DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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November 6, 2015

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

Dear Ms. Strong:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m) (1) (A), the City of Fontana Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period January 1 through June 30, 2016 (ROPS 15-16B) to the California Department of Finance (Finance) on September 23, 2015. Finance has completed its review of the ROPS 15-16B.

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

- Item No. 40 – 2003 Fontana Public Financing Authority Lease Revenue Bonds in the amount of $761,025 has been reclassified. It is our understanding the Agency established a Reserve Fund at issuance, and the debt service payment due March 1, 2016 is the last payment due for this obligation. Therefore, with the Agency's consent, Finance has reclassified the amount requested from Redevelopment Property Tax Trust Funds (RPTTF) to Bond Proceeds, as prescribed in the bond indenture.

- Item No. 51 – Ten-Ninety Owner Participation Agreement (OPA) in the amount of $6,000,000 requested for ROPS 15-16B and total outstanding obligation of $200,000,000 is not allowed. Finance continues to deny this item. 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. It appears that these development costs 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 previous ROPS submitted by the Agency, the Agency asserted that the outstanding balance owed to the Participating Owner, when combined with the cumulated interest at the 15.5 percent interest rate specified in the OPA, indebts the Agency for approximately $1.5 billion. However, on ROPS 15-16B the outstanding

obligation has been decreased by $1.3 billion to $200 million. According to the Agency notes, the total outstanding amount has been reduced to reflect the estimated amount that could be paid for the remaining life of the obligation based on an estimate of the growth in assessed value in the Jurupa Hills Project Area. The Agency suggests that by operation of law the total amount 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 previously stated its obligation to Ten-Ninety to be $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; this is contrary to the wind down directives in Dissolution Law. Based on the Agency's past and present representations and the language of the OPA it is unclear what the outstanding debt on the OPA is or what the Agency believes it to be.

Furthermore, the Agency has not provided sufficient documents for Finance to be able to confirm an outstanding obligation balance. Instead, the documents and explanations by the Agency further cloud the facts surrounding the OPA. For example, the Agency provided two separate schedules purporting to identify the obligation owed to Ten-Ninety, Ltd. One schedule titled, "Ten-Ninety, Ltd. Approved Development Costs - Cumulative" shows the former RDA incurring debt two years before the OPA was entered into. The second schedule titled "Summary of Ten-Ninety OPA Obligation", which displays quarterly development costs with a total development costs of $202,992,845, does not show debt being incurred until two years after the OPA was entered into. Additionally, the Agency has not provided sufficient accounting records or other financial records to support the development costs incurred by, or payments made to, the Participating Owner that are identified in either schedule. Also, it appears that the Participating Owner is still incurring development costs which are added to the outstanding balance despite the Agency staff asserting that the project was completed years ago. Therefore, Finance is unable to determine the outstanding obligation balance or if a valid outstanding balance remains. Consequently, this item is not an enforceable obligation and is not eligible for Other Funds or RPTTF funding.

Finance notes the alleged contribution of less than $200 million towards construction of infrastructure projects by Ten-Ninety, Ltd., in exchange for the former RDA's alleged obligation that at one point was asserted to be $1.5 billion, 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.

- HSC section 34171 (b) (2) limits fiscal year 2015-16 administrative expenses to three percent of the RPTTF funds allocated to the Redevelopment Obligation Retirement Funds for the fiscal year or $250,000, whichever is greater. The San Bernardino County Auditor-Controller distributed $463,502 administrative costs for the July through December 2015 period, thus leaving a balance of $695,494 available for the January through June 2016 period. Although $898,324 is claimed for administrative cost, only $718,325 is available pursuant to the cap. Therefore, $202,830 of excess administrative cost is not allowed.

Pursuant to HSC section 34186 (a) (1), the Agency was required to report on the ROPS 15-16B form the estimated obligations versus actual payments (prior period adjustment) associated with

the January through June 2015 period (ROPS 14-15B). HSC section 34186 (a) (1) also specifies the prior period adjustment self-reported by the Agency is subject to review by the county auditor-controller (CAC). Proposed CAC adjustments were not received in time for inclusion in this letter; therefore, the amount of RPTTF approved in the table below only reflects the Agency's self-reported prior period adjustment.

Except for the item denied in whole or in part, or reclassified, Finance is not objecting to the remaining items listed on your ROPS 15-16B. If you disagree with Finance's determination with respect to any items on your ROPS 15-16B, except for those items which are the subject of litigation disputing Finance's previous or related determinations, 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 $23,789,785 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution For the period of January through June 2016		
Total RPTTF requested for non-administrative obligations		29,944,135
Total RPTTF requested for administrative obligations		898,324
Total RPTTF requested for obligations on ROPS 15-16B	**$**	**30,842,459**
Total RPTTF requested for non-administrative obligations		**29,944,135**
Denied Item		
Item No. 51		(6,000,000)
Reclassified Item		
Item No. 40		(761,025)
Total RPTTF authorized for non-administrative obligations	**$**	**23,183,110**
Total RPTTF requested for administrative obligations		**898,324**
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(202,830)
Total RPTTF authorized for administrative obligations	**$**	**695,494**
Total RPTTF authorized for obligations	**$**	**23,878,604**
ROPS 14-15B prior period adjustment		(88,819)
Total RPTTF approved for distribution	**$**	**23,789,785**

Administrative Cost Cap Calculation		
Total RPTTF for 15-16A (July through December 2015)		15,450,083
Total RPTTF for 15-16B (January through June 2016)		23,183,110
Less approved unfunded obligations from prior periods		0
Total RPTTF for fiscal year 2015-2016		**38,633,193**
Administrative cost cap for fiscal year 2015-16 (Greater of 3% of Total RPTTF or $250,000)		1,158,996
Administrative allowance for ROPS 15-16A (July through December 2015)		(463,502)
Remaining administrative cost cap for ROPS 15-16B		**695,494**
ROPS 15-16B administrative obligations after Finance adjustments		(898,324)
Administrative costs in excess of the cap	**$**	**(202,830)**

On the ROPS 15-16B form, the Agency reported cash balances and activity for the period January 1 through December 31, 2015. Finance will perform a review of the Agency's self-reported cash balances on an ongoing basis. Please be prepared to submit financial records and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved obligations, HSC section 34177 (l) (1) (E) requires these balances be used prior to requesting RPTTF.

Please refer to the ROPS 15-16B schedule used to calculate the total RPTTF approved for distribution:

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 January 1 through June 30, 2016. This determination only applies to items when 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 ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if it was not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items 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 available prior to the enactment of the redevelopment dissolution statutes. 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.

Please direct inquiries to Nichelle Thomas, Supervisor, or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Ms. Dawn Brooks, Accounting Manager, City of Fontana
Ms. Linda Santillano, Property Tax Manager, San Bernardino County