



December 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 14, 2013. 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 Finance on September 30, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on November 14, 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 December 2, 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 No. 4 – 2007 Series A Project Area 1 Revenue Bonds March 2014 Debt Service Payment and Item No. 9 – 2007 Series A Revenue Bonds March 2014 Debt Service Payment totaling \$2,647,975 (\$1,844,305 + 803,670) in RPTTF. Finance no longer denies these items. During the Meet and Confer, the Agency provided additional documentation and information identifying that the amortization schedules for these items were revised due to the unescrowing of these bonds which increases the bond debt service amounts due each period. Therefore, the RPTTF funding request for \$2,647,975 for Items No. 4 and 9 is approved for this period
- Item No. 12 – Bond Payment Reserves for September 2014 Debt Service in the amount of \$1,300,000. Finance no longer denies this item. During the Meet and Confer, the Agency requested the reserve to lessen the need for subordinating pass-through payments to the various taxing entities and provided additional documentation identifying that the Agency predicts a shortfall in the next period. Finance notes that pursuant to HSC section 34183 (a) (2) (A), debt service payments have first priority for payment from distributed RPTTF funding. As such, the additional \$1,300,000 requested to be held in reserve should be transferred upon receipt to the bond trustee(s) along with the amounts approved for the other ROPS 13-14B debt service payments prior to making any other payments on approved ROPS items. Any requests to fund these items again in the ROPS 14-15A

period will be denied unless insufficient RPTTF is received to satisfy both the debt service payments due during the ROPS 13-14B period and the reserve amounts requested in ROPS 13-14B for the ROPS 14-15A debt service payments.

- 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. 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. 43 - Appraisals in the amount of \$8,000. Finance no longer denies this item. During the Meet and Confer, the Agency identified that the appraisals were necessary for the valuation of the properties in the Agency's Long Range Property Management Plan (LRPMP). Therefore, this line item is an enforceable obligation and is eligible for \$8,000 in RPTTF funding this period.
- Item No. 44 – CoreLogic Research Services in the amount of \$65,000. Finance no longer denies this item. 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. While Finance and the Agency both agree that the program does not extend into the ROPS 13-14B period, the Agency indicates that the funding being requested is related to expenses incurred during the programs last three months of operation and for which insufficient funding was requested during the ROPS 13-14A period. Finance agrees that costs incurred during the programs existence is the responsibility of the Agency. Therefore, this item is an obligation of the Agency and is eligible for Other Funds funding.
- Item No. 45 – Broker's Incentive Program in the amount of \$19,972. Finance no longer denies this item. While 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, such actions have not actually occurred as of yet. Therefore, the amount requested is eligible for RPTTF funding.

- Item No. 48 – Loan/Advances for Administrative Costs/Enforceable Obligations totaling \$3,171,911. Finance continues to deny this item at this time. The Agency was unable to provide sufficient documentation to support a loan and identify the enforceable obligations paid by the City due to a shortfall in RPTTF. Items were identified as having been paid without having been placed and approved on a ROPS by the Oversight Board and Finance. Therefore, this line item is not an enforceable obligation at this time and is not eligible for Other Funds funding this period.
- Item No. 54 – Section 108 Loan Guarantee in the amount of \$1,000,000. Finance continues to deny this item. 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. Finance continues to deny this item. 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 was 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 (I) (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.

The Agency’s maximum approved RPTTF distribution for the reporting period is \$5,710,638 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
<u>Denied Items</u>	
Item No. 27	(50,000)
Item No. 54	(607,060)
Item No. 61	(400,000)
	(1,057,060)
<u>Items Reclassified to Other</u>	
Item No. 20	(120,860)
Total RPTTF approved for non-administrative obligations	5,710,638
Total RPTTF requested for administrative obligations	75,000
<u>Items Reclassified to Other</u>	
Item No. 58	(68,800)
Item No. 60	(6,200)
	(75,000)
Total RPTTF for administrative obligations	-
Total RPTTF approved for obligations	5,710,638
ROPS III prior period adjustment	-
Total RPTTF approved for distribution	\$ 5,710,638

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/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS_13-14B_Forms_by_Successor_Agency/).

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 section 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 Evelyn Suess, Supervisor or Derk Symons, 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