DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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May 17, 2013

Mr. A.J. Wilson, Executive Director
Inland Valley Development Agency
1601 East Third Street, Suite 100
San Bernardino, CA 92408

Dear Mr. Wilson:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS 13-14A) letter dated April 14, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Inland Valley Agency (Agency) submitted a ROPS 13-14A to Finance for the period of July through December 2013. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on May 3, 2013.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of the specific items being disputed.

- Item Nos. 4 through 8 – CMB Short Term Loans totaling $56.1 million. Finance is no longer objecting to these items. Finance originally denied these items because insufficient documentation was provided. It is our understanding the promissory note is between the Inland Valley Development Agency (Agency), San Bernardino International Airport Authority (SBIAA) and the CMB Investment Group A; however it was unclear that the Agency is solely responsible for the SBIAA's financial obligations. During the Meet and Confer session, the Agency provided additional documentation, demonstrating the Agency is the party responsible for the loan payments. Therefore, these items are enforceable obligations and eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on the ROPS.

- Item No. 11 – San Bernardino Valley Municipal Water District (District) Reimbursement Agreement in the amount of $4 million. Finance continues to deny this item. Finance originally denied this item because the promissory note was executed after the June 27, 2011. It is our understanding; per the District Debt Service Pass-through Agreements the CAC Property Tax Division processed apportionments totaling $6.5 million in error to the Agency in fiscal years 2008-09 and 2009-10. As a result, the Agency owes $6.5 million to the District. Per the negotiated settlement, the Agency and the District entered into a promissory note to pay back funds over time. However, HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding on the ROPS.

- Item No. 14 – South Drainage/Gateway South in the amount of $331,611. Finance continues to deny this item. This item was previously denied because the agreement executed on July 1, 2012 for professional services is between SBIAA and Tom Dodson and Associates and the former RDA is not a party to the contract. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding on the ROPS.

- Item No. 16 – Building 56 Improvements in the amount of $500,000. Finance continues to deny this item. Finance originally denied this item because the contract was executed after June 27, 2011. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. The Agency contends as a Joint Powers Authority (JPA) they have duties, obligations, and revenue as a JPA that are outside of the redevelopment laws. The Agency further claims this item was placed on the ROPS because the revenue of the JPA member contributions is within the RPTTF distribution. The Agency is currently working with the CAC to separate the revenue and obligations of the JPA from the former RDA. Thus, the Agency no longer disputes this item at this time. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding.

- Item No. 18 – Airfield Water System Cuts and Caps in the amount of $100,000. Finance continues to deny this item. Finance originally denied this item because the Agency was unable to provide additional documentation to support the request for funding. It is our understanding, the September 14, 2004 agreement provided obligated the Agency to a $1.2 million commitment to District, payable within 18 months of the effective date of the agreement. The Agency contends the agreement allowed the Agency to fund improvements after 18 months. However, Section 1.07 (b) states, the Agency were to fully satisfy the obligation, including any additional construction work in the form of cuts and caps, within 18 months of the effective date of the agreement. The Agency also contends the JPA is further obligated to the District utilizing the revenue of JPA member contributions as discussed above in Item No. 16. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding.

- Item No. 19 – Transition Cost/Retirement Obligations in the amount of $8 million. Finance no longer denies this item. Finance originally denied this item because information to support this expense was not yet available. The Agency requested $1.4 million of unfunded pension liability on this ROPS. Although this item is considered an enforceable obligation, Finance has determined that the amount requested is excessive for a single ROPS period. A reasonable payment schedule for this $1.4 million in unfunded pension liability allocated over five years results in ten bi-annual payments of $801,098 and will cause the least amount of disruption to the taxing entities. Therefore, $801,098 of unfunded pension obligation is an enforceable obligation payable on ROPS 13-14A. The remaining balance of $602,095 is not an enforceable obligation at this time, and should continue to be placed on future ROPS until the obligation is retired.

- Item No. 20 – Reserve Requirement for Debt Service Payments in the amount of $2,104,141. Finance continues to deny this item. Finance originally denied this item because it appeared sufficient funding was available. Per meet and confer session, the Agency contends a need to build the equivalent of a year's worth of payments as reserve in preparation of refinancing the current bonds and the conversion of the CMB loans to a bond-financing structure. Without refinancing, the Agency will have a shortfall and default on the upcoming CMB loan balloon payments in 2014 and beyond. Therefore, this item is an enforceable obligation and eligible for RPTTF funding on the ROPS.

- Item No. 46 – "I-10"/Tippecanoe Avenue Improvements in the amount of $4.3 million. Finance no longer denies this item. This item was previously denied because contracts were awarded after June 27, 2011. This item was denied on ROPS III letters dated October 19, 2012 and December 18, 2012. However, since our previous determination the Agency has provided Finance with a Cooperative Agreement between IVDA and other third parties dated August 25, 2010, obligating the former RDA to pay a total of $4.3 million of ROW and construction costs. Therefore, this is an enforceable obligation and eligible for RPTTF funding on the ROPS.

- Item No. 47 – Goods Movement 3rd and 5th Streets in the amount of $7.5 million. Finance is no longer denying this item. This item was previously denied because contracts were awarded after June 27, 2011. This item was denied on ROPS III letters dated October 19, 2012 and December 18, 2012. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. However, since our previous decision the Agency has provided a Letter of Agreement for Design and Construction (Agreement) dated November 12, 2008, between the IVDA and the City of Highland, where the Agency agreed to fund the full costs of the Street Projects up to a maximum of $8.6 million. Therefore, this is an enforceable obligation and eligible for RPTTF funding on the ROPS.

- Claimed administrative costs exceed the allowance by $98,235. HSC section 34171 (b) limits the fiscal year 2013-2014 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater. Although $467,284 is claimed for administrative costs, only $369,049 is available pursuant to the cap. Therefore, $98,235 of excess administrative cost is not allowed.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14A. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for July through December 2013. Finance's determination is effective for this time period only and should not be conclusively relied on for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not denied on this ROPS or a preceding ROPS.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is $12,670,684 as summarized below:

Approved RPTTF Distribution Amount For the period of July through December 2013		
Total RPTTF funding requested for obligations	$	15,108,850
Minus: Six-month total for items denied or reclassified as administrative cost		
Item 11		1,323,508
Item 14		331,611
Item 16		450,000
Item 18		100,000
Item 19		602,096
Total approved RPTTF for enforceable obligations	$	12,301,635
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost		369,049
Minus: ROPS II prior period adjustment		-
Total RPTTF approved for distribution:	**$**	**12,670,684**

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2012 period. The amount of RPTTF approved in the above table includes the prior period adjustment that was self-reported by the Agency. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. Any proposed CAC adjustments were not received in time for inclusion in this letter. Therefore, the amount of RPTTF approved in the above table includes only the prior period adjustment that was self-reported by the Agency.

Please refer to the ROPS 13-14A schedule that was used to calculate the approved RPTTF amount:

http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14A Forms by Successor Agency/.

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2013. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC 34177.5 (i). Finance's review of items that have received a Final and Conclusive determination is limited to confirming the scheduled payments as required by the obligation.

The amount available from the RPTTF is the same as the amount of property tax increment that was available prior to enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax is limited to the amount of funding available to the successor agency in the RPTTF.

To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to 34171 (d), HSC section 34191.4 (c)(2)(B) requires these proceeds be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

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

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Alka Chudasma, Interim Director of Finance, Inland Valley Development Agency
Ms. Vanessa Doyle, Auditor Controller Manager, County of San Bernardino
California State Controller's Office