and commercial use, a new treatment plant with additional capacity, and associated infrastructure, will be required to serve the full build-out of that new development.

Because the SFPUC maintains a combined sewer system, there may be other factors in the future, including environmental changes and regulatory developments, which would require expanded sewer or treatment capacity in order to treat more stormwater or reduce CSDs. SFPUC operations of the combined system comply with all current and known future regulatory requirements for combined flows.

Emergency Operations

The Wastewater Enterprise maintains up-to-date contingency plans in the event of an unplanned outage of a treatment facility, process unit, pump station, sewer pipeline or other infrastructure elements. Overall, the wastewater collection and treatment system is designed with redundancy and some flexibility in order to facilitate responses to emergency events. The collection system is equipped with pump stations and isolation valves so that flows can be redirected in event of a failure, if necessary; though, in the event of a complete treatment plant shutdown, there is currently no means of shifting flows from the Westside Watershed destined for the OSP to the SEP, nor can flows from the Bayside Watershed destined for the SEP be rerouted to the OSP. In the event of an unplanned shutdown of critical treatment facilities, transport and storage structures provide up to 167 million gallons of storage (up to several days of storage, depending on the inflow). The wastewater treatment facilities and major pump stations are also built to operate with one process unit or key piece of equipment out of service. Critical infrastructure elements prone to failure or for which full redundancy is not available have been identified as projects in the CIP and proposed SSIP to increase system flexibility and the ability to respond to unplanned events.

Regulatory Requirements

The Wastewater Enterprise meets all known current and future regulatory permit requirements for its treatment facilities. In the future, additional constituents of concern (possibly including pollutants such as ammonia, nutrients, dioxin, endocrine disrupting chemicals, human-made chemicals/products) will likely be identified, and additional effluent limits may be added for wastewater discharges into the San Francisco Bay and Pacific Ocean, as water quality objectives are developed for new compounds and improved analytical techniques become available. Whether these new pollutant constituents become pollutants of concern for either the SEP or OSP discharges will depend on which water quality objectives are established and how they are implemented in the regulatory permits the Wastewater Enterprise obtains from the Regional Water Board. Additional source control measures, public education and outreach, and additional or advanced treatment processes may be necessary to achieve compliance. See "REGULATORY MATTERS".

At this point in time, the potential for new objectives and regulatory limitations remains speculative. Given the current lack of information and firm regulatory policy direction, it is unknown whether major changes will be needed to achieve future regulatory compliance.

CAPITAL IMPROVEMENT PROGRAM AND SEWER SYSTEM IMPROVEMENT PROGRAM

Program Summary

The Wastewater Enterprise is currently developing a comprehensive, multi-billion-dollar Sewer System Improvement Program (the "SSIP"). When complete, the SSIP will provide a long-term strategy for the management of the City's wastewater and stormwater system for the next 30 years. The SSIP will provide a detailed capital planning roadmap for necessary improvements, address specific challenges facing the system,

maximize system reliability and flexibility, and estimate the funds necessary to implement these improvements. The SSIP will include level of service goals for regulatory and environmental benefits, operational and seismic reliability and sustainability, and community benefits to address the long-term needs of the City's wastewater and stormwater system. Currently, SFPUC staff is working with the Commission to finalize goals, levels of service, scope and projects for the proposed SSIP.

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

Program Development and Chronology

Given the amount of time likely to be required to complete planning, environmental review, design and contracting, and similar matters, construction of the first major SSIP capital project is not anticipated to begin until 2015 or later. Recognizing the extensive time needed to develop and adopt the comprehensive SSIP, the SFPUC authorized \$150 million in interim funding for critical projects addressing immediate needs of the wastewater system, specifically, aging infrastructure, odor mitigation and potential flooding in various areas of the City. Final authorization for this CIP funding was approved by the Board of Supervisors in September 2006 and the issuance of commercial paper notes began in November 2006 and new issuance continued through October 2009. The Wastewater Enterprise subsequently identified additional projects for inclusion in the CIP and two proposed projects to be included under the SSIP. In August 2009, the Board of Supervisors approved additional projects under Ordinance No. 201-09, appropriating \$119,800,000 for Fiscal Years 2009-2010 and 2010-2011 to fund work on these projects.

CIP Objectives and Scope

For the CIP, the SFPUC will be focusing on the immediate needs of the Wastewater Enterprise in the following areas:

- Maximizing the collection and conveyance of sewage and stormwater;
- Protecting public health and safety;
- Maximizing control of odor emissions;
- Increasing reliability of critical wastewater electrical and mechanical equipment;
- Prolonging the life of concrete surfaces within wastewater facilities;
- Improving the operation of solids and biogas handling at the treatment plants;
- Reducing future operation and maintenance costs of treatment facilities and pump stations; and
- Enhancing security of critical facilities

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

Sewer Improvement Projects Overview. The Sewer Improvement Projects will enhance the collection and conveyance of sewage and stormwater in San Francisco. The completed projects will increase sewer capacity, allowing more flow to be captured and transported to the wastewater treatment plants. Approximately fifty-eight percent of sewer system pipe in San Francisco is over 70 years old. Replacing and increasing the sizes of sewer pipelines throughout the City will enhance the reliability of the sewer collection system.

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

SSIP Goals, Levels of Service Objectives and Scope

As described above, the SFPUC is in the process of finalizing the goals, levels of service, scope and projects for the proposed SSIP. However, in addition to funding for the projects in the CIP, the \$119,800,000 appropriation in Ordinance No. 201-09 includes funding to begin planning for two major projects expected to be included in the full SSIP: (1) \$10 million to begin planning for the Channel Tunnel Project; and (2) \$9 million to begin planning for the Biosolids/Digester Project.

The Channel Tunnel Project. A key part of the sewer system, the Channel Force Main conveys 60% of flow to the SEP. Portions of the Channel Force Main (located between Islais Creek and the Mission Creek) are vulnerable to the effects of liquefaction in the event of a major earthquake. The Channel Tunnel project consists of construction of a conveyance tunnel to provide full redundant back-up to the existing Channel Force Main.

The Biosolids/Digester Project. The existing solids digester facility at the SEP, which was constructed in 1952, is seismically unreliable and is operating beyond its useful life. The objective of the Biosolids/Digester Project is to replace this solids digester facility. Replacement of the existing facility with a more technologically advanced facility is required to ensure future reliable and sustainable treatment, disposal and reuse of biosolids.

Management Approach

The implementation of the CIP is led by SFPUC staff in the Infrastructure Division of the SFPUC. The delivery of the program is ultimately the responsibility of the SFPUC General Manager, the Assistant General Manager, Wastewater, and the Assistant General Manager, Infrastructure.

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

The implementation of the CIP is managed at two different levels – program and sub-program levels. Specific decision-making authorities are designated for each level. At the program level, the Senior Project Manager manages and directs all aspects of the implementation and delivery of the CIP, including strategic direction of the program, policy, funding, systems, and procedures to support execution. At the sub-program level project managers oversee the delivery of projects through all phases from planning, design, environmental, bid and award, construction, and closeout phases.

Program Schedule and Budget

The current program budget for CIP projects and SSIP planning funds are shown in the tables below:

TABLE 3

CURRENT CIP AND SSIP PROJECT BUDGETS

<u>Projects</u>	<u>Budget</u>
CIP - Aging Infrastructure and Odor Control Sub-program:	\$106,850,000
CIP - Sewer Improvement Sub-program:	\$115,450,000
SSIP - Sewer System Improvement Plan	\$19,000,000
Financing Cost	\$7,500,000
<hr/>	
Total	\$248,800,000

Source: SFPUC, Wastewater Enterprise

Program Status and Performance

Individual CIP projects are at different phases, from planning to construction. The table below outlines the status of these projects through March 31, 2010.

TABLE 4

STATUS OF CIP PROJECTS THROUGH MARCH 31, 2010

<u>Active Phase</u>	<u>Number of Projects</u>
Planning	13
Design/Environmental Review	3
Construction/Completed	<u>32</u>
Total	48

Source: SFPUC, Wastewater Enterprise

Potential Delays and Cost Increases

As projects advance through the various pre-construction phases and become better defined, uncertainties that may result in delays and cost increases are reduced. Nonetheless, factors that may impact schedule and cost remain in the late stage of design and during construction. See “RISK FACTORS – Cost of the SSIP; Timely Completion of the SSIP.”

Market conditions are very favorable at this time for the construction of major capital improvements. An escalation rate of 3.5% is currently assumed to account for general inflation from January 2010 through completion of the CIP. Construction of the first major SSIP capital project is not anticipated to begin until 2015 or later.

The bidding environment is another aspect of the program that is currently positive. The recent decrease in construction activity due to current economic conditions has resulted in a greater number of bids on construction projects generally. This trend could change if the various economic stimulus packages being initiated at the Federal and State levels result in a number of new large infrastructure programs. A significant increase in construction work could limit the number of contractors qualified to bid on CIP projects or reduce their willingness to bid aggressively. Fewer bids typically result in higher costs.

Construction of CIP projects is also subject to other ordinary construction risks and delays applicable to projects of their kind, such as (i) inclement weather affecting contractor performance and timeliness of completion, which could affect the costs and availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors; (ii) contractor claims or nonperformance; (iii) failure of contractors to execute within contract price; (iv) work stoppages or slowdowns; (v) failure of contractors to meet schedule terms; or (vi) the discovery of hazardous materials on the site or other issues regarding compliance with applicable environmental standards.

Finally, the occurrence of a major seismic event prior to the completion of the CIP could have damaging effects on the Wastewater Enterprise and impact the implementation of the CIP and the SSIP. See “RISK FACTORS – Seismic Considerations.”

FINANCING OF THE CIP AND THE SSIP

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

The SFPUC had, as of April 1, 2010, \$137.5 million aggregate principal amount of commercial paper notes outstanding, out of a total authorized amount of \$150 million. Through the issuance of the 2010 Series A/B Bonds and the application of the proceeds thereof, the SFPUC will refund all \$137.5 million aggregate principal amount of outstanding commercial paper notes. See “OBLIGATIONS PAYABLE FROM REVENUES—Subordinate Debt and Commercial Paper.”

The SFPUC will fund current CIP and SSIP appropriations through the issuance of the 2010 Series A/B Bonds and the application of the proceeds thereof. Debt issuance to fund the CIP and a portion of the anticipated cost of the SSIP is projected to total \$2.7 billion between Fiscal Year 2009-10 and Fiscal Year 2014-15 and is anticipated to be in the form of bond issues secured by a parity lien on Net Revenues. The projected repayment of principal and interest on these future debt issues has been incorporated into the Commission’s approved rates through Fiscal Year 2013-14.

FINANCING OF OTHER CAPITAL IMPROVEMENTS

In addition to the projects associated with the CIP and SSIP, the Wastewater Enterprise has repair and replacement projects (“R&R”) to improve performance or extend the service life of an existing asset. SFPUC R&R projects, which are annual ongoing projects such as replacement of City wastewater conveyance pipes, are typically revenue funded. If project needs exceed current cash-funding capacities, however, debt financing is considered.

FINANCIAL OPERATIONS

General

The SFPUC is a department of the City and, as such, the financial operations of its three enterprises are included in the Comprehensive Annual Financial Report of the City and shown as enterprise funds. This report is not incorporated by reference herein. The following information is provided with respect to the Wastewater Enterprise only and does not purport to reflect the financial position of the SFPUC or the City as a whole.

Basis of Accounting

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

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

City Budget Process

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

Wastewater Enterprise Rates and Charges

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

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

Charter; Rate-Setting Requirements. Pursuant to certain provisions of Proposition E, which became effective with respect to the Wastewater Enterprise on January 3, 2003, the Charter was amended to authorize the Commission to set rates, fees and other charges in connection with providing Wastewater Enterprise services, subject to rejection, within 30 days of submission, by the Board of Supervisors. If the Board of Supervisors fails to act within 30 days, the rates become effective without further action.

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

- (a) Establish rates, fees and charges at levels sufficient (i) to improve or maintain financial condition and bond ratings at or above levels equivalent to highly rated utilities of the Wastewater Enterprise, (ii) to meet requirements and covenants under all bond resolutions and indentures (including the Indenture) and (iii) to provide sufficient resources for the continued financial health (including appropriate reserves), operation, maintenance and repair of the Wastewater Enterprise, consistent with good utility practice;
- (b) Retain an independent rate consultant to conduct rate and cost of service studies for the Wastewater Enterprise at least every five years;
- (c) Set retail rates, fees and charges based on the cost of service;

- (d) Conduct all studies mandated by applicable State or Federal law to consider implementing connection fees for the Wastewater Enterprise servicing new development;
- (e) Conduct studies of rate-based conservation incentives and/or lifeline rates and similar rate structures to provide assistance to low income users, and to take the results of each studies into account when establishing rates, fees and charges, in accordance with State and federal laws; and
- (f) Adopt annually a rolling five-year forecast of rates, fees and charges.

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

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

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

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

If, as a result of this process, additional revenues are required or if the cost structure of the Wastewater Enterprise has changed, the Wastewater Enterprise submits its recommended rate schedules to the Commission for its consideration. After receiving public comment, the Commission adopts a rate resolution and transmits its recommended rate schedules to the Board of Supervisors. Once submitted, the Board of Supervisors may vote to reject the proposed rate schedules within 30 days. If rejected, the existing rate schedules remain in effect until such time as a new rate schedule is resubmitted by the Commission and not rejected by the Board of Supervisors.

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

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

Current Rate Charges by Category. Based on the approved and adopted 2009 rate study, sewer service charges are currently established for user categories, as described below. Residential users are divided into sub-categories for single-family and multi-family users. Pursuant to State law, all sewer rates reflect cost of service by customer class.

Schedule A-1 – Single-Family Residential Users. This schedule applies to single-family residential users. Users are charged on the basis of discharge units in accordance with the schedule of rates in the table below. A discharge unit is based on the customer's flow factor representing the quantity of water use returned to the sewer system as wastewater. For example, a customer using 10 units of water and having a flow factor of 90% is billed for

9 discharge units. One unit of water is equal to 100 cubic feet or 748 gallons. The standard flow factor for single family residential units is 90%.

TABLE 5

SINGLE-FAMILY RESIDENTIAL USER SEWER RATE – CHARGE PER DISCHARGE UNIT

Rate Tiers	Effective 7/1/09	Effective 7/1/10	Effective 7/1/11	Effective 7/1/12	Effective 7/1/13
First 3 discharge units per month	\$ 6.05	\$ 6.91	\$ 7.16	\$ 7.52	\$ 7.90
All additional discharge units	\$ 8.35	\$ 9.21	\$ 9.55	\$10.03	\$10.53
Average monthly bill based on 6.3 discharge units	\$45.71	\$51.12	\$53.00	\$55.66	\$58.45

Source: SFPUC, Wastewater Enterprise

Schedule A-2 – Multi-Family Residential Users. This schedule applies to multi-family residential users. Users are charged on the basis of discharge units in accordance with the schedule of rates in the table below. A discharge unit is based on the customer's flow factor representing the quantity of water use returned to the sewer system as wastewater. For example, a customer using 10 units of water and having a flow factor of 95% is billed for 9.5 discharge units. One unit of water is equal to 100 cubic feet or 748 gallons. The standard flow factor for multi-family residential units is 95%. The use allowed in each rate tier shall be multiplied by the number of dwelling units to maximum use allowed in the tier.

TABLE 6

MULTI-FAMILY RESIDENTIAL USER SEWER RATE – CHARGE PER DISCHARGE UNIT

Rate Tiers	Effective 7/1/09	Effective 7/1/10	Effective 7/1/11	Effective 7/1/12	Effective 7/1/13
First 3 discharge units per dwelling unit per month	\$ 5.66	\$ 6.51	\$ 7.49	\$ 7.86	\$ 8.25
All additional discharge units	\$ 7.45	\$ 8.68	\$ 9.99	\$10.49	\$11.01
Average monthly bill based on 4.75 discharge units	\$30.02	\$34.72	\$39.95	\$41.94	\$44.02

Source: SFPUC, Wastewater Enterprise

Schedule B – Non-Residential Users. Users other than residential users charged under schedule A-1 or A-2 are charged the cost for each parameter according to the schedule of rates in the table below. One unit of water is equal to 100 cubic feet or 748 gallons. Customers whose parameter loadings are not based on periodic sampling are charged on the basis of standard parameter loadings established by the General Manager for each Standard Industrial Classification code in accordance with applicable state and federal laws and regulations.

TABLE 7

NON-RESIDENTIAL USER DISCHARGE RATES

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

⁽¹⁾ Calculated according to principles described in “Financial Operations—Wastewater Enterprise Rates and Charges.”

Source: SFPUC, Wastewater Enterprise

Current Rate and Rate Comparison. The average monthly sewer rate charged to a single family residential account of the Wastewater Enterprise is \$36.75, compared to the Statewide average monthly rate of \$33.82, as reported in the State Water Board’s “Wastewater User Charge Survey Report,” dated May 2008. There is no common standard for comparing wastewater user charges since a number of factors affect costs to be recovered through an entity’s sewer service charge. These factors include, among other matters, the level of service and the differences in the degree of treatment provided. The Wastewater Enterprise provides sanitary waste and stormwater collection, treatment and disposal services. This contrasts with some of the communities included in the State Water Board’s survey which do not provide treatment and disposal or do not treat stormwater, but instead must rely on other entities to provide these services and separately bill customers. Additionally, while the Wastewater Enterprise provides secondary treatment, some communities included in the survey provide only primary treatment while others provide secondary, advanced secondary or even tertiary treatment, each such level of treatment having an impact on the ultimate rate charged customers.

Historical Rates. The table below shows a ten-year history of sewer service rates, which are applied per hundred cubic feet of water consumption.

TABLE 8
HISTORICAL SEWER RATES
(PER HUNDRED CUBIC FEET OF WATER CONSUMPTION)

<u>Rate Tiers</u>	Effective <u>7/1/01</u>	Effective <u>7/1/02</u>	Effective <u>7/1/03</u>	Effective <u>7/1/04</u>	Effective <u>7/1/05</u>	Effective <u>7/1/06</u>	Effective <u>7/1/07</u>	Effective <u>7/1/08</u>
<i>Residential</i>								
First 3 discharge units per dwelling unit per month	\$1.86	\$1.86	\$1.86	\$2.15	\$2.54	\$2.88	\$3.14	\$3.42
Tier for discharge units 4 - 5 in Fiscal Years 2006-08 ⁽¹⁾	-	-	-	-	\$6.36	\$7.19	\$7.84	\$8.55
All additional discharge units	\$4.83	\$4.83	\$4.83	\$5.37	\$7.27	\$8.22	\$8.96	\$9.77
Average monthly bill based on 6.3 discharge units	\$21.52	\$21.52	\$21.52	\$24.17	\$29.79	\$33.71	\$36.75	\$40.06
<i>Non-Residential</i>								
All discharge units ⁽²⁾	\$5.35	\$5.35	\$5.35	\$5.82	\$7.31	\$8.26	\$8.80	\$9.60

⁽¹⁾ Adjustment effective July 14, 2007.

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

Source: SFPUC, Wastewater Enterprise

Customer Base

The following table summarizes the number of customers served by the Wastewater Enterprise as of June 30, 2009, grouped by user type.

TABLE 9**SUMMARY OF SEWER ACCOUNTS AND BILLING BY USER TYPE**

<u>User Type</u>	<u>Accounts as of June 30, 2009</u>	<u>FY 2008-09 Billings (in thousands)</u>	<u>Billings as Percent of Total</u>
Single-Family Residential	110,759	\$ 48,555	24.4%
Multi-Family Residential	39,664	63,690	31.9%
Industrial	97	935	0.5%
Commercial	20,003	78,377	39.3%
Municipal Customers	1,764	7,826	3.9%
Suburban ⁽¹⁾	11	2	0.0%
Total ⁽²⁾	172,298	\$199,385	100.0%

⁽¹⁾ Sewer services for SFPUC watershed keepers residing outside of the City.

⁽²⁾ Includes \$5,523,743 in revenue from local government agencies.

Source: SFPUC Comprehensive Annual Financial Report, June 30, 2009

The following table sets forth a five-year history of the number of sewer accounts for the Wastewater Enterprise:

TABLE 10**NUMBER OF SEWER ACCOUNTS**

<u>Fiscal Year</u>	<u>Sewer Accounts As of June 30</u>
2004-05	169,381
2005-06	169,852
2006-07	170,256
2007-08	171,857
2008-09	172,298

Source: SFPUC Comprehensive Annual Financial Report, June 30, 2009

Appeals

Sewer service charges are assessed on the basis of water use as billed by the Water Enterprise multiplied by a flow factor. See “– Wastewater Enterprise Rates and Charges.” For example, it is assumed that 90 percent of the volume of water measured at the customer meter for a single-family residential user is discharged to the sewer system as wastewater requiring treatment. Customers who can demonstrate higher rates of consumptive use than that reflected in the applicable flow factor, such as irrigation, can apply to the Residential Users Appeals Board for a lower flow factor (i.e. percentage of metered water returned to the sewage system).

Sewer Account Billing and Delinquencies

Sewer service charges are billed on a combined water and sewer utility bill on either a monthly or bi-monthly basis. Water service may be terminated for non-payment. Accounts are classified as being delinquent 15 days after a second bill remains unpaid. In some cases of delinquency, a series of notices is sent to the customer and if payment is still not made, action to shut-off the water supply is commenced. In most cases of delinquency, the customer, with the exception of tenant-occupied residencies, receives a lien warning notice. After a lien hearing is held and if the bill still remains outstanding, the lien is recorded and can only be removed upon full payment of all unpaid charges, plus certain administrative fees. Liens not paid during the fiscal year in which they are recorded are

transferred to the tax collector for collection as a lien against the title of the property. Accounts for which property transfers occurred prior to recording the lien and for amounts of less than \$25 are normally written-off as uncollectible.

Historical percentage delinquencies and annual write-offs are shown on the Table 11 below.

TABLE 11
HISTORICAL DELINQUENCY RATES AND WRITE-OFFS

	Fiscal Year Ended June 30				
	2005	2006	2007	2008	2009
<u>% Delinquent</u>					
31-60 Days	0.43%	0.46%	0.52%	0.53%	0.54%
61-90 Days	0.25%	0.21%	0.21%	0.29%	0.33%
Over 90 Days	0.64%	0.46%	0.42%	0.49%	0.61%
Annual Write-offs	\$2,812	\$11,155	\$9,739	\$3,967	\$46,387

Source: SFPUC, Customer Services

Capacity Charges

Effective July 1, 2005, any customer requesting a new connection to the sewer system or requiring additional collection or treatment capacity as a result of any addition, improvement, modification or change in use of an existing connection as determined solely by the General Manager must pay a capacity charge for the new or additional capacity required to serve the customer. The capacity charge is site specific and may not be sold, traded or conveyed in a manner to another site or customer. The capacity charge does not convey or imply ownership in or of any facilities of the Wastewater Enterprise. Effective July 1, 2009, the wastewater capacity charge is \$3,125 per equivalent dwelling unit. The capacity charge is adjusted on July 1st of each subsequent year by the annual change in the 20-City Average Construction Cost Index (CCI) published by ENR Magazine. Capacity charges decreased between Fiscal Years 2007-08 and Fiscal Years 2008-09 from \$8.6 million to \$3.7 million, reflecting a slowdown in new construction in the City, and capacity charges are expected to be lower in Fiscal Year 2009-10.

