DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

April 16, 2015

Mr. William Garay, Director of Finance
Inland Valley Development Agency
1601 East Third Street, Suite 100
San Bernardino, CA 92408

Dear Mr. Garay:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the Inland Valley Development Agency Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to the California Department of Finance (Finance) on March 3, 2015 for the period of July 1 through December 31, 2015. Finance has completed its review of your ROPS 15-16A, which may have included obtaining clarification for various items.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item No. 44 – Resolution No. 2010-06 for Airline Revenue Enhancements in the amount of $10,000,000 is not allowed. Insufficient documentation was provided to support the amounts claimed. The Agency provided a former redevelopment agency (RDA) Resolution No. 2010-06 adopted July 14, 2010 which approved an amendment to an Airline Joint Air Service Development Agreement following a request by the San Bernardino International Airport Authority (SBIAA). However, this document is insufficient to support the requested amount because it does not specify an Agency financial obligation to any party. To the extent the Agency can provide suitable documentation to support the requested funding, the Agency may be able to obtain Redevelopment Property Tax trust Funds (RPTTF) on future ROPS.

- Item No. 45 – Resolution No. 2011-01 for infrastructure/Operations in the amount of $400,000,000 is not allowed. The Agency provided RDA Resolution 2011-01 which approved the Military Base Reuse and Airport Financing Agreement (Agreement) between the RDA and SBIAA entered into on January 19, 2011. The Agency also provided a schedule of projects and plans to be financed. The Agreement required the RDA to make an irrevocable pledge to transfer tax revenues received from the Redevelopment Project Area and to incur debts to finance SBIAA projects.

  Finance continues to deny the Agreement as support for obligations on the ROPS. It is our understanding that the principle decision makers are the same for both the Agency and SBIAA; and the Agency did not provide any other documents to support the amounts claimed. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item No. 56 – 2014 Tax Allocation Refunding Bonds. The Agency requests $6,031,580 for debt service payments. However, Finance has decreased the Agency's request by $2,479,650. Pursuant to the debt service schedule, the total amount due in calendar year 2015 is $9,583,510. During ROPS 14-15B, the Finance approved $6,031,580 for debt service, leaving a balance of $3,551,930 ($9,583,510-$6,031,580) necessary for the 2015 calendar year. Therefore, the excess, $2,479,650 ($6,031,580-$3,551,930) is not eligible for RPTTF funding on the ROPS.

- Item No. 57 – 2014 Tax Allocation Refunding Bonds Refinancing Costs in the amount of $250,000 continues to be reclassified to the Administrative Cost Allowance (ACA). These costs do not meet the definition of an enforceable obligation pursuant to HSC section 34171 (d) (1); to the extent the Agency wants to conduct the analysis, the costs must be funded out of the administrative cost allowance. Therefore, Finance has reclassified this item to the ACA.

- Item No. 71 – Litigation Reserve in the amount of $150,000 is not allowed. It is our understanding the Inland Valley Development Agency (IVDA), and not the Agency, is named as a Real Party in Interest in a complaint filed by the East Valley Water District (EVWD) on January 22, 2014 with the United States District Court, Central District of California. The Agency provided cover pages of the Representation Statement and the Complaint filed by EVWD against San Bernardino International Airport Authority, but did not provide documentation to support the amounts claimed. Therefore, it is unclear if the Agency will incur any costs related to this litigation. To the extent the Agency can confirm the necessity for legal services, and provide suitable documentation, such as the executed contract, or vendor invoices, to support the requested funding, the Agency may be able to obtain for RPTTF funding on future ROPS.

