DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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May 15, 2015

Ms. Dena Fuentes, Director of Community Development and Housing
San Bernardino County
385 North Arrowhead Avenue
San Bernardino, CA 92415-0043

Dear Ms. Fuentes:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 12, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the San Bernardino County Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to Finance on February 27, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 12, 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 23, 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. 1 through 3 – Various Tax Allocation Bonds (TABs), debt service payments totaling $3,463,064. Finance no longer partially denies these items. Based on additional discussions with the Agency, these items are enforceable obligations of the Agency payable for the Redevelopment Property Tax Trust Fund (RPTTF) in the ROPS 15-16A period. Pursuant to HSC section 34171 (d) (1) (A), the Agency requested and received RPTTF for half of the principal payment due September 1, 2015 on the January through June 2015 ROPS (ROPS 14-15B). The amounts received in ROPS 14-15B for the September 1, 2015 payment are requested from Reserves on Item Nos. 4 through 6. The amount requested for Item Nos.1 through 3 on represent the second half of the principal payment and the interest due September 1, 2015. As such, Finance no longer denies this item and the entire amount requested is approved for funding from the RPTTF.

- Item No. 16 – Direct Salaries and Benefits costs totaling $1,000,000. Finance continues to reclassify this item. The additional documentation provided by the Agency during the Meet and Confer did not conclusively support that these costs are directly tied to approved enforceable obligations on this ROPS. The Agency provided payroll documentation including duty statements and support for salaries. However, some of the tasks outlined by the Agency in the documentation provided are administrative in

nature. Therefore the time billed to the "Successor Agency Project Delivery" billing codes is not reliable. Consequently, Finance has determined this item is an administrative cost and has reclassified the item accordingly to the administrative cost allowance.. To the extent the Agency can provide suitable documentation, such as executed contracts, vendor invoices, or project management reports, to support the nature of the obligation, the Agency may be able to obtain RPTTF funding on future ROPS.

In addition, per Finance's letter dated April 12, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 11 – Litigation Professional Services in the amount of $50,000 are not allowed. Finance continues to deny this item. It is our understanding that the Agency does not have a valid contract in place to support the requested amount. To the extent the Agency can provide suitable documentation, such as an executed amended contract or vendor invoices to support the requested funding, the Agency may be able to obtain RPTTF funding on future ROPS.

- Item No. 10 – Bond Counsel fees in the amount of $45,000 are not allowed. Finance continues to deny this item. There is no expenditure contract in place and allocating funds for unknown contingencies is not an allowable use of funds. The actual obligation does not exist at this time and the estimated cost is not supported. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding on the ROPS at this time.

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.

In addition, the Agency requested to make corrections on the Authorized amounts on ROPS 14-15A PPA worksheet for Item Nos. 49 and 52 funded with Other Funds to properly reflect Finance's adjustment of $735,150 ($240,000 + $495,150, respectively). The correction is to allocate 20 percent of $735,150 to Item No. 49 calculated at $147,030 and the remaining amount of $588,120 to Item No. 52.

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 14-15A period. Therefore, Finance is changing the Agency's authorization for ROPS 14-15A period to ensure that authorization is consistent with expenditures for the approved enforceable obligations. As these Other Funds were previously expended, the changes 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, or for the items that have been reclassified, 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 $5,251,833 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		5,149,353
Total RPTTF requested for administrative obligations		154,480
Total RPTTF requested for obligations on ROPS	**$**	**5,303,833**
Total RPTTF requested for non-administrative obligations		**5,149,353**
Denied Items		
Item No. 10		(2,000)
Item No. 11		(50,000)
		(52,000)
Reclassified Item		
Item No. 16		(66,250)
		(66,250)
Total RPTTF authorized for non-administrative obligations	**$**	**5,031,103**
Total RPTTF requested for administrative obligations		**154,480**
Reclassified Item		
Item No. 16		66,250
Total RPTTF authorized for administrative obligations	**$**	**220,730**
Total RPTTF authorized for obligations	**$**	**5,251,833**
ROPS 14-15A prior period adjustment		0
Total RPTTF approved for distribution	**$**	**5,251,833**

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's self-reported ending estimated available cash balances do not reconcile to the Agency's financial records. Finance did allow the requested amounts from Other Funds and Reserve Balances on this ROPS as 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. Gary Hallen, Deputy Director of Community Development and Housing, San Bernardino County
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office