Grants

The Wastewater Enterprise does not receive significant grant income. The Wastewater Enterprise currently has one active Federal grant for \$175,000 from the EPA and one State grant for \$996,000 from the California Energy Commission. Both grants provide funds to support fats, oils and grease recovery and biofuel creation.

Operating and Maintenance Expenses

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

Employee Benefit Plans

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

Retirement System Plan Description. The SFPUC participates in the City's single-employer defined benefit retirement plan (the "Plan") which is administered by the San Francisco City and County Employees' Retirement System (the "Retirement System"). The Plan covers substantially all full-time employees of the SFPUC along with substantially all other employees of the City. The Plan provides basic service retirement, disability, and death benefits based on specified percentages of final average salary and provides cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority which established and amends the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102, or by calling (415) 487-7020. Such report is not incorporated by reference herein.

Retirement System Funding Policy. Contributions are made to the basic plan by both the SFPUC and its employees. Employee contributions are mandatory. Employee contribution rates from 2006, 2007, 2008 and 2009 varied from 5% to 8% as a percentage of covered payroll. Due to certain bargaining agreements, the SFPUC contributed from 0.5% to 8% of covered payroll on behalf of some employees. In addition, the SFPUC was required to contribute for the fiscal years ended June 30, 2007, 2008 and 2009 at an actuarially determined rate as a percentage of covered payroll of 6.24%, 5.91% and 4.99%, respectively, and is required to contribute a percentage of covered payroll at a rate of 9.49% for fiscal year ending June 30, 2010. The required contributions for the SFPUC enterprises are shown in following table. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102, or by calling (415) 487-7020.

TABLE 12

**REQUIRED RETIREMENT CONTRIBUTION BY ENTERPRISE
FOR THE FISCAL YEAR ENDING JUNE 30
(IN THOUSANDS)**

	2007	2008	2009
Water Enterprise	\$7,614	\$7,694	\$6,946
Wastewater Enterprise	2,605	2,658	2,320
Power Enterprise	1,335	1,326	1,231

Source: SFPUC Comprehensive Annual Financial Report, June 30, 2009

Health Care Benefits. Health care benefits of the SFPUC employees, retired employees and eligible dependents are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System. The SFPUC's annual contribution is determined by a San Francisco Charter provision based on similar contributions made by the ten most populous counties in the State. The annual contribution included the following amounts to provide post retirement benefits for retired employees, on a pay-as-you-go basis:

TABLE 13
ANNUAL OPEB OBLIGATION BY ENTERPRISE
FOR THE FISCAL YEAR ENDING JUNE 30
(IN THOUSANDS)

	2007	2008	2009
Water Enterprise	\$4,903	\$5,518	\$5,776
Wastewater Enterprise	1,624	1,834	1,917
Power Enterprise	803	907	950

Source: SFPUC Comprehensive Annual Financial Report, June 30, 2009

The City has determined an Annual Required Contribution and Other Post-Employee Benefits (“OPEB”) cost based upon an actuarial valuation performed in accordance with GASB 45 by the City’s actuaries. The City has allocated the amounts in the table below to the SFPUC enterprises for the year ended June 30, 2009 based upon its percentage of Citywide payroll costs. The difference between the allocation and amount paid for each enterprise is also listed in the table below and has been recorded as a net OPEB obligation by the enterprise as of June 30, 2009.

TABLE 14
2009 ANNUAL OPEB OBLIGATION BY ENTERPRISE
(IN THOUSANDS)

	Allocated Amount	Amount Paid	Net Difference
Water Enterprise	\$ 21,695	\$ 5,776	\$ 15,919
Wastewater Enterprise	7,585	1,917	5,668
Power Enterprise	4,026	950	3,076

Source: SFPUC Comprehensive Annual Financial Report, June 30, 2009

The City issues a publicly available financial report that includes the complete note disclosures and Required Supplementary Information related to the City’s post retirement health care obligations. The report may be obtained by writing to the City and County of San Francisco, CA 94102, or by calling the Office of the Controller at (415) 554-7500. Such report is not incorporated by reference herein.

Proposition B. Proposition B, passed by the voters on June 3, 2008, increased the years of service required to qualify for employer-funded retiree health benefits for City employees who were hired on or after January 10, 2009. Employees hired before January 10, 2009, became eligible to participate in the retirement health care system after five years of service, and the employer paid 100% of the contribution. Post Proposition B, between five to ten years there is no employer contribution, at ten to fifteen years there is a 50% contribution, between fifteen to twenty years there is a 75% contribution, and only after twenty years of service will the employer pay 100% of the contribution.

Proposition B also required that a separate Retiree Health Care Trust Fund be created to pay for the City’s future costs related to retiree health care. This trust fund will be funded by employer and employee contributions for employees hired on or after January 10, 2009. New employees contribute up to 2% of their pre-tax pay and employers contribute 1%.

Proposition B is expected to reduce the number of people who would eventually have been eligible for paid benefits and create significant savings for the City as investment earnings in the trust will help pay for the cost of the benefits going forward. By 2031 the majority of employees will be under the new benefit plan, and based on the City's actuarial analysis, the proposed funding of 3% of salary is estimated to be sufficient to cover the cost of the benefits on an ongoing basis. Proposition B is also expected to partially reduce the financial impact on the City in meeting its current unfunded OPEB liability.

Effects of Recent Pronouncements. In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to post employment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as other post employment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. The annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB transition liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. As of July 1, 2007, the SFPUC implemented the new reporting requirements in the financial statements and established its OPEB transition liability at zero.

During the Fiscal Year 2007-08, the City implemented GASB Statement No. 45. The City elected to report a zero net OPEB obligation at the beginning of the transition year, July 1, 2007, with the unfunded actuarial liability amortized over future periods. The City has adopted the maximum acceptable amortization period of thirty years.

The City Unfunded Actuarial Accrued Liability ("UAAL") was \$4.0 billion at June 30, 2008. The amount allocable to the SFPUC Wastewater Enterprise was 1.84% or \$74.3 million, which will be amortized over thirty years.

TABLE 15

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

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

(1) Consistent with the City's election, the SFPUC will amortize its UAAL over thirty years. The amount of the SFPUC's UAAL and the amount to be recognized every year may vary as a result of future actuarial assumptions and calculations. The next study is expected to be done in Fiscal Year 2010-11. See "FORWARD-LOOKING STATEMENTS" above.

Source: SFPUC, Financial Services

Wellness Incentive Program. Effective July 1, 2002, the City established a pilot "Wellness Incentive Program" (the "Wellness Program") to promote workforce attendance. Under the Wellness Program, any full-time employee leaving the employment of the City upon service or disability retirement may receive payment of a portion of accrued sick leave credits at the time of separation.

The amount of this payment shall be equal to 2.5% of accrued sick leave credits at the time of separation times the number of whole years of continuous employment times an employee's salary rate, exclusive of premiums or supplements, at the time of separation. Vested sick leave credits, as set forth under Civil Service Commission Rules, shall not be included in the computation.

The Wellness Program shall be discontinued upon the expiration of current bargaining agreements expiring June 30, 2009 through June 30, 2010.

Debt Management and Fund Balance Reserve Policies

The SFPUC has established Debt Management Policies and Procedures for debt financing under its jurisdiction. These policies are intended to enable the SFPUC to effectively manage its debt issuance and debt management practices. The SFPUC has also established a Fund Balance Reserve Policy. The Fund Balance Reserve Policy states that operating and capital plans, budgets and rates will be projected and proposed for adoption such that all bond indenture requirements are met or exceeded and that Operating Fund Balance Reserves meet one or more of the following: total at least 15% annual revenues; total at least 15% of annual expenditures; and result in Debt Service Coverage, on a bond indenture basis, including fund balance reserves available to pay debt service, of at least 1.25 times. The SFPUC's Debt Management Policies and Procedures and Fund Balance Reserve Fund Policy are not incorporated by reference herein. These policies and procedures are reviewed and are revised as necessary with Commission approval, with the latest approval on February 11, 2010. The Commission may also approve exceptions to adherence to these policies. The SFPUC makes no representation that these policies will not be revised or amended and, except to the extent required for compliance with the terms of the Indenture, the SFPUC makes no representation that these policies will be followed by the SFPUC.

Allocation of Costs

Various common costs incurred by the SFPUC are allocated between the Wastewater Enterprise, the Power Enterprise, and the Water Enterprise. The allocations are based on the SFPUC management's best estimate and may change from year to year depending on the activities incurred by each enterprise and the information available. For Fiscal Year 2008-09, the SFPUC allocated \$19.0 million in administrative costs to the Wastewater Enterprise, which is recorded as personal service expenses and also in other various operating expenses in the Wastewater Enterprise financial statements. For Fiscal Year 2009-10, the SFPUC has budgeted an allocation of \$19.0 million in administrative costs to the Wastewater Enterprise.

Payments to/from the City

A variety of City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Wastewater Enterprise and charge amounts designed to recover those costs. These charges totaled \$31.6 million for Fiscal Year 2008-09 and are budgeted at \$30.8 million for Fiscal Year 2009-10.

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

The SFPUC receives payments from other agencies of the City for their share of the proportionate cost of the service provided to them. These service deliveries amounted to \$5.5 million and \$6.2 million in Fiscal Year 2008-09 and Fiscal Year 2007-08, respectively, based on metered water usage and applicable wastewater rates.

Investment of SFPUC Funds

The SFPUC's pooled deposits and investments are invested pursuant to State law and the policy established by the City Treasurer and as overseen by the Treasury Oversight Committee. This policy seeks the preservation of capital, liquidity and yield, in that order of priority. The policy addresses the soundness of the financial institutions that hold City assets and the types of investments permitted by the California Government Code. The earned yield for the fiscal year ending June 30, 2009 was 2.571% per annum.

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

Risk Management and Insurance

The SFPUC's risk management program encompasses both self-insured and insured coverage. Risk assessments and coverage are coordinated by the City Office of Risk Management. With certain exceptions, the City and SFPUC's general policy is to first evaluate self-insurance for the risk of loss to which it is exposed. Based on this analysis, the SFPUC has determined that mitigating risk through a "self-retention" mechanism is more economical as it manages risks internally and administers, adjusts, settles, defends, and pays claims from budgeted resources (i.e., pay-as-you-go). When economically more viable or when required by debt financing covenants, the SFPUC obtains commercial insurance. At least annually, the City reviews and actuarially determines general liability and workers' compensation liabilities, which are recorded as "Damages and Claims" and "Accrued Worker's Compensation" in the financial statements. The SFPUC does not maintain commercial earthquake coverage for the Wastewater Enterprise, with certain minor exceptions.

The following is a summary of the SFPUC's coverage approach to risks:

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

The SFPUC's property risk management approach varies depending on whether the facility is currently under construction, or if the property is part of revenue-generating operations. The majority of the purchased insurance program is for either: 1) revenue-generating facilities, 2) debt-financed facilities, and 3) mandated coverage to meet statutory or contractual requirements.

The SFPUC has purchased a public officials liability insurance policy for all public officials with financial oversight responsibilities, including Commissioners, the General Manager and the Chief Financial Officer. The SFPUC has also purchased a crime insurance policy in lieu of bonding its employees.

Additionally, the SFPUC has implemented an Enterprise Risk Management program for the Business & Financial Services Bureau. The framework provides a strategic approach to managing operational risks of the organization through a coordinated process that identifies, assesses, treats, and monitors risks. The SFPUC

acknowledges the importance of aligning strategic planning to the risk management process and intends to continue implementation across the organization.

Capital Project Risk Management

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

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

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

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

HISTORICAL OPERATING RESULTS

Summary of Historical Operating Results and Debt Service Coverage

The historical results of operations reflected in Table 16 are based on the tables contained in the Financial Statements entitled "Statements of Revenues, Expenses and Changes in Net Assets" and "Statements of Cash Flows" for the Fiscal Years listed. See "APPENDIX C—SFPUC WASTEWATER ENTERPRISE FINANCIAL STATEMENTS." The calculation of debt service coverage includes net operating income and funds not budgeted to be spent in the next twelve months and legally available to pay debt service, as permitted under the Indenture.

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TABLE 16

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

	2005	2006	2007	2008	2009
OPERATING & INVESTMENT REVENUE					
Sewer Service Charges	\$144,348	\$ 159,281	\$176,344	\$187,810	\$199,332
Other Revenues	4,540	5,422	5,692	6,181	5,621
Investing Activities	3,093	5,385	5,749	4,099	1,992
Capacity Fees ⁽²⁾	-	430	11,375	8,558	3,701
Total Revenues	151,981	170,518	199,160	206,648	210,646
OPERATING & MAINTENANCE EXPENSE					
Labor and Fringe Benefits	37,782	44,798	58,789	69,383	69,141
Contractual Services	6,227	7,962	11,536	11,973	13,828
Materials and Supplies	8,283	8,565	9,526	9,539	5,754
Depreciation	37,800	37,228	36,683	38,758	38,815
General and Administrative ⁽³⁾	22,249	13,725	4,143	1,719	2,302
Services of Other Departments	23,234	24,105	28,010	26,021	31,634
Other	3,715	4,571	2,913	7,852	7,826
Total Operating Expenses	139,290	140,954	151,600	165,245	169,300
OPERATING AND INVESTMENT INCOME	\$ 12,691	\$ 29,564	\$ 47,560	\$ 41,403	\$ 41,346
COVERAGE CALCULATION⁽⁴⁾					
Operating and Investment Income	\$ 12,691	\$ 29,564	\$ 47,560	\$ 41,403	\$ 41,346
+ Adjustment to Investing Activities ⁽⁵⁾	(256)	(361)	(959)	1,297	161
+ Depreciation & Non-Cash Expenses	39,504	38,643	37,461	40,395	41,429
+ Changes in Working Capital	3,192	(3,859)	(2,461)	6,223	4,699
+ SRF Loan Payments	(20,132)	(20,134)	(20,131)	(16,505)	(16,505)
= "Net Revenue"	34,999	43,854	61,470	72,813	71,130
+ Other Available Funds ⁽⁶⁾	14,392	21,497	35,691	34,699	48,016
Funds Available for Bond Debt Service	\$ 49,391	\$ 65,351	\$ 97,161	\$107,512	\$119,146
Bond Debt Service	\$ 17,219	\$ 17,219	\$ 50,163	\$ 50,198	\$ 50,311
Debt Service Coverage	2.87	3.80	1.94	2.14	2.37

⁽¹⁾ Operating and Investment Income presented in this table differs from the Change in Net Assets presented in the Statement of Revenues, Expenses and Changes in Net Assets on page 16 of the Audited Financial Statements. See "APPENDIX C—SFPUC WASTEWATER ENTERPRISE FINANCIAL STATEMENTS." This table presents Debt Service Coverage as defined under the Indenture and excludes certain elements of nonoperating revenue and expenses included in the Statements of Revenues, Expenses and Changes in Net Assets. Examples of excluded elements are Grant Revenue, Interest Expense and Gains from Sale of Assets.

⁽²⁾ Capacity charges were imposed beginning July 1, 2005. Capacity charges collected in the Fiscal Year ended June 30, 2007 largely reflect capacity charges imposed during the period July 1, 2005 through June 30, 2007. See "FINANCIAL OPERATIONS—Capacity Charges."

⁽³⁾ The decrease in General and Administrative expenses beginning in 2007 results from a reallocation of overhead expenses to various expenses.

⁽⁴⁾ The Indenture defines "Net Revenue" on a cash basis.

⁽⁵⁾ Adjustment of Investing Activities to a cash basis.

⁽⁶⁾ As per the Indenture, in addition to current year cash flow, the coverage calculation permits the inclusion of certain funds not budgeted to be spent in such twelve months and legally available to pay debt service.

Source: SFPUC, Financial Services

Sewer service charges are the primary funding source for the payment of costs associated with the Wastewater Enterprise's sanitary waste and stormwater collection, treatment and disposal services. Sewer service revenues in Fiscal Year 2008-09 were \$199.3 million, approximately 94% of the Wastewater Enterprise's total revenues. Other operating revenue, \$9.3 million in Fiscal Year 2008-09, comes from capacity charges. The Wastewater Enterprise also receives revenue from other sources including investment income and earnings which are categorized as non-operating for financial reporting purposes. Non-operating revenue totaled \$2.0 million for Fiscal Year 2008-09.

Management's Discussion of Historical Operating Results

As stated in the Wastewater Enterprise's Audited Financial Statements, attached to this Official Statement as Appendix C, the Wastewater Enterprise's total revenues of \$211,688,000 for the year increased by \$4,135,000 or 2.0% over the prior year primarily due to a rate increase partially offset by reduction in usage. Sanitary flow of 27,826 ccf (100 cubic feet) for the year decreased by 531 ccf or 1.9%. Charges for services increased by \$11,522,000 or 6.1% due to a rate increase of 9.0% effective July 1, 2008. Other operating revenues decreased by \$5,417,000 or 36.8% due to a reduction of \$4,858,000 in capacity fees revenue related to fewer building permits, and a \$559,000 reduction in charges to other City departments. Interest and investment income decreased by \$2,107,000 or 51.4% due to lower cash balances and investment interest rates, See "APPENDIX C—SFPUC WASTEWATER ENTERPRISE FINANCIAL STATEMENTS."

The Wastewater Enterprise's operating expenses increased by \$4,055,000 due to: increases of \$5,613,000 in services provided by other City departments, \$1,855,000 in contractual services, \$583,000 in general and administrative expenses which include growth in actuarially determined claim liability, \$576,000 in bad debt expense, and \$57,000 in depreciation expense. Services provided by the City's Department of Public Works increased \$3,317,000 for sewer repair, street cleaning, and engineering services. Contractual services increased due to a new sewer pipeline project and other ongoing repair and replacement projects. The increases were offset by decreases in materials and supplies of \$3,785,000, primarily due to an inventory adjustment of \$3,586,000, \$602,000 in other operating expenses, and \$242,000 in personal services. See "APPENDIX C – SFPUC WASTEWATER ENTERPRISE FINANCIAL STATEMENTS."

PROJECTED OPERATING RESULTS

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

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

TABLE 17

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

	2010 Projected	2011	2012	2013	2014	2015
REVENUE						
Sewer Service - Base Rates	\$ 195,270	\$ 211,018	\$ 226,918	\$ 239,456	\$ 252,686	\$ 266,646
Sewer Service - Rate Increases	14,698	14,771	11,346	11,973	12,634	30,664
Interest Income ⁽²⁾	685	1,246	2,661	2,950	3,216	3,778
Other Miscellaneous Income	1,506	427	427	427	427	427
Total Revenues	212,159	227,462	241,352	254,806	268,963	301,515
OPERATING AND MAINTENANCE EXPENSE⁽³⁾						
Total Expenses	132,850	131,632	134,860	137,495	141,671	145,975
OPERATING AND INVESTMENT INCOME	<u>\$ 79,309</u>	<u>\$ 95,830</u>	<u>\$ 106,492</u>	<u>\$ 117,311</u>	<u>\$ 127,292</u>	<u>\$ 155,540</u>
COVERAGE CALCULATION						
Operating and Investment Income	\$ 79,309	\$ 95,830	\$ 106,492	\$ 117,311	\$ 127,292	\$ 155,540
SRF Loan Payments	(16,521)	(16,521)	(10,983)	(9,421)	(9,040)	(6,288)
NET REVENUE	<u>\$ 62,788</u>	<u>\$ 79,309</u>	<u>\$ 95,509</u>	<u>\$ 107,890</u>	<u>\$ 118,252</u>	<u>\$ 149,252</u>
OTHER AVAILABLE FUNDS	\$ 31,545	\$ 18,578	\$ 25,693	\$ 52,575	\$ 64,644	\$ 74,857
FUNDS AVAILABLE FOR BOND DEBT SERVICE	\$ 94,333	\$ 97,887	\$ 121,202	\$ 160,465	\$ 182,896	\$ 224,109
DEBT SERVICE ⁽⁴⁾	<u>\$ 50,313</u>	<u>\$ 38,146</u>	<u>\$ 32,969</u>	<u>\$ 57,406</u>	<u>\$ 66,908</u>	<u>\$ 85,608</u>
DEBT SERVICE COVERAGE⁽⁵⁾	<u>1.87</u>	<u>2.57</u>	<u>3.68</u>	<u>2.80</u>	<u>2.73</u>	<u>2.62</u>

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

⁽²⁾ Interest income is based on net yield forecasts for the City Pooled Fund as provided by the Chief Investment Officer for the City.

⁽³⁾ O&M net of depreciation and other non-cash items per Indenture.

⁽⁴⁾ Includes debt service on Outstanding Bonds and Additional Series of Bonds (net of capitalized interest and debt service reserve fund earnings). Assumes cash funded debt service reserve fund equal to Maximum Annual Debt Service, and two years of capitalized interest funded in connection with the issuance of each Additional Series of Bonds. Issuances of Additional Series of Bonds are assumed to occur in July and/or January at an assumed rate of 5.50% borrowing rate. Actual issuance dates and borrowing rates for Additional Series of Bonds may vary.

⁽⁵⁾ Coverage calculated using fund balance and Net Revenues in accordance with rate covenant set forth in the Indenture.

Source: SFPUC, Financial Services

Assumption Regarding Projected Operating Revenue. The projected revenues are based on projected wastewater service sales and the schedules of rates to be effective in each year. On May 5, 2009, the SFPUC adopted schedules of rates to be effective in each Fiscal Years 2009-10 through 2013-14. The adopted schedules provide for 7.0% rate increases in Fiscal Year 2009-10 and Fiscal Year 2010-11 and 5.0% rate increases in Fiscal Year 2011-12, Fiscal Year 2012-13 and Fiscal Year 2013-14. Interest earnings assume a 2% yield.

