DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. ▪ GOVERNOR
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November 15, 2013

Mr. Allen Parker, City Manager
San Bernardino City
300 North D Street, 6th Floor
San Bernardino, CA 94218

Dear Mr. Parker:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the San Bernardino City Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on October 01, 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 Nos. 10, 12 and 13 – Various Recovery and Revenue Bonds totaling $15,608,589. The Agency requests funding in the amount of $538,685 for the ROPS 13-14B period. However, based on documentation provided, the Agency is not required to fund the full debt service through tax increment since other revenues are pledged towards the payments. The Agency provided US Bank account summary schedules as follows:

    - Item No. 10 – The Agency is receiving a "Federal Direct Payment" subsidy as other revenue pledged. As of October 16, 2013, the Reserve Fund account balance is $731,999. The Agency contends $688,323 is the required balance for the Reserve Fund, leaving $43,676 available to apply as a credit towards the $454,100 amount requested.

    - Item Nos. 12 and 13 – Other revenue is received monthly from third parties. The Agency contends other revenues received are required to fund other obligations related to the projects and are not available to fund debt service payments. However, pursuant to the Bond Indenture, Section 5.02, on the 15th of each month, a portion of gross revenues deposited in the Revenue Fund, in order of priority, should be applied towards annual trustees fees, then applied to fund the taxes, assessments, and insurance for the projects, then applied to fund interest and principal due on the next succeeding due date. Further, January 2013 invoices for interest due showed that amount paid by the Agency was reduced by cash on hand credits of $5,693 and $23,291, respectively.

Finance does not consider the US Bank account summary schedules provided as sufficient supporting documentation. However, Finance expects the Agency to provide documentation, such as copies of the bond fiscal statements, to support the current balance through the Meet and Confer process. If other revenue is determined to be available, the funding source should change from "RPTTF" to "Other Funds", reflecting the proper use of other revenue accordingly. Therefore these line items are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 82 – Debt Service Reserve Fund (DSRF) Replenishment in the amount of $5,085,237. The amount requested represents total funding needed to replenish the DSRF to the required balances for Item Nos. 3, 4, 6 to 11 and 28. During the July to December 2013 period (ROPS 13-14A) Finance approved $6,408,144 in RPTTF funding for this item. Finance notes that the Agency's total DSRF amount outstanding provided during ROPS 13-14B has increased to $6,640,003. The Agency contends it did not receive sufficient RPTTF during ROPS 13-14A; therefore, only $1,554,796 in RPTTF was available to fund the DSRF amount. The remaining $5,085,237 is requested on ROPS 13-14B ($6,640,003-$1,554,796).

  Finance authorized $17,569,239 in RPTTF for ROPS 13-14A enforceable obligations, and applied a ROPS II Prior Period Adjustment (PPA) in the amount of $5,876,914, resulting in $11,692,325 in RPTTF approved for distribution, which was fully distributed by the San Bernardino County-Auditor Controller. The Agency also received $510,467 in RPTTF for the administrative costs. Consequently, including the funding that is available from the PPA of $5,876,914, sufficient RPTTF was available for the Agency to replenish the required reserves for the ROPS 13-14A period.

  Further, Finance requested copies of bond fiscal statements as of June 30, 2013 for each affected bond's DSRF account to confirm the ending balances and to verify that each DSRF account was underfunded. The Agency provided a DSRF summary schedule in Excel and PDF format prepared by US Bank. Finance does not consider the summary schedules as sufficient supporting documentation. Therefore, for all the reasons stated above, this item is not eligible for RPTTF funding.

- Item No. 85 – Past Under-Paid Pass Thru Payments in the amount of $2,644,578. According to the Agency, the San Bernardino Municipal Water District (District) has determined that the Agency owes the District past due pass thru payments for fiscal years 2007-08 to 2011-12. The summary letter from the District to the Agency to show the amount owed to the District. However, HSC section 34171 (d) (1) (E) defines an enforceable obligation as a legally binding and enforceable agreement or contract. An agreement has not been established between the Agency and the District, specifying the responsibilities of each party, total compensation amount, and payment terms. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding at this time. To the extent additional information can be provided demonstrating the pass-through requirements and the amounts owed, this Item may be approved in the future.

