DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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December 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) letter dated November 15, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the Inland Valley Development Agency Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to Finance on October 1, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on November 15, 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 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 No. 11 – San Bernardino Valley Municipal Water District (District) Reimbursement Agreement in the amount of $3,956,384. Finance no longer denies this item. It is our understanding the County Auditor-Controller 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, Finance initially denied this item as HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011.

  Based upon further review during the Meet and Confer process, these payments are related to a miscalculation by the County Auditor-Controller Property Tax Division of the payments that were to be made to the District based on a 1990 Pass-Through Agreement. The Agency provided the original Pass-Through Agreement, the letter from County outlining the amounts due, and the Reimbursement Agreement outlining the Agency's repayment plan. Therefore, this item is an enforceable obligation and is eligible for RPTTF funding.

- Item No. 14 – South Drainage/Gateway South Project in the amount of $350,000. Finance continues to remove this item from the ROPS. Finance initially denied this item as the agreement executed on July 1, 2012, for professional services is between the San Bernardino International Airport Authority (SBIAA) and Tom Dodson and Associates, the former RDA is not a party to the contract. Further, HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. During the Meet and Confer process, the Agency contended that this item was to be funded by the revenues to be provided to the Inland Valley Development Agency (IVDA) Joint Powers Authority (JPA) under Item No. 52. However, if this item is an obligation of the IVDA JPA, it should not be included on the ROPS, as it is not an obligation of the IVDA Agency. Therefore, this line item should not be listed on the ROPS.

- Item Nos. 38 – Capital Projects Staffing costs totaling $515,679. Finance continues to deny this item. Finance initially denied this item as no documentation was provided to support the amounts claimed. During the Meet and Confer process, the Agency contended that this item was to be funded by the revenues to be provided to the IVDA JPA under Item No. 52. However, if this item is an obligation of the IVDA JPA, it should not be included on the ROPS, as it is not an obligation of the IVDA Agency. Therefore, this line item should not be listed on the ROPS.

- Item No. 46 – I-10/Tippecanoe Avenue Improvements in the amount of $4,278,000. Finance no longer denies this item. Finance initially denied this item as no documentation was provided to support the amounts claimed. During the Meet and Confer process the Agency provided the August 25, 2010 Cooperative Agreement between San Bernardino County Transportation Agency, City of Loma Linda, City of San Bernardino, and Inland Valley Development Agency to complete the I-10 Tippecanoe Avenue Interchange Improvement Project totaling $70,508,000. Federal funds totaling $33,684,000 are available for the project with $36,824,000 remaining to be funded by the parties to the agreement. The Transportation Agency's share is 65.4 percent and the local entities share is 34.6 percent. The 34.6 percent share is split evenly between the three remaining parties. As a result, the Agency's share is $4,247,035 plus its own administrative and management costs for the project. Therefore, this line item is an enforceable obligation and is eligible for Bonds and RPTTF funding in the amounts of $2,278,000 and $500,000, respectively.

- Item No. 47 – Goods Movement - 3rd and 5th Street Improvements in the amount of $7,500,000. Finance no longer denies this item; however Finance reclassifies the funding source from Bonds and RPTTF funding to Other Funds. The Letter Agreement (Agreement) for the design and construction of certain street improvements within the City of Highland is dated November 12, 2008. However, Finance initially denied this item as funding from the San Bernardino Associated Governments is a funding source specified in the Agreement. No other documentation was provided to support the amounts claimed. During the Meet and Confer process, the Agency contended that the Agreement requires the Agency to use "legally available funds" in order to satisfy the contractual obligation. However, the Agreement states that the Agency "is prepared to advance its own legally available funds to expedite the payments to the City of Highland." The Agency's maximum contribution to the City of Highland is $8,600,000 that is available pursuant to the Exchange Agreement dated June 14, 2006, between the Inland Valley Development Agency and the San Bernardino Associated Governments. Therefore, this line item is an enforceable obligation to be funded out of Other Funds, it is not eligible for Bonds or RPTTF funding.