Assumption Regarding Projected Operating and Maintenance Expenses and Debt Service. Operating and Maintenance Expense costs are decreasing from Fiscal Year 2009-10 to Fiscal Year 2010-11 due to implemented cost controls in response to Fiscal Year 2009-10 revenue weakness resulting from recent water consumption reductions. Operating and Maintenance Expense costs are expected to grow by 3% annually beginning in Fiscal Year 2011-12 and thereafter. Future debt issuance to fund the proposed SSIP is expected to total \$2.4 billion between Fiscal Year 2010-11 and Fiscal Year 2015-16, with total possible expenditures for the SSIP in the range of \$4 billion to \$6 billion over a twenty year capital planning horizon, depending upon the SFPUC's future decisions about the scope of the SSIP and other factors that may affect cost.

REGULATORY MATTERS

General

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

In 1971, the City created its Master Plan to address the requirements of the Porter-Cologne Act. In 1974, the EPA and the City prepared a joint Environmental Impact Report/Statement (the "EIR/EIS") to evaluate the environmental effects of the implementation of the Master Plan. The EIR/EIS for the Master Plan was adopted by the City and the EPA, and the City commenced implementation of the plan. With subsequent refinements, the Master Plan has been the SFPUC's guide for improving the performance of the sewage system and meeting the requirements of state and federal water quality laws. All projects and improvements described in the Master Plan have been completed and are fully operational. The sewer system is in full compliance with the Porter-Cologne and Clean Water Acts.

Pursuant to the Porter-Cologne and Clean Water Acts, the Regional Water Board administers water pollution control programs. The Regional Water Board issues discharge permits under Section 402 of the Clean Water Act, which establishes the National Pollutant Discharge Elimination System ("NPDES") permit system. These permits, issued for a five-year period, are also waste discharge requirements for the purposes of the Porter-Cologne Act and apply to discharges from the SFPUC's treatment plants and combined sewer discharge facilities. The SFPUC operates its system under two wastewater NPDES permits — the 2008 Bayside Permit (NPDES Permit No. CA0037664), covering the SEP, NPF and other bayside facilities that discharge into the San Francisco Bay; and the 2009 Oceanside Permit (NPDES Permit No. CA0037681), covering the OSP discharges and other westside facilities that discharge into the ocean. Currently, the SFPUC's discharges are in full compliance with all permit requirements.

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

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

its Master Plan constitutes implementation of the long-term control plan. The SFPUC is in full compliance with the CSO Policy. The SFPUC's discharge permits require the preparation of reports analyzing the efficacy of the system's wet weather operations and the attainment of water quality standards. The SFPUC has initiated the analysis necessary to complete the reports.

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

Stormwater Regulations (Phase II Permits). In 1987, Congress revised the Clean Water Act to more effectively address pollution caused by stormwater runoff. The regulations require stormwater management plans for municipalities and controls on construction sites with areas above specified thresholds. Urban areas with combined sewers, such as most of the City, are exempt. Because a small portion of the City is served by separate sewer systems, the implementation of the Municipal Separate Storm Sewer System ("MS4") permit requirements occurred under Phase II of the stormwater program, following the earlier Phase I implementation for cities with a large separate sewer system. The MS4 NPDES permit is issued by the Regional Water Board to regulate the stormwater discharge from the SFPUC's separate sewer systems. The SFPUC operates a stormwater management program that complies with the requirements of the MS4 NPDES Permit.

Regulatory Trends

Regulatory developments at the State and Federal level, as well as ongoing permit reissuance activities, may increase operations costs and capital needs of the Wastewater Enterprise and may have an effect on the Wastewater Enterprise operations and its revenues. SFPUC staff is actively engaged with regulatory officials and the public in the development of these regulatory matters. These topics and their possible effect on the Wastewater Enterprise are briefly described below:

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

The San Francisco Bay Mercury TMDL was adopted in February 2008. The Mercury TMDL is implemented through a group Watershed Permit that was adopted by the Regional Water Board and contains individual and group effluent wasteload allocations for all Bay Area municipal dischargers, including the SFPUC. The Mercury Watershed Permit has a 20-year implementation plan that requires loading reductions every 10 years. The San Francisco Bay PCBs TMDL establishes a wasteload allocation of 0.3 kg per year for the SEP. The implementation plan also requires the implementation of PCBs risk reduction programs, similar to risk reduction program for mercury. The SFPUC currently complies with the applicable waste load allocation. Future reductions over the next 20 years may require that the SFPUC's operations or facilities be addressed to comply with further reductions. The SFPUC's unique status as a combined system will likely have an impact on the need for future modifications, since the system removes substantially more pollutants than separate sanitary and stormwater systems.

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

The statewide plan identified Mission Creek and Islais Creek as contaminated spots. For Mission Creek, the plan included preliminary estimates of investigation and study costs at \$1 million, remediation and monitoring ranging from a low of \$0.8 to \$1.8 million, and possible sewer system configuration modifications up to \$75 million. The plan included a preliminary estimate of investigation and study costs for Islais Creek at \$1 million.

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

Other Regulatory Agencies with Jurisdiction Over the Wastewater Enterprise

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

Other Laws Affecting the Wastewater Enterprise

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

CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS

Tax and Spending Limitations

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

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

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

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

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

Under State law, any fee that exceeds the reasonable cost of providing the service for which the fee is charged may be considered a "special tax" that must be authorized by a two-thirds vote of the electorate. Accordingly, if a portion of the SFPUC's wastewater rates or capacity charges were determined by a court to exceed

the reasonable cost of providing service, the SFPUC would not be permitted to continue to collect that portion unless it were authorized to do so by a two-thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. If the SFPUC were unable to obtain such a two-thirds majority vote and were unable to reduce costs, such failure could adversely affect the SFPUC's ability to pay the debt service on the 2010 Series A/B Bonds. However, the reasonable cost of providing wastewater services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, State courts have determined that fees such as capacity charges will not be special taxes if they approximate the reasonable cost of constructing the water system improvements contemplated by the local agency imposing the fee.

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

Proposition 218

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

Article XIII D imposes substantive and procedural requirements on the imposition, extension or increase of any "fee" or "charge" subject to its provisions. A "fee" or "charge" subject to Article XIII D includes any levy, other than an ad valorem tax, special tax or assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIII D prohibits, among other things, the imposition of any proposed fee or charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required within forty-five days following the public hearing on any such proposed new or increased fee or charge.

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

The SFPUC provides public notice of proposed wastewater rate increases in accordance with the requirements of Article XIII D through means that include, among others, holding informational presentations at community group meetings, mailings to residential and commercial customers of public hearings on rate increases, and press releases and media campaigns regarding rate increases, followed by public hearings conducted by the SFPUC's Rate Fairness Board and by the SFPUC itself. The SFPUC also develops and adopts retail utility user rates and fees in accordance with the requirements of Article XIII D(6)(b) that limit property-related fees and charges.

Article XIII C extends the people's initiative power to reduce or repeal previously authorized local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIII C to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in

retroactive reduction in any existing taxes, assessments, fees or charges. In Bighorn, the Court concluded that under Article XIIIC local voters by initiative may reduce a public agency's water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was not determining whether the electorate's initiative power is subject to the public agency's statutory obligation to set water service charges at a level that will "pay the operating expenses of the agency . . . provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due."

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

Charter Limitations

The Charter requires that bonds secured by revenues, other than refunding bonds, may be issued only with the assent of a majority of voters. However, under the Charter amendments enacted by the voters in November 2002 (Proposition E), the SFPUC may issue revenue bonds, including notes, commercial paper or other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors, for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or wastewater facilities or combinations of water and wastewater facilities under the jurisdiction of the SFPUC (and subject to the further conditions contained in Proposition E). See "OBLIGATIONS PAYABLE FROM REVENUES—Authority for Issuance of Revenue Bonds and Other Obligations Payable from Revenues." The voters may adopt additional such requirements in the future.

In June 1998 the electorate of the City approved Proposition H which, subject to certain exceptions, including a limited exception to raise rates to pay debt service on voter-approved debt, froze the SFPUC's water rates through July 1, 2004. The SFPUC can give no assurance that the electorate will not seek in the future to freeze or limit sewer rate increases.

Initiative, Referendum and Charter Amendments

Article XIIIA and Articles XIIIC and XIIID were adopted pursuant to the State's constitutional initiative process. From time to time other initiative measures could be adopted by State voters, or by voters of the City, placing additional limitations on the ability of the SFPUC to increase revenues.

LITIGATION

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

- (i) the proceedings under which the 2010 Series A/B Bonds are to be issued,
- (ii) the validity of any provision of the 2010 Series A/B Bonds or the Indenture,
- (iii) the pledge of Net Revenues by the SFPUC under the Indenture, or

- (iv) the titles to office of the present members of the Board of Supervisors and the Commission.

There are a number of suits and claims pending against the City and the SFPUC, which may include personal injury, wrongful death and other suits and claims against which the City may self-insure. The aggregate amount of the self-insured liabilities of the City and the SFPUC which may result from such suits and claims will not, in the opinion of the City Attorney, materially impair the ability of the SFPUC to pay principal of or interest on the 2010 Series A/B Bonds as they become due. There is no litigation pending, with service of process having been accomplished, against the City or the SFPUC which if determined adversely to the City or the SFPUC would, in the opinion of the City Attorney, materially impair the ability of the SFPUC to pay principal of and interest on the 2010 Series A/B Bonds as they become due.

TAX MATTERS

2010 Series A Bonds

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, and Elizabeth C. Green, Esq., San Francisco, California, Co-Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2010 Series A Bonds is excluded from gross income for Federal income tax purposes and such interest is not an item of tax preference for purposes of the Federal alternative minimum tax imposed on individuals and corporations.

The opinions set forth in the preceding paragraph are subject to the condition that the SFPUC comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the 2010 Series A Bonds in order that such interest be, or continue to be, excluded from gross income for Federal income tax purposes. The SFPUC has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for Federal income tax purposes to be retroactive to the date of issuance of the 2010 Series A Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a 2010 Series A Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each 2010 Series A Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of Federal income taxes and State of California personal income taxes. De minimis original issue discount is disregarded.

Under the Code, original issue discount is treated as interest excluded from Federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2010 Series A Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2010 Series A Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2010 Series A Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2010 Series A Bonds who purchase the 2010 Series A Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2010 Series A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2010 Series A Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such 2010 Series A Bonds under Federal individual and corporate alternative minimum taxes.

Under the Code, original issue premium is amortized on an annual basis over the term of the 2010 Series A Bonds (said term being the shorter of the applicable maturity date of the 2010 Series A Bonds or the call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the 2010 Series A Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2010 Series A Bond is amortized each year over the term to maturity of the 2010 Series A Bond on the basis of a

constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for Federal income tax purposes. Owners of 2010 Series A Bonds with original issue premium, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and Federal income tax consequences of owning such 2010 Series A Bonds.

In the further opinion of Co-Bond Counsel, interest on the 2010 Series A Bonds is exempt from California personal income taxes.

Owners of the 2010 Series A Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Series A Bonds may have Federal or state tax consequences other than as described above. Co-Bond Counsel express no opinion regarding any Federal or state tax consequences arising with respect to the 2010 Series A Bonds other than as expressly described above.

2010 Series B Bonds

In the opinion of Co-Bond Counsel, subject, however to the qualifications set forth below, under existing law, the obligations represented by the 2010 Series B Bonds constitute “Qualified Bonds” within the meaning of Section 54AA(g)(2) of the Code and are eligible for the Refundable Credit payable by the federal government under Section 6431 of the Code. The opinions set forth in the preceding sentence are subject to the condition that the SFPUC comply with all requirements of the Code that must be satisfied subsequent to the execution and delivery of the 2010 Series B Bonds in order for the obligations represented by the 2010 Series B Bonds to be treated as Qualified Bonds and continue to be eligible for the Refundable Credit. The SFPUC has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may result in a delay or forfeiture of all or a portion of the Refundable Credit and may cause the 2010 Series B Bonds to cease to be treated as Qualified Bonds either prospectively from the date of determination of a failure to comply with the requirements or retroactively to the date of execution and delivery of the 2010 Series B Bonds.

Co-Bond Counsel expresses no opinion regarding other Federal tax consequences arising with respect to the obligations represented by the 2010 Series B Bonds.

No Federal Tax Exemption. The interest with respect to the 2010 Series B Bonds is not excluded from gross income for Federal income tax purposes.

California State Tax Exemption. In the further opinion of Co-Bond Counsel, interest with respect to the 2010 Series B Bonds is exempt from State of California personal income taxes.

Limited Opinion. Owners of the 2010 Series B Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest with respect to, the 2010 Series B Bonds may have Federal or state tax consequences other than as described above. Co-Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2010 Series B Bonds other than as expressly described above.

Circular 230 Disclaimer. To ensure compliance with requirements imposed by the IRS, Co-Bond Counsel informs Owners of the 2010 Series B Bonds that any U.S. Federal tax advice contained in this Official Statement (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Tax Code or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed in this Official Statement.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, sale and delivery of the 2010 Series A/B Bonds are subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, and Elizabeth C. Green, Esq., San Francisco, California, Co-Bond Counsel. Certain legal matters are being passed upon for the SFPUC by the City Attorney and by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Disclosure

Counsel. Co-Bond Counsel and Disclosure Counsel will receive compensation that is contingent upon the sale and delivery of the 2010 Series A/B Bonds.

Copies of the approving opinion of Co-Bond Counsel will be available at the time of delivery of the 2010 Series A Bonds. The form of the opinion is set forth in Appendix D. Co-Bond Counsel is not passing upon and undertakes no responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement.

Orrick, Herrington & Sutcliffe LLP has served as disclosure counsel to the SFPUC and in such capacity has advised the SFPUC with respect to the requirements of applicable securities laws and participated with responsible SFPUC officials and staff in conferences and meetings where information contained in this Official Statement was reviewed for accuracy and completeness. Disclosure Counsel is not responsible for the accuracy or completeness of the statements or information presented in this Official Statement and has not undertaken to independently verify any of such statements or information. Rather, the SFPUC is solely responsible for the accuracy and completeness of the statements and information contained in this Official Statement. Upon the issuance of the 2010 Series A/B Bonds, Disclosure Counsel will deliver a letter to the SFPUC which advises the SFPUC, subject to the assumptions, exclusions, qualifications and limitations set forth therein, that no facts came to attention of the attorneys at such firm rendering legal services in connection with such firm's role as disclosure counsel which caused them to believe that this Official Statement as of its date and as of the date of issuance of the 2010 Series A/B Bonds contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. No purchaser or holder of the 2010 Series A/B Bonds, or other person or party other than the SFPUC, will be entitled to or may rely on such letter or Orrick, Herrington & Sutcliffe LLP's having acted in the role of disclosure counsel to the SFPUC.

RATINGS

The 2010 Series A/B Bonds have been rated "Aa3" by Moody's Investors Service, Inc. ("Moody's"), 7 World Trade Center, 250 Greenwich Street, New York, New York, and "AA-" by Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc., 55 Water Street, New York, New York ("Standard & Poor's"). On March 16, 2010, Moody's announced that it will recalibrate its ratings of U.S. municipal bond issues and issuers to its global rating scale beginning in mid-April 2010, stating that the purpose of the recalibration is to enhance the comparability of credit ratings between municipal obligations and those issued by other entities, such as corporations. The rating assigned to the 2010 Series A/B Bonds by Moody's was issued on Moody's global rating scale. The ratings assigned by Moody's and Standard & Poor's express only the views of such rating agencies. The explanation of the significance of the ratings, and any outlook associated with the ratings, may be obtained from Moody's and Standard & Poor's, respectively. Each rating agency generally bases its rating on its own investigations, studies, and assumptions. The SFPUC has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement). There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2010 Series A/B Bonds. The SFPUC undertakes no responsibility to maintain its current ratings on the 2010 Series A/B Bonds or to oppose any such downward revision, suspension or withdrawal.

UNDERWRITING

The 2010 Series A Bonds are being purchased by _____ (the "2010 Series A Underwriter") as winner of a competitive bid conducted on May __, 2010. The 2010 Series A Underwriter has agreed to purchase the 2010 Series A Bonds from the SFPUC at a purchase price of \$ _____ (consisting of \$ _____ aggregate principal amount of the 2010 Series A Bonds, plus original issue premium of \$ _____, less an underwriter's discount of \$ _____). Under the terms of its bid, the 2010 Series A Underwriter will be obligated to purchase all of the 2010 Series A Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions to be satisfied by the SFPUC.

The 2010 Series B Bonds are being purchased by _____ (the "2010 Series B Underwriter" and, together with the 2010 Series A Underwriter, the "Underwriters") as winner of a competitive bid conducted on

May __, 2010. The 2010 Series B Underwriter has agreed to purchase the 2010 Series B Bonds from the SFPUC at a purchase price of \$_____ (consisting of \$_____ aggregate principal amount of the 2010 Series B Bonds, plus original issue premium of \$_____, less an underwriter's discount of \$_____). Under the terms of its bid, the 2010 Series B Underwriter will be obligated to purchase all of the 2010 Series B Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions to be satisfied by the SFPUC.

The Underwriters have certified the reoffering prices or yields set forth on the inside cover hereof. The SFPUC takes no responsibility for the accuracy of these prices or yields. The Underwriters may offer and sell the 2010 Series A/B Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriters.

FINANCIAL STATEMENTS

Attached as Appendix C are the audited financial statements of the Wastewater Enterprise (the "Financial Statements") for Fiscal Years 2007-08 and 2008-09, prepared by the SFPUC and audited by KPMG LLP, independent certified public accountants, of San Francisco, California (the "Auditor"). The financial statements are included for convenience. The SFPUC has not requested nor did the SFPUC obtain permission from the Auditor to include the audited financial statements as an Appendix to this Official Statement. Accordingly, the Auditor has made no representation in connection with inclusion of the audits herein that there has been no material change in the financial condition of the SFPUC since the most recent audit was concluded. The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Official Statement.

CONTINUING DISCLOSURE

The SFPUC has covenanted for the benefit of the owners and beneficial owners of the 2010 Series A/B Bonds to provide certain financial information and operating data (an "Annual Report") not later than nine months following the end of its Fiscal Year (presently June 30), beginning on March 31, 2011, with the report for Fiscal Year 2009-10, and to provide notices of the occurrence of certain enumerated events, if deemed by the SFPUC to be material.

The SFPUC will file the Annual Report and any notice of material events as described in Appendix E. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in Appendix F. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the "Rule"). See "APPENDIX E-FORM OF CONTINUING DISCLOSURE CERTIFICATE."

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

CO-FINANCIAL ADVISORS

Kitahata & Company, San Francisco, California, and Montague DeRose and Associates, LLC, Walnut Creek, San Francisco, California (the "Co-Financial Advisors"), have served as Co-Financial Advisors to the SFPUC in connection with the structuring and delivery of the 2010 Series A/B Bonds. The Co-Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Co-Financial Advisors will receive compensation that is contingent upon the sale and delivery of the 2010 Series A/B Bonds.

MISCELLANEOUS

References made in this Official Statement to certain documents and reports are brief summaries thereof that do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof.

The appendices to this Official Statement are integral parts of this Official Statement. Investors must read the entire Official Statement, including the appendices, to obtain information essential to making an informed investment decision.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the SFPUC or the City and the purchasers or Owners of any of the 2010 Series A/B Bonds. The preparation and distribution of this Official Statement have been authorized by the SFPUC.

APPROVAL AND EXECUTION

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

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

By: _____
Edward M. Harrington
General Manager

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

This Appendix includes summaries of certain provisions of the Indenture and the First Amendment to Indenture, which are in addition and complementary to the summaries found under "INTRODUCTION," "THE 2010 SERIES A/B BONDS" and "SECURITY FOR THE BONDS" in the Official Statement. The following summaries are qualified in their entirety by reference to the Indenture, a copy of which can be obtained from the Commission.

DEFINITIONS

"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 will 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 will 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 the applicable provisions of the Indenture.

"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 will (unless a different provision 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 will be deemed a principal payment and interest that is compounded and paid as Accreted Value will 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 will 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 will, 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 will 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 will 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 the 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 will 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 will 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 the Indenture.

“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, the Indenture or any Supplemental Indenture, including any Additional Bonds authorized by, and at any time Outstanding under, the Indenture and any Supplemental Indenture.

"Build America Bonds" means any bonds or other obligations issued as Build America Bonds under Section 54AA of the Code, or under any other provision of the Code that creates a substantially similar direct-pay subsidy program.

"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 the Indenture.

"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 will be read and construed as a single instrument. If and to the extent required by the provisions of the Indenture, each Certificate of the Commission will include the statements provided for in the Indenture.

"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 the 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” will 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 the Indenture.

“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.

“First Amendment” means that certain First Amendment to Indenture dated as of March 1, 2010 between the Commission and the Trustee.

“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” will 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 the 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 of the Indenture.

“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 any Series of Bonds in the Indenture or a Supplemental Indenture, as applicable.

“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 the Indenture to the “Law,” reference is made to the Law as in force on the date of the 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 a Series of Bonds in the Indenture or a Supplemental Indenture, as applicable.

“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 will (unless a different provision 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 will be deemed a principal payment and interest that is compounded and paid as Accreted Value will 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 will 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 will, 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 will 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 will 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 the 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 will 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 the 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” will 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 the 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 the Indenture, each Opinion of Counsel will include the statements provided for in the Indenture.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore executed, issued and delivered by the Commission under the 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 the Indenture) 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 the Indenture, 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 the Indenture.

For purposes of this definition and within the meaning of the Indenture, any Bonds, the principal of or interest on which has been paid by a Credit Provider, will not be deemed paid by or on behalf of the Commission, will not be defeased and will remain Outstanding under the 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 a Series of Bonds in the Indenture or a Supplemental Indenture, as applicable.

“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 will 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 will 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 will 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 will be treated as separate maturities.

When used with respect to the payment or purchase of Bonds, “Proportionate Basis” has the same meaning set forth above except that “pay” or “purchase” will be substituted for “redeem” or “redemption” and “paid” or “purchased” will 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.

“Refundable Credits” means, (a) with respect to a Series of Bonds issued as Build America Bonds under Section 54AA of the Code, the amounts which are payable by the Federal government under Section 6431 of the Code, which the Commission has elected to receive under Section 54AA(g)(1) of the Code, and (b) with respect to a Series of Bonds issued as Build America Bonds under any other provision of the Code that creates a substantially similar direct-pay subsidy program, the amounts which are payable by the Federal government under the applicable provision of the Code which the Commission has elected to receive under the applicable provisions of the Code.

“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 will 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 the Indenture.

“Revenue Fund” means the fund by that name established pursuant to the Indenture.