- Item No. 87 – Carousel Mall Past Due Property Tax totaling $869,691. The amount consists of past due property taxes for nine parcels. The Agency acquired the property through a Purchase Money Note dated May 3, 2010 when the former owner defaulted. Documentation was provided for each parcel's past due amounts owed for property tax years 2009, 2010, and 2012. The title owner of the property during these tax years are

third parties; therefore, the Agency should pursue collection of amounts due from the previous owners. Additionally, governmental property is exempt from property taxes. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item Nos. 88, 90 to 93 – Liabilities related to former redevelopment agency (RDA) properties, totaling $4,161,000, transferred to the San Bernardino Economic Development Corporation (SBEDC). During the California State Controller Office's (Controller) Asset Transfer Review, the Controller ordered the return of several properties formerly owned by the Agency. The Agency contends the Controller's return order also includes any outstanding related liabilities related to those assets; therefore, those liabilities are now obligations of the Agency. However, it is our understanding these liabilities were incurred or created during the time the properties were owned and operated by the SBEDC, and any contracts or agreements signed were executed between the SBEDC and various third parties; the former RDA was not a party to the contracts. Therefore, the following line items are not enforceable obligations and not eligible for RPTTF funding as specified below:

    - Item No. 88 – ACAA Limited Partnership (ACAA) Purchase Money Note totaling $1,900,000. The promissory note, dated May 19, 2011, is between ACAA and SBEDC, the former RDA is not a party to the contract. The Agency contends the $1,900,000 principal amount due June 1, 2012 was not paid and provided a May 22, 2013 default letter from ACAA, which was addressed to SBEDC, not the Agency.

    - Item Nos. 90 to 93 – Discounted Settlement of Lawsuits to foreclose mechanics liens against former RDA properties totaling $2,261,000. According to documentation provided, these liens are tied to properties that the RDA transferred to SBEDC during March 2011. The project contracts were executed between SBEDC and the contractors, and project work was completed while SBEDC held title to the properties. The liens were filed because SBEDC stopped payments to the contractors. Since SBEDC, not the RDA or Agency, is the noted party to the contracts, SBEDC is financially obligated to pay for the contracted work.

- The Agency's claimed administrative costs exceed the allowance by $331,644. HSC section 34171 (b) limits fiscal year 2013-14 administrative expenses to three percent of property tax allocated to the successor agency or $250,000, whichever is greater. As a result, the Agency is eligible for $768,430 in administrative expenses. The San Bernardino County Auditor-Controller's Office distributed $510,467 in administrative costs for the July through December 2013 period, thus leaving a balance of $257,963 available for the January through June 2013 period. Although $572,997 is claimed for administrative cost, Item No. 89-CAC Underpayment of ROPS 13-14A Administrative Costs in the amount of $16,610 is considered an administrative expense and has been reclassified. Therefore, the Agency is approved for $257,963 in administrative costs, and the excess $331,644 ($589,607-$257,963) is not allowed.

Pursuant to HSC Section 34186 (a), successor agencies were required to report the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. The amount of RPTTF approved in the table below 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 table below includes only the prior period adjustment that was self-reported by the Agency.

Except for items denied in whole or in part as enforceable obligations or for the item 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 $6,160,900 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	19,099,901
Total RPTTF requested for administrative obligations	572,977
Total RPTTF requested for obligations	**$ 19,672,878**
Total RPTTF requested for non-administrative obligations	**19,099,901**
Denied Items	
Item No. 10	(454,100)
Item No. 12	(44,225)
Item No. 13	(40,360)
Item No. 82	(5,085,237)
Item No. 85	(2,644,578)
Item No. 87	(869,691)
Item No. 88	(1,900,000)
	(11,038,191)
Reclassified Item - RPTTF to Admin	
Item No. 89	(16,610)
Total RPTTF approved for non-administrative obligations	**8,045,100**
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)	**257,963**
Total RPTTF approved for obligations	**8,303,063**
ROPS III prior period adjustment	(2,142,163)
Total RPTTF approved for distribution	**$ 6,160,900**
Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	17,569,239
Total RPTTF for 13-14B (January through June 2014)	8,045,100
Total RPTTF for fiscal year 2013-14	**25,614,339**
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or $250,000)	768,430
Administrative allowance for 13-14A (July through December 2013)	510,467
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	**257,963**

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, the Agency could not provide the financial records in time. 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. Lisa Connor, Project Manager, San Bernardino City
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office