- Item No. 72 – Reimbursement of the July 2012 True-up Payment in the amount of $797,250. Finance continues to deny this item. This line item is the remaining balance of the true-up payment due to the San Bernardino County Auditor-Controller (CAC) per the July 9, 2012 Notice for Demand Letter. The July 2012 True Up process was to collect residual pass-through payments owed to the affected taxing entities for the January through June 2012 period, and is not tied to an enforceable obligation as defined in HSC section 34171 (d). Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item Nos. 73 through 75 and 80 – Various Property Maintenance costs totaling $92,500 are not allowed. Insufficient documentation was provided to support the amounts claimed. The Agency provided Finance's Long-Range Property Management Plan determination letter as support for the amounts claimed. However, the Agency did not provide sufficient documentation to describe the nature, scope, costs, and timing of the work to be done. To the extent the Agency can provide suitable documentation, to support the requested funding, the Agency may be able to obtain RPTTF funding on future ROPS.

- Item Nos. 76 through 79 and 81 – Various Reimbursement and Interagency Agreements totaling $15,793,949 are not allowed. The Agency provided a Settlement Agreement, a Cooperation Agreement and a Stipulated Judgment to support the amounts requested as further discussed below:

- The Settlement Agreement between the Agency, Finance and the California State Controller's Office (SCO) – Pursuant to the Settlement Agreement, the Agency was allowed to use bond proceeds derived from the Agency's 2011 Tax Allocation Bonds in the amount of $ 8,925,000 to fund two projects (I-10 Tippecanoe and Goods Movement - 3rd and 5th Street) currently listed on the Agency's ROPS. Finance approved the use of bond proceeds for these projects in ROPS 14-15A, and again during this ROPS period. The Settlement Agreement does not require RPTTF funding for these projects.

- The Stipulated Judgment (Judgment) between the City of Redlands (Plaintiff and Petitioner), and the RDA, the County of San Bernardino, the City of San Bernardino, the City of Colton, and the City of Loma Linda (Defendants and Respondents) Pursuant to the Stipulated Judgment, the Court affirmed that IVDA was duly formed and validly exists, that an amended joint exercise of powers agreement was properly approved, executed and entered into, and that the redevelopment plan for the Inland Valley Redevelopment Project Area was validly prepared and adopted by IVDA in accordance with all applicable laws. The Judgment does not obligate the RDA to make a financial contribution to any party.

- The Cooperation Agreement (Agreement) between the RDA and the San Bernardino Valley Municipal Water District (District). It is our understanding the RDA and the District entered into the Agreement for the RDA to make pass-through payments to the District from tax revenues generated from the Redevelopment Project Area. Pursuant to HSC section 34183 (a) (1), the San Bernardino County Auditor-Controller (CAC) is responsible for making pass-through payments pursuant to any existing agreements. As the Agreement relates to pass-through payments currently made by the CAC, it is not necessary to list this item on the Agency's ROPS.

- The Agency's claimed administrative costs exceed the allowance by $622,491. 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. As a result, the Agency is eligible for $250,000 in administrative expenses. Although $837,491 is claimed for administrative costs, Item No. 57 for the 2014 Tax Allocation Refunding Bonds Refinancing Costs in the amount of $35,000 is considered an administrative expense and should be counted toward the cap. Therefore, $622,491 in excess administrative costs are 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 $8,561,244.

Therefore, the funding source for the following items has been reclassified to Other Funds and in the amounts specified below:

- Item No. 13 – Airport Operations. The Agency requests $2,750,000 from RPTTF; however, Finance is reclassifying $2,750,000 to Other Funds.

- Item No. 19 – Transition Cost Obligations. The Agency requests $801,098 from RPTTF; however, Finance is reclassifying $801,098 to Other Funds.

- Item No. 56 – 2014 Tax Allocation Refunding Bonds Series A & B. Finance approves $3,551,930 from RPTTF; however, Finance is reclassifying $3,551,930 to Other Funds.

- Item No. 58 – Paris Campus Plaza, LLC. The Agency requests $40,000 from RPTTF; however, Finance is reclassifying $40,000 to Other Funds.

- Item No. 69 – School District Pass-Through Analysis. The Agency requests $25,000 from RPTTF; however, Finance is reclassifying $25,000 to Other Funds.

  These items are enforceable obligations for the ROPS 15-116A period. However, these obligations do not require payment from property tax revenues and the Agency has $8,561,244 in available Other Funds. Therefore, Finance is disallowing RPTTF and approving the use of Other Funds instead.