“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 will be received and disposed of pursuant to the Indenture) and moneys received constituting other insurance proceeds,
- (f) moneys received from the sale or disposition of all or any part of the Enterprise (which will be received and disposed of pursuant to the Indenture),
- (g) moneys received upon the taking by or under the threat of eminent domain of all or any part of the Enterprise (which moneys will be received and disposed of pursuant to the Indenture),
- (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 under the Indenture (excluding any Rebate Fund and any escrow fund pledged for the payment of defeased bonds) or in any fund or account of the 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 the 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 the 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 the Indenture and identified as a separate Series of Bonds, including any Additional Bonds issued pursuant to a Supplemental Indenture and the Indenture.

“Sinking Fund Accounts” means any special account or accounts established by the Indenture or any Supplemental Indenture or Indentures in the Principal Fund (established pursuant to the Indenture) 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” will 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 the Indenture that complies with the provisions of the Indenture for amendments and supplements, and includes any amended and restated indenture that complies with the provisions of the 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 National Association, acting as an independent trustee with the duties and powers provided in the Indenture, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in the Indenture.

“2010 Series A Bonds” means the Bonds of the Commission captioned “Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series A.”

“2010 Series A Capital Project Account” means the account by that name established within the Capital Project Fund pursuant to the First Supplemental Indenture.

“2010 Series A Capitalized Interest Account” means the account by that name established pursuant to the First Supplemental Indenture.

“2010 Series A Expenses Fund” means the fund by that name established pursuant to the First Supplemental Indenture.

“2010 Series A Project” means financing, from amounts on deposit in the 2010 Series A Capital Project Account, the reconstructing, replacing, expanding, repairing or improving facilities that are part of, or of benefit to the Enterprise pursuant to the Law, including Section 8B.124 of the Charter.

“2010 Series A Rebate Fund” means the fund by that name established pursuant to the First Supplemental Indenture.

“2010 Series A Refunding Fund” means the fund by that name established pursuant to the First Supplemental Indenture.

“2010 Series A Reserve Account” means the account by that name established within the Bond Reserve Fund pursuant to the First Supplemental Indenture.

“2010 Series A Sinking Fund Account” means the account by that name established pursuant to the First Supplemental Indenture.

“2010 Series B Bonds” means the Bonds of the Commission captioned “Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series B (Federally Taxable - Build America Bonds - Direct Payment).”

“2010 Series B Capital Project Account” means the account by that name established within the Capital Project Fund pursuant to the First Supplemental Indenture.

“2010 Series B Capitalized Interest Account” means the account by that name established pursuant to the First Supplemental Indenture.

“2010 Series B Expenses Fund” means the fund by that name established pursuant to the First Supplemental Indenture.

“2010 Series B Project” means financing, from amounts on deposit in the 2010 Series B Capital Project Account, the reconstructing, replacing, expanding, repairing or improving facilities that are part of, or of benefit to the Enterprise pursuant to the Law, including Section 8B.124 of the Charter.

“2010 Series B Rebate Fund” means the fund by that name established pursuant to the First Supplemental Indenture.

“2010 Series B Reserve Account” means the account by that name established within the Bond Reserve Fund pursuant to the First Supplemental Indenture.

“2010 Series B Sinking Fund Account” means the account by that name established pursuant to the First Supplemental Indenture.

“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” means the bonds of the Commission captioned “Public Utilities Commission of the City and County of San Francisco Clean Water Revenue Bonds, 2003 Refunding Series A,” which were issued in the aggregate principal amount of \$396,270,000 on January 28, 2003.

“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 will be provided to the Trustee) or otherwise to sign or execute such a document on its behalf.

FIRST AMENDMENT TO INDENTURE

Amendments relating to the Calculation of Annual Debt Service.

(a) Under the First Amendment, the definition of “Annual Debt Service” in the Indenture is amended to read as follows:

“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. In determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Bonds that were issued as Build America Bonds, amounts equal to the Refundable Credits the Commission is scheduled to receive during each such twelve-month period ending June 30 shall be deducted from such interest.

(b) Under the First Amendment, the definition of “Average Annual Debt Service” in the Indenture is amended to add the following paragraph (f):

(f) In determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Bonds that are issued as Build America Bonds, amounts equal to the Refundable Credits the Commission is scheduled to receive during each such twelve-month period ending June 30 shall be deducted from such interest.

(c) Under the First Amendment, the definition of “Bonds” set forth in the Indenture is amended to read as follows:

“Bonds” means the 2003 Refunding Series A Bonds and any 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. The Commission may assign such name to any Series of Additional Bonds as it determines appropriate, and such name need not include “Clean Water Revenue Bonds.”

(d) Under the First Amendment, the following definition of “Build America Bonds” is added to the Indenture:

“Build America Bonds” means any bonds or other obligations issued as Build America Bonds under Section 54AA of the Code, or under any other provision of the Code that creates a substantially similar direct-pay subsidy program.

(e) Under the First Amendment, the definition of “Maximum Annual Debt Service” in the Indenture is amended to add the following paragraph (f):

(f) In determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Bonds that are issued as Build America Bonds, amounts equal to the Refundable Credits the Commission is scheduled to receive during each such twelve-month period ending June 30 shall be deducted from such interest.

(f) Under the First Amendment, the following definition of “Refundable Credits” is added to the Indenture:

“Refundable Credits” means, (a) with respect to a Series of Bonds issued as Build America Bonds under Section 54AA of the Code, the amounts which are payable by the Federal government under Section 6431 of the Code, which the Commission has elected to receive under Section 54AA(g)(1) of the Code, and (b) with respect to a Series of Bonds issued as Build America Bonds under any other provision of the Code that creates a substantially similar direct-pay subsidy program, the amounts which are payable by the

Federal government under the applicable provisions of the Code which the Commission has elected to receive under the applicable provisions of the Code.

(g) Under the First Amendment, Section 5.03 of the Indenture is amended to add the following paragraph (c):

(c) All of the Refundable Credits received by the Commission shall be deposited immediately upon receipt in the Interest Fund, and such Refundable Credits are hereby irrevocably pledged to the punctual payment of the interest on the Bonds issued as Build America Bonds, and the Refundable Credits shall not be used for any other purpose while any of the Bonds issued as Build America Bonds remain Outstanding. Pursuant to Section 5451 of the California Government Code, this pledge constitutes a lien on and security interest in the Refundable Credits for the payment of interest on the Bonds issued as Build America Bonds in accordance with the terms thereof and hereof, and shall immediately attach and be effective, binding, and enforceable against the Commission, its successors, purchasers of the Refundable Credits, 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. Notwithstanding the foregoing deposit and pledge, the Refundable Credits are not considered Revenues or included in the calculation of Revenues under this Indenture.

Effective Date of Amendments relating to the Calculation of Annual Debt Service.

In accordance with the Indenture, the amendments to the Indenture relating to the Calculation of Annual Debt Service set forth above will become effective at such time as the written consents of the Owners of a majority in aggregate amount of the Bond Obligation of the Bonds then Outstanding and of each Credit Provider have been filed with the Trustee, and the other requirements contained in the Indenture have been satisfied. Until such time as the amendments to the Indenture relating to the Calculation of Annual Debt Service set forth above become effective, the applicable provisions of the Indenture remain unaltered and in full force and effect, except as the Indenture may be otherwise amended in accordance with its terms or discharged in accordance with its terms.

Amendments Relating to the Required Reserve, the Bond Reserve Fund and the Reserve Accounts.

(a) Under the First Amendment, the definition of “Required Reserve” is amended to read as follows:

“Required Reserve” means, with respect to Series of Bonds issued prior to the effective date of the amendments set forth below, 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.

“Required Reserve” means, with respect to Series of Bonds issued on or after the effective date of the amendments set forth below, for any Series of Bonds, as of any date of calculation, the amount, if any, required to be deposited into a Reserve Account for that Series of Bonds, as defined in and provided by the Supplemental Indenture pursuant to which such Series of Bonds is issued; provided, however, 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.

(b) Under the First Amendment, Section 5.05(d), Section 5.05(e) and Section 5.05(l) of the Indenture are hereby amended to read, respectively, as follows:

(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. In addition, the Trustee shall establish and hold a Reserve Account for each Series of Additional Bonds issued hereunder, if and to the extent required by the Supplemental Indenture pursuant to which that Series of Bonds is issued. Upon the issuance of a Series of Additional Bonds, there shall be deposited into the Reserve Account for that Series an amount equal to the Required Reserve, if any, established for that Series of Bonds under the Supplemental Indenture pursuant to which that Series of Bonds is issued. Upon the issuance of a Series of Additional Bonds, the Commission shall advise the Trustee of the Required Reserve to be maintained in the Reserve Account for that Series. Unless otherwise provided in the Supplemental Indenture pursuant to which a Series of Bonds is issued, the Reserve Account established with respect to a Series of Bonds shall be available only to pay Debt Service on such Series of Bonds, and shall not be available to pay Debt Service on any other Series of Bonds, provided that amounts in the Reserve Accounts (the "Prior Reserve Accounts") with respect to the Series of Bonds (the "Prior Series of Bonds") issued prior to the effective date of the amendments set forth in Section 1.02 of the First Amendment, shall be available to pay the Debt Service on all the Prior Series of Bonds, except that the Trustee shall apply any Bond Reserve Fund Policy on deposit in a Prior Reserve Account solely to the payment of Debt Service on the Prior Series of Bonds to which such Prior Reserve Account relates, and such Bond Reserve Fund Policy shall not be available for payment of any other Series of Bonds.

(e) Except with respect to the Prior Reserve Accounts and the Prior Series of Bonds, the Trustee shall use and withdraw cash amounts on deposit in each respective Reserve Account within the Bond Reserve Fund solely to pay the principal of, Minimum Sinking Fund Account Payments with respect to, and interest on, the Series of Bonds with respect to which that Reserve Account was established (unless otherwise provided in the Supplemental Indenture pursuant to which a Series of Bonds was issued), in the event that no other moneys are available therefor, or for payment or redemption of such Series of Bonds. Additionally, unless otherwise provided in the Supplemental Indenture pursuant to which a Series of Bonds was issued, 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 to pay Debt Services on any other Series of Bonds. With respect to the Prior Reserve Accounts, the Trustee shall use and withdraw cash amounts on deposit in the respective Prior 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 Prior Series of Bonds in the event that no other moneys are available therefor, or for payment or redemption of Outstanding Bonds. However, as stated in (c) above, the Trustee shall apply any Bond Reserve Fund Policy on deposit in a Prior Reserve Account solely to the payment of the Prior Series of Bonds to which such Prior Reserve Account relates, and such Bond Reserve Fund Policy shall not be available for payment of any other Series of Bonds.

(l) Except as provided in (d) and (e) with respect to the Prior Reserve Accounts and the Prior Series of Bonds, unless otherwise provided in a Supplemental Indenture, amounts on deposit in any Reserve Account shall be available for the payment of Debt Service only with respect to the Series of Bonds for which that Reserve Account was established.

Effective Date of Amendments Relating to the Required Reserve, the Bond Reserve Fund and the Reserve Accounts.

In accordance with the Indenture, the amendments to the Indenture relating to the Required Reserve, the Bond Reserve Fund and the Reserve Accounts set forth above shall become effective at such time as the written consents of the Owners of a majority in aggregate amount of the Bond Obligation of the Bonds then Outstanding have been filed with the Trustee, none of the 2003 Series A Refunding Bonds remain Outstanding under the

Indenture, and the other requirements contained in the Indenture have been satisfied. Until such time as the amendments to the Indenture relating to the Required Reserve, the Bond Reserve Fund and the Reserve Accounts set forth above become effective, the applicable provisions of the Indenture remain unaltered and in full force and effect, except as the Indenture may be otherwise amended in accordance with its terms or discharged in accordance with its terms.

USE OF DEPOSITORY

(a) The 2010 Series A Bonds and the 2010 Series B Bonds will be initially issued as provided in the Indenture. Registered ownership of such 2010 Series A Bonds and the 2010 Series B Bonds, or any portions thereof, may not thereafter be transferred except:

(i) to any successor of The Depository Trust Company or its nominee, or of any substitute depository designated pursuant to clause (ii) below ("Substitute Depository"); provided that any successor of The Depository Trust Company or Substitute Depository must 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 must 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 (a) set forth above, upon receipt of all Outstanding 2010 Series A Bonds or 2010 Series B Bonds by the Trustee, together with a Written Request of the Commission to the Trustee designating the Substitute Depository, a single new 2010 Series A Bond or the 2010 Series B Bond, as applicable, which the Commission will prepare or cause to be prepared, will be executed and delivered for each maturity of Current Interest Bond of such 2010 Series A Bonds or the 2010 Series B Bonds, as applicable, 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) above, upon receipt of all Outstanding 2010 Series A Bonds or the 2010 Series B Bonds, as applicable, by the Trustee, together with a Written Request of the Commission to the Trustee, new 2010 Series A Bonds or 2010 Series B Bonds, as applicable, which the Commission will prepare or cause to be prepared, will 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 the Indenture, provided that the Trustee will not be required to deliver such new 2010 Series A Bonds or 2010 Series B Bonds within a period less than 60 days after the date of receipt of such Written Request from the Commission.

(c) In the case of a partial redemption or an advance refunding of any 2010 Series A Bonds or 2010 Series B Bonds evidencing a portion of the principal maturing in a particular year, The Depository Trust Company or its successor (or any Substitute Depository or its successor) will make an appropriate notation on such 2010 Series A Bonds or 2010 Series B Bonds, as applicable, 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 will not be liable for such depository's failure to make such notations or errors in making such notations.

(d) The Commission and the Trustee will be entitled to treat the person in whose name any 2010 Series A Bond and 2010 Series B Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Commission; and the Commission and the Trustee will not have responsibility for transmitting payments to, communicating with,

notifying, or otherwise dealing with any beneficial owners of the 2010 Series A Bonds and the 2010 Series B Bonds. Neither the Commission nor the Trustee will 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 2010 Series A Bonds and 2010 Series B Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2010 Series A Bonds and the 2010 Series B Bonds.

(e) Notwithstanding any other provision of the Indenture and so long as all Outstanding 2010 Series A Bonds and 2010 Series B Bonds are registered in the name of Cede & Co. or its registered assigns, the Commission and the Trustee will 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 2010 Series A Bonds and the 2010 Series B Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made available on the date they are due all in accordance with the Letter of Representations, the provisions of which the Trustee may rely upon to implement the foregoing procedures notwithstanding any inconsistent provisions in the Indenture.

FUNDS FOR THE APPLICATION OF BOND PROCEEDS; ADDITIONAL SERIES OF BONDS

2010 Series A Expenses Fund. (a) The money in the 2010 Series A Expenses Fund will be used and disbursed in the manner provided in the Indenture for the purpose of paying all costs of issuance incidental to or connected with the issuance of the 2010 Series A 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 2010 Series A Expenses Fund, the Commission will cause to be filed with the Trustee a Written Requisition of the Commission that states the following (which will 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) Any balance of money remaining in the 2010 Series A Expenses Fund after the payment of all costs incidental to or connected with the issuance of the 2010 Series A Bonds (as certified to the Trustee by the Commission) or on November 1, 2010, whichever is earlier, shall be transferred by the Trustee to the 2010 Series A Reserve Account to the extent necessary at that time to restore the amount therein to the Required Reserve, and any then remaining balance of money shall be transferred by the Trustee to the 2010 Series A Capital Project Account, and the 2010 Series A Expenses Fund shall be closed.

2010 Series A Capitalized Interest Fund. Amounts on deposit in the 2010 Series A Capitalized Interest Account shall be applied to the payment of interest on the 2010 Series A Bonds on each April 1 and October 1, commencing on October 1, 2010, prior to amounts on the Interest Fund being so used, until no amounts remain on deposit in the 2010 Series A Capitalized Interest Account, whereupon the 2010 Series A Capitalized Interest Account shall be closed. All moneys held by the Trustee in the 2010 Series A Capitalized Interest Account may be invested in Legal Investments maturing not later than the date on which such moneys are required for payment by the Trustee.

2010 Series B Expenses Fund. (a) The money in the 2010 Series B Expenses Fund will be used and disbursed in the manner provided in the Indenture for the purpose of paying all costs of issuance incidental to or connected with the issuance of the 2010 Series B 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 2010 Series B Expenses Fund, the Commission will cause to be filed with the Trustee a Written Requisition of the Commission that states the following (which will 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) Any balance of money remaining in the 2010 Series B Expenses Fund after the payment of all costs incidental to or connected with the issuance of the 2010 Series B Bonds (as certified to the Trustee by the Commission) or on November 1, 2010, whichever is earlier, shall be transferred by the Trustee to the 2010 Series B Reserve Account to the extent necessary at that time to restore the amount therein to the Required Reserve, and any then remaining balance of money shall be transferred by the Trustee to the 2010 Series B Capital Project Account, and the 2010 Series B Expenses Fund shall be closed.

2010 Series B Capitalized Interest Fund. Amounts on deposit in the 2010 Series B Capitalized Interest Account shall be applied to the payment of interest on the 2010 Series B Bonds on each April 1 and October 1, commencing on October 1, 2010, in such amounts as specified in a Certificate of the Commission delivered to the Trustee not less than five Business Days prior to each April 1 and October 1, prior to amounts on the Interest Fund being so used. Amounts remaining on deposit in the 2010 Series B Capitalized Interest Account at such time as the Commission has informed the Trustee in a Certificate of the Commission that the 2010 Series B Capitalized Interest Account shall be closed shall be transferred by the Trustee to the commission for deposit in the 2010 Series B Capital Project Account. All moneys held by the Trustee in the 2010 Series B Capitalized Interest Account may be invested in Legal Investments maturing not later than the date on which such moneys are required for payment by the Trustee.

Capital Project Fund. (a) The Commission covenants and agrees to maintain under the Indenture the separate fund known as the “Clean Water Revenue Bond Capital Project Fund” (herein called the “Capital Project Fund”). The Treasurer will hold the amounts on deposit in the Capital Project Fund. The Controller will maintain and account for the Capital Project Fund so long as any moneys are on deposit therein. The Commission will 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 any 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 any Project or any portion thereof, the Commission will 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 will 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 will pay out moneys from the Capital Project Fund only upon warrants drawn by the Controller in the manner provided by law. No withdrawals will be made from the Capital Project Fund for any purpose not authorized by law.

Issuance of Additional Bonds. In addition to the 2003 Refunding Series A Bonds, the 2010 Series A Bonds and the 2010 Series B 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, the 2010 Series A Bonds and the 2010 Series B 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, the 2010 Series A Bonds and the 2010 Series B 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 under the Indenture and then Outstanding) as determined by the Commission in said Supplemental Indenture, but only upon compliance by the Commission with the provisions of the Indenture, and subject to the following specific conditions, which are conditions precedent to the issuance of any such additional Series of Bonds:

(a) No Event of Default may have occurred and be continuing under the Indenture or any Supplemental Indenture and no event may 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 must require that the amount on deposit in the Bond Reserve Fund to be established pursuant to the Indenture 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 must provide for the payment of interest and principal as follows:

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

(ii) Notwithstanding (i) above, 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 (i) above 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 specified in the Supplemental Indenture.

(d) Fixed serial maturities or mandatory Minimum Sinking Fund Account Payments, or any combination thereof, will 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 under the Indenture may 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 will file the following documents with the Trustee; these documents will, 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 will be calculated in accordance with the provisions of provision (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 will 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 listed above have been met.

Issuance of Additional Bonds for Refunding. In addition to the 2003 Refunding Series A Bonds, the 2010 Series A Bonds and the 2010 Series B 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, the 2010 Series A Bonds and the 2010 Series B 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, the 2010

Series A Bonds and the 2010 Series B 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 under the Indenture and then Outstanding, but only upon compliance by the Commission with the provisions of the Indenture, and subject to the following specific conditions, which are made conditions precedent to the issuance of any such additional Series of Bonds:

(a) No Event of Default may have occurred and be continuing under the Indenture or any Supplemental Indenture and no event may 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 will require that the amounts on deposit in the Bond Reserve Fund to be established pursuant to the Indenture 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 will provide for the payment of interest and principal as follows:

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

(ii) Notwithstanding (i) above, 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 (i) above 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 are 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, will 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 under the Indenture may not exceed any limitation imposed by law or by any Supplemental Indenture.

(f) The proceeds of the Bonds of such additional Series will 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) will 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 will file the following documents with the Trustee; these documents will, 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 applicable requirements of the Indenture have been met.

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

Proceedings for the Issuance of Additional Series of Bonds. (a) Whenever the Commission determines to issue an additional Series of Bonds, the Commission will execute or adopt a Supplemental Indenture providing for the issuance of such additional Series of Bonds.

(b) Such Supplemental Indenture will 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 the Indenture and subject to the provisions of the provisions of the Indenture applicable to the issuance of additional Series of Bonds. The Commission may by such Supplemental Indenture prescribe any provisions respecting the Bonds of such Series not inconsistent with the terms of the 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 will 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 the 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 in the Indenture; 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 the applicable sections of Indenture (if the Additional Bonds constitute an additional lien on the Net Revenues or 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 will 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 are presented to it for that purpose.

No Issuance of Additional Bonds or Other Obligations Except as Permitted In the Indenture; 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 the requirements of the Indenture described above, except under any of the following conditions, in which case none of the limitations or restrictions on the issuance of additional Series of Bonds described above will 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 the Indenture or any Supplemental Indenture (and no event has occurred which, but for the passage of time or the giving of notice, would constitute an Event of Default under the Indenture or any Supplemental Indenture) 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.

REVENUES AND FUNDS

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 will 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 will be maintained by the Treasurer separate and apart from all other City funds. Separate accounts will be kept of the Revenue Fund with respect to receipts and disbursements. The Revenue Fund will be exempted from the requirements of the Charter.

(b) Priority of Disbursements from Revenue Fund. Moneys in the Revenue Fund, including earnings thereon, will 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 the Indenture 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 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 may 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 in the Indenture. Pursuant to Section 5451 of the California Government Code, said pledge will 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 of the Indenture, and will 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 the Indenture 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 the Indenture, will be applied for any lawful purpose of the Commission.

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, will 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 will 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 the Indenture cease to be a Legal Investment for the funds held under the Indenture, the Commission will so advise the Trustee by a Written Statement. The Trustee will 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 beyond the date of acquisition thereof unless otherwise approved by a Credit Provider or unless such Permitted Investment is described in clause (i) of the definitions thereof.

(e) For the purpose of determining the amount of money in the Bond Reserve Fund, all investments of moneys therein will 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 the Indenture will be deposited in the Revenue Fund, except:

(i) all interest received on any moneys invested in the Principal Fund, Interest Fund or Rebate Fund will 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 will 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 will 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 will 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 the Indenture for investment purposes only; provided, however, that the Trustee will account separately for the moneys belonging to each fund or account established pursuant to the Indenture and held by it.

Interest Rate Swaps.

