DEPARTMENT OF FINANCE

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December 17, 2014

Mr. John Andrews, Economic Development Director
City of Ontario
303 East B Street
Ontario, CA 91764

Dear Mr. Andrews:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 14, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Ontario Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on October 1, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 14, 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 December 4, 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 item being disputed.

- Item No. 10 – 2007 Ontario Airport Towers Owners Participation Agreement (OPA) in the amount of $2,500,000. Finance initially denied this item because it was our understanding the property associated with the OPA was sold to Tnhyif Reiv India, LLC (Developer) in 2012. During the Meet and Confer process, the Agency contended that although the property was sold, the OPA remains valid as it transfers with the property to the new owner. Section 9.13 of the OPA states that the OPA shall be binding on successors and assigns and Section 1.1 (rrr) defines the yearly tax increment payment to be made in any fiscal year within the eligibility period. Finance notes that the payee on the ROPS should be changed to reflect the new owner of the property to which the payments will be made. Therefore, this item is an enforceable obligation and the $250,000 requested is eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

In addition, per Finance's letter dated November 14, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 7 – 2009 Facility Upgrade Loan Agreement for the Staples Sales and Distribution Center in the amount of $10,200,000 is not allowed. The Agency requested $2,400,000 for the ROPS 14-15B period, which includes $1,500,000 for an unpaid forgivable loan balance to the developer and $900,000 for the annual covenant payment. However, the Agency did not provide sufficient documentation to support the

need to pay the $1,500,000 unpaid loan balance to the developer. To the extent the Agency can provide sufficient documents, such as a demand letter for payment or an invoice, to support the requested funding, this amount may be approved on a future ROPS.

In addition, it is our understanding the Agency received the funding for the $900,000 annual covenant payment during the ROPS 14-15A period; therefore, funding for this same obligation is not necessary during the ROPS 14-15B period. The Agency may request the $900,000 annual covenant payment again during fiscal year 2015-16. Therefore, this item is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on this ROPS.

- Item No. 140 – Sales Taxes Withheld by the Board of Equalization and Distributed to Taxing Entities in the amount of $5,325,128 is denied. The Agency provided an email from the San Bernardino County Auditor-Controller's Office (CAC), stating the CAC will distribute $5,325,128 to the City of Ontario (City) in compliance with Case No. 34-2013-80001625. However, the email is not sufficient to support the Agency's binding obligation to the City, and the matter has not been settled. As such, this item is not an enforceable obligation and not eligible for RPTTF funding.

- The Agency's claimed administrative costs exceed the allowance by $231,754. HSC section 34171 (b) limits the fiscal year 2014-15 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater. As a result, the Agency is eligible for $561,457 in administrative expenses. The San Bernardino County Auditor-Controller's Office distributed $376,211 administrative costs for the July through December 2014 period, thus leaving a balance of $185,246 available for the January through June 2015 period. Although $417,000 is claimed for administrative cost, only $185,246 is available pursuant to the cap. Therefore, $231,754 of excess administrative cost is not allowed.

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 Other Funds totaling $133,539.

Therefore, the funding source for the following item has been reclassified to Other Funds in the amount specified below:

- Item No. 8 – 2005 MedCal Sales Location Agreement. The Agency requests $1,449,033 from RPTTF; however, Finance is reclassifying $133,539 to Other Funds. This item is an enforceable obligation for the ROPS 14-15B period. However, because the Agency has $133,539 in available Other Funds, Finance is approving RPTTF in the amount of $1,315,494 and the use of Other Funds in the amount of $133,539, totaling $1,449,033 for this item.

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. The amount of RPTTF approved in the table below reflects the prior period adjustment self-reported by the Agency.

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. Proposed CAC adjustments were not received in time for inclusion in this letter; therefore, the amount of RPTTF approved in the table below only reflects the prior period adjustment self-reported by the Agency.

Except for items denied in whole or in part or item that has 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 $3,750,058 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 | | 13,900,016 |
| Total RPTTF requested for administrative obligations | | 417,000 |
| **Total RPTTF requested for obligations on ROPS** | **$** | **14,317,016** |
| **Total RPTTF requested for non-administrative obligations** | | **13,900,016** |
| Denied Items | | |
| Item No. 7 | | (2,400,000) |
| Item No. 140 | | (5,325,128) |
| | | (7,725,128) |
| **Total RPTTF for non-administrative obligations** | | **6,174,888** |
| Cash Balances - Item reclassified to other funding sources | | |
| Item No. 8 | | (133,539) |
| **Total RPTTF authorized for non-administrative obligations** | **$** | **6,041,349** |
| **Total RPTTF requested for administrative obligations** | | **417,000** |
| Administrative costs in excess of the cap (see Admin Cost Cap table below) | | (231,754) |
| **Total RPTTF authorized for administrative obligations** | **$** | **185,246** |
| **Total RPTTF authorized for obligations** | **$** | **6,226,595** |
| ROPS 13-14B prior period adjustment | | (2,476,537) |
| **Total RPTTF approved for distribution** | **$** | **3,750,058** |

| **Administrative Cost Cap Calculation** | | |
|---|---|---|
| Total RPTTF for 14-15A (July through December 2014) | | 12,540,352 |
| Total RPTTF for 14-15B (January through June 2015) | | 6,174,888 |
| **Total RPTTF for fiscal year 2014-2015** | | **18,715,240** |
| Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or $250,000) | | 561,457 |
| Administrative allowance for 14-15A (July through December 2014) | | 376,211 |
| **Allowable RPTTF distribution for administrative cost for ROPS 14-15B** | | **185,246** |
| Total RPTTF administrative obligations after Finance adjustments | | 417,000 |
| **Administrative costs in excess of the cap** | **$** | **(231,754)** |

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. Charity Hernandez, Redevelopment Manager, City of Ontario
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office