DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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December 17, 2014

Mr. Jim Morris, City Manager's Assistant
San Bernardino City
300 North D Street, 6th Floor
San Bernardino, CA 94218

Dear Mr. Morris:

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 San Bernardino City 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 1, 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. 38 – Long Term Property Maintenance costs in the amount of $6,750,000. Finance no longer denies this item. It was our initial understanding the properties associated with the requested costs were in the possession of the San Bernardino Economic Development Corporation (SBEDC). Therefore, Finance initially denied this item because the maintenance costs for these properties were the obligations of the SBEDC, not the Agency. During the Meet and Confer process, the Agency provided the quitclaim deeds for the properties showing that they have been transferred from the SBEDC to the Agency. Therefore, these costs are eligible for Other Funds.

- Item Nos. 95, 113, and 114 – Unfunded Prior-Year Pass-Through Obligations totaling $2,897,529 are not allowed. Finance no longer denies $1,192,547, $52,172, and $358,105 of Item Nos. 95, 113, and 114, respectively; however, Finance continues to deny the remainder of these items. Finance initially denied these items as it was our understanding the Agency is not named as a party to the Los Angeles Unified School District (LAUSD) court decision. As a result, the Agency does not have binding obligations to these payments.

  During the Meet and Confer process, the Agency contended that a portion of these items is not related to the LAUSD court decision, but miscalculations of the AB 1290

pass-through amounts owed and not paid. The Agency provided a summary of amounts owed, the amounts paid, and the remaining balances to be paid to the San Bernardino City Unified School District, the San Bernardino County Superintendent of Schools, and the San Bernardino Community College District. Therefore, Item Nos. 95, 113, and 114 in the amounts of $1,192,547, $52,172, and $358,105, respectively, are enforceable obligations eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

However, as previously stated, the remaining amounts are based on a LAUSD court decision and the Agency was not a named party. Therefore, the remainders of these items are not enforceable obligations and are not eligible for RPTTF funding.

- Item No. 116 – Real Property Security Services in the amount of $622,252. Finance no longer denies this item. It was our initial understanding the properties associated with the security service costs were in the possession of the SBEDC. Therefore, Finance initially denied this item because the security services performed on these properties were the obligations of the SBEDC, not the Agency. During the Meet and Confer process, the Agency provided the quitclaim deeds for the properties showing that they have been transferred from the SBEDC to the Agency. Therefore, these costs are eligible for Other Funds.

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 Nos. 121 and 122 – Under-Funded Obligations for Glen Aire Mobile Home Park Corporation Litigation and the Watson Owner Participation Agreement totaling $45,211 are not allowed. Although the Agency incurred more expenditures than Finance authorized, it is our understanding these obligations were paid using Other Funds during ROPS 13-14B period, and currently, there is no outstanding amount due. Additionally, HSC section 34177 (l) (1) (E) requires agencies to use RPTTF only to the extent no other funding source is available. Therefore, these items are not eligible for RPTTF funding.

- Claimed administrative costs exceed the allowance by $88,282. 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 $985,385. The San Bernardino County Auditor-Controller's Office distributed $477,461 in administrative costs for the July through December 2014 period, thus leaving a balance of $507,924 available for the January through June 2015 period. Although $596,206 is claimed for administrative cost, only $507,924 is available pursuant to the cap. Therefore, $88,282 of excess administrative cost is not allowed.

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. 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, as adjusted by Finance.

The Agency self-reported a prior period adjustment in the amount of $556,964. During our review, Finance determined the Agency neglected to include $962,503 (the prior period adjustment from ROPS III as listed on the ROPS 13-14B determination) in the Non-Admin RPTTF Available Amount. As a result, Finance adjusted the Non-Admin Available Amount, by $962,503, which increased the prior period adjustment to $1,519,467 ($556,964 + $962,503). Therefore, to the extent the Agency disagrees with our review, the Agency should work provide suitable documentation to modify the prior period adjustment proposed by Finance.

In addition, Finance noted the following during our review:

- On the ROPS 13-14B Prior Period Adjustment worksheet, the Agency's expenditures exceeded Finance's authorization for the following items:

    - Other Funds totaling $211,359 – Item No. 9, $177; Item No. 10, $110,292; Item No. 12, $1,936; Item No. 13, $42,766; Item No. 31, $10,977; Item No. 36 (listed as Item No. 121 on ROPS 14-15B), $23,275; Item No. 38, $278,131, and Item No. 40 (listed as Item No. 122 on ROPS 14-15B), $21,936.

  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 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, 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 $15,919,251 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		19,873,534
Total RPTTF requested for administrative obligations		596,206
Total RPTTF requested for obligations on ROPS	**$**	**20,469,740**
Total RPTTF requested for non-administrative obligations		**19,873,534**
Denied Items		
Item No. 95		(1,030,851)
Item No. 113		(29,528)
Item No. 114		(234,326)
Item No. 121		(23,275)
Item No. 122		(21,936)
		(1,339,916)
Total RPTTF authorized for non-administrative obligations	**$**	**18,533,618**
Total RPTTF requested for administrative obligations		**596,206**
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(40,197)
Total RPTTF authorized for administrative obligations	**$**	**556,009**
Total RPTTF authorized for obligations	**$**	**19,089,627**
Self-reported ROPS 13-14B prior period adjustment (PPA)		(556,964)
Finance adjustment to ROPS 13-14B PPA		(962,503)
Total ROPS 13-14B PPA		(1,519,467)
Total RPTTF approved for distribution	**$**	**17,570,160**

Administrative Cost Cap Calculation		
Total RPTTF for 14-15A (July through December 2014)		15,915,373
Total RPTTF for 14-15B (January through June 2015)		18,533,618
Total RPTTF for fiscal year 2014-2015		**34,448,991**
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or $250,000)		1,033,470
Administrative allowance for 14-15A (July through December 2014)		477,461
Allowable RPTTF distribution for administrative cost for ROPS 14-15B		**556,009**
Total RPTTF administrative obligations after Finance adjustments		596,206
Administrative costs in excess of the cap	**$**	**(40,197)**

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; however, the Agency was unable to support the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 14-15B review period, to properly identify the Agency's cash balances. If it is determined the Agency possesses 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. Lisa Connor, Project Manager, City of San Bernardino
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office