



# CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

## Memorandum

**Date:** October 19, 2011

**To:** Stan Hazelroth *seth*  
Executive Director

**From:** Tad Thomas *Tad*  
ISRF Municipal Loan Officer

**Through:** Diane Cummings *D*  
ISRF Program Manager

**Through:** Carlos Nakata *CN*  
ISRF Support Unit Manager

**Through:** Marilyn Munoz *MM*  
General Counsel

**Borrower:** City of San Bernardino Municipal Water Department (SBMWD)

**Existing Projects:** Verdemont Area Infrastructure Project, Phase I, and Water System Reliability Schedule of Improvements – Phases I and II

**Agreement Numbers:** CIEDB-02-027 and CIEDB BC05-076 (Existing Agreements)

**Request:** Waiver of certain parity debt requirements as included in SBMWD's Existing Agreements

### Issue

ISRF staff is recommending Board approval of a \$10 million dollar ISRF Program (Program) loan to SBMWD for the construction of the Ogden 12 MG Reservoir (New Loan) at the October 25, 2011 I-Bank board meeting. The New Loan will be on parity with the two loans made under Existing Agreements identified above. However, parity debt covenants in the Existing Agreements require SBMWD to submit a report from an Independent Accountant or Independent Consultant documenting that certain debt coverage requirements are met when establishing new parity debt (as would be the case with the New Loan).

Since the existing loans are Program loans, Staff had access to the data required to determine that the requirements of the Existing Agreements were met without the need for a report from an Independent Accountant or Independent Consultant.

### Conclusion

Staff recommends the Executive Director waive the portion of the parity debt covenants in Section 2.07(a) of Agreement #CIEDB-02-027 and Section 2.08(a) of Agreement #CIEDB BC05-076 requiring SBMWD to submit a report from an Independent Accountant or Independent Consultant. Please see attached Waiver.

## WAIVER

This waiver ("Waiver") relates to that certain Enterprise Fund Installment Sale Agreement by and between the City of San Bernardino Municipal Water Department ("SBMWD") and the California Infrastructure and Economic Development Bank (the "I-Bank") dated as of April 30, 2002, as amended by a first amendment dated as of June 1, 2005 and a second amendment dated as of July 1, 2006 (as amended, the "2002 Agreement") and that certain Enterprise Fund Installment Sale Agreement by and between SBMWD and the I-Bank dated as of July 1, 2007, as amended by a first amendment dated as of November 14, 2008 and a second amendment dated as of December 1, 2010 (as amended, the "2007 Agreement").

All capitalized terms used, but not otherwise defined in this Waiver shall have the meanings given in the 2002 Agreement or the 2007 Agreement, as the case may be.

**WHEREAS**, Section 2.07(a)(2) of the 2002 Agreement requires that an Independent Accountant or Independent Consultant Report be delivered to the I-Bank as part of certain preconditions applicable to SBMWD's ability, under the 2002 Agreement, to incur Parity Debt;

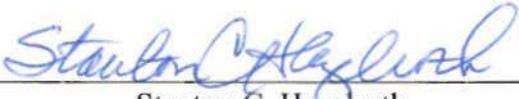
**WHEREAS**, Section 2.08(a)(2) of the 2007 Agreement requires that an Independent Account or Independent Consultant Report be delivered to the I-Bank as part of certain preconditions applicable to SBMWD's ability, under the 2007 Agreement, to incur Parity Debt;

**WHEREAS**, the I-Bank is considering approving a new loan to SBMWD on parity with the loans made pursuant to the 2002 Agreement and the 2007 Agreement;

**WHEREAS**, given that the existing SBMWD loans were made by the I-Bank and as such, the I-Bank has access to the data needed, the I-Bank has made the calculations required by Sections 2.07(a)(2) of the 2002 Agreement and 2.08(a)(2) of the 2007 Agreement;

**NOW, THEREFORE**, in order to avoid having SBMWD incur the additional expenses associated with reports prepared by an Independent Accountant or Independent Consultant for information that the I-Bank already possesses, and solely for the purpose of a new I-Bank loan, the I-Bank hereby waives the Independent Accountant / Independent Consultant report requirements set forth in Sections 2.07(a) of the 2002 Agreement and 2.08(a) of the 2007 Agreement.

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ECONOMIC DEVELOPMENT BANK

By   
Stanton C. Hazelroth  
Executive Director