DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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May 16, 2014

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

Dear Mr. Parker:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 17, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of San Bernardino Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on March 12, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 17, 2014. 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 7, 2014.

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. 7 – 2002 Tax Allocation Bonds debt service payment in the amount of $631,688. Finance approves this item for $593,888. The Agency requested $631,688 for interest due April 1, 2014. Our initial review indicated this amount was already requested during the January through June 2014 (ROPS 13-14B) period. However, according to the debt service schedule, $593,888 is due on October 1, 2014. During the Meet and Confer, the Agency confirmed that this item should be $593,888. Therefore, the requested Redevelopment Property Tax Trust Fund (RPTTF) funding has been adjusted by $37,800 ($631,888 – $593,888).

- Item No. 10 – 2010A Recovery Zone debt service payment in the amount of $258,875. Finance approves this item for $150,768 from the RPTTF and $108,107 from Other Funds. The Agency receives a "Federal Direct Payment" subsidy as other revenue pledged for debt service. Finance requested Trustee Bank statements for the Reserve Fund account to support the amounts claimed. However, Finance initially denied this item as the Agency was unable to provide documentation to support the amounts claimed. During the Meet and Confer process, the Agency provided the methodology used to estimate the subsidy to be received for the October 2014 payment. Based on the calculation, $108,107 should be available towards the payment. Therefore, this item is eligible for $150,768 from the RPTTF and $108,107 from Other Funds.

- Item Nos. 12, 13, 99 and 100 – 1995H Highland Lutheran SR Housing and 1995R Casa Ramona SR Housing bonds debt service payments totaling $174,812. Finance approves $40,486 from RPTTF and $1,452 from Other Funds for Item No. 12, $7,024 from RPTTF and $31,170 from Other Funds for Item No. 13, $58,307 from RPTTF for Item No. 99, and $15,691 for Item No. 100.

  Finance initially denied Item Nos. 12 and 13 because it was our understanding other revenue is received monthly from third parties to cover the payments. During the Meet and Confer process, the Agency provided the methodologies used to estimate the revenues that would be applied to the payments. Although the Agency continues to provide only a summary of account activity and still has not provided copies of the bond fiscal statements to support the current balances, Finance will accept the Agency's methodologies for estimating revenues for the ROPS 14-15A period. Therefore, Item No. 12 is approved for $40,486 from RPTTF and $1,452 is reclassified to Other Funds and Item No. 13 is approved for $7,024 from RPTTF and $31,170 is reclassified to Other Funds.

  Finance initially denied the amounts requested for Item Nos. 99 and 100 because the Agency was unable to provide documentation to support the amount that was held in the Revenue Fund and Trustee invoices supporting the credit of $2,902 and $59,953 applied towards the items. During the Meet and Confer process for the ROPS 13-14B period, the Agency contended that 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. During the Meet and Confer process for ROPS 14-15A, the Agency provided the invoices for the payments of these items for the ROPS 13-14B period. Based on the invoices provided, the Agency's share of the payments is $100,355 and $15,691, respectively. During the ROPS 13-14B review, Finance approved and the Agency received $42,048 and $0, respectively, from the RPTTF. Therefore, Finance approves $58,307 and $15,691, respectively, from the RPTTF on ROPS 14-15A to cover the shortage in funds needed.

- Item No. 38 – Long Term Property Maintenance costs in the amount of $11,500,000. Finance no longer denies this item. Finance initially denied this item because the Agency was unable to provide documentation to support the amounts claimed. During the Meet and Confer process, the Agency provided a budget detailing the categories of costs to be incurred by the various types of Agency-owned properties. Therefore, Finance is approving this item for RPTTF funding; however, to the extent any revenues generated on the properties are available for the estimated costs, those funds should be used prior to using RPTTF. The Agency can obtain approval from the Oversight Board to change the funding source for this item pursuant to HSC section 34177 (a) (4) if Other Funds do become available.

