DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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May 15, 2015

Ms. Lisa Strong, Management Services Director
City of Fontana
8353 Sierra Avenue
Fontana, CA 92335

Dear Ms. Strong:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 10, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Fontana Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to Finance on February 25, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 10, 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 27, 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 No. 51 – Ten-Ninety Owner Participation Agreement (OPA) with a total outstanding balance of $1.5 billion. Finance continues to deny this item and the ROPS 15-16A requested amount of $1 million. In 1982 the former redevelopment agency (RDA) entered into an OPA with Ten-Ninety, Ltd., the Participating Owner, relating to the Jurupa Hills Project Area. Under the OPA, the Participating Owner was to submit development costs incurred for certain infrastructure and other improvements on a quarterly basis to the RDA. Per the OPA, these development costs totaling about $197 million were to be reimbursed from the Agency revenues, including the tax increment revenue generated in the Jurupa Hills Project Area and certain fees and assessments.

  Based on the ROPS submitted by the Agency, the outstanding balance owed to the Participating Owner, when combined with the cumulated interest at the 15.5 percent interest rate specified in OPA, indebts the Agency for roughly $1.5 billion. The Agency claims it has been paying $5 million to $6 million annually. However, the Agency has not provided accounting records or other financial records to support the development costs incurred by, or payments made to the Participating Owner. Therefore, Finance is unable to determine the outstanding balance or if an outstanding balance remains. Consequently, this item is not an enforceable obligation and is not eligible for Other Funds and Redevelopment Property Tax Trust Fund (RPTTF) funding.

Additionally, the Agency suggests that by operation of law the total that can be paid to Ten-Ninety is approximately $313 million, $170 million of which the Agency alleges has been paid. However, this is contrary to the multiple representations by the Agency, including through its submitted ROPS, which state that its obligation to Ten-Ninety is $1.5 billion. Also, the OPA appears to be structured in a manner which prevents the Agency's obligation to Ten-Ninety from being retired, and thus, allowing the OPA to exist in perpetuity. Finance notes that the alleged contribution of less than $200 million towards construction of infrastructure by Ten-Ninety, Ltd., in exchange for the former RDA's alleged obligation of roughly $1.5 billion, which diverts all available property tax revenues from the project area to this obligation and which the Agency staff acknowledges will never be paid off based on how the Agency has currently structured its payments to Ten-Ninety, Ltd., appears contrary to public policy and raises questions about the validity of the OPA under Dissolution Law.

- Claimed administrative costs exceed the allowance by $30,000. HSC section 34171 (b) limits fiscal year 2015-16 administrative expenses to three percent of property tax allocated to the successor agency or $250,000, whichever is greater. Although $493,502 is claimed for administrative cost, only $463,502 is available pursuant to the cap. Therefore, $30,000 of excess administrative cost is not allowed.

In addition, per Finance's letter dated April 10, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

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 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 the item 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 $15,076,955 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution For the period of July through December 2015		
Total RPTTF requested for non-administrative obligations		16,020,669
Total RPTTF requested for administrative obligations		493,502
Total RPTTF requested for obligations on ROPS	**$**	**16,514,171**
Total RPTTF requested for non-administrative obligations		**16,020,669**
Denied Items		
Item No. 51		(570,586)
Total RPTTF authorized for non-administrative obligations	**$**	**15,450,083**
Total RPTTF requested for administrative obligations		**493,502**
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(30,000)
Total RPTTF authorized for administrative obligations	**$**	**463,502**
Total RPTTF authorized for obligations	**$**	**15,913,585**
ROPS 14-15A prior period adjustment		(836,630)
Total RPTTF approved for distribution	**$**	**15,076,955**

Administrative Cost Cap Calculation		
Total RPTTF for non-administrative obligations		15,450,083
Percent allowed pursuant to HSC section 34171 (b)		3%
Total RPTTF allowable for administrative obligations		**463,502**
Total RPTTF administrative obligations after Finance adjustments		493,502
Administrative costs in excess of the cap	**$**	**(30,000)**

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: On the following page

cc: Ms. Dawn Brooks, Accounting Manager, City of Fontana
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office