(a) The Commission may and the Trustee will, 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 the Indenture. The amounts received by the Commission or the Trustee, if any, under such a swap agreement may be applied to the deposits required under the Indenture. 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 will be made on a parity basis with payments on the Bonds and, in such event, the Commission will pay to the Trustee for deposit in the Interest Fund, at the times and in the manner provided by the Indenture, 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 (a) above, the Commission may not enter into an interest rate swap agreement without first making the determination required pursuant to Section 5922 of the California Government Code.

SELECTED COVENANTS OF THE COMMISSION

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 under the Indenture at the times and places and in the manner provided in the Indenture and in the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, but solely from Net Revenues, as provided in the Indenture.

Against Encumbrances. (a) Subject to any rights of the United States of America or the State of California, and subject to the covenants in the Indenture regarding sale or other disposition of property, 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 the Indenture, and particularly nothing in subsections (a) or (b) above, will 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 the Indenture.

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 expressly permitted in the Indenture. 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 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 made conditions precedent to such sale:

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

(ii) The Commission will 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 will be deposited with the Trustee, and the following conditions must be satisfied:

(A) The Commission must 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 the Indenture until any Bonds become redeemable, subject to any restrictions imposed by the Indenture, (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 the 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 has 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 must 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 will be deposited in the Revenue Fund and will be treated as Revenues for all purposes of the Indenture, including determining whether the Commission is in compliance with the Indenture covenants regarding rates and charges.

(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, produce 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, produce 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 will 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 are 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;

produce 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 will be deposited in the Revenue Fund and applied as provided in the Indenture.

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 will 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 will not commit or allow any waste with respect to the Enterprise.

Liens and Claims. Subject to any rights of the United States of America or the State of California, the Commission will 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 the Indenture may at all times be maintained and preserved, and the Commission will 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 the Indenture, 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 the 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 will 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 in the Indenture, or from its liability under the Indenture to defend the validity of the Indenture and the pledge made in the Indenture and to perform such covenants and warranties.

Insurance. The Commission will procure, and maintain at all times while any of the Bonds are 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 will 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, will be equally and proportionately secured by the Indenture.

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 will be made of all transactions relating to the Enterprise. Such books of record and accounts will at all times during business hours be subject to the inspection of the Trustee 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 must include a statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows. The Enterprise Financial Statements must be examined by and include the certificate or opinion of an Independent Certified Public Accountant.

(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 will not be required to incur any nonreimbursable expenses in making such distribution.

Enterprise Budgets. The Commission will 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 will 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 will show that Net Revenues are at least adequate to satisfy the requirements of the Indenture. Such budget must comply with any conditions or restrictions set forth in any agreements between the Commission and users of the Enterprise. The Commission will take all action available and necessary to obtain approval or acceptance of the budget by the Mayor and the Board of Supervisors. The Commission will supply to the Trustee and to any Bondowners who so request in writing a copy

of the annual budget for the Fiscal Year covered by such budget. Such budget will be open for inspection by any Owner at the principal corporate trust office of the Trustee during normal business hours.

Maintenance of Revenues. The City will not acquire, construct, operate or maintain, and will 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 the Indenture.

Eminent Domain Proceeds. If all or any part of the Enterprise is 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) will 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 will 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 will transfer such proceeds to the Trustee who will 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 will direct the Trustee (A) to hold such proceeds in trust, (B) to invest such proceeds in the investments permitted in the Indenture until any Bonds become redeemable, subject to any restrictions imposed by the Indenture, (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 the Indenture and any Supplemental Indenture on the first Interest Payment Date on which the Bonds can be redeemed. Additionally, in such event, the Commission will 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 will be deposited in the Revenue Fund and will be treated as Revenues for all purposes of the Indenture, including determining whether the Commission is in compliance with the covenant contained in the Indenture concerning rates and charges.

(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 under the Indenture will not be substantially impaired. The Commission will then promptly proceed with the construction of the additions, improvements or extensions substantially in accordance with such written report. Payments for such construction will be made by the Commission from such proceeds. Any balance of such proceeds not required by the Commission for the purposes aforesaid will be deposited in the Revenue Fund and applied as provided in the Indenture.

(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 the Indenture.

Rebate and Tax Covenants.

(a) 2010 Series A Rebate Fund.

(i) The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture to be known as the "2010 Series A Rebate Fund." Within the 2010 Series A Rebate Fund, the Trustee shall maintain such accounts as it is instructed by the Commission as necessary in order to comply with the terms and requirements of the Certificate as to Arbitrage with respect to the 2010 Series A Bonds, dated the date of issuance of the 2010 Series A Bonds (for purposes of this Article, the "Tax Certificate").

Subject to the transfer provisions provided in paragraph (v) below, all money at any time deposited in the 2010 Series A Rebate Fund shall be held by the Trustee for the account of the Commission in trust, to the extent required to satisfy the requirements for rebate, as set forth in the Tax Certificate (for purposes of this Article, the "Rebate Requirement"), for payment to the federal government of the United States of America, and no other person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the 2010 Series A Rebate Fund shall be governed by the Indenture and by the Tax Certificate (which is incorporated herein by reference). The Trustee shall be deemed conclusively to have complied with such provisions and fulfilled its obligation with respect to rebate as long as it follows the written directions of the Commission, including supplying all necessary information in the manner provided in the Tax Certificate. The Trustee shall not be required to take any actions under the Indenture or the Tax Certificate in the absence of written directions by the Commission, and shall have no liability or responsibility to enforce compliance by the Commission with the terms of the Tax Certificate nor make computations in connection therewith.

(ii) Upon the Commission's written direction, an amount shall be deposited to the 2010 Series A Rebate Fund by the Trustee from deposits by the Commission so that the balance of the amount on deposit thereto equals the Rebate Requirement. Computations of the Rebate Requirement shall be furnished by or on behalf of the Commission in accordance with the Tax Certificate.

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

(iv) The Trustee shall invest all amounts held in the 2010 Series A Rebate Fund in Permitted Investments as instructed in writing by the Commission, subject to the restrictions set forth in the Tax Certificate. Moneys shall not be transferred from the 2010 Series A Rebate Fund except as provided in paragraph (v) below.

(v) Upon receipt of the Commission's written directions, the Trustee shall remit part or all of the balances in the 2010 Series A Rebate Fund to the United States, as so directed. In addition, if the Commission so directs, the Trustee will deposit moneys into or transfer moneys out of the 2010 Series A Rebate Fund from or into such accounts or funds as directed by the Commission's written directions. Any funds remaining in the 2010 Series A Rebate Fund after redemption and payment of all of the 2010 Series A Bonds and payment and satisfaction of any Rebate Requirement shall be withdrawn and remitted to the Commission upon the Commission's written request.

(vi) Notwithstanding any other provision of the Indenture, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of the Indenture and the Arbitrage Certificate will survive the defeasance or payment in full of the 2010 Series A Bonds.

(b) 2010 Series B Rebate Fund.

(i) The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture to be known as the "2010 Series B Rebate Fund." Within the 2010 Series B Rebate Fund, the Trustee shall maintain such accounts as it is instructed by the Commission as necessary in order to comply with the terms and requirements of the Certificate as to Arbitrage with respect to the 2010 Series B Bonds, dated the date of issuance of the 2010 Series B Bonds (for purposes of this Article, the "Tax Certificate").

Subject to the transfer provisions provided in paragraph (v) below, all money at any time deposited in the 2010 Series B Rebate Fund shall be held by the Trustee for the account of the Commission in trust, to the extent required to satisfy the requirements for rebate, as set forth in the Tax Certificate (for purposes of this Article, the "Rebate Requirement"), for payment to the federal government of the United States of America, and no other person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the 2010 Series B Rebate Fund shall be governed by the Indenture and by the Tax Certificate (which is incorporated herein by reference). The Trustee shall be deemed conclusively to have complied with such provisions and fulfilled its obligation with respect to rebate as long as it follows the written directions of the Commission, including supplying all necessary information in the manner provided in the Tax Certificate. The Trustee shall not be required to take any actions under the Indenture or the Tax Certificate in the absence of written directions by the Commission, and shall have no liability or responsibility to enforce compliance by the Commission with the terms of the Tax Certificate nor make computations in connection therewith.

(ii) Upon the Commission's written direction, an amount shall be deposited to the 2010 Series B Rebate Fund by the Trustee from deposits by the Commission so that the balance of the amount on deposit thereto equals the Rebate Requirement. Computations of the Rebate Requirement shall be furnished by or on behalf of the Commission in accordance with the Tax Certificate.

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

(iv) The Trustee shall invest all amounts held in the 2010 Series B Rebate Fund in Permitted Investments as instructed in writing by the Commission, subject to the restrictions set forth in the Tax Certificate. Moneys shall not be transferred from the 2010 Series B Rebate Fund except as provided in paragraph (v) below.

(v) Upon receipt of the Commission's written directions, the Trustee shall remit part or all of the balances in the 2010 Series B Rebate Fund to the United States, as so directed. In addition, if the Commission so directs, the Trustee will deposit moneys into or transfer moneys out of the 2010 Series B Rebate Fund from or into such accounts or funds as directed by the Commission's written directions. Any funds remaining in the 2010 Series B Rebate Fund after redemption and payment of all of the 2010 Series B Bonds and payment and satisfaction of any Rebate Requirement shall be withdrawn and remitted to the Commission upon the Commission's written request.

(vi) Notwithstanding any other provision of the Indenture, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of the Indenture and the Arbitrage Certificate will survive the defeasance or payment in full of the 2010 Series B Bonds.

(b) Tax Covenants. The Commission will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Commission or take or omit to take any action that would cause the 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 Bonds under Section 103 of the Code. The Commission will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Commission, or take or omit to take any action, that would cause the 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 Bonds. In the event that at any time the Commission is of the opinion that for purposes of the Indenture 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 will so instruct the Trustee in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the Commission agrees that there will 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 Bonds from time to time. This covenant will survive payment in full or defeasance of the 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 the Indenture 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 the Indenture, if the Commission will provide to the Trustee an opinion of nationally recognized bond counsel to the effect that any action required under the Indenture 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 of the Indenture, and the covenants under the Indenture will be deemed to be modified to that extent.

None of the covenants of the Commission or the Trustee contained in the Indenture relating to the exclusion from gross income of interest on Bonds under Section 103 of the Code will 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.

Casualty Insurance; Use of Proceeds.

(a) The Commission will 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 will 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 will transfer such proceeds to the Trustee who will 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 will direct the Trustee (A) to hold such insurance proceeds in trust, (B) to invest such insurance proceeds in the investments permitted in the Indenture until any Bonds will become redeemable, subject to any restrictions imposed by the Indenture, (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 the Indenture and any Supplemental Indenture on the first interest payment date on which the Bonds can be redeemed. Additionally, in such event, the Commission will 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 will be deposited in the Revenue Fund and will be treated as Revenues for all purposes of the Indenture, including determining whether the Commission is in compliance with the covenant contained in the Indenture.

(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 under the Indenture will not be substantially impaired. The Commission will then promptly proceed with the construction of the additions, improvements or extensions substantially in accordance with such written report. Payments for such construction will be made by the Commission from such insurance proceeds. Any balance of such proceeds not required by the Commission for the purposes aforesaid will be deposited in the Revenue Fund and applied as provided in the Indenture.

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

Continuing Disclosure. The Commission covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Commission to comply with the Continuing Disclosure Certificate will not be considered an Event of Default; however, any Participating Underwriter (as such term is defined in the 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 relating to Continuing Disclosure Certificate, and the sole remedy in the event of any failure of the Commission to comply with the Continuing Disclosure Certificate is an action to compel performance.

EVENTS OF DEFAULT AND REMEDIES OF BONDOWNERS

Events of Default. The Indenture defines “Events of Default” as any of the following events:

(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 is 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 the Indenture or in the Bonds contained, and such default continues for a period of 60 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.

Acceleration. During the continuance of any 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 will, 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 all Capital Appreciation Bonds then Outstanding, in the amount of the Accreted Value thereof, to be due and payable immediately. Such declaration may be rescinded as provided in the Indenture.

Application of Funds Upon Acceleration. Upon the declaration of acceleration following an Event of Default as described above, all of the Revenues, including all funds created or maintained under the Indenture, and all sums thereafter received by the Commission or the Trustee under the Indenture will, if received by the Commission, be transmitted to the Trustee and be applied by the Trustee in the following order upon presentation of the several Bonds:

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 are 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 are 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).

Other Remedies. If one or more of the Events of Default happens, then and in every such case the Owner of any Bond at the time Outstanding will be entitled to proceed to protect and enforce the rights vested in such Owner by the Indenture by such appropriate judicial proceeding as such Owner deems 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 the Indenture, or in aid of the exercise of any power granted in the Indenture, or to enforce any other legal or equitable right vested in the Owners of Bonds by the Indenture or by law; provided, however, that no such Bondowner will have the right to institute any such judicial proceeding unless (a) such Owner has previously given to the Trustee written notice of the occurrence of an Event of Default under the Indenture;

(b) the Owners of at least 10% in aggregate amount of Bond Obligation of the Bonds then Outstanding have made written request to the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (c) such Owner or Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee has refused or omitted to comply with such request for a period of 60 days after such written request is received by, and said tender of indemnity has been made to, the Trustee; and (e) the Trustee has not received contrary directions from the Owners of a majority in aggregate amount of Bond Obligation of the Bonds Outstanding. The provisions of the Indenture 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 are enforceable by any Bondowner by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction.

Remedies 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.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Modification with the Consent of the Owners or the Credit Provider. (i) The 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 will 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 the Indenture, 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) have been filed with the Trustee (provided, that no such Credit Provider may unreasonably withhold consent to such modification or amendment).

(ii) The 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 will become binding when the written consents of each Credit Provider have been filed with the Trustee, provided that at such time the payment of the principal of and interest on all Outstanding Bonds are 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 may (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 the Indenture, or (C) modify any of the rights or obligations of the Trustee without its written consent thereto.

Modification without the Consent of the Owners or the Credit Provider. The 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 will 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 will 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 the Indenture other covenants and agreements thereafter to be observed or to surrender any right or power therein reserved to or conferred upon the Commission;

(ii) to cure, correct or supplement any ambiguous or defective provision or omission or mistake contained in the Indenture or in regard to questions arising under the 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 the Indenture; and

(iv) to provide additional security for the Bonds.

DEFEASANCE

Discharge of Indenture. (a) If the Commission pays and discharges 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 does 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 will certify such determination to the Trustee, will, 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 also pays or causes to be paid all other sums payable under the Indenture 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 must be filed with the Trustee), and notwithstanding that any Bonds have not been surrendered for payment, the pledge of the Net Revenues and other funds provided for in the Indenture and all other obligations of the Commission under the Indenture will cease, terminate and be completely discharged (except only as described under "Discharge of Liability on Bonds" below), and the Owners of the Bonds not so surrendered and paid will 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 described under "Payment of Bonds after Discharge of Indenture" below).

(b) In the event that any portion or all of the Bonds are to be paid and discharged pursuant to (a)(4) above, 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 under the

Indenture. 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.

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 (a)(4) above, 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 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.

(c) Notwithstanding anything in the Indenture 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 of the Indenture, 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 under the Indenture 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.

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 is given as in the Indenture provided or provision satisfactory to the Trustee has been made for the giving of such notice, then all liability of the Commission in respect of such Bonds will cease, determine and be completely discharged, except only that thereafter the Owners thereof will be entitled to payment of the principal of and interest on such Bonds by the Commission, and the Commission will 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.

Payment of Bonds after Discharge of Indenture. Notwithstanding any provisions of the 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 the Indenture) will then be repaid to the Commission (upon its Written Request), and the Owners of such Bonds will 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 will thereupon cease.

TRUSTEE PROVISIONS

The Trustee will, 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 the Indenture. The Trustee will, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers

vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

So long as there is no Event of Default under the Indenture, the Commission may remove the Trustee, by giving written notice to the 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 is 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 the combined capital and surplus of such bank or trust company will 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 will promptly appoint a successor Trustee by an instrument in writing. Any resignation or removal of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee.

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APPENDIX B

SUMMARIES OF CERTAIN LOCAL INITIATIVES (PROPOSITIONS E AND P)

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

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

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

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

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

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

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

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

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

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

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

3. Set retail rates, fees and charges based on the cost of service;
4. Conduct all studies mandated by applicable state and federal law to consider implementing connection fees for water and clean water facilities servicing new development;
5. Conduct studies of rate-based conservation incentives and/or lifeline rates and similar rate structures to provide assistance to low income users, and take the results of such studies into account when establishing rates, fees and charges, in accordance with applicable state and federal laws;
6. Adopt annually a rolling 5-year forecast of rates, fees and other charges; and
7. Establish a Rate Fairness Board.

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

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

Proposition P – Revenue Bond Oversight Committee

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

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

APPENDIX C

SFPUC WASTEWATER ENTERPRISE FINANCIAL STATEMENTS

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SAN FRANCISCO WASTEWATER ENTERPRISE

Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

SAN FRANCISCO WASTEWATER ENTERPRISE

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KPMG LLP
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

We have audited the accompanying financial statements of the San Francisco Wastewater Enterprise (the Enterprise), an enterprise fund of the City and County of San Francisco, California (the City), as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Enterprise's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Enterprise's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements of the Enterprise are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the City that is attributable to the transaction of the Enterprise. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2009 and 2008, the changes in its financial position, or, where applicable, the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2009, on our consideration of the Enterprise's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

November 9, 2009

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

This section presents management's analysis of the San Francisco Wastewater Enterprise's (the Enterprise) financial condition and activities as of and for the years ended June 30, 2009 and 2008. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Enterprise's financial statements. This information should be read in conjunction with the audited financial statements that follow this section. All dollar amounts, unless otherwise noted, are expressed in thousands of dollars.

The information in this MDA is presented under the following headings:

- Organization and Business
- Overview of the Financial Statements
- Financial Analysis
- Capital Assets and Debt Administration
- Economic Factors and Next Year's Rates
- Request for Information

Organization and Business

The San Francisco Public Utilities Commission (the Commission) is an agency of the City and County of San Francisco (the City) that is responsible for the maintenance, operation, and development of three utility enterprises, the Water Enterprise, Hetch Hetchy Water and Power, and Wastewater Enterprise. The Enterprise collects, transmits, treats, and discharges sanitary and stormwater flows generated within the City for the protection of public health and environmental safety. In addition, the Enterprise serves on a contractual basis certain municipal customers located outside of the City limits, including the North San Mateo County Sanitation District No. 3, Bayshore Sanitary District, and the City of Brisbane. The Enterprise recovers cost of service through user fees based on the volume and strength of sanitary flow. The Enterprise serves approximately 150,000 residential accounts, which discharge about 19.0 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf) and approximately 22,000 non-residential accounts, which discharge about 9.2 million units of sanitary flow per year.

Overview of the Financial Statements

The Enterprise's financial statements include:

Statements of Net Assets present information on the Enterprise's assets and liabilities as of year-end, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Enterprise is improving or deteriorating.

While the *Statements of Net Assets* provide information about the nature and amount of resources and obligations at year-end, the *Statements of Revenues, Expenses, and Changes in Net Assets* present the results of the Enterprise's operations over the course of the fiscal year and information as to how the net assets changed during the year. These statements can be used as an indicator of the extent to which the Enterprise has successfully recovered its costs through user fees and other charges. All changes in net assets are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

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Thus revenues and expenses are reported in these statements from some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and the expenses of employee earned but unused vacation leave.

The *Statements of Cash Flows* present changes in cash and cash equivalents resulting from operational, capital, non-capital, and investing activities. These statements summarize the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and exclude non-cash accounting measures of depreciation or amortization of assets.

The *Notes to Financial Statements* provide information that is essential to a full understanding of the financial statements that is not displayed on the face of the financial statements.

Financial Analysis

2009 Financial Highlights

- Total assets of the Enterprise exceeded total liabilities by \$1,010,604
- Net assets increased by \$26,691 or 2.7%, during the fiscal year.
- Capital assets, net of accumulated depreciation, increased by \$34,062 or 2.5%, to \$1,394,923.
- Operating revenues, which exclude interest and investment income and other non-operating revenues, increased by \$6,105 or 3.0%, to \$208,654.
- Operating expenses, which exclude interest and non-operating expenses, increased by \$4,055 or 2.5% to \$169,300.

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

Financial Position

Table 1

Comparative Condensed Net Assets

June 30, 2009, 2008, and 2007

	2009	2008	2007	2009-2008 change	2008-2007 change
Current and other assets	\$ 139,783	134,739	172,585	5,044	(37,846)
Capital assets, net of accumulated depreciation	1,394,923	1,360,861	1,335,470	34,062	25,391
Total assets	1,534,706	1,495,600	1,508,055	39,106	(12,455)
Revenue bonds	292,529	327,473	361,251	(34,944)	(33,778)
State revolving fund loans	75,339	89,101	102,438	(13,762)	(13,337)
Commercial paper	100,000	50,000	50,000	50,000	—
Other liabilities	56,234	45,113	35,116	11,121	9,997
Total liabilities	524,102	511,687	548,805	12,415	(37,118)
Net assets:					
Invested in capital assets, net of related debt	971,789	940,602	901,113	31,187	39,489
Restricted for debt service	1,360	1,316	1,107	44	209
Restricted for capital projects	11,126	—	—	11,126	—
Unrestricted	26,329	41,995	57,030	(15,666)	(15,035)
Total net assets	\$ 1,010,604	983,913	959,250	26,691	24,663

Net Assets Fiscal Year 2009

For the year ended June 30, 2009, the Enterprise's total net assets increased by \$26,691 or 2.7% as a result of increases of \$31,187 in invested in capital assets, net of related debt, \$11,126 in restricted for capital projects, and \$44 in restricted for debt service, offset by a decrease of \$15,666 in unrestricted net assets (see Table 1).

Current and other assets increased by \$5,044 or 3.7%. The increases include \$3,586 addition to inventory, \$8,642 in restricted assets – cash and investments and \$409 in receivables primarily from the San Francisco Zoological Society. The increases were offset by decreases of \$205 in miscellaneous receivables and \$7,388 in cash and investments as a result of reduction in accounts payable outstanding balance from prior year.

Capital assets, net of accumulated depreciation, increased by \$34,062 or 2.5%, reflecting an increase in construction activities. The largest portion of the Enterprise's net assets (\$971,789 or 96.2%) represents invested in capital assets, net of related debt.

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Total liabilities increased by \$12,415 or 2.4% during the year. The increase in liabilities was due to \$50,000 in commercial paper issuance, increases in interfund payable to Hetch Hetchy Water and Power of \$556, refund payable to Bayshore Sanitary District of \$407, pollution remediation obligation of \$375, accounts payable and payroll related liabilities of \$3,459, damage and claim liability of \$1,316, and other postemployment benefits obligation of \$5,729. These increases were offset by repayments of revenue bonds of \$35,665 and State revolving fund loans of \$13,762.

