DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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December 17, 2014

Mr. William Garay, Director of Finance
Inland Valley Development Agency
1601 East Third Street, Suite 100
San Bernardino, CA 92408

Dear Mr. Garay:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 13, 2014. 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 14-15B) to Finance on September 30, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 13, 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 November 24, 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. 53 – Reimbursement of the July 2012 True-up Payment in the amount of $797,250 is not allowed. Finance continues to deny this item. During the Meet and Confer process, the Agency continued to object to Finance's determination; however, no new information was provided. 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. 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). Therefore, this line item is not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 56 – 2014 Tax Allocation Refunding Bonds debt service payment in the amount of $6,031,580. Finance no longer denies a portion of this item. The total interest to be paid in the 2015 calendar year is $9,583,510. However, Finance approved $5,711,331 in ROPS 14-15A, leaving a balance of $3,872,179 ($9,583,510 - $5,711,331) necessary to fund debt service. As a result, Finance initially determined the excess $2,159,401 ($6,031,580 - $3,872,179) is not aeligible for RPTTF funding on this ROPS. During the Meet and Confer process, the Agency provided additional information from U.S. Bank

confirming that only $3,551,930 was paid on September 1, 2014, and $6,031,580 is due on March 1, 2015. Therefore, Finance no longer denies a portion of this item.

- Item No. 57 – Tax Allocation Refunding Bonds Refinancing Costs in the amount of $350,000. Finance reclassifies this item to the administrative cost allowance. Finance initially reclassified this item to Bond Proceeds; however, during the Meet and Confer process, the Agency contended that there are no bond proceeds available to pay these costs. The Agency is requesting funding to conduct a new review and tax analysis and obtain a legal opinion regarding the feasibility of refunding the taxable Series 2014 into tax-exempt bonds. These costs do not meet the definition of an enforceable obligation pursuant to HSC section 34171 (d) (1); however, to the extent the Agency would like to conduct such an analysis, the costs may be funded out of the administrative cost allowance. Therefore, Finance is reclassifying the Agency's request to the administrative cost allowance.

- Item No. 59 – Base Reuse Joint Powers Authority Obligations in the amount of $3,903,698. Finance continues to deny this item. It is our understanding this item relates to the revenue contribution to be made by members of the Inland Valley Development Authority Joint Powers Authority (IVDA JPA) for the continued operation of the IVDA JPA. Finance initially denied this item because it does not fall within the meaning of an enforceable obligation as defined by HSC section 34171 (d) (1). During the Meet and Confer process, the Agency contended that this item is the IVDA JPA's revenues that should be passed through the Agency for payment to the IVDA JPA. However, the Agency has not provided any documents to show that an enforceable obligation, pursuant to HSC section 34171 (d) (1), exists that requires the payment of these revenues to the IVDA JPA to be listed on the ROPS. Therefore, this item is not eligible for RPTTF funding.

- Item No. 60 – Legal Services Fees in the amount of $85,000. The Agency requests $55,000; however, these fees were initially considered general administrative costs and were reclassified from RPTTF to the administrative cost allowance. Based upon information provided by the Agency during the Meet and Confer process, this item is being reduced to $0. The Agency clarified that costs for this item were also included in Item No. 57 and both items were not needed. Therefore, Finance has reclassified Item No. 57 to the administrative cost allowance as discussed above and is reducing Item No. 60 to $0.

- Item Nos. 61 through 68 – Various Improvement Projects totaling $17,300,000. Finance continues to deny these items. Finance initially denied these items because insufficient documentation was provided to support the amounts claimed. It is our understanding the San Bernardino International Airport Authority suffered damage during a storm on August 3, 2014. Subsequently, the Agency applied for a claim with Affiliated FM Insurance Company. The Agency provided a letter from Affiliated FM Insurance Company, dated August 18, 2014, and a schedule of proposed projects for fiscal years 2010-14. The Agency also provided an Agreement for Professional Services between the Agency and Thienes Engineering, Inc., entered into on June 13, 2012, which terminated June 1, 2013. However, these documents are insufficient to support the requested amounts.

During the Meet and Confer process, the Agency did not provide any further documentation for Item Nos. 61 through 68. To the extent the Agency can provide adequate documentation to show that an enforceable obligation exists pursuant to HSC section 34171 (d) (1), documentation to support the requested funding, and an explanation as to why Affiliated FM Insurance Company is not responsible, the Agency may be able to obtain RPTTF funding on future ROPS. Therefore, Item Nos. 61 through 68 are currently not enforceable obligations and not eligible for RPTTF funding.