  When reporting the actual expenditures incurred on the ROPS 15-16A form, the Agency should be able to identify how the costs incurred are associated with Agency-owned properties, as well as supporting documents showing that the properties are currently owned by the Agency. Without these supporting documents, any costs incurred may be

disallowed and added to the prior period adjustment as funds available for expenditure on a future ROPS.

Finance notes this item contains more than one contract and more than one payee. On future ROPS, the Agency should list each contract as a separate obligation with its own item number and list them in sequential order. Pursuant to HSC section 34177 (m) (1), the Agency is required to complete the ROPS in a manner provided by Finance.

- Item No. 82 – Debt Service Reserve Fund (DSRF) Replenishment in the amount of $4,849,838. The Agency requests funds needed to replenish the DSRF to the required balances for Item Nos. 3, 4, 6 through 11, and 28. Finance continues to reclassify the funding source of this item to "Other Funds" as stated in the ROPS 13-14B Meet and Confer determination letter dated December 17, 2013.

  During the July through December 2013 period (ROPS 13-14A) Finance approved $6,408,144 in RPTTF funding for this item. Finance authorized $17,569,239 in RPTTF funds 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 funds approved for distribution, which was fully distributed by the San Bernardino County Auditor Controller. The Agency also received $510,467 in RPTTF funds for administrative costs. Consequently, sufficient RPTTF funding was available for the Agency to replenish the required reserves for the ROPS 13-14A period, including the funding that is available from the PPA of $5,876,914.

  Through an email dated April 4, 2014, the Agency contends that the ROPS II PPA was spent on other obligations; therefore, it is impossible to fund the DSRF with a funds that do not exist because the Agency has cash-flow problems.

  The items on which the funds were spent were not approved by Finance; therefore, the funds should be available for expenditure. HSC section 34177 (a) (3) states that only those payments listed on the approved ROPS may be made from the funding source specified in the ROPS. Also, HSC section 34183 (a) (2) explicitly requires debt service payments to be made first, followed by revenue bonds (to the extent revenues are insufficient to cover the payments due), and all other obligations, if sufficient RPTTF funding remains. Additionally, HSC section 34171 (d) (1) (A) permits reserves to be held only when required by the bond indenture, or when the next property tax allocation will be insufficient to pay the next bond payment due in the following half of the fiscal year. Therefore, to the extent the Agency has not been funding approved enforceable obligations in this order; the Agency is in direct violation of the law. As such, the Agency should reverse those non-debt service transactions that were either not approved by Finance or subordinated to the Agency's debt service payments. Once corrected, the Agency should return the funding to each DSRF.

  During the Meet and Confer process, the Agency continued to object to Finance's determination; however, no additional information or documents were provided. Therefore, this item is not eligible for RPTTF funding; the funding source is being reclassified to "Other Funds".

- Item No. 85 – Unfunded Prior-Year Pass-Through Payment Obligations in the amount of $2,644,578. Finance continues to deny additional funding for this item. The Agency requested funding for unfunded prior year pass-through payment obligations payable to

the San Bernardino Municipal Water District (SBVMWD). For ROPS 13-14B, Finance approved $12,164,545 in enforceable obligations to be funded from the RPTTF and the San Bernardino County Auditor-Controller distributed $11,202,042 from the RPTTF with $962,503 in a prior period adjustment; therefore, the Agency received all funds approved on ROPS 13-14B. Furthermore, Finance approved $2,644,578 in RPTTF funding for this item in ROPS 13-14B; therefore, funds should be available to make the payment.

The Agency contends that the item was unfunded because the funds allocated for the obligation were used to pay for the principal reduction portion of the 1998A, 1998B, and 2006 TABs that was inadvertently not requested on the ROPS 13-14B submitted to Finance. The funds were also used to pay for the debt service shortfall for the 1995H and 1995R Bonds. The Agency's unfunded amounts for these bonds have been included on ROPS 14-15A under Item Nos. 97 through 101. Finance has approved the shortfall for debt service for Item Nos. 97 through 101; therefore, the Agency cannot also request to fund the unfunded pass-through payments. Therefore, this item is not eligible for additional RPTTF funding.

