DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. ▪ GOVERNOR

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November 14, 2013

Mr. Steven Lantsberger, Deputy Director of Economic Development
City of Hesperia
9700 Seventh Avenue
Hesperia, CA 92345

Dear Mr. Lantsberger:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Hesperia Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 30, 2013 for the period of January through June 2014. Finance has completed its review of your ROPS 13-14B, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations for the reasons specified:

- Item No. 4 – 2007 Series A Revenue Bonds March 2014 Debt Service Payment in the amount of $655,955. Although the Agency requests $1,844,305 for Redevelopment Property Tax Trust Fund (RPTTF) funding, documentation submitted only supports funding in the amount of $1,188,350 for this ROPS period. Therefore, the RPTTF funding request has been reduced by $655,955 ($1,844,305-$1,188,350) to $1,188,350.

- Item No. 9 – 2007 Series A Revenue Bonds March 2014 Debt Service Payment in the amount of $803,670. The Agency requests $803,670, but was unable to provide sufficient documentation to support the amount claimed. Therefore, this item is not eligible for RPTTF funding.

- Item No. 12 – Bond Payment Reserves for September 2014 Debt Service in the amount of $1,300,000. The Agency requested the reserve to lessen the need for subordinating pass-through payments to the various taxing entities. However, the Agency was unable to provide sufficient documentation to support the amount requested. Therefore, this item is not eligible for RPTTF funding.

- Item No. 27 – Browning Desert Properties IV, LLC/Hesperia Community Development Commission Disposition and Development Agreement (DDA) in the amount of $6,500,000. Finance continues to deny this item. Finance was unable to determine whether this item meets the definition of an enforceable obligation. The Agency is contractually obligated to sell certain real property to a developer and the amount requested represents the

purchase price of the property. It is our understanding this amount is listed on the ROPS in case the San Bernardino County Auditor-Controller (CAC) takes the property away from the Agency and the Agency is required to buy back the property to satisfy its enforceable obligation. Allocating funds for unknown contingencies is not an allowable use of funds. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item No. 34 – Recycle Market Development Zone in the amount of $758,398. Finance continues to deny this item. The Letter of Commitment from the former redevelopment agency (RDA) Chairman previously submitted by the Agency is not sufficient to determine the enforceability of this item. Additionally, this item was previously denied and upheld through the Meet and Confer process in the letter dated May 17, 2013. Therefore, this item is not an enforceable obligation and is not eligible for Other Funds funding.

- Item No. 35 – Small Business Counseling in the amount of $364,000. Finance continues to deny this item. This item is not an obligation of the Agency. The contract is between the City of Hesperia (City) and Inland Empire Economic Partnership, Inc. entered into on March 23, 2010. The former RDA is neither a party to the contract nor responsible for payment of the contract. Additionally, this item was previously denied and upheld through the Meet and Confer process in the letter dated May 17, 2013. Therefore, this item is not an enforceable obligation and is not eligible for Other Funds funding.

- Item No. 44 – CoreLogic Research Services in the amount of $65,000. It is our understanding this item relates to the Enterprise Zone Program which terminates December 31, 2013. The Agency stated this item represents the final three months of research services. However, as the program does not extend into the ROPS 13-14B period, funding will no longer be necessary beginning January 1, 2014. Therefore, this item is no longer an enforceable obligation and is not eligible for Other Funds funding.

- Item No. 43 - Appraisals in the amount of $8,000. The Agency provided a contract between Thompson Appraisals and the City. The former RDA is neither a party to the contract nor responsible for payment of the contract. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item No. 45 – Broker's Incentive Program in the amount of $19,972. Finance continues to deny this item. It is our understanding the City/HCRA has the authority to cancel any application for any reason at any time and the City/HCRA has the right to terminate the program at any time. Additionally, this item was previously denied and upheld through the Meet and Confer process in the letter dated May 17, 2013. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item No. 48 – Loan/Advances for Administrative Costs/Enforceable Obligations totaling $3,171,911. The Agency was unable to provide sufficient documentation to support a loan from the City to fund shortfalls for specific enforceable obligations. Furthermore, Agency staff has stated the source of funding for this item is based upon proceeds from the Agency's contingent sale of properties. However, HSC section 34191.3 suspended property disposition requirements, except as those provisions apply to the transfers of property for governmental use, until the Agency has received a Finding of Completion and Finance has approved the Agency's Long-Range Property Management Plan.

