DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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May 15, 2015

Mr. John Andrews, Economic Development Director
City of Ontario
303 East B Street
Ontario, CA 91764

Dear Mr. Andrews:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 16, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Ontario Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to Finance on March 2, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 16, 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 24, 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. 5 – Soccer Complex / 2007 Lease Revenue Bonds in the amount of $29,882,875 are not allowed. Finance continues to deny this item. Finance initially denied this item because insufficient documentation was provided to support the amounts claimed. The Agency provided a copy of the former redevelopment agency (RDA) Resolution No. 673 and a 2001 Reimbursement Agreement between the former RDA and the City of Ontario (City), which required the Agency to reimburse the City for the value of land, cost of installation, and the construction of building, facility, structure, or any other improvement within specified projects. However, these documents were insufficient to support that this item is an enforceable obligation.

  During the Meet and Confer process, the Agency contended that the repayment schedule for the 2007 Lease Revenue Bonds explicitly provides that repayment shall be made, in part, by the former RDA and outlines the balance owed by the former RDA. HSC section 34171 (d) (2) states that written agreements entered into at the time of issuance, but in no event later than December 31, 2010, of indebtedness obligations, and solely for the purpose of securing or repaying those indebtedness obligations may be deemed enforceable obligations. However, the Agency only provided an unexecuted 2001 Reimbursement Agreement, which is not at the time of issuance of the 2007 Lease Revenue Bonds. Furthermore, the Official Statement specifically states that the "2007 Bonds are not secured by any revenues of the Agency." Therefore, this item is not an

enforceable obligation and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

In addition, per Finance's letter dated April 16, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Claimed administrative costs exceed the allowance by $23,047. HSC section 34171 (b) limits the fiscal year 2015-2016 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater. Although $310,908 is claimed for administrative costs, only $287,861 is available pursuant to the cap. Therefore, $23,047 of excess administrative cost is not allowed.

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 Redevelopment Property Tax Trust Fund (RPTTF) 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 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 $7,872,108 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		10,363,608
Total RPTTF requested for administrative obligations		310,908
Total RPTTF requested for obligations on ROPS	**$**	**10,674,516**
Total RPTTF requested for non-administrative obligations		**10,363,608**
Denied Item		
Item No. 5		(768,250)
Total RPTTF authorized for non-administrative obligations	**$**	**9,595,358**
Total RPTTF requested for administrative obligations		**310,908**
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(23,047)
Total RPTTF authorized for administrative obligations	**$**	**287,861**
Total RPTTF authorized for obligations	**$**	**9,883,219**
ROPS 14-15A prior period adjustment		(2,011,111)
Total RPTTF approved for distribution	**$**	**7,872,108**

Administrative Cost Cap Calculation		
Total RPTTF for non-administrative obligations		10,363,608
Percent allowed pursuant to HSC section 34171 (b)		3%
Total RPTTF allowable for administrative obligations		**310,908**
Total RPTTF administrative obligations after Finance adjustments		287,861
Administrative costs in excess of the cap	**$**	**23,047**

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 beginning cash balance total reported by the Agency is understated because the Agency did not account for prior period adjustments from prior ROPS, resulting in the Agency carrying negative cash balances forward from prior ROPS periods to the current ROPS period. 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 Mary Halterman, Analyst, at (916) 445-3274.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Ms. Charity Hernandez, Redevelopment Manager, City of Ontario
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office