- Item No. 87 – Carousel Mall Past Due Property Tax in the amount of $869,691. Finance continues to deny this item. The amount consists of past due property taxes for nine parcels for tax years 2009, 2010, and 2012. The Agency acquired the property through a Purchase Money Note dated May 3, 2010, when the former owner defaulted.

  Based on review of the County of San Bernardino Treasurer-Tax Collector's website during the ROPS 13-14B Meet and Confer process, it was determined that the current owner for all nine parcels is the Carousel Mall LLC, not the Agency. All of these properties were inappropriately transferred to the San Bernardino Economic Development Corporation (SBEDC) in March 2011, who then transferred the properties back to Carousel Mall LLC in December 2011. As of April 14, 2014, according to the Tax Collector's website, these properties are still in the name of Carousel Mall. Additionally, it appears the first payment for tax year 2009 was paid, and a refund issued to SBEDC for the second installment.

  Finance approved OB Resolution No. SBOB/2013-04 approving the acceptance by the Agency of the transfer of the assets from SBEDC back to the Agency through a determination letter dated March 13, 2014. At this point, it is not clear whether or not SBEDC holds title to the properties to affect a transfer back to the Agency, nor is it clear what amount, if any, is due for past due property taxes.

  During the Meet and Confer process, the Agency continued to object to Finance's determination; however, no additional information or documents were provided. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item Nos. 90 to 93 – Discounted Settlement of Lawsuits to foreclosure mechanics liens against former RDA properties totaling $2,309,000 funded by "Other" funds. Finance continues to deny these items. 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. Finance denied these items as it was our understanding that 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. Additionally, Finance denied the transfer of liabilities related to these properties through a determination letter dated March 13, 2014 for OB Resolution No. SBOB/2013-04.

During the Meet and Confer process, the Agency continued to object to Finance's determination; however, no additional information or documents were provided. Therefore, these items are not enforceable obligations and are not eligible for "Other Funds."

- Item Nos. 94, 95, 113 and 114 – Unfunded Prior-Year Pass-Through Obligations totaling $2,940,241. Finance no longer denies Item No. 94; however, Finance continues to deny Item Nos. 95, 113, and 114. During our initial review, the Agency provided demand letters from Rialto Unified School District (RUSD), San Bernardino City Unified School District, San Bernardino County Superintendent of Schools, and San Bernardino Community College District that requested payments of underfunded pass-throughs for fiscal years 2008-09 through 2010-11 based on a Los Angeles Unified School District (LAUSD) court decision. However, Finance denied these items because the Agency is not named as a party to the court decision and has not shown that the requested payments are binding.

  During the Meet and Confer process, RUSD contended that Item No. 94 is not related to the calculations of the AB 1290 pass-throughs based on the LAUSD court decision. RUSD clarified that this item is related to unpaid amounts and miscalculations in fiscal years 2007-08 through 2010-11 under a contractual pass-through agreement between the former RDA and RUSD dated July 25, 1990. Based on a review of the 1990 Agreement and other documents provided to support the calculations and payments made, Finance approves this item for payment from RPTTF funding.

  During the Meet and Confer process, the San Bernardino City Unified School District, San Bernardino County Superintendent of Schools, and San Bernardino Community College District contended that the demand letters for Item Nos. 95, 113, and 114 for underfunded AB 1290 pass-throughs are enforceable obligations. However, as previously stated, these demands are based on a LAUSD court decision and the Agency was not a named party. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding.

- Item Nos. 102 through 107 – Various obligations to correct a Prior Period Adjustment error totaling $944,503. Finance no longer denies Item Nos. 102 through 106; however, Finance continues to deny Item No. 107 at this time. Finance initially denied the items summarized below because the Agency did not provide documentation to support the items claimed:

ROPS 14-15A Item No.	ROPS III PPA Item No.	Description	Authorized	Actual	Disallowed
102	2	1997A Bond	$22,500	$43,656	$21,156
103	9	2005B TAB	430,887	431,106	219
104	15	CMB-E $10,000,000	261,600	262,500	900
105	26	Woolworth Bldg	506,637	517,053	10,416
106	33	Litigation – Carousel Mall (Placo)	40,000	107,119	67,119
107	38	Long Term Property Maintenance	102,000	946,693	844,693
		Total	**$1,363,624**	**$2,308,127**	**$944,503**