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.

However, Finance noted the following during our review:

- On the ROPS 14-15A Prior Period Adjustment (PPA) worksheet, the Agency understated the available RPTTF distribution received for approved obligations by $2,893,541. According to the CAC report, the Agency received RPTTF in the amount of $15,392,408; however, the Agency only reported $12,498,867. Therefore, Finance has adjusted the Agency's PPA by $2,893,541 ($15,392,408 - $12,498,867).

Therefore, 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 and Finance's proposed adjustment to it. Therefore, the Agency should continue to work with the CAC to resolve the PPA differences.

Additionally, the amount of RPTTF approved in the below table includes excess prior period adjustment (PPA) of $2,893,541. The current approved RPTTF is insufficient to allow for the prior period adjustments of $2,893,541 during this ROPS period. Pursuant to HSC section 34177 (l) (1) (E), the Agency is required to use all available funding sources to pay enforceable obligations. Therefore, the Agency should apply the remaining funds prior to requesting RPTTF on future ROPS.

Except for the items denied in whole or in part or for the items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 15-16A. If you disagree with the determination with respect to any items on your ROPS 15-16A, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's maximum approved RPTTF distribution for the reporting period is zero 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		31,166,377
Total RPTTF requested for administrative obligations		837,491
Total RPTTF requested for obligations on ROPS	**$**	**32,003,868**
Total RPTTF requested for non-administrative obligations		**31,166,377**
Denied Items		
Item No. 44		(1,500,000)
Item No. 45		(3,250,000)
Item No. 56		(2,479,650)
Item No. 71		(50,000)
Item No. 72		(797,250)
Item No. 73		(35,000)
Item No. 74		(20,000)
Item No. 75		(7,500)
Item No. 76		(3,903,698)
Item No. 77		(1,701,515)
Item No. 78		(4,119,474)
Item No. 79		(2,165,564)
Item No. 80		(30,000)
Item No. 81		(3,903,698)
		(23,963,349)
Reclassified Item		
Item No. 57		(35,000)
	$	**7,168,028**
Cash Balances - Items reclassified to Other Funds/Reserve Balances		
Item No. 13		(2,750,000)
Item No. 19		(801,098)
Item No. 56		(3,551,930)
Item No. 58		(40,000)
Item No. 69		(25,000)
		(7,168,028)
Total RPTTF authorized for non-administrative obligations	**$**	**0**
Total RPTTF requested for administrative obligations		**837,491**
Reclassified Item		
Item No. 57		35,000
		872,491
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(622,491)
Total RPTTF authorized for administrative obligations	**$**	**250,000**
Total RPTTF authorized for obligations	**$**	**250,000**
Self-reported ROPS 14-15A prior period adjustment (PPA)		0
Finance proposed adjustment to ROPS 14-15A PPA		(2,893,541)
Total ROPS 14-15A PPA		**(2,893,541)**
Total RPTTF approved for distribution		**0**

Administrative Cost Cap Calculation	
Total RPTTF for non-administrative obligations	7,168,028
Percent allowed pursuant to HSC section 34171 (b)	3%
Total RPTTF allowable for administrative obligations	**215,041**
Maximum Allowable: Greater of 3% of RPTTF or $250,000	**250,000**
Total RPTTF administrative obligations after Finance adjustments	872,491
Administrative costs in excess of the cap	**$ (622,491)**

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. The Agency was able to support the amounts reported except the numbers reported on the Report of Cash Balance form do not agree with the trial balances and general ledgers provided. Therefore, as noted above, Finance has reclassified the available cash balances of $7,168,028 that were supported by the Agency's records. Finance will continue to work with the Agency after the ROPS 15-16A review period to resolve any remaining issues as described above. If it is determined the Agency possesses additional 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

Absent a Meet and Confer, 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 Nichelle Thomas, Supervisor or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Ms. Alka Chudasma, Interim Director of Finance, Inland Valley Development Agency
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office