



November 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) (1) (A), the Inland Valley Development Agency 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 October 2, 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. 57 – 2014 Tax Allocation Refunding Bonds Refinancing Costs in the amount of \$50,000 requested for ROPS 15-16B and total outstanding obligation of \$150,000. Finance continues to reclassify this item to the Administrative Cost Allowance (ACA). As noted in our letter of determination dated May 15, 2015, the Agency's request to conduct a tax analysis and obtain a legal opinion regarding the feasibility of refunding the taxable Series 2014 to tax-exempt bonds does not fall into any of the following categories that are specifically excluded from the ACA cap as defined by HSC section 34171 (b):
 - Any litigation expenses related to assets or obligations.
 - Settlements and judgments.
 - The costs of maintaining assets prior to disposition.
 - Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

To the extent the Agency wants to conduct the analysis, the costs must be funded out of the ACA. Therefore, Finance continues to reclassify this item from Redevelopment Property Tax Trust Fund (RPTTF) funding to the ACA.

- Item No. 58 – Perris Campus Plaza, LLC Tax Reimbursement in the amount of \$40,000 requested for ROPS 15-16B and total outstanding balance of \$178,294 is not allowed. The Agency was unable to provide sufficient documentation to support the amount

requested. The Agency provided a Redevelopment Cooperation Agreement (Agreement) between the former IVDA and the former Redevelopment Agency of the City of San Bernardino (SBRDA) dated June 4, 2007 to support this item. The Agreement requires the IVDA to transfer authority to the SBRDA to undertake implementation of certain project with Perris Campus Plaza, LLC. Further, the Agreement requires the IVDA to remit Transfer Revenues, if any, to the SBRDA each year.

Pursuant to Section 4 (d) of the Agreement, the SBRDA shall, as a condition precedent to the receipt of Transfer Revenue, submit to the IVDA a suitably detailed written statement of the outstanding unpaid balance of Project Properties Indebtedness incurred by SBRDA, including relevant terms of repayment. The Agency was not able to provide this document to support the amount requested. To the extent the Agency can provide the SBRDA written statement, or any other documentation to support the amount requested, the Agency may be able to obtain funding on future ROPS. Therefore, this item is not eligible for RPTTF funding on this ROPS.

- Item Nos. 69, 73 through 75, and 80 – Various Obligations totaling \$84,500 are not allowed. The Agency requests funding for these items because sufficient RPTTF funding was not received for approved enforceable obligations listed on the Agency's ROPS for the 15-16A period.

However, our review of the Agency's ROPS 15-16A Detail Schedule and the San Bernardino County Auditor-Controller's (CAC) distribution report for ROPS 15-16A indicates Finance authorized RPTTF in the amount of \$9,704,678 for approved obligations listed on ROPS 15-16A.

Further, the CAC distributed RPTTF in the amount of \$7,102,277, in addition to the amount of \$2,893,541 of funds available from the Agency's prior period RPTTF distribution; for a total of \$9,704,678 (\$7,102,277+\$2,893,541). Therefore, the Agency received sufficient RPTTF to pay these enforceable obligations. Because there is not shortfall, these items are not eligible for RPTTF funding.

- Item Nos. 82 and 83– ROPS 15-16A Shortfall Payments and Interagency Loan for Enforceable Obligations totaling \$3,283,436 are not allowed. As noted in the above, the Agency's claim of a RPTTF shortfall for the payment of approved enforceable obligations listed on the ROPS 15-16A Detail Report is not corroborated by available records. In addition, Finance denied Oversight Board (OB) Resolution 2015-02, approving a loan agreement with the IVDA for advancement of funds to pay enforceable obligations. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding.
- Item Nos. 84 and 85– Interagency Loan to pay California Military Base (CMB) Group A Loan and Joint Powers Authority (JPA) Obligations (Unfunded Liabilities) totaling \$3,835,756 requested for ROPS 15-16B and total outstanding obligation of \$26,914,370, are not allowed.

The Agency was unable to provide sufficient documentation to support the items claimed. To the extent the Agency can provide sufficient documentation to support the amounts claimed, such as a CMB demand letter, or documentation to support the separation of the JPA and the Agency in the amount claimed, this item may be eligible

for funding on future ROPS. In addition, Finance denied OB Resolution No. 2015-03, approving a Reinstating and Restating Loan Agreement (Agreement) between the Agency and IVDA as a JPA. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding.