During the Meet and Confer process the Agency provided invoices and checks showing the actual payments made for the following items in the following amounts:

- Item No. 103 – $431,106 was paid; therefore, the additional $219 is approved.
- Item No. 104 – $262,500 was paid; therefore, the additional $900 is approved.
- Item No. 105 – $514,970 was paid; therefore, an additional $8,333 is approved and the remaining $2,083 continues to be denied.
- Item No. 106 – $107,119 was paid; therefore, the additional $67,119 is approved.

For Item No. 102, the Agency stated that the prior period adjustment in the amount of $21,156 is correct and no additional funds are needed.

For Item No. 107, the Agency provided a list of all Agency-owned properties and a document detailing the various expenditures incurred during the ROPS III period that the Agency classified as maintenance costs totaling $966,755. However, information was not provided indicating how the detailed costs are associated with the Agency-owned properties. The Agency indicated they are in the processing of completing a bridging document linking the property maintenance expenditures to the specific properties. Therefore, Finance will approve this item for funding and continue working the Agency on the review of the specific expenditures incurred. However, any costs incurred, but not associated with the maintenance of Agency-owned properties may be disallowed and added to the prior period adjustment as funds available for expenditure on a future ROPS.

- Claimed administrative costs exceed the allowance by $344,523. HSC section 34171 (b) limits the fiscal year 2014-2015 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater. Although $821,984 is claimed for administrative cost, only $477,461 is available pursuant to the cap. Therefore, $344,523 of excess administrative cost is not allowed.

- Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2013 period. HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the Controller. The amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

During the Meet and Confer process, the Agency objected to the prior period adjustment amount; however, no additional information or documents were provided. Therefore, no change is being made to the prior period adjustment.

Except for the 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 14-15A. The Agency's maximum approved RPTTF distribution for the reporting period is $10,533,920 as summarized below:

Approved RPTTF Distribution For the period of July through December 2014		
Total RPTTF requested for non-administrative obligations		27,399,459
Total RPTTF requested for administrative obligations		821,984
Total RPTTF requested for obligations	**$**	**28,221,443**
Total RPTTF requested for non-administrative obligations		**27,399,459**
Denied Item		
Item No. 7		(37,800)
Item No. 85		(2,644,578)
Item No. 87		(869,691)
Item No. 95		(2,223,398)
Item No. 99		(967)
Item No. 100		(19,715)
Item No. 102		(21,156)
Item No. 105		(2,083)
Item No. 113		(81,700)
Item No. 114		(592,431)
		(6,493,519)
Reclassified Item		
Item No. 82		(4,849,838)
Item No. 10		(108,107)
Item No. 12		(1,452)
Item No. 13		(31,170)
		(4,990,567)
Total RPTTF authorized for non-administrative obligations	**$**	**15,915,373**
Total RPTTF requested for administrative obligations		**821,984**
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(344,523)
Total RPTTF authorized for administrative obligations	**$**	**477,461**
Total RPTTF authorized for obligations	**$**	**16,392,834**
ROPS 13-14A prior period adjustment		(5,858,914)
Total RPTTF approved for distribution	**$**	**10,533,920**

Administrative Cost Cap Calculation		
Total RPTTF authorized for non-administrative obligations		15,915,373
Percent allowed pursuant to HSC section 34171 (b)		3%
Total RPTTF allowable for administrative obligations		**477,461**
Total RPTTF administrative obligations after Finance adjustments		821,984
Administrative costs in excess of the cap	**$**	**(344,523)**

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. During the ROPS 14-15A 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 14-15A 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 14-15B.

Please refer to the ROPS 14-15A schedule that was used to calculate the approved RPTTF amount:

http://www.dof.ca.gov/redevelopment/ROPS

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2014. This determination only applies 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. Lisa Connor, Project Manager, City of San Bernardino
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office