Net Assets for Fiscal Year 2008

For the year ended June 30, 2008, the Enterprise's total net assets increased by \$24,663 or 2.6%. The liabilities decreased by \$37,118 or 6.8% during the year. The net decrease was primarily due to repayment of bonds of \$34,500 and State revolving fund loans of \$13,337, partially offset by the other post employment benefits obligation liability increase of \$5,684 due to the adoption of, Governmental Accounting Standards Board (GASB) Statement 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the fiscal year ended June 30, 2008.

Total capital assets, net of accumulated depreciation, increased by \$25,391 or 1.9%, reflecting an increase in the current year's construction activities. The largest portion of the Enterprise's net assets (\$940,602 or 95.6%) represents investment in capital assets, net of related debt. Unrestricted net assets decreased by \$15,035 due to the use of revenues to fund capital projects and operating expenditures.

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Management's Discussion and Analysis

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Results of Operations

The following table summarizes changes in the Enterprise's net assets for the year.

Table 2

Comparative Condensed Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2009, 2008, and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009-2008 change</u>	<u>2008-2007 change</u>
Revenues:					
Charges for services	\$ 199,332	187,810	176,344	11,522	11,466
Other operating revenues	9,322	14,739	17,067	(5,417)	(2,328)
Interest and investment income	1,992	4,099	5,749	(2,107)	(1,650)
Other nonoperating revenues	<u>1,022</u>	<u>885</u>	<u>2,986</u>	<u>137</u>	<u>(2,101)</u>
Total revenues	<u>211,668</u>	<u>207,533</u>	<u>202,146</u>	<u>4,135</u>	<u>5,387</u>
Expenses:					
Operating expenses	169,300	165,245	151,600	4,055	13,645
Interest expense	15,677	17,467	17,354	(1,790)	113
Nonoperating expenses	<u>—</u>	<u>158</u>	<u>291</u>	<u>(158)</u>	<u>(133)</u>
Total expenses	<u>184,977</u>	<u>182,870</u>	<u>169,245</u>	<u>2,107</u>	<u>13,625</u>
Income (loss) before transfers	26,691	24,663	32,901	2,028	(8,238)
Transfers to City and County of San Francisco	<u>—</u>	<u>—</u>	<u>(28)</u>	<u>—</u>	<u>28</u>
Changes in net assets	26,691	24,663	32,873	2,028	(8,210)
Net assets at beginning of year	<u>983,913</u>	<u>959,250</u>	<u>926,377</u>	<u>24,663</u>	<u>32,873</u>
Net assets at end of year	<u>\$ 1,010,604</u>	<u>983,913</u>	<u>959,250</u>	<u>26,691</u>	<u>24,663</u>

Fiscal Year 2009

The Enterprise's total revenues of \$211,668 for the year increased by \$4,135 or 2.0% over the prior year primarily due to a rate increase partially offset by reduction in usage. Sanitary flow of 27,826 ccf (100 cubic feet) for the year decreased by 531 ccf or 1.9%. Charges for services increased by \$11,522 or 6.1% due to a rate increase of 9.0% effective July 1, 2008. Other operating revenues decreased by \$5,417 or 36.8% due to reduction of \$4,858 in capacity fees revenue related to lower building permits, and \$559 reduction in charges to other City departments. Interest and investment income decreased by \$2,107 or 51.4% due to lower cash balances and interest rates. Other non-operating revenues increased by \$137 or 15.5%.

Total expenses increased by \$2,107 or 1.2% due to increase of \$4,055 in operating expenses, offset by decreases of \$1,790 in interest and \$158 in non-operating expenses. The increase in operating expenses is attributable to:

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increases of \$5,613 in services provided by other City departments, \$1,855 in contractual services, \$583 in general and administrative expenses which include growth in actuarially determined claim liability, \$576 in bad debt expense, and \$57 in depreciation expense. Services provided by the City's Department of Public Works increased \$3,317 for sewer repair, street cleaning, and engineering services. Contractual services increased due to a new sewer pipeline project and other ongoing repair and replacement projects. These increases were offset by decreases in materials and supplies of \$3,785, primarily due to an inventory adjustment of \$3,586, \$602 in other operating expenses, and \$242 in personal services.

Net assets increased by \$26,691 to \$1,010,604 due to revenue growth of \$4,135 offset by increase in expenses of \$2,107.

Fiscal Year 2008

The Enterprise's total revenue of \$207,533 for the year increased by \$5,387 or 2.7%, over the prior year. Revenue from service charges increased by \$11,466 or 6.5%, primarily due to a rate increase of 8.0% effective July 14, 2007. Other non-operating revenues decreased by \$2,101 or 70.4%. Interest and investment income decreased by \$1,650 or 28.7%, due to lower average monthly cash balances and lower interest earnings.

Total operating expenses increased by \$13,645 or 9.0% primarily due to \$4,939 increase in other operating expenses, \$3,646 increase in wages and \$5,684 increase in post employment benefits, due to the adoption of GASB 45, as noted above.

The increase in revenue of \$5,387 combined with an increase in expenses of \$13,625 lead to an increase in total net assets of \$24,663, net of transfers.

Capital Assets and Debt Administration

Capital Assets

Table 3

Capital Assets, Net of Depreciation

Years ended June 30, 2009, 2008, and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009-2008 change</u>	<u>2008-2007 change</u>
Facilities, improvements, machinery, and equipment	\$ 1,295,806	1,276,099	1,270,446	19,707	5,653
Land and rights-of-way	21,787	21,787	22,168	—	(381)
Construction work in progress	<u>77,330</u>	<u>62,975</u>	<u>42,856</u>	<u>14,355</u>	<u>20,119</u>
Total	<u>\$ 1,394,923</u>	<u>1,360,861</u>	<u>1,335,470</u>	<u>34,062</u>	<u>25,391</u>

Fiscal Year 2009

The Enterprise has net capital assets of \$1,394,923 invested in a broad range of utility capital assets as of June 30, 2009 (see Table 3). This amount represents an increase of \$34,062 or 2.5% over the prior fiscal year.

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The investment in capital assets includes land, buildings, improvements, wastewater treatment plants, sewer pipes and mains, underground transport and storage boxes, pump stations, machinery, and equipment.

Major additions to construction work in progress during the year ended June 30, 2009 include:

Oceanside Heating Ventilation, Air Conditioning Assessment	\$	11,994
Channel Pump Station Improvements Phase 2		8,854
Southeast Water Pollution Control Program Digester Cover and Mixing Improvements		5,030
Wastewater Master Plan		2,962
Sewer Spot Replacements No. 21		2,946
Sewer Spot Replacements Job Order Contract 2		2,100
Other additions individually below \$2,000		39,652
	\$	<u>73,538</u>

This year's major facilities, improvements, machinery, and equipment additions, including transfers of completed projects from construction work in progress, include the following:

Southeast Water Pollution Control Program Digester Cover and Mixing Improvements	\$	10,571
Oceanside Heating, Ventilation, Air Conditioning Assessment		9,970
North Point Facilities Wet Weather Improvements-Pumps		3,520
Southeast Community Facilities Deck Waterproofing		2,433
Connecticut Street, 43rd and 46th Avenues Sewer Replacement		2,378
Toland, Hudson and Phelps Streets Sewer Improvements		2,353
Southeast Water Pollution Control Program Gas Handling Improvement Phase 2		2,164
Noe Street, Sanchez Street Sewer Replacement		2,114
Southeast Community Facilities Heating, Ventilation, Air Conditioning and Other Renovations		2,051
Other items individually below \$2,000		20,968
	\$	<u>58,522</u>

Fiscal Year 2008

The Enterprise has net capital assets of \$1,360,861 invested in a broad range of utility capital assets as of June 30, 2008. This amount represents an increase of \$25,391 or 1.9%, over the prior fiscal year. The investment in capital assets includes land, buildings, improvements, wastewater treatment plants, sewer pipes and mains, underground transport and storage boxes, pump stations, machinery, and equipment.

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Major additions to construction work in progress during the year ended June 30, 2008 include:

Mission/Mount Vernon Sewer Improvements	\$	9,399
Digester Cover/Mixing Improvements		4,860
Oceanside HVAC Assessment		4,255
Clean Water Master Plan		3,762
Oceanside Pump Station/Westside Bar Screens		2,350
2nd/4th/12th Avenue Sewer Replacement		2,183
Other additions individually below \$2,000		36,506
	\$	<u>63,315</u>

This year's major structures, buildings and equipment additions, including transfers of completed projects from work in progress, include the following:

Mission/Mount Vernon Sewer Improvements	\$	10,749
Oceanside Pump Station/Westside Bar Screens		4,382
2nd/4th/12th Avenue Sewer Replacement		2,525
Brotherhood Way/St. Charles Sewer Replacement		2,360
Mateo Street/Chenery Street/Laidley Street Sewer Replacement		2,031
Other items individually below \$2,000		22,370
	\$	<u>44,417</u>

Debt Administration

As of June 30, 2009 and 2008, the Enterprise's debt and State Revolving Fund Loans outstanding are \$467,868 and \$466,574 respectively, as shown below in Table 4. More detailed information about the Enterprise's debt activity is presented in notes 6 and 7 to the financial statements.

Table 4

Outstanding Debt
(Net of Amortized Costs)

Years ended June 30, 2009, 2008, and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009-2008 change</u>	<u>2008-2007 change</u>
Revenue bonds	\$ 292,529	327,473	361,251	(34,944)	(33,778)
Commercial paper	100,000	50,000	50,000	50,000	—
State revolving fund loans	75,339	89,101	102,438	(13,762)	(13,337)
Total	<u>\$ 467,868</u>	<u>466,574</u>	<u>513,689</u>	<u>1,294</u>	<u>(47,115)</u>

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Credit Ratings and Bond Insurance – At June 30, 2009, the Enterprise carried underlying ratings of “A2” and “A+” from Moody’s and Standard & Poor’s (S&P), respectively. At June 30, 2008, the Enterprise carried underlying ratings of “A2” and “A” from Moody’s and Standard & Poor’s (S&P), respectively. In connection with the sale of the Enterprise’s 2003 Series A Refunding Bonds, municipal bond insurance has been purchased by the Commission and the underwriters from MBIA Insurance (MBIA) to guarantee the payment of principal and interest when due. With the insurance, Moody’s and S&P have assigned their municipal bond ratings of “Aaa” and “AAA”, respectively, to the Enterprise’s insured revenue bonds. The downgrade of various bond insurance companies by credit ratings agencies in 2008 did not cause any change in the Enterprise’s underlying ratings. In February 2009, MBIA provided further reinsurance on its public finance bond insurance portfolio through its newly created subsidiary, National Public Finance Guarantee Corporation (NPFGC). Moody’s and S&P initially rated NPFGC at “Baa1” and “A,” respectively. By July 2009, Moody’s and S&P had downgraded MBIA to “Ba3” and “BBB”, respectively, but affirmed NPFGC’s rating. On September 28, 2009 S&P downgraded MBIA to “BB+”.

Debt Service Coverage – Pursuant to the Indenture, the Enterprise covenants to collect sufficient net revenues each fiscal year, together with any Enterprise funds (except Bond Reserve Funds) that are available for payment of debt service and are not budgeted to be expended, at least equal to 1.25 times annual debt service for said fiscal year. During fiscal years 2009 and 2008, the Enterprise’s net revenues, together with fund balances available to pay debt service and not budgeted to be expended, were sufficient to meet the rate covenant requirements under the Indenture.

Debt Authorization – Pursuant to the Charter, the Enterprise can incur indebtedness upon two-thirds vote of the Board of Supervisors. At June 30, 2009, the Enterprise had a \$150,000 authorized commercial paper program, with \$100,000 and \$50,000 in commercial paper outstanding as of June 30, 2009 and 2008 respectively.

Cost of Debt Capital – The interest rates on the Enterprise’s outstanding bonds range from 3.00% to 5.25% at June 30, 2009, unchanged from June 30, 2008 with a true interest cost of 3.95%. The outstanding State Revolving Fund Loans carry interest rates from 2.8% to 3.5%. The Enterprise’s short-term debt had interest rates ranging from 0.30% to 2.20% at June 30, 2009 and from 1.52% to 3.62% at June 30, 2008.

More information about the Enterprise’s debt activities is presented in notes 6 and 7 to the financial statements.

Economic Factors and Next Year’s Rates

Rate-Setting Process

Pursuant to the City and County of San Francisco Charter section 8B.125, an independent rate study is performed at least once every five years. A rate study was completed in the Spring of 2009, which includes examination of future revenue requirements and cost of service of the Enterprise, and was used to set the Enterprise rates for the next five years through fiscal year 2014.

The Commission adopted a five-year rate proposal that includes a 7.0% average increase in wastewater rates effective July 1, 2009 to meet projected costs and coverage requirements, followed by average increases of 7.0%, 5.0%, 5.0%, and 5.0% for fiscal years 2010, 2011, 2012, and 2013, respectively.

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Proposition E, as approved by the Voters on November 5, 2002, amended the City Charter by adding the new Article VIIIB, entitled "Public Utilities," which established the Commission's exclusive authority to issue new revenue bonds and set wastewater rates. The Commission is required to:

- Establish rates, fees, and charges based on cost of service;
- Retain an independent rate consultant to conduct cost of service studies at least every five years;
- Consider establishing new connection fees;
- Consider conservation incentives and lifeline rates;
- Adopt a rolling five-year forecast annually; and
- Establish a Rate Fairness Board.

The following table is a history of the Enterprise's approved average rate adjustments since July 1, 2004:

Approved Average Rate Adjustments	
Effective Date	Rate
July 1, 2004	11.0%
July 1, 2005	13.0%
July 1, 2006	13.0%
July 1, 2007*	8.0 %
July 1, 2008	9.0 %
July 1, 2009**	7.0 %
July 1, 2010	7.0 %
July 1, 2011	5.0 %
July 1, 2012	5.0 %
July 1, 2013	5.0 %

* Adjustment effective July 14, 2007.

** Denotes beginning of five-year rate increase.

Master Plan

The current Master Plan was finalized in 1974 and brought the City into compliance with Federal and State laws and reduced the number of combined sewer discharges. It resulted in a 25-year capital improvement and construction program that included the construction of the award-winning Oceanside Plant, upgrade of the Southeast Plant to secondary treatment, a new 4.5-mile ocean outfall, and the transport/storage boxes around the city.

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

Since 2005, the Sewer System Improvement Program (SSIP) team has collected and analyzed extensive data, including input from the public, and has used it to develop a recommended program of improvements to address infrastructure challenges facing the wastewater system. The team presented these draft improvements at numerous public meetings and has now folded them into a draft Master Plan. Potential costs of the SSIP are estimated at \$3.5 billion. As an interim step, the Enterprise has an interim Capital Improvement Plan (Interim CIP) totaling \$297 million. The SSIP will be further reviewed by the Commission in early 2010.

Environmental review of the SSIP is anticipated to be complete in 2011. This process, led by the San Francisco Planning Department's Major Environmental Analysis division will identify environmental impacts of proposed actions, identify ways to avoid or reduce environmental damage, and enhance public participation in the planning process.

Request for Information

This report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Enterprise's finances and to demonstrate the Enterprise's accountability for the money it receives. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to San Francisco Public Utilities Commission, Chief Financial Officer, Financial Services, 1155 Market Street, 11th Floor, San Francisco, CA 94103.

SAN FRANCISCO WASTEWATER ENTERPRISE

Statements of Net Assets

June 30, 2009 and 2008

(In thousands)

	<u>2009</u>	<u>2008</u>
Assets:		
Current assets:		
Cash and investments with City Treasury	\$ 36,968	44,361
Cash and investments outside City Treasury	5	—
Receivables:		
Charges for services (net of allowance for doubtful accounts of \$1,486 in 2009 and \$943 in 2008)	34,699	34,290
Due from other governments	106	—
Due from other city departments	31	25
Interest	169	241
Advances	3	—
Total receivables	<u>35,008</u>	<u>34,556</u>
Inventories	<u>3,586</u>	<u>—</u>
Total current assets	<u>75,567</u>	<u>78,917</u>
Noncurrent assets:		
Restricted assets – cash and investments with City Treasury	61,477	52,808
Restricted assets – cash and investments outside City Treasury	—	27
Restricted assets – interest receivable	163	252
Capital assets not being depreciated	99,117	84,762
Capital assets, net of accumulated depreciation	1,295,806	1,276,099
Bond issuance costs (net of accumulated amortization of \$2,506 in 2009 and \$2,348 in 2008)	2,576	2,735
Total noncurrent assets	<u>1,459,139</u>	<u>1,416,683</u>
Total assets	<u>1,534,706</u>	<u>1,495,600</u>
Liabilities:		
Current liabilities:		
Accounts payable	7,891	7,096
Accrued payroll	3,498	3,296
Accrued vacation and sick leave, current portion	2,770	2,680
Accrued workers' compensation, current portion	774	822
Due to other city departments	556	—
Damage and claim liability, current portion	1,861	2,989
Bond and loan interest payable	5,108	5,626
Revenue bonds, current portion	37,130	35,665
Commercial paper	100,000	50,000
Loans payable, current portion	14,199	13,765
Current liabilities payable from restricted assets	6,998	4,605
Total current liabilities	<u>180,785</u>	<u>126,544</u>
Long-term liabilities:		
Other postemployment benefits obligation	11,413	5,684
Accrued vacation and sick leave, less current portion	2,308	2,318
Accrued workers' compensation, less current portion	3,639	3,853
Damage and claim liability, less current portion	8,499	6,055
Deferred revenue, refunds and other liabilities	544	89
Revenue bonds	255,399	291,808
Loans payable, less current portion	61,140	75,336
Pollution remediation obligation	375	—
Total long-term liabilities	<u>343,317</u>	<u>385,143</u>
Total liabilities	<u>524,102</u>	<u>511,687</u>
Net assets:		
Invested in capital assets, net of related debt	971,789	940,602
Restricted for debt service	1,360	1,316
Restricted for capital projects	11,126	—
Unrestricted	26,329	41,995
Total net assets	<u>\$ 1,010,604</u>	<u>983,913</u>

See accompanying notes to financial statements.

SAN FRANCISCO WASTEWATER ENTERPRISE

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2009 and 2008

(In thousands)

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Charges for services	\$ 199,332	187,810
Other revenues	9,322	14,739
Total operating revenues	<u>208,654</u>	<u>202,549</u>
Operating expenses:		
Personal services	69,141	69,383
Contractual services	13,828	11,973
Materials and supplies	5,754	9,539
Depreciation	38,815	38,758
Services provided by other departments	31,634	26,021
Bad debt expense	576	—
General and administrative	2,302	1,719
Other	7,250	7,852
Total operating expenses	<u>169,300</u>	<u>165,245</u>
Operating income	<u>39,354</u>	<u>37,304</u>
Nonoperating revenues (expenses):		
Federal and state grants	224	—
Interest and investment income	1,992	4,099
Interest expense	(15,677)	(17,467)
Other, net	798	727
Total nonoperating expenses	<u>(12,663)</u>	<u>(12,641)</u>
Changes in net assets	26,691	24,663
Net assets at beginning of year	983,913	959,250
Net assets at end of year	<u>\$ 1,010,604</u>	<u>983,913</u>

See accompanying notes to financial statements.

SAN FRANCISCO WASTEWATER ENTERPRISE

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(In thousands)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from customers, including cash deposits	\$ 208,067	198,895
Cash paid to employees for services	(62,702)	(61,696)
Cash paid to suppliers for goods and services	(59,424)	(51,723)
Cash paid for judgments and claim	(459)	(1,554)
Net cash provided by operating activities	<u>85,482</u>	<u>83,922</u>
Cash flows from noncapital and related financing activities:		
Cash received for operating grants	118	—
Cash received from other nonoperating activities	798	885
Net cash provided by noncapital and related financing activities	<u>916</u>	<u>885</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(69,911)	(62,087)
Interest paid on revenue bonds and state loans	(17,959)	(20,325)
Principal paid on revenue bond	(35,665)	(34,500)
Principal paid on state revolving fund loans	(13,762)	(13,337)
Proceeds from issuance of commercial paper	227,500	185,000
Payments on commercial paper	(177,500)	(185,000)
Net cash used in capital and related financing activities	<u>(87,297)</u>	<u>(130,249)</u>
Cash flows from investing activities:		
Interest income received	2,153	5,396
Net cash provided by investing activities	<u>2,153</u>	<u>5,396</u>
Increase (decrease) in cash and cash equivalents	1,254	(40,046)
Cash and cash equivalents:		
Beginning of year	97,196	137,242
End of year	<u>\$ 98,450</u>	<u>97,196</u>
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and investments :		
Unrestricted	\$ 36,973	44,361
Restricted	61,477	52,835
	<u>\$ 98,450</u>	<u>97,196</u>

SAN FRANCISCO WASTEWATER ENTERPRISE

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(In thousands)

	<u>2009</u>	<u>2008</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ <u>39,354</u>	<u>37,304</u>
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	38,815	38,758
Provision for uncollectible accounts	543	120
Write-off and loss on disposal of capital assets	2,071	1,517
Changes in operating assets and liabilities:		
Accounts receivable	(952)	(3,775)
Due from other city departments	(6)	—
Advances	(3)	—
Inventories	(3,586)	—
Accounts payable	795	2,602
Accrued payroll	202	500
Accrued other postemployment benefits	5,729	5,684
Accrued vacation and sick leave	80	268
Accrued workers' compensation	(262)	531
Due to other funds	556	—
Pollution remediation obligation	375	—
Damage and claim liability	1,316	333
Deferred credits and other liabilities	<u>455</u>	<u>80</u>
Total adjustments	<u>46,128</u>	<u>46,618</u>
Net cash provided by operating activities	\$ <u><u>85,482</u></u>	<u><u>83,922</u></u>
Noncash transactions:		
Accrued capital asset costs	\$ 6,998	4,605

See accompanying notes to financial statements.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

(1) Definition of Reporting Entity

The San Francisco Wastewater Enterprise (the Enterprise), formerly known as, the San Francisco Clean Water Program (the Program) was established in 1977 following the transfer of all sewage-system-related assets and liabilities of the City and County of San Francisco (the City) to the Program.

In 1976, the electorate of the City approved a proposition authorizing the City to issue \$240,000 in revenue bonds pursuant to the Revenue Bond Law of 1941 of the State of California for the purpose of acquiring, constructing, improving, and financing improvements to the City's municipal sewage treatment and disposal system. Since then, the City's Board of Supervisors has adopted resolutions (Wastewater Resolutions) providing for the issuance of various sewer revenue and refunding bond series. The Wastewater Resolutions require the City to keep separate books of records and accounts of the Enterprise.

