DEPARTMENT OF FINANCE

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May 15, 2015

Mr. Marc Puckett, Assistant Town Manager - Finance and Administration
Town of Apple Valley
14975 Dale Evans Parkway
Apple Valley, CA 92307

Dear Mr. Puckett:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 14, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the Town of Apple Valley Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to Finance on March 02, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 14, 2015. Subsequently, the Agency requested a Meet and Confer session on one or more of the determinations made by Finance. The Meet and Confer session was held on April 29, 2015.

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 determinations being disputed.

- Item Nos. 6 and 14 – Low and Moderate Income Housing Fund (LMIHF) loan repayments for the purposes of the Educational Revenue Augmentation Fund (ERAF) totaling $777,273. Finance continues to partially deny this item as explained below.

  HSC section 34191.4 (b) (2) (A) allows this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the fiscal year 2012-13 base year. According to the San Bernardino County Auditor-Controller's (CAC) report, the amounts distributed to the Agency for fiscal year 2012-13 and 2014-15 are $0 and $368,907, respectively. Therefore, pursuant to the repayment formula, the maximum repayment amount authorized for 2015-16 is $184,454 and is being applied to Item No 14. Therefore, the excess, $592,819 ($777,273 - $184,454) is not eligible for funding from Redevelopment Property Tax Trust Funds (RPTTF) or Other Funds on this ROPS.

  During the Meet and Confer the Agency requested that residual funds from the Victor Valley Economic Development Authority (VVEDA) distribution attributed to Apple Valley be included in the calculation to determine the amount of the ERAF loan that the Agency is able to repay during ROPS 15-16A. However, the Agency does not receive RPTTF

for the VVEDA project area from the CAC, rather the Agency is a payee of VVEDA. Therefore, the residual calculation appropriately does not include residuals from the VVEDA project area. Further, Finance reminds the Agency that Other Funds from VVEDA are limited to obligations needed to satisfy bonded debt obligations for which such revenues have been pledged and should reconsider requesting an alternative funding source for these items.

- Item No. 17 – Administrative Costs in the amount of $190,000 ($125,000 payable from RPTTF and $65,000 payable from Other Funds). Finance continues to partially deny this item. During the Meet and Confer the agency claimed that the administrative cost calculation should be based on all enforceable obligations from all project areas. However, pursuant to HSC section 34171 (b), the administrative cost allowance should be $250,000 or three percent of the RPTTF allocated to the Agency in a fiscal year. The funds from VVEDA are not received by the Agency as RPTTF and are therefore not eligible to be included in the administrative cost calculation. As previously stated, the Other Funds received from the VVEDA are limited to obligations needed to satisfy bonded debt obligations for which such revenues have been pledged. Therefore, the request to use Other Funds in the amount of $65,000 for administrative costs is not allowed.

- Item Nos. 31 through 40 – Various Town of Apple Valley (Town) Loan repayments totaling $13,958,603. Finance continues to deny these items at this time. Pursuant to HSC section 34191.4 (b), loan agreements between the former Redevelopment Agency (RDA) and sponsoring entity may be placed on the ROPS if the following requirements are met: (1) The Agency has received a Finding of Completion; and (2) The Agency's oversight board (OB) approves the loan as an enforceable obligation by finding the loan was for legitimate redevelopment purposes.

  The Agency received a Finding of Completion on October 10, 2013. However, at this time, the OB Resolution, approving and adopting ratifications and amendments to loan agreements between the Town and the Agency pursuant to HSC section 34191.4 is an enforceable obligation and finding the loan was for legitimate redevelopment purposes, has not yet been approved by Finance. To the extent the OB resolution is approved by Finance, the Agency may relist these items on future ROPS. In addition, Finance notes that any residuals available pursuant to HSC section 34191.4 (b) (2), as discussed above, are being applied to the SERAF loan for ROPS 15-16A. As such, these items are not enforceable obligations and are not eligible for RPTTF and Other Funds on the ROPS.

In addition, per Finance's letter dated April 14, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 29 – Redevelopment Agency Obligations paid via Advanced Funds in the amount of $3,281,514. Finance continues to deny this item. As stated in our determination letter dated December 17, 2014, this item is related to an alleged negative cash balance of the former RDA. During the Low and Moderate Income Housing Funds (LMIHF) and Other Funds and Accounts (OFA) Due Diligence Reviews (DDR) required pursuant to HSC section 34179.6, it is our understanding the former RDA commingled its LMIHF and OFA.

In doing so, the former RDA pulled funding from its commingled account to pay for various obligations. The Agency claims that some of the commingled LMIHF amounts were used to pay for non-housing obligations, resulting in a negative balance in the OFA DDR totaling $3,281,514. However, the documentation provided does not support the Agency's claim. Therefore, this line item is not an enforceable obligation and is not eligible for funding on the ROPS.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 15-16A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2014 period. HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to audit by the 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.

In addition, Finance noted the following during our review:

- On the ROPS 14-15A Prior Period Adjustment worksheet, the Agency's expenditures exceeded Finance's authorization for the following items:

  - Bond Proceeds totaling $4,891,398 – Item No. 9, $7,086,935.
  - Other Funds totaling $37,462 – Item No. 17, $38,826.

  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 15-16A period. Therefore, Finance is increasing the Agency's authorization for the ROPS 15-16A period to ensure that authorization is consistent with expenditures for the approved enforceable obligations. As these Bond Proceeds 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 the items denied in whole or in part, Finance is not objecting to the remaining items listed on your ROPS 15-16A. The Agency's maximum approved RPTTF distribution for the reporting period is $1,081,329 as summarized in the Approved RPTTF Distribution table on the following page:

Approved RPTTF Distribution For the period of July through December 2015		
Total RPTTF requested for non-administrative obligations		11,408,198
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations on ROPS	**$**	**11,533,198**
Total RPTTF requested for non-administrative obligations		**11,408,198**
Denied Items		
Item No. 14		(191,052)
Item No. 29		(3,281,514)
Item No. 31		(153,650)
Item No. 32		(301,000)
Item No. 33		(175,000)
Item No. 34		(416,800)
Item No. 35		(38,249)
Item No. 36		(420,000)
Item No. 37		(331,165)
Item No. 38		(108,110)
Item No. 39		(123,907)
Item No. 40		(4,911,422)
		(10,451,869)
Total RPTTF authorized for non-administrative obligations	**$**	**956,329**
Total RPTTF requested for administrative obligations		**125,000**
Total RPTTF authorized for administrative obligations	**$**	**125,000**
Total RPTTF authorized for obligations	**$**	**1,081,329**
ROPS 14-15A prior period adjustment		0
Total RPTTF approved for distribution	**$**	**1,081,329**

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 15-16A review, Finance requested financial records to support the cash balances reported by the Agency; however, the Agency was unable to support the amounts reported. The Agency reported negative beginning balances for Reserve Balances and Other Funds, which could not be supported by the Agency's financial records. As a result, Finance will continue to work with the Agency after the ROPS 15-16A 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 15-16B.

Please refer to the ROPS 15-16A 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, 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 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) 445-3274.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Mr. Orlando Acevedo, Economic Development Manager, Town of Apple Valley
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office