DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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December 22, 2014

Mr. James P. Morris, Chief of Staff
City of San Bernardino
300 North D Street, 6th Floor
San Bernardino, CA 94218

Dear Mr. Morris:

Subject: Other Funds and Accounts Due Diligence Review

The City of San Bernardino Successor Agency (Agency) submitted an oversight board approved Other Funds and Accounts (OFA) Due Diligence Review (DDR) to the California Department of Finance (Finance) on October 7, 2014. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Since the Agency did not meet the January 15, 2013 submittal deadline pursuant to HSC section 34179.6 (c), Finance is not bound to completing its review and making a determination by the April 1, 2013 deadline pursuant to HSC section 34179.6 (d). However, Finance has completed its review of your DDR, which may have included obtaining clarification for various items.

HSC section 34179.6 (d) authorizes Finance to adjust the DDR's stated balance of OFA available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

- The total amount of assets held as of June 30, 2012 in the amount of $145,511,980 has been adjusted by $2,700,109. It is our understanding the 2006 Tax Allocation Bonds, in the amount of $2,700,109, are housing bonds and have already been included in the Low and Moderate Income Housing Fund DDR; therefore, these bonds should not be included in the total assets for the OFA DDR, and the total amount of assets held as of June 30, 2012 should be $142,811,871 ($145,511,980-$2,700,109).

- Assets transferred to the City of San Bernardino (City) or the San Bernardino Economic Development Corporation (SBEDC) totaling $455,555,687 are not allowed, as follows:

    - The Agency transferred $108,372,060 to SBEDC, however, these properties were not transferred for governmental use pursuant to HSC 34181 (a), as indicated in the State Controller Office's (SCO's) Asset Transfer Report (ATR) dated March 2013. The Agency should reverse the improper transfer of properties, recover the assets from SBEDC, and include these properties in its long-range property management plan to be submitted to Finance pursuant to HSC section 34191.5. For DDR purposes, however, these assets are not cash and cash equivalent and therefore will not affect the amount available for distribution to the affected taxing entities.

- The former City of San Bernardino Economic Development Agency (RDA) did not transfer assets totaling $347,183,626 to the Agency. As indicated in the SCO's ATR dated March 2013, the Agency contends SCO made a misstatement with regards to this finding and the former RDA does not possess these assets. However, the Agency has not reached an agreement with the SCO that such misstatement should be corrected and the ATR should be revised. Therefore, the following assets should be transferred to the Agency in accordance with the SCO's ATR:

  - Cash and cash equivalents totaling $39,204,632. Finance is increasing the balance available for distribution to the affected taxing entities accordingly.
  - Bond proceeds totaling $35,407,477. For DDR purposes, however, these bond proceeds are restricted assets and will not affect the amount available for distribution to the affected taxing entities.
  - Other fixed assets and other assets totaling $272,571,518. Of the $272,571,518, $95,283,778 represents account receivable balances, which are not cash available as of June 30, 2012. Therefore, Finance expects the Agency to utilize these funds to pay enforceable obligations as they become available. Further, it is our understanding that the remaining $177,287,740 represents other fixed assets ($127,127) and resources available to retire long-term liabilities ($171,414,867). Finance requested documentation to support the retention of these resources; however, the Agency was unable to provide adequate documentation to support the non-cash nature of the resources in the amount of $177,414,867. Therefore, for DDR purposes, Finance is adjusting the balance by $177,414,867 and will continue to work with the Agency to confirm the nature of these resources.

- The Agency's request to retain funds totaling $897,561 for the funding of enforceable obligations has been adjusted by $69,213. The Agency requested $69,213 for the administrative cost allowance for the January through June 2012 period, however, this amount exceeded the administrative allowance cap and was disallowed by Finance on the January through June 2012 Recognized Obligation Payment Schedule (ROPS I). Therefore, Finance has adjusted the request to $828,348 ($897,561-$69,213).

- The Agency's request to retain funds totaling $14,036,701 to satisfy ROPS for the 2012-13 fiscal year has been adjusted by $2,870,937. The Agency contends it did not receive sufficient Redevelopment Property Tax Trust Funds (RPTTF) for the July through December 2012 (ROPS II) and the January through June 2013 (ROPS III) periods, in the amounts of $1,691,267 and $1,179,670, respectively. However, based on our review of the Agency's prior period adjustments reporting, it is our understanding the Agency received sufficient RPTTF for both periods. Therefore, the Agency did not experience a shortfall and the request to retain funds to satisfy ROPS for the 2012-13 fiscal year has been adjusted to $11,165,764 ($14,036,701-$2,870,937).

If you disagree with Finance's adjusted amount of OFA balances available for distribution to the taxing entities, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's OFA balance available for distribution to the affected taxing entities is $213,563,804 (see table below).

OFA Balances Available For Distribution To Taxing Entitles	
Available Balance per DDR:	4,155
Finance Adjustments	
Add:	
Disallowed transfers	$210,619,499
Denied ROPS items	$2,940,150
Total OFA available to be distributed:	**213,563,804**

Absent a Meet and Confer request, HSC section 34179.6 (f) requires successor agencies to transmit to the county auditor-controller the amount of funds identified in the above table within five working days, plus any interest those sums accumulated while in the possession of the recipient. Upon submission of payment, please provide proof of payment to Finance within five business days.

Failure to transmit the identified funds will prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain loan agreements between the former redevelopment agency (RDA) and the city, county, or city and county that created the RDA to be considered enforceable obligations. These provisions also allow certain bond proceeds to be used for the purposes in which they were sold and allows for the transfer of real property and interests into the Community Redevelopment Property Trust Fund once Finance approves the Agency's long-range property management plan.

Please direct inquiries to Nichelle Thomas, Supervisor or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Acting Program Budget Manager

cc: Ms. Lisa Connor, Project Manager, City of San Bernardino
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office