For Item No. 68, the Agency contended that the 3rd and 5th Street Phase I – Victoria Avenue project is funded through Other Funds, not RPTTF funding, from a pre-existing enforceable obligation stemming from a 2006 interagency agreement with the San Bernardino Associated Governments (SANBAG). However, the 2006 agreement with SANBAG is an obligation of the IVDA JPA, not the former RDA. Therefore, this item is not an enforceable obligation of the Agency and does not need to be listed on the ROPS.

- Item No. 70 – Reserve Requirement for the 2014 Tax Allocation Refunding Bonds in the amount of $6,031,580. Finance continues to deny this item. During the Meet and Confer process, the Agency clarified that this item was included upon a recent recommendation from Standard and Poors during the 2014 TAB refinancing. However, pursuant to HSC section 34171 (d) (1) (A), a reserve may only be held if required by the bond indenture or when next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following half of the calendar year. The Agency has not shown that the reserve required by the bond indenture has not been met or that the next property tax allocation will be insufficient. Therefore, this item 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 provided financial records that displayed available Reserve Balances totaling $2,661,486. Finance initially reclassified Item No. 56 to Reserve Balances; however, during the Meet and Confer process, the Agency requested a different item be reclassified to Reserve Balances. Therefore, the funding source for the following item has been reclassified to Reserve Balances and in the amount specified below:

    - Item No. 13 – Airport Operations payment in the amount of $2,750,000 from the RPTTF. This item is an enforceable obligation for the ROPS 14-15B period; however, the obligation does not require payment from property tax revenues and the Agency has $2,661,486 in available Reserve Balances. Therefore, Finance is approving RPTTF funding in the amount of $88,514 and Reserve Balances in the amount of $2,661,486 for a total payment of $2,750,000.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2014 period. HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to review by the county auditor-controller (CAC) and the State Controller. The amount of RPTTF approved in

the table below includes the prior period adjustment resulting from the CAC's review of the Agency's self-reported prior period adjustment.

Except for items denied in whole or in part or items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15B. The Agency's maximum approved RPTTF distribution for the reporting period is $7,502,132 as summarized in the Approved RPTTF Distribution Table below:

Approved RPTTF Distribution For the period of January through June 2015		
Total RPTTF requested for non-administrative obligations		19,028,626
Total RPTTF requested for administrative obligations		597,168
Total RPTTF requested for obligations on ROPS	**$**	**19,625,794**
Total RPTTF requested for non-administrative obligations		**19,028,626**
Denied Items		
Item No. 53		(797,250)
Item No. 59		(3,903,698)
Item No. 60		(55,000)
Item No. 61		(750,000)
Item No. 63		(1,250,000)
Item No. 65		(200,000)
Item No. 66		(1,750,000)
Item No. 67		(50,000)
Item No. 70		(500,000)
		(9,255,948)
Reclassified Item		
Item No. 57		(50,000)
		(50,000)
Total RPTTF for non-administrative obligations	**$**	**9,722,678**
Cash Balances - Item reclassified to other funding sources		
Item No. 13	$	(2,661,486)
	$	(2,661,486)
Total RPTTF authorized for non-administrative obligations	**$**	**7,061,192**
Total RPTTF requested for administrative obligations		**597,168**
Reclassified Item		
Item No. 57		50,000
		50,000
Total RPTTF authorized for administrative obligations	**$**	**647,168**
Total RPTTF authorized for obligations	**$**	**7,708,360**
ROPS 13-14B prior period adjustment		(206,228)
Total RPTTF approved for distribution	**$**	**7,502,132**

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 14-15B review, Finance requested financial records to support the cash balances reported by the Agency. The accounting records provided did not tie to the amounts reported on the Report of Cash Balance. Finance has made no reclassification and will continue to work with the Agency to resolve any remaining issues as described above. If it is determined the Agency possesses

additional cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 15-16A.

Please refer to the ROPS 14-15B 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 January 1 through June 30, 2015. 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 the 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 agency in the RPTTF.

Pursuant to HSC section 34177 (a) (3), only those payments listed on an approved ROPS may be made by the successor agency from the funds specified in the ROPS. However, if for whatever reason the Agency needs to make payments for approved obligations from another funding source, HSC section 34177 (a) (4) requires the Agency to first obtain oversight board approval.

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
Acting Program Budget Manager

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