The Enterprise was placed under the jurisdiction of the San Francisco Public Utilities Commission (the Commission) in 1996. The Commission, established in 1932, is responsible for providing operational oversight of the public utility enterprises of the City, which include the Enterprise along with the City's power and water utilities (i.e., Hetch Hetchy Water and Power [Hetch Hetchy] and the San Francisco Water Enterprise [Water]). The Commission is responsible for determining such matters as the rates and charges for services, approval of contracts, and organizational policy.

Until August 1, 2008, the Commission consisted of five members, all appointed by the Mayor. Proposition E, a City and County of San Francisco Charter amendment approved by the voters in the June 3, 2008 election, terminated the terms of the all five existing members of the Commission, changed the process for appointing new members, and set qualifications for all members. Under the amended Charter, the Mayor continues to nominate candidates to the Commission, but nominees do not take office until the Board of Supervisors votes to approve their appointments by a majority (at least six members). The amended Charter requires the Commission members meet the following qualifications:

1. Seat 1 must have experience in environmental policy and an understanding of environmental justice issues.
2. Seat 2 must have experience in ratepayer or consumer advocacy.
3. Seat 3 must have experience in project finance.
4. Seat 4 must have expertise in water systems, power systems, or public utility management.
5. Seat 5 would be an at-large member.

The amended Charter provides for staggered four-year term for members. Initially, the new members for seats 2 and 4 will serve two years and the new members for seats 1, 3 and 5 will serve for four years.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

The Commission is a department of the City, and as such, the financial operations of the Enterprise, Hetch Hetchy, and the Water Enterprises are included in the Comprehensive Annual Financial Report of the City as enterprise funds. These financial statements present only the financial operations of the Enterprise alone and are not intended to present the financial position of the City as a whole or consolidated entity, the changes in its financial position, and the cash flows of its proprietary funds in conformity with U.S. generally accepted accounting principles.

(2) Significant Accounting Policies

(a) Basis of Accounting and Measurement Focus

The accounts of the Enterprise are organized on the basis of a proprietary fund type, specifically an enterprise fund of the City and County of San Francisco. The activities of this Enterprise are accounted for with a separate set of self-balancing accounts that comprise the Enterprise's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The financial activities of the Enterprise are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the statements of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred. Operating revenues are defined as charges to customers, rental income, and capacity fees.

The Enterprise does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. The Enterprise applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as statements and interpretations of the FASB, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

(b) Cash and Cash Equivalents

The Enterprise considers its pooled deposits and investments held with the City Treasury to be demand deposits and therefore cash equivalents for financial reporting. The City also holds non-pooled cash and investments for the Enterprise. Non-pooled restricted deposits and restricted deposits and investments held outside the City Treasury with maturities of three months or less are also considered to be cash equivalents.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

(c) *Investments*

Investments include money market funds, which are carried at cost. All other investments are stated at fair value based upon quoted market prices. Changes in fair value are recognized as investment gains or losses.

(d) *Inventory*

Inventory consists primarily of construction materials and maintenance supplies and is valued at average cost. Inventory is expensed as it is consumed.

(e) *Capital Assets*

Capital assets with an original acquisition date prior to July 1, 1977 are recorded in the financial statements at estimated cost, as determined by an independent professional appraisal, or at cost, if known. All subsequent acquisitions have been recorded at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 100 years. No depreciation or amortization is recorded in the year of acquisition, and a full year's depreciation or amortization is recorded in the year of disposal.

(f) *Construction in Progress*

The cost of acquisition and construction of major plant and equipment is recorded as construction in progress. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

(g) *Capitalization of Interest*

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

(h) *Bond Discount, Premium, and Issuance Costs*

Bond discount, premium, and issuance costs are amortized over the term of the related bonds on a method which approximates the effective interest method basis.

(i) *Accrued Vacation and Sick Leave*

Accrued vacation pay, which may be accumulated up to ten weeks per employee, is charged to expense as earned. Sick leave earned subsequent to December 6, 1978, is non-vesting and may be accumulated up to six months per employee.

(j) *Workers' Compensation*

The Enterprise is self-insured for workers' compensation claims and accrues the estimated cost of those claims, including the estimated cost of incurred but not reported claims.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

(k) *Damage and Claims Liability*

The Enterprise is self-insured for general liability and uninsurable property damage claims. Commercially uninsurable property includes assets that are underground or provide transmission and distribution. Maintained commercial coverage does not cover claims attributed to loss from earthquake, contamination, pollution remediation efforts and other specific naturally occurring contaminants such as mold. The liability represents an estimate of the cost of all outstanding claims, including adverse loss development, and estimated incurred but not reported claims.

(l) *Arbitrage Rebate Payable*

Certain bonds are subject to arbitrage rebate requirements in accordance with regulations issued by the U.S. Treasury Department. The requirements generally stipulate that earnings from the investment of the tax-exempt bond proceeds that exceed related interest costs on the bonds must be remitted to the federal government on every fifth anniversary of each bond issue. No arbitrage liability is due as of June 30, 2009 and 2008.

(m) *Refunding of Debt*

Gains or losses occurring from advance refundings of debt are deferred and amortized into interest expense over the remaining life of the old bonds or the life of the new bonds, whichever is shorter.

(n) *Income Taxes*

As a government agency, the Enterprise is exempt from both federal income taxes and California state franchise taxes.

(o) *Revenue Recognition*

Sewer service charges are based on water usage as determined by the San Francisco Water Enterprise. In general, customers are billed on a bi-monthly basis.

Revenues earned but unbilled are accrued as charges for services receivable on the statements of net assets.

(p) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(q) *Reclassifications*

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

(r) *Postemployment Benefits Other Than Pensions*

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to post employment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. The annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB transition liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. As of July 1, 2007, the Enterprise implemented the new reporting requirements in the financial statements and established its OPEB transition liability at zero.

(s) *Effects of New Pronouncements*

Governmental Accounting Standards Board 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*

For fiscal year ending June 30, 2009, the Enterprise has adopted GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. More detailed information about the Enterprise's environmental pollution remediation obligations is presented in note 12(d) to the financial statements.

To provide governments with better accounting guidance and consistency, GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. According to the standard, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem;
- A government has violated a pollution prevention-related permit or license;
- A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up;

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution; or
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

As a part of ongoing operations, situations may occur requiring the removal of pollution or other hazardous material. These situations typically arise in the process of acquiring an asset, preparing an asset for its intended use, or during the Design Phase of projects under review by the Project Managers. Other times, pollution may arise during the implementation and construction of a major or minor capital project.

Examples of pollution may include, but are not limited to:

- Asbestos or lead paint removal;
- Leaking of sewage in underground pipes or neighboring areas;
- Chemical spills;
- Removal and disposal of known toxic waste;
- Harmful biological and chemical pollution of water; or
- Contamination of surrounding soils by underground storage tanks (UST)

Due to the implementation of GASB 49, the Enterprise recorded \$375 and \$0 in pollution remediation costs as of June 30, 2009 and 2008, respectively.

(3) Cash, Cash Equivalents and Investments

The Enterprise's cash, cash equivalents and investments with the City Treasury are invested pursuant to investment policy guidelines established by the City Treasurer and are treated as cash equivalents for financial reporting purposes. The objectives of the policy guidelines are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The City Treasurer allocates income from the investment of pooled cash at month end in proportion to the Enterprise's average daily cash balances.

The primary objectives of the Enterprise's investment policy are consistent with the City's policy.

The restricted asset for bond reserves is held by an independent trustee outside the City investment pool. The balances as of June 30, 2009 and 2008 were \$0 and \$27, respectively.

Funds held by the trustee established under the 2003 Indenture are invested in "Permitted Investments" as defined in the Indenture. "Permitted Investments" include money market funds registered under the

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

Federal Investment Company Act of 1940 and whose shares are registered under the Federal Securities Act of 1933 and having a rating by Standard & Poor's of "AAAm-G," "AAAm," or "AAm" and a rating by Moody's of "Aaa," "Aa1," or "Aa2." The credit ratings of the money market funds invested in as of June 30, 2009 and June 30, 2008 were "Aaa" by Moody's and "AAAm" by Standard & Poor's.

The Enterprise's cash, cash equivalents and investments are shown on the accompanying statements of net assets as follows:

	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and investments with City Treasury	\$ 36,968	44,361
Cash and investments outside City Treasury	5	—
Noncurrent assets – restricted assets:		
Cash and investments with City Treasury	61,477	52,808
Cash and investments outside City Treasury	—	27
Net cash provided by operating activities	<u>\$ 98,450</u>	<u>97,196</u>

The following table shows the percentage distribution of the City's pooled investments by maturity as of June 30, 2009:

<u>Investment maturities (in months)</u>			
<u>Under 1</u>	<u>1 to less than 6</u>	<u>6 to less than 12</u>	<u>12 to 60</u>
9.9%	27.0%	8.8%	54.3%

The following table shows the percentage distribution of the City's pooled investments by maturity as of June 30, 2008:

<u>Investment maturities (in months)</u>			
<u>Under 1</u>	<u>1 to less than 6</u>	<u>6 to less than 12</u>	<u>12 to 60</u>
6.9%	52.7%	11.6%	28.8%

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

(4) Capital Assets

Capital assets as of June 30, 2009 and 2008 consisted of the following:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital assets not being depreciated:				
Land and rights of way	\$ 21,787	—	—	21,787
Construction in progress	62,975	73,538	(59,183)	77,330
Total capital assets not being depreciated	84,762	73,538	(59,183)	99,117
Capital assets being depreciated:				
Facilities and improvements	2,057,625	51,757	—	2,109,382
Machinery and equipment	51,583	6,765	(335)	58,013
Total capital assets being depreciated	2,109,208	58,522	(335)	2,167,395
Less accumulated depreciation for:				
Facilities and improvements	(807,038)	(36,368)	—	(843,406)
Machinery and equipment	(26,071)	(2,447)	335	(28,183)
Total accumulated depreciation	(833,109)	(38,815)	335	(871,589)
Total capital assets being depreciated, net	1,276,099	19,707	—	1,295,806
Total capital assets, net	\$ 1,360,861	93,245	(59,183)	1,394,923

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

	<u>Balance</u> <u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital assets not being depreciated:				
Land and rights of way	\$ 22,168	—	(381)	21,787
Construction in progress	<u>42,856</u>	<u>63,315</u>	<u>(43,196)</u>	<u>62,975</u>
Total capital assets not being depreciated	<u>65,024</u>	<u>63,315</u>	<u>(43,577)</u>	<u>84,762</u>
Capital assets being depreciated:				
Facilities and improvements	2,018,942	38,683	—	2,057,625
Machinery and equipment	<u>46,224</u>	<u>5,734</u>	<u>(375)</u>	<u>51,583</u>
Total capital assets being depreciated	<u>2,065,166</u>	<u>44,417</u>	<u>(375)</u>	<u>2,109,208</u>
Less accumulated depreciation for:				
Facilities and improvements	(770,443)	(36,595)	—	(807,038)
Machinery and equipment	<u>(24,277)</u>	<u>(2,163)</u>	<u>369</u>	<u>(26,071)</u>
Total accumulated depreciation	<u>(794,720)</u>	<u>(38,758)</u>	<u>369</u>	<u>(833,109)</u>
Total capital assets being depreciated, net	<u>1,270,446</u>	<u>5,659</u>	<u>(6)</u>	<u>1,276,099</u>
Total capital assets, net	<u>\$ 1,335,470</u>	<u>68,974</u>	<u>(43,583)</u>	<u>1,360,861</u>

Capital assets with a useful life of 50 years or greater include buildings and structures, sewers, waste water treatment plants, pump stations, and other pipelines.

Financial Accounting Standards Board (FASB) Statement 34, *Capitalization of Interest Costs*, requires that interest expense incurred during construction of assets be capitalized. Interest included in the Construction in Progress and total interest expense incurred during the years ended June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Interest expensed	\$ 15,677	17,467
Interest included in construction in progress	<u>2,644</u>	<u>3,064</u>
	<u>\$ 18,321</u>	<u>20,531</u>

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

During fiscal years ending in 2009 and 2008, the Enterprise expensed \$2,071 and \$1,517, respectively, related to capitalized design and planning costs on certain projects. The amounts of the write-offs were recognized as other operating expenses in the accompanying statements of revenues, expenses, and changes in net assets.

(5) Restricted Assets

The Master Bond Resolution was discharged upon the issuance of the 2003 Refunding Series A Bonds. Pursuant to the Indenture, which became effective with the issuance of the 2003 Refunding Series A Bonds, all net revenues of the Enterprise (except amounts on deposit in the rebate fund) are irrevocably pledged to the punctual payment of debt service on the Wastewater revenue bonds. Accordingly, the net revenues of the Enterprise shall not be used for any other purpose while any of its revenue bonds are outstanding except as expressly permitted by the Indenture. Further, all net revenues shall be deposited by the City Treasurer, by instruction of the Enterprise, in special funds designated as the Revenue Fund, which must be maintained in the City Treasury. These funds, held at the City Treasury, are recorded in the statements of net assets of the Enterprise as deposits and investments with the City Treasury. Deposits 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:

1. The payment of operation and maintenance costs of the Enterprise
2. The payment of state loans
3. The payment of bonds, parity state loans, policy costs, and amounts due as reimbursement under any letter of credit agreement
4. Any other lawful purpose of the Enterprise.

In accordance with the Indenture, the Enterprise maintains certain restricted cash and investment balances in trust. Restricted assets held in trust consisted of the following as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Deposits and investments with City Treasury:		
Sewer Bond Construction Fund	\$ 61,477	52,808
Deposits and investments outside City Treasury:		
2003A Clean Water Revenue Refunding Bond Fund	—	27
Interest receivable:		
Sewer Bond Construction Fund	163	252
Total restricted assets	<u>\$ 61,640</u>	<u>53,087</u>

Restricted cash listed above as deposits and investments with the City Treasury are held in Subfunds of the Sewer Revenue Fund of the City Treasury.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

(6) Short-Term Debt

The Commission and Board of Supervisors have authorized the issuance of up to \$150,000 in commercial paper, under the voter-approved 2002 Proposition E, for the purpose of reconstructing, expanding, repairing or improving the Wastewater Enterprise's facilities. As of June 30, 2009 and 2008, the Enterprise had \$100,000 and \$50,000, respectively, in commercial paper notes outstanding. The commercial paper program is supported by a letter of credit issued by BNP Paribas and is dated as of February 1, 2007 with U.S. Bank Trust N.A. as agent bank. The letter of credit will expire on February 13, 2012. For the year ended June 30, 2009, interest rates on the commercial paper ranged from 0.30% to 2.20% with due dates ranging from July 8, 2008 to October 8, 2009.

	<u>Interest rate</u>	<u>Beginning of the year</u>	<u>Additions</u>	<u>Reductions</u>	<u>End of the year</u>
June 30, 2009	0.30% to 2.20%	\$ 50,000	227,500	(177,500)	100,000
June 30, 2008	1.52% to 3.62%	50,000	185,000	(185,000)	50,000

Maturity dates of the June 30, 2009 outstanding balance ranged from July 16, 2009 to October 8, 2009.

(7) Changes in Long-Term Liabilities

Long-term liability activities for the years ended June 30, 2009 and 2008 were as follows:

	<u>Interest rate</u>	<u>Final maturity date</u>	<u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2009</u>	<u>Due within one year</u>
Revenue bonds:							
Revenue Bonds, 2003 Refunding Series A	3.00 to 5.25%	2025	\$ 328,325	—	(35,665)	292,660	37,130
Less deferred amounts:							
For issuance premiums			17,366	—	(1,006)	16,360	—
For refunding loss			(18,218)	—	1,727	(16,491)	—
Total revenue bonds payable			327,473	—	(34,944)	292,529	37,130
State of California revolving loans	2.80 to 3.50%	2021	89,101	—	(13,762)	75,339	14,199
Other post employment benefits obligations			5,684	5,729	—	11,413	—
Accrued vacation and sick leave			4,998	2,904	(2,824)	5,078	2,770
Accrued workers' compensation			4,675	428	(690)	4,413	774
Damage and claims liability			9,044	1,460	(144)	10,360	1,861
Deferred revenue			89	535	(80)	544	—
Pollution remediation obligation			—	375	—	375	—
Total			\$ 441,064	11,431	(52,444)	400,051	56,734

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

	<u>Interest rate</u>	<u>Final maturity date</u>	<u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>	<u>Due within one year</u>
Revenue bonds:							
Revenue Bonds, 2003 Refunding Series A	3.00 to 5.25%	2025	\$ 362,825	—	(34,500)	328,325	35,665
Less deferred amounts:							
For issuance premiums			18,370	—	(1,004)	17,366	—
For refunding loss			(19,944)	—	1,726	(18,218)	—
Total revenue bonds payable			361,251	—	(33,778)	327,473	35,665
State of California revolving loans	2.80 to 3.50%	2021	102,438	—	(13,337)	89,101	13,765
Other postemployment benefits obligations			—	5,684	—	5,684	—
Accrued vacation and sick leave			4,730	2,829	(2,561)	4,998	2,680
Accrued workers' compensation			4,144	1,236	(705)	4,675	822
Damage and claim liability			8,711	1,182	(849)	9,044	2,989
Deferred revenue			9	80	—	89	—
Total			\$ 481,283	11,011	(51,230)	441,064	55,921

The payments of principal and interest amounts on various bonds are secured by net revenues of the Enterprise.

(a) *Revenue Bonds, 2003 Refunding Series A*

During fiscal year 2003, the Enterprise issued 2003 Refunding Series A Bonds (Refunding Bonds) in the amount of \$396,270 with interest rates ranging from 3.00% to 5.25%.

During fiscal year 2005, the Enterprise substituted cash and equivalents held in the Bond Reserve Fund with a bond reserve fund policy of \$34,199, which was the largest reserve requirement pursuant to the Indenture. The surety bond policy was issued by MBIA, which is currently rated "BB+" and "Ba3" by S&P and Moody's, respectively as of September 25, 2009. This policy is further reinsured by the National Public Finance Corporation, which is currently rated "Baal" and "A" by Moody's and S&P, respectively. The cash released by the substitution will be used for improvements to capital projects within the Enterprise in accordance with the Indenture.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

Future Annual Debt Service of Refunding Bonds

The future annual debt service relating to the Refunding Bonds outstanding as of June 30, 2009 is as follows:

	<u>Principal</u>	<u>Interest</u>
Years ending June 30:		
2010	\$ 37,130	13,183
2011	26,320	11,827
2012	22,010	10,959
2013	23,095	9,941
2014	24,395	8,754
2015 – 2019	90,925	27,001
2020 – 2024	62,530	8,197
2025 – 2026	<u>6,255</u>	<u>315</u>
	292,660	\$ <u><u>90,177</u></u>
Less:		
Current portion	(37,130)	
Unamortized bond premiums and refunding loss	<u>(131)</u>	
Long-term portion as of June 30, 2009	\$ <u><u>255,399</u></u>	

As defined in the Indenture, the principal and interest of the Enterprise's Refunding Bonds are payable from its corresponding revenue as well as monies deposited in certain funds and accounts pledged thereto (note 5).

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

(b) State Revolving Fund Loans

The Enterprise has entered into several contracts with the State Water Resources Control Board (SWRCB) under which the Enterprise borrowed up to prescribed maximum amounts to finance the construction of certain facilities. Loans outstanding as of June 30, 2009 and 2008 are summarized as follows:

Project	Date of issuance	Maturity date	Interest rate	Loan amount	June 30	
					2009	2008
					Amount outstanding	Amount outstanding
Oceanside	07/25/90	2010	3.4%	\$ 40,000	5,233	7,723
Oceanside	06/13/91	2011	3.5	32,376	4,255	6,275
Oceanside	12/24/93	2013	2.9	14,102	4,345	5,142
Mariposa	01/28/91	2011	3.5	7,624	1,009	1,488
Mariposa	06/24/92	2012	3.1	1,936	371	487
Lake Merced	01/29/92	2012	3.1	21,114	4,038	5,303
Islais Creek	10/08/92	2012	3.0	5,706	1,416	1,745
Islais Creek	09/07/93	2013	3.1	26,800	8,251	9,756
Islais Creek	06/17/94	2014	2.9	15,105	5,543	6,378
Islais Creek	01/09/96	2016	3.4	21,720	10,118	11,379
Islais Creek	08/04/00	2020	2.9	18,026	12,020	12,848
Rankin Pump	12/23/96	2016	2.8	27,000	13,222	14,679
Rankin Pump	01/23/01	2021	2.9	8,274	5,518	5,898
				<u>\$ 239,783</u>	<u>75,339</u>	<u>89,101</u>

The Enterprise is repaying the interest and principal by installments with the final amount due between 15 and 20 years after the first disbursement by SWRCB. Disbursements are made by SWRCB as funds are spent for the projects. The Enterprise is required to comply with applicable federal and state regulations. The future annual debt service relating to the State Revolving Fund Loans outstanding as of June 30, 2009 is as follows:

	Principal	Interest	Total
Years ending June 30:			
2010	\$ 14,199	2,307	16,506
2011	14,648	1,855	16,503
2012	9,594	1,389	10,983
2013	8,322	1,099	9,421
2014	8,192	848	9,040
2015 – 2019	17,028	1,649	18,677
2020 – 2021	3,356	147	3,503
	<u>75,339</u>	<u>\$ 9,294</u>	<u>84,633</u>
Less current portion	<u>(14,199)</u>		
Long-term portion as of June 30, 2009	<u>\$ 61,140</u>		

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

(8) Revenue Pledge

The Enterprise has pledged future revenues to repay various revenue bonds. Proceeds from the revenue bonds provided financing for various capital construction projects, and to refund previously issued bonds. The bonds are payable solely from revenues of the Enterprise and are payable through the year 2026. Annual principal and interest payments on the bonds are expected to require less than 27% of future revenues through the year 2026.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2009 and 2008, and applicable revenues for 2009 and 2008 are as follows:

		<u>2009</u>	<u>2008</u>
Bonds issued with revenue pledge	\$	396,270	396,270
Principal and interest remaining due at the end of the year		382,837	433,147
Principal and interest paid during the year		50,311	50,198
Net revenue for the year ended June 30		71,130	106,692

(9) Employee Benefits

(a) Retirement Plan

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

Funding Policy – Contributions to the basic Plan are made by both the Enterprise and its employees. Employee contributions are mandatory. Employee contribution rates for 2009, 2008 and 2007 varied from 5.0% to 8.0% as a percentage of covered payroll. Due to certain bargaining agreements, the Enterprise contributed from 0.5% to 8.0% of covered payroll on behalf of some employees. In addition, the Enterprise was required to contribute for the fiscal years ended June 30, 2009, 2008 and 2007 at an actuarially determined contribution rate as a percentage of covers payroll of 4.99%, 5.91% and 6.24%, respectively. The Enterprise’s required and actual contributions were approximately \$2,320 in 2009, \$2,658 in 2008, and \$2,605 in 2007.