- Item Nos. 48 through 50 – Various Improvement/Infrastructure Projects totaling $36,600,000. Finance continues to deny these items. Finance initially denied these items as no documentation was provided to support the amounts claimed. Based upon documents previously provided by the Agency, these items appear to be related to the Military Base Reuse and Airport Financing Agreement (Agreement) that was executed between the Agency and SBIAA on January 19, 2011. However, this is not a third party agreement since the members of SBIAA are the same members of the Agency. There is one third party agreement that was provided related to Item No. 48; however, no additional documents were provided showing that the amount authorized under this agreement has not already been fully expended. Therefore, these line items are not enforceable obligations and are not eligible for Bonds or RPTTF funding.

- Item No. 52 – Inland Valley Development Joint Powers Authority Obligations in the amount of $400,000,000. Finance continues to remove this item from the ROPS. It was Finance's initial understanding that this item was related to the Military Base Reuse and Airport Financing Agreement (Agreement) that was executed between the Agency and SBIAA on January 19, 2011. Finance initially denied this item as it was our understanding that the principle decision makers are the same for both the Agency and SBIAA; therefore, we questioned the validity of the agreement. During the Meet and Confer process, the Agency clarified that this item is not related to the previously referenced agreement, but is related to the IVDA Joint Powers Agreement dated January 24, 1990, as amended and that this item represents the revenues of the IVDA JPA. Based upon the information provided, Finance has determined that this item does represent the estimated receipts from the JPA's member entities to IVDA. However, unlike the Victor Valley Economic Development Authority (VVEDA), where VVEDA lists their payments to their member entities on their ROPS, the ROPS put forth by IVDA is not listing payment to their member entities rather it is listing collection amounts. The ROPS is a controlling document related to payments only. Therefore, this item is not eligible for payment on IVDA's ROPS and should be removed all together. Furthermore, we note that to the extent the JPA has obligations to pay utilizing their source of revenues, which is separate and distinct from the property tax revenue received by IVDA, the JPA does not need to obtain approval for those payments on IVDA's ROPS.

- Item No. 53 – Reimbursement of the July 2012 True-up Payment in the amount of $797,250. Finance continues to deny this item. This line item is the remaining balance of the true-up payment due to the San Bernardino County Auditor-Controller per the July 9, 2012 Notice for Demand Letter. Finance denied this item as the July 2012 True-Up process was to collect residual pass-through payments owed to the affected taxing entities for the January through June 2012 period, and is not tied to an enforceable obligation as defined in HSC section 34171 (d). The Agency contends that the True-Up payment was unwarranted as illustrated by the negative balance in the Non-Housing Due Diligence Review. However, Finance does not have the authority to recalculate or revise the July 2012 True-Up demand amounts calculated by the Auditor-Controller and as previously stated this item is not listed as an enforceable obligation in HSC section 34171 (d). Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.

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 county auditor-controller (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, 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 $13,887,564 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	18,470,413
Total RPTTF requested for administrative obligations	554,112
Total RPTTF requested for obligations	**$ 19,024,525**
Total RPTTF requested for non-administrative obligations	**18,470,413**
Denied Items	
Item No. 49	(50,000)
Item No. 50	(50,000)
Item No. 52	(3,533,483)
Item No. 53	(797,250)
	(4,430,733)
Reclassified Item - RPTTF to Other Funds	
Item No. 47	(500,000)
Total RPTTF approved for non-administrative obligations	**13,539,680**
Total RPTTF for administrative obligations	**554,112**
Total RPTTF approved for obligations	**14,093,792**
ROPS III prior period adjustment	(206,228)
Total RPTTF approved for distribution	**13,887,564**

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/.

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, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Alka Chudasma, Interim Director of Finance, City of Inland Valley
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office