- Item No. 86 and 87 – Pass-through Agreements totaling \$3,991,813 requested for ROPS 15-16B and total outstanding obligation of \$8,146,741 are not allowed. The Agency was unable to provide sufficient documentation to support the amounts claimed, and pursuant to HSC section 34183 (a) (1), the CAC is required to make the necessary pass-through payments starting with the July through December 2012 ROPS. To the extent the Agency can provide sufficient documentation to support the amounts claimed, the Agency may be eligible for funding on future ROPS. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding.
- Item No. 88 – Litigation Reserve in the amount of \$25,000 requested for ROPS 15-16B and total outstanding obligation of \$150,000 is not allowed. Finance continues to deny this item. As noted in our letter of determination dated May 15, 2015, it is our understanding the IVDA JPA, and not the Agency, was named as a Real Party in Interest in a complaint filed by the East Valley Water District (EVWD) on January 22, 2014. Because the Agency and the IVDA JPA are separate legal entities, and the Agency is not named in the case, there is no obligation on the part of the Agency that requires funding. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.
- Item No. 89 – Reimbursement of the July 2012 True-up Payment in the amount of \$797,250 is not allowed. Finance continues to deny this item. This line item represents the remaining balance of the true-up payment due to the 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 No. 90 – Tax Allocation Bonds expenditure in the amount of \$3,000,000 is not allowed. The Agency was unable to provide sufficient documentation to support the amount claimed. It is our understanding the Agency listed this item on the ROPS 15-16B to initiate a discussion about the potential to allocate other funds, or 2011 bond proceeds, to the projects identified in the 2011 Tax Allocation Bonds to realize the benefits offered by SB 107. However, according to the Agency, no actual funding is intended or needed for the ROPS 15-16B period. Therefore, this item is not an enforceable obligation and is not eligible for Other Funds or Bond Proceeds on this ROPS.
- The Agency's claimed administrative costs exceed the allowance by \$413,232. HSC section 34171 (b) (2) limits fiscal year 2015-16 administrative expenses to three percent of allocated RPTTF or \$250,000, whichever is greater. As a result, the Agency is eligible for \$578,621 in administrative expenses. The CAC distributed \$291,140 in administrative costs for the July through December 2015 period, leaving a balance of \$287,481 available for the January through June 2016 period. Although \$650,713 is claimed for the Administrative Cost Allowance, (ACA) Item No. 57 - 2014 Tax Allocation

Refunding Bonds Refinancing Costs, in the amount of \$50,000, are considered an administrative expense and should be counted toward the cap. Therefore, \$413,232 of excess ACA 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 items denied in whole or in part or the item that has been 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 \$9,870,159 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	21,690,433
Total RPTTF requested for administrative obligations	650,713
Total RPTTF requested for obligations on ROPS 15-16B	\$ 22,341,146
Total RPTTF requested for non-administrative obligations	21,690,433
<u>Denied Items</u>	
Item No. 58	(40,000)
Item No. 69	(25,000)
Item No. 73	(8,500)
Item No. 74	(20,000)
Item No. 75	(7,500)
Item No. 80	(23,500)
Item No. 82	(1,641,718)
Item No. 83	(1,641,718)
Item No. 84	(2,161,010)
Item No. 85	(1,674,746)
Item No. 86	(1,893,577)
Item No. 87	(2,098,236)
Item No. 88	(25,000)
Item No. 89	(797,250)
	(12,057,755)
<u>Reclassified Item</u>	
Item No. 57	(50,000)
	(50,000)
Total RPTTF authorized for non-administrative obligations	\$ 9,582,678
Total RPTTF requested for administrative obligations	650,713
<u>Reclassified Item</u>	
Item No. 57	50,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(413,232)
Total RPTTF authorized for administrative obligations	\$ 287,481
Total RPTTF authorized for obligations	\$ 9,870,159
ROPS 14-15B prior period adjustment	0
Total RPTTF approved for distribution	\$ 9,870,159

Administrative Cost Cap Calculation	
Total RPTTF for 15-16A (July through December 2015)	9,704,678
Total RPTTF for 15-16B (January through June 2016)	9,582,678
Total RPTTF for fiscal year 2015-2016	19,287,356
Administrative cost cap for fiscal year 2015-16 (Greater of 3% of Total RPTTF or \$250,000)	578,621
Administrative allowance for ROPS 15-16A (July through December 2015)	(291,140)
Remaining administrative cost cap for ROPS 15-16B	287,481
ROPS 15-16B administrative obligations after Finance adjustments	(700,713)
Administrative costs in excess of the cap	\$ (413,232)

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. Alka Chudasma, Interim Director of Finance, Inland Valley Development Agency
Ms. Linda Santillano, Property Tax Manager, San Bernardino County