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

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

(b) *Health Care Benefits*

Health care benefits of the Enterprise employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System (the Health Service System). The Enterprise's annual contribution, which amounted to approximately \$7,382 and \$6,992 in fiscal years 2009 and 2008, respectively, is determined by a charter provision based on similar contributions made by the 10 most populous counties in California.

Included in these amounts are \$1,862 and \$1,761 for 2009 and 2008, respectively, to provide postretirement benefits for retired employees, on a pay-as-you-go basis. In addition, the City allocated an additional \$55 and \$73 to the Enterprise's contribution allocation for payments made from the Health Service System for postretirement health benefits in 2009 and 2008, respectively.

The City has determined a City-wide Annual Required Contribution (ARC), interest on net Other postemployment benefits other than pensions (OPEB) Obligation, ARC adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB 45, by the City's actuaries. The City's allocation of the OPEB related costs to the Enterprise for the year ended June 30, 2009 based upon its percentage of City-wide payroll costs is presented below.

The following table shows the components of the City's annual OPEB allocations for the Enterprise for the years ending June 30, 2009 and 2008, for the amount contributed to the plan, and changes in the City's net OPEB obligation (dollar amount in thousands):

	2009	2008
Annual required contribution	\$ 7,585	7,518
Interest on net OPEB Obligation	235	—
Adjustment to ARC	(174)	—
Annual OPEB cost (expense)	7,646	7,518
Contribution made	(1,917)	(1,834)
Increase in net OPEB obligation	5,729	5,684
Net OPEB obligation – beginning of year	5,684	—
Net OPEB obligation – end of year	\$ 11,413	5,684

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

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)C-

(c) Wellness Incentive Program

Effective July 1, 2002, the City established a pilot “Wellness Incentive Program” (the Wellness Program) to promote workforce attendance. Under the Wellness Program, any full-time employee leaving the employment of the City upon service or disability retirement may receive payment of a portion of accrued sick leave credits at the time of separation.

The amount of this payment shall be equal to two and one-half percent (2.5%) of accrued sick leave credits at the time of separation times the number of whole years of continuous employment times an employee’s salary rate, exclusive of premiums or supplements, at the time of separation. Vested sick leave credits, as set forth under Civil Service Commission Rules, shall not be included in this computation.

The Wellness Program shall be discontinued as current bargaining agreements expire on June 30, 2010.

(10) Related Parties

Various common costs incurred by the Commission are allocated pro-ratably between the Enterprise, Hetch Hetchy Water and Power, and the Water Enterprise. The allocations are based on the Commission management’s best estimate and may change from year to year depending on the activities incurred by each department and the information available. For the years ended June 30, 2009 and 2008, the Commission allocated \$18,884 and \$16,666, respectively, in administrative costs to the Enterprise, which is included in the financial statements under various expense categories.

The City performs certain administrative services such as maintenance of accounting records and investment of cash for all fund groups within the City. The various funds are charged for these services based on the City’s indirect cost allocation plan. The overhead allocation paid to the General Fund of the City by the Enterprise is \$2,258 and \$1,894 for the years ended June 30, 2009 and 2008 respectively, and is included in other operating expenses in the accompanying financial statements.

The Enterprise purchases electricity from Hetch Hetchy at market rates. This amount, totaling \$8,613 and \$7,672 for the years ended June 30, 2009 and 2008 respectively, has been included in services provided by other departments in the accompanying financial statements.

The Enterprise provides sewer services to other City departments at the non-residential rates established by the Enterprise.

The Water Enterprise, through the Customer Services Department, bills and collects sewer service charges on behalf of the Wastewater Enterprise.

The City’s Department of Public Works provides certain engineering and other services to the Enterprise and charges amounts designed to recover its costs. These services are primarily related to street cleaning, engineering, building repair, and sewer repair. This amount totaling approximately \$16,002 and \$12,685 for the years ended June 30, 2009 and 2008, respectively, has been included in services provided by other departments in the accompanying financial statements.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

A variety of other City departments provide services such as purchasing, legal, data processing, telecommunications, and human resources to the Enterprise and charge amounts designed to recover those departments' costs. These charges totaling approximately \$7,019 and \$5,663 for the years ended June 30, 2009 and 2008, respectively, have been included in services provided by other departments in the accompanying financial statements.

(11) Risk Management

The Enterprise's risk management program encompasses both self-insured and insured coverage. Risk assessments and coverage are coordinated by the City's Office of Risk Management. With certain exceptions, the City and the Enterprise's general policy is to first evaluate self-insurance for the risk of loss to which it is exposed. Based on this analysis, mitigating risk through a 'self-retention' mechanism is more economical as it manages risks internally and administers, adjusts, settles, defends, and pays claims from budgeted resources (i.e. pay-as-you-go fund). When economically more viable or when required by debt financing covenants, the Enterprise obtains commercial insurance. At least annually, the City actuarially determines general liability and workers' compensation risk exposures. The Enterprise does not maintain commercial earthquake coverage, with certain minor exceptions, such as a sub-limit for fire-sprinkler leakage due to earthquake under the Property Insurance program.

Primary risks	Typical coverage approach
General liability	Self-Insure
Property	Purchase Insurance and Self-Insure
Workers' compensation	Self-Insure through Citywide Pool
Other risks	Typical coverage approach
Surety bonds	Purchased and Contractually Transferred
Professional liability	Combination of Self-Insure, Purchased Insurance and Contractual Risk Transfer
Errors and omissions	Combination of Self-Insure, Purchased Insurance and Contractual Risk Transfer
Builders' risk	Purchased Insurance and Contractual Risk Transfer

(a) *Damage and Claim Liability*

Through coordination with the Controller and the City Attorney's Office, the general liability risk exposure is actuarially determined and is addressed through pay-as-you-go funding as part of the budgetary process. Associated costs are also booked as expenses as required under Generally Accepted Accounting Principles (GAAP) for financial statement purposes for both the Enterprise and the City and County of San Francisco's Comprehensive Annual Financial Report (CAFR). The claim expense allocations are determined based on actuarially determined anticipated claim payments and the projected timing of disbursement.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

The changes for the damage and claim liabilities for the years ended June 30, 2009 and 2008 are as follows:

	<u>Beginning of year</u>	<u>Claims and changes in estimates</u>	<u>Claims paid</u>	<u>End of year</u>
2007 – 2008	\$ 8,711	1,182	(849)	9,044
2008 – 2009	9,044	1,460	(144)	10,360

(b) Property

The Enterprise's property risk management approach varies depending on whether the facility is currently under construction, or if the property is part of revenue-generating operations. For new construction projects, the Enterprise has utilized traditional insurance or other alternative insurance programs. Under the latter approach, the insurance program usually provides coverage for the entire construction project, along with multiple risk coverages, such as for general liability, property damage and workers compensation, for example. When a traditional insurance program is used for property risks, the Enterprise requires each contractor to provide its own insurance, while ensuring that the full scope of work be covered with satisfactory levels to limit the Enterprise's risk exposure. The majority of purchased insurance program is for either: 1) revenue-generating facilities, 2) debt-financed facilities, and 3) mandated coverage to meet statutory requirements for bonding of various public officials.

(c) Workers' Compensation

The City actuarially determines and allocates workers' compensation costs to the Enterprise according to a formula based on the following: (i) the dollar amount of claims; (ii) yearly projections of payments based on historical experience; and (iii) the size of the Enterprise's payroll. The administration of workers' compensation claims and payouts are handled by the Workers' Compensation Division of the City's Department of Human Resources. Statewide workers' compensation reforms have resulted in budgetary savings in recent years. The City continues to develop and implement improved programs, such as return-to-work programs, to lower or mitigate the growth of workers' compensation costs. Programs include: accident prevention, investigation and duty modification for injured employees with medical restrictions so return to work can occur as soon as possible.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

The changes in the liabilities for workers' compensation for the years ended June 30, 2009 and 2008 are as follows:

	<u>Beginning of year</u>	<u>Claims and changes in estimates</u>	<u>Claims paid</u>	<u>End of year</u>
2007 – 2008	\$ 4,144	1,236	(705)	4,675
2008 – 2009	4,675	428	(690)	4,413

(d) Surety Bonds

Bonds are required in most all phases of the public utilities construction contracting process for such phases, as bid, performance, and payment or maintenance. Additionally, bonds may be required in other contracts where goods or services are provided to ensure compliance with applicable terms and conditions such as warranty. Additionally, all public officials with financial oversight responsibilities are provided liability coverage through a commercial Public Official Liability policy; including the Commission members, the General Manager, and the Chief Financial Officer. The Enterprise also maintains a commercial crime policy in lieu of bonding its employees.

(e) Professional Liability, Errors, and Omissions

Professional liability policies are either directly purchased insurance on behalf of the Enterprise, transferred through contract to the contracted professional, or retained through self-insurance on a case by case basis depending on the size, complexity or scope of construction or professional service contracts. Examples of contracts providing any form of the coverages described are engineers, architects, design professionals and other licensed or certified professional service providers.

(f) Builders' Risk

Builders' risk policies of insurance are required to be provided by the contractor on all construction projects for the full value of construction.

(g) Owner Controlled Insurance Program

As of June 30, 2009, the Enterprise completed the final close out of its OCIP program. No further obligation for claims funding will continue in future years.

For more information about how the Enterprise's risk management program consolidates into and is coordinated with the City's, please see the City's CAFR.

(12) Commitments and Litigation

(a) Commitments

As of June 30, 2009, the Enterprise has outstanding commitments with third parties of \$23,879 for various capital projects and other purchase agreements for materials and services.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

(b) Grants

Grants that the Enterprise receives are subject to audit and final acceptance by the granting agency. Current and prior year costs of such grants are subject to adjustment upon audit.

(c) Litigation

The Enterprise is a defendant in various legal actions and claims that arise during the normal course of business. The final disposition of these legal actions and claims is not determinable. However, in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net assets of the Enterprise.

(d) Environmental Issue

The City and County of San Francisco and the Enterprise have been listed as potentially responsible parties in the clean-up effort of Yosemite Creek due to the Enterprise's role in conveying contaminated flows to the receiving waters through the sewerage system. Yosemite Creek has been identified as having toxic sediments, primarily polychlorinated biphenyls. The U.S. Environmental Protection Agency is moving forward with a clean-up plan for these sediments. Contaminated flows emanating from a local industrial discharger in the drainage areas to Yosemite Creek is the likely responsible source of the contamination. As of June 30, 2009 the pollution remediation obligation reported in the accompanying statements of net assets is \$375, based on estimated contractual costs.

(13) Subsequent Events

525 Golden Gate Avenue

The City & County of San Francisco issued \$167.7 million in Certificates of Participation Series 2009 C and D on September 23, 2009 to fund the future headquarters of the San Francisco Public Utilities Commission (SFPUC) at 525 Golden Gate Avenue. The 2009 C series were issued for \$38.1 million on a tax-exempt basis, and the 2009 D series were issued for \$129.6 million as "Build America Bonds" on a taxable basis under the 2009 American Recovery and Reinvestment Act.

The City conveyed the real property to the Trustee under a property lease in exchange for the proceeds of the sale of the Certificates. The Trustee has leased the property back to the City for the City's use under a Project Lease. The City will be obligated under the Project Lease to pay base rental payments and other payments to the Trustee each year during the thirty-two year term of the Project Lease. The SFPUC is obligated to pay the City the lease costs, with each of its enterprise operations responsible for their respective proportional usage share of that cost. It is anticipated that these lease costs will be offset with reductions in costs associated with current SFPUC office rental expense.

APPENDIX D

PROPOSED FORMS OF OPINIONS OF CO-BOND COUNSEL

[Date of Closing]

Public Utilities Commission of the
City and County of San Francisco
San Francisco, California

City and County of
San Francisco
San Francisco, California

§ _____
Public Utilities Commission of the
City and County of San Francisco
Wastewater Revenue Bonds,
2010 Series A

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance by the Public Utilities Commission of the City and County of San Francisco (the “Commission”) of the bonds captioned above (the “Bonds”).

The Bonds are being issued without voter approval pursuant to Proposition E, codified as Article VIIIB of the Charter of the City and County of San Francisco (the “City”), and an Indenture dated as of January 1, 2003 (the “Indenture”), by and between the Commission and U.S. Bank National Association (then known as U.S. Bank, N.A.), as trustee (the “Trustee”), as amended by a First Amendment to Indenture dated as of May 1, 2010 between the Commission and the Trustee (the “First Amendment”), and as supplemented by a First Supplemental Indenture dated as of May 1, 2010, between the Commission and the Trustee (the “First Supplement” and, together with the First Amendment and the Original Indenture, the “Indenture”).

As to questions of fact material to our opinion, we have relied upon representations of the Commission contained in the Indenture and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation. Capitalized terms not otherwise defined herein have the meanings ascribed thereto in the Indenture.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Commission payable solely from Net Revenues of the Enterprise and certain other sources as and to the extent specified in the Indenture. The Bonds are not a lien or charge upon the funds or property of the Commission except to the extent of the pledge set forth in the Indenture. Neither the faith and credit nor the taxing power of the City or the State of California (the “State”) or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the City or the State, and neither the City nor the State is liable for the payment thereof.

2. The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the Commission. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Net Revenues, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinions set forth in the preceding sentence are subject to the condition that the Commission comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Commission has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

4. Interest on the Bonds is exempt from personal income taxation imposed by the State.

The rights and obligations under the Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other similar laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State.

Respectfully submitted,

Respectfully submitted,

A Professional Law Corporation

[Date of Closing]

Public Utilities Commission of the
City and County of San Francisco
San Francisco, California

City and County of
San Francisco
San Francisco, California

\$ _____
Public Utilities Commission of the
City and County of San Francisco
Wastewater Revenue Bonds,
2010 Series B
(Federally Taxable – Build America Bonds – Direct Payment)

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance by the Public Utilities Commission of the City and County of San Francisco (the “Commission”) of the bonds captioned above (the “Bonds”).

The Bonds are being issued without voter approval pursuant to Proposition E, codified as Article VIIIB of the Charter of the City and County of San Francisco (the “City”), and an Indenture dated as of January 1, 2003 (the “Indenture”), by and between the Commission and U.S. Bank National Association (then known as U.S. Bank, N.A.), as trustee (the “Trustee”), as amended by a First Amendment to Indenture dated as of May 1, 2010 between the Commission and the Trustee (the “First Amendment”), and as supplemented by a First Supplemental Indenture dated as of May 1, 2010, between the Commission and the Trustee (the “First Supplement” and, together with the First Amendment and the Original Indenture, the “Indenture”).

As to questions of fact material to our opinion, we have relied upon representations of the Commission contained in the Indenture and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation. Capitalized terms not otherwise defined herein have the meanings ascribed thereto in the Indenture.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Commission payable solely from Net Revenues of the Enterprise and certain other sources as and to the extent specified in the Indenture. The Bonds are not a lien or charge upon the funds or property of the Commission except to the extent of the pledge set forth in the Indenture. Neither the faith and credit nor the taxing power of the City or the State of California (the “State”) or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the City or the State, and neither the City nor the State is liable for the payment thereof.

2. The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the Commission. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Net Revenues, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Bonds constitute “Qualified Bonds” within the meaning of Section 54AA(g)(2) of the Internal Revenue Code of 1986 (the “Tax Code”) and are eligible for the credit payable by the Federal government under Section 6431 of the Tax Code (the “Refundable Credit”). The opinions set forth in the preceding sentence are subject to the condition that the Commission comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Bonds in order for the Bonds to be treated as Qualified Bonds and continue to be eligible for the Refundable Credit. The Commission has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may result in a delay or forfeiture of all or a portion of the Refundable Credit and may cause the Bonds to cease to be treated as Qualified Bonds either prospectively from the date of determination or retroactively to the date of the issuance of the Bonds. We express no opinion regarding the procedures regarding, and availability of funds with respect to, the payment of the Refundable Credit by the Federal government, nor do we express any opinion regarding other federal tax consequences arising with respect to the Bonds.

4. Interest on the Bonds is exempt from personal income taxation imposed by the State.

The rights and obligations under the Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other similar laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State.

Respectfully submitted,

Respectfully submitted,

A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Public Utilities Commission of the City and County of San Francisco (“the SFPUC”) in connection with the issuance of \$_____ aggregate principal amount of Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series A (the “2010 Series A Bonds”) and \$_____ aggregate principal amount of Public Utilities Commission of the City and County of San Francisco Wastewater Revenue Bonds, 2010 Series B (Federally Taxable – Build America Bonds – Direct Payment) (collectively with the 2010 Series A Bonds, the “2010 Series A/B Bonds”). The 2010 Series A/B Bonds are being issued pursuant to an Indenture, dated as of January 1, 2003, between the SFPUC and U.S. Bank National Association, as trustee (the “Trustee”), as it has been amended and supplemented, including as amended supplemented by a First Supplemental Indenture, dated as of May 1, 2010, between the SFPUC and the Trustee (collectively, the “Indenture”).

The SFPUC covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the SFPUC for the benefit of the Holders and Beneficial Owners of the 2010 Series A/B Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange SFPUC (the “S.E.C.”) Rule 15c2-12(b)(5).

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

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

“Beneficial Owner” shall mean any person which: (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2010 Series A/B Bonds (including persons holding 2010 Series A/B Bonds through nominees, depositories or other intermediaries) including, but not limited to, the power to vote or consent with respect to any 2010 Series A/B Bonds or to dispose of ownership of any 2010 Series A/B Bonds; or (b) is treated as the owner of any 2010 Series A/B Bonds for federal income tax purposes.

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

“Holder” shall mean either the registered owners of the 2010 Series A/B Bonds, or, if the 2010 Series A/B Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

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

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

“Official Statement” shall mean the final Official Statement, dated May __, 2010, prepared in connection with the sale and offering of the 2010 Series A/B Bonds.

“Participating Underwriter” shall mean any of the original underwriters or purchasers of the 2010 Series A/B Bonds required to comply with the Rule in connection with offering of the 2010 Series A/B Bonds.

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

SECTION 3. Provision of Annual Reports.

(a) The SFPUC shall, or shall cause the Dissemination Agent to, not later than 9 months after the end of the SFPUC’s fiscal year (which currently ends June 30), commencing March 31, 2011, with the report for the 2009-10 Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is not the SFPUC, the SFPUC shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided*, that if the audited financial statements of the SFPUC are not available by the date required above for the filing of the Annual Report, the SFPUC shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the SFPUC’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

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

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

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

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

(b) An update for the prior fiscal year of the table in the Official Statement entitled “TABLE 8, HISTORICAL SEWER RATES”;

(c) An update for the prior fiscal year of the table in the Official Statement entitled “TABLE 9, SUMMARY OF SEWER ACCOUNTS AND BILLING BY USER TYPE”;

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

(e) An update for the prior fiscal year of the table in the Official Statement entitled “TABLE 16, HISTORICAL REVENUES, OPERATING & MAINTENANCE EXPENSES AND DEBT SERVICE COVERAGE FOR FISCAL YEARS ENDED JUNE 30”.

Any or all of the items listed above may be set forth in a document or set of documents, or may be included by specific reference to other documents, including official statements of debt issues of the SFPUC or related public entities, which are available to the public on the MSRB website. If the document included by reference is a final

official statement, it must be available from the MSRB. The SFPUC shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) To the extent applicable and pursuant to the provisions of this Section 5, the SFPUC shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2010 Series A/B Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Modifications to rights of Holders.
4. Optional, contingent or unscheduled bond calls.
5. Defeasances.
6. Rating changes.
7. Adverse tax opinions or events affecting the tax-exempt status of the 2010 Series A Bonds.
8. Unscheduled draws on debt service reserves reflecting financial difficulties.
9. Unscheduled draws on credit enhancements reflecting financial difficulties.
10. Substitution of credit or liquidity providers or their failure to perform.
11. Release, substitution or sale of property securing repayment of the 2010 Series A/B Bonds.
12. Any provisions of the First Amendment to Indenture becoming effective (other than provisions effective upon the issuance of the 2010 Series A/B Bonds).

(b) Whenever the SFPUC obtains knowledge of the occurrence of a Listed Event, the SFPUC shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the SFPUC determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the SFPUC shall promptly file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of a Listed Event described in Section 5(a)(4) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders and Beneficial Owners of affected 2010 Series A/B Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The SFPUC's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2010 Series A/B Bonds. If such termination occurs prior to the final maturity of the 2010 Series A/B Bonds, the SFPUC shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

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

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

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 2010 Series A/B Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of the City Attorney or nationally recognized bond counsel, have complied with the requirements of the Rule

at the time of the original issuance of the 2010 Series A/B Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the owners of a majority in aggregate principal amount the 2010 Series A/B Bonds or (ii) does not, in the opinion of the City Attorney or nationally recognized bond counsel, materially impair the interests of the Holders.

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

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the SFPUC from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the SFPUC chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the SFPUC shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the SFPUC to comply with any provision of this Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the 2010 Series A/B Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the SFPUC to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in a federal or state court located in the City and County of San Francisco, State of California. Failure by the SFPUC to comply with any provision of this Disclosure Certificate shall not be deemed an Event of Default under the Indenture and the sole remedy under this Disclosure Certificate in the event of any failure of the SFPUC to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the SFPUC, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the 2010 Series A/B Bonds, and shall create no rights in any other person or entity.

Date: June __, 2010.

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

By _____
Edward M. Harrington
General Manager

Approved as to Form:

DENNIS J. HERRERA
CITY ATTORNEY

By: _____
Deputy City Attorney

CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A

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

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

Name of Issue: PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
WASTEWATER REVENUE BONDS,
2010 SERIES A AND 2010 SERIES B

Date of Issuance: June __, 2010

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

Dated: _____

PUBLIC UTILITIES COMMISSION OF THE CITY AND
COUNTY OF SAN FRANCISCO

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

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APPENDIX F

SECURITIES DEPOSITORY AND BOOK-ENTRY SYSTEM

The information in this APPENDIX F has been provided by DTC for use in securities offering documents, and the SFPUC takes no responsibility for the accuracy or completeness thereof. The SFPUC cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the beneficial owners either (a) payments of interest, principal or premium, if any, with respect to the 2010 Series A/B Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC. As used in this Appendix, "Securities" means the 2010 Series A/B Bonds, "Issuer" means the SFPUC, and "Agent" means the Paying Agent.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual

Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

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

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

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



FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272