Additionally, allocating funds for unknown contingencies is not allowable pursuant to HSC 34163 (b), and the source of funding for this item is unavailable to the Agency at this time. Therefore, this line item is not an enforceable obligation and is not eligible for Other Funds funding.

- Item No. 54 – Section 108 Loan Guarantee in the amount of $1,000,000. This item is not an obligation of the Agency. The contract is between the City and the Secretary of Housing and Urban Development entered into on June 13, 1997. The former RDA is neither a party to the contract nor responsible for payment of the contract. Additionally, this item was previously denied and upheld through the Meet and Confer process in the letter dated May 17, 2013. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item No. 61 – Payment to City for real property transferred in January 2012 in the amount of $400,000. The Agency states it has an obligation under the Disposition and Development Agreement (DDA) dated September 7, 2010, with Cinema West, LLC (Developer) to sell certain property to the Developer, and therefore must repay the City for the property that was transferred to the Agency for the fulfillment of the Agency's obligation under the DDA. However, the DDA states the certain property is owned by the Agency and the Developer agrees to pay a purchase price of $102,529 to the Agency for the parcel. The Agency did not submit sufficient documentation to support the obligation to pay the City for conveyance of the property. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting RPTTF. Pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. The Agency self-reported an available Other Funds balance of $5,599 as of June 30, 2013. Additionally, the Agency omitted a distribution in the amount of $190,261 from the Victor Valley Economic Development Authority during the January through June 2013 (ROPS III) period. As such, the total balance from Other Funds available to fund enforceable obligations in the ROPS 13-14B period is $195,860.

Therefore, the funding source for the following items have been reclassified to Other Funds and in the amounts specified below:

- Item No. 20 – Steward Promissory Note in the amount of $157,469. The Agency requests $157,469 of RPTTF; however Finance is reclassifying $120,860 to Other Funds. This item was determined to be an enforceable obligation for the ROPS 13-14B period. However, the obligation does not require payment from property tax revenues, and the Agency has $195,860 available in Other Funds. Therefore, Finance is approving RPTTF in the amount of $36,609 and the use of Other Funds in the amount of $120,860, totaling $157,469 for Item No. 20.

- Item Nos. 58 and 60 – Agency Administration and Audit Review costs totaling $75,000. The Agency requests $75,000 of administrative allowance for these items; however Finance is reclassifying both items to Other Funds. This item was determined to be an enforceable obligation for the ROPS 13-14B period. However, these obligations do not require payment from property tax revenues, and the Agency has $195,860 available in

Other Funds. Therefore, Finance is approving the use of Other Funds totaling $75,000 for Item Nos. 58 and 60.

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the CAC and the State Controller. The amount of RPTTF approved in the below table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for items denied in whole or in part as enforceable obligations or for the items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 13-14B. If you disagree with the determination with respect to any items on your ROPS 13-14B, 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 maximum approved RPTTF distribution for the reporting period is $2,926,041 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	6,888,558
Total RPTTF requested for administrative obligations	75,000
Total RPTTF requested for obligations	**$ 6,963,558**
Total RPTTF requested for non-administrative obligations	**6,888,558**
Denied Items	
Item No. 4	(655,955)
Item No. 9	(803,670)
Item No. 12	(1,300,000)
Item No. 27	(50,000)
Item No. 43	(5,000)
Item No. 45	(19,972)
Item No. 54	(607,060)
Item No. 61	(400,000)
	(3,841,657)
Items Reclassified to Other	
Item No. 20	(120,860)
Total RPTTF approved for non-administrative obligations	**2,926,041**
Total RPTTF requested for administrative obligations	**75,000**
Items Reclassified to Other	
Item No. 58	(68,800)
Item No. 60	(6,200)
	(75,000)
Total RPTTF for administrative obligations	**-**
Total RPTTF approved for obligations	**2,926,041**
ROPS III prior period adjustment	-
Total RPTTF approved for distribution	**$ 2,926,041**

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. Beginning with the ROPS 13-14B period, Finance required successor agencies to identify fund balances for various types of funds in its possession. During our ROPS 13-14B review, Finance requested financial records to support the fund balances reported by the Agency; however, Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 13-14B review period to properly identify the Agency's fund balances. If it is determined the Agency possesses fund balances that are available to pay approved obligations, the Agency should request the use of these fund balances prior to requesting RPTTF in ROPS 14-15A.

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

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

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2014. This determination applies only to items where funding was requested for the six month period. 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 HSC section 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 Nichelle Thomas, Supervisor or Susana Medina Jackson, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Anne Duke, Deputy Finance Director, City of Hesperia
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office