DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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December 17, 2014

Ms. Dena Fuentes, Director of Community Development and Housing
San Bernardino County
385 North Arrowhead Avenue
San Bernardino, CA 92415-0043

Dear Ms. Fuentes:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 10, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the County of San Bernardino Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on September 29, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 10, 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 20, 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 – Housing Administrative Cost Allowance in the total outstanding amount of $5,000,000 is not allowed. Finance continues to deny this item. Finance denied this item because pursuant to HSC section 34171 (p), the housing entity administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency (RDA) elected to not assume the housing functions. The County of San Bernardino (County) assumed the functions of the housing successor pursuant to HSC section 34176 (a); therefore, the County is not eligible for the housing entity administrative allowance.

In addition, per Finance's letter dated November 10, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 11 – Litigation Professional Services in the amount of $50,000 is not allowed. It is our understanding the Agency does not have a valid contract in place to support the requested amount. To the extent the Agency can provide suitable documentation, such as an executed amended contract or vendor invoices to support the requested funding, the Agency may be able to obtain Redevelopment Property Tax Trust Fund (RPTTF funding on future ROPS.

- The administrative costs claimed are within the fiscal year administrative cap pursuant to HSC section 34171 (d). However, Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the other obligations listed in the ROPS. HSC section 34179 (i) requires the oversight board to exercise a fiduciary duty to the taxing entities. Therefore, Finance encourages the oversight board to apply adequate oversight when evaluating the administrative resources required to successfully wind-down the Agency.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses available Reserve Balances in the amount of $354,933 and Other Funds in the amount of $365,081, totaling $720,014. Additionally, the Agency requested to spend $762,221 from Other Funds; however, this exceeded the available amount. Therefore, and with the Agency's concurrence, Finance has made the following adjustments:

- Item No. 2 – 2010 San Sevaine Tax Allocation Bonds Debt Service Payment. The Agency requests $241,461 from Other Funds and $1,010,581 from RPTTF for this item. However, Finance is reclassifying $241,461 from Other Funds to Reserve Balances because the Agency does not have sufficient Other Funds available, but does have $354,933 in available Reserve Balances. As such, Finance is approving Reserve Balances in the amount of $241,461 and RPTTF in the amount of $1,010,581, totaling $1,252,042 for this item.

- Item No. 16 – Salaries and Benefits Costs. The Agency requests $185,000 from Other Funds, $66,250 from RPTTF, and $16,550 from Administrative Cost Allowance for this item. However, Finance is reclassifying $113,472 from Other Funds to Reserve Balances because the Agency does not have sufficient Other Funds available, but does have $354,933 in available Reserve Balances. As such, Finance is approving Reserve Balances in the amount of $113,472, Other Funds in the amount of $71,528, RPTTF in the amount of $66,250, and Administrative Cost Allowance in the amount of $16,550, totaling $267,800 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 audit 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.

In addition, Finance noted on ROPS 13-14B Prior Period Adjustment (PPA) worksheet, the Agency's expenditures exceeded Finance's authorizations for the following items:

- Other Funds in the amount of $3,000 for Item No. 15
- Reserve Balances in the amount of $20,065 for Item No. 16.

Per HSC section 34177 (a) (3), only those payments listed on ROPS may be made by the Agency from the funds specified on the ROPS. However, these items were determined to be enforceable obligations for the ROPS 14-15B period. Therefore, Finance is increasing the

Agency's authorization for the ROPS 14-15B period to ensure that authorization is consistent with expenditures for the approved enforceable obligations. As these Reserves and Other Funds were previously expended, the increase in authorization should not result in increased expenditures for the current ROPS period, but should merely allow the Agency to reconcile actual expenditures to the authorization.

HSC sections 34177 (a) (4) and 34173 (h) provide mechanisms when Agency payments must exceed the amounts authorized by Finance. Please ensure the proper expenditure authority is received from your Oversight Board and Finance prior to making payments on enforceable obligations.

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 $3,254,346 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		3,558,853
Total RPTTF requested for administrative obligations		31,550
Total RPTTF requested for obligations on ROPS	**$**	**3,590,403**
Total RPTTF requested for non-administrative obligations		**3,558,853**
Denied Items		
Item No. 11		(50,000)
Item No. 53		(150,000)
		(200,000)
Total RPTTF authorized for non-administrative obligations	**$**	**3,358,853**
Total RPTTF requested for administrative obligations		**31,550**
Total RPTTF authorized for administrative obligations	**$**	**31,550**
Total RPTTF authorized for obligations	**$**	**3,390,403**
ROPS 13-14B prior period adjustment		(136,057)
Total RPTTF approved for distribution	**$**	**3,254,346**

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 Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Acting Program Budget Manager

cc: Mr. Gary Hallen, Deputy Director of Community Development and Housing, San Bernardino County
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office