DEPARTMENT OF FINANCE

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December 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 16, 2015. 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 15-16B) to Finance on October 2, 2015, for the period of January 1 through June 30, 2016. Finance issued a ROPS determination letter on November 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 November 30, 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. 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 was not allowed. Finance continues to deny this item at this time. Finance initially denied this item because the Agency was unable to provide sufficient documentation to support the amount requested. The Agency provided a Redevelopment Cooperation Agreement (Agreement) between the Inland Valley Development Agency (IVDA) and the former Redevelopment Agency of the City of San Bernardino (SBRDA) dated June 4, 2007, to support this item. The Agreement allows the SBRDA to undertake implementation of certain projects with Perris Campus Plaza, LLC. Further, the Agreement requires 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 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.

During the Meet and Confer process, the Agency contended that payments are predicated on verification of property taxes paid and payments are made incrementally, over time, to retire costs incurred for construction of public infrastructure improvements. However, the Agency did not provide the detailed written statement of the outstanding unpaid balance required pursuant to Section 4 (d) of the Agreement as Finance originally requested. Therefore, this item is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on this ROPS.

- Item Nos. 69, 73 through 75, and 80 – Various Obligations totaling $84,500 were not allowed. Finance continues to deny these items at this time. 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, Finance initially denied these items because the Agency's ROPS 15-16A Detail Schedule and the San Bernardino County Auditor-Controller's (CAC) ROPS 15-16A distribution report shows that Finance authorized $9,995,818 from the RPTTF, which was fully funded by the CAC ($7,102,277 distributed from the RPTTF and $2,893,541 from the prior period adjustment).

  During the Meet and Confer process, the Agency contended that pursuant to HSC section 34173 (h), the JPA advanced money to the Agency and entered into a loan agreement approved by Oversight Board (OB) Resolution 2015-02. However, Finance denied OB Resolution 2015-02 in our letter dated November 16, 2015. Additionally, OB Resolution 2015-02 was related to loan agreements under HSC section 34191.4, not HSC section 34173 (h). Furthermore, as previously stated, the Agency has not demonstrated that a shortfall in funding actually occurred. Therefore, the Agency received sufficient RPTTF to pay these enforceable obligations.

- Item Nos. 82 and 83– ROPS 15-16A Shortfall Payments and Interagency Loan for Enforceable Obligations totaling $3,283,436 were not allowed. Finance continues to deny these items at this time. Finance initially denied these items because the Agency's claim of a RPTTF shortfall for the payment of approved enforceable obligations listed on the ROPS 15-16A Detail Report was not corroborated by available records. In addition, Finance denied OB Resolution 2015-02, approving a loan agreement with the Inland Valley Development Agency Joint Powers Authority (JPA) for advancement of funds to pay enforceable obligations. During the Meet and Confer process, the Agency contended that OB Resolution No. 2014-03 was the original resolution approved by the OB to authorize a short-term loan from the JPA to retire the CMB Group A loan. However, the Agency has not submitted this OB resolution by electronic means in the manner of Finance's choosing as required pursuant to HSC section 34179 (h). As such, this OB resolution has not been reviewed or approved by Finance. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding at this time.

- Item Nos. 84 and 85– Interagency Loan to pay California Military Base (CMB) Group A Loan and JPA Obligations (Unfunded Liabilities) totaling $3,835,756 requested for ROPS 15-16B and total outstanding obligation of $26,914,370, were not allowed. Finance continues to deny these items at this time. Finance initially denied these items because the Agency was unable to provide sufficient documentation to support the items claimed. In addition, Finance denied OB Resolution No. 2015-03, approving a Reinstating and Restating Loan Agreement between the Agency and the JPA.

During the Meet and Confer process, the Agency contended that OB Resolution No. 2014-03 was the original resolution approved by the OB to authorize a short-term loan from the JPA to retire the CMB Group A loan. However, the Agency has not submitted this OB resolution by electronic means in a manner of Finance's choosing as required pursuant to HSC section 34179 (h). As such, this OB resolution has not been reviewed or approved by Finance. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding at this time.

- 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 were not allowed. Finance continues to deny these items. Finance initially denied these items because 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.

  During the Meet and Confer process, the Agency contended that these items are pass-through agreement pursuant to HSC section 34183 (a) (1) (A). However, as previously stated, the CAC is required to make the necessary pass-through payments. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding. To the extent these are valid pass-through agreements, the CAC should be making the pass-through payments pursuant to HSC section 34183 (a) (1).

- Item No. 88 – Litigation Reserve in the amount of $25,000 requested for ROPS 15-16B and total outstanding obligation of $150,000 was not allowed. Finance no longer denies this item. As noted in our letter of determination dated May 15, 2015, it is our understanding the 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. During the Meet and Confer process, the Agency contended that there is no distinction in the action separating the Agency from the JPA and the Agency has been incurring costs related to the litigation. HSC section 34171 (d) (1) (F) (i) allows litigation expenses related to assets or obligations. Therefore, this item is an enforceable obligation and is eligible for RPTTF funding.

- Item No. 89 – Reimbursement of the July 2012 True-up Payment in the amount of $797,250 was not allowed. Finance continues to deny this item. During the Meet and Confer process, the Agency continued to object to Finance's determination; however, no new information was provided. This 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 was not allowed. Finance continues to deny this item. During the Meet and Confer process, the Agency objected to Finance's determination; however, no additional information was provided. Finance denied this item because 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 $412,482. 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 $579,371 in administrative expenses. The CAC distributed $291,140 in administrative costs for the July through December 2015 period, leaving a balance of $288,231 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, $412,482 of excess ACA is not allowed.

  During the Meet and Confer process, the Agency contended that due to a lack of other funds on-hand and given the disapproval of multiple items on the ROPS, they did not feel that the administrative cost allowance should be adjusted in the manner described. However, nothing in statute allows Finance to override the ACA calculation as defined in statute.

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

- 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 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 RPTTF funding to the ACA.

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. The Agency's maximum approved RPTTF distribution for the reporting period is $9,895,909 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	**$**	**22,341,146**
Total RPTTF requested for non-administrative obligations		**21,690,433**
Denied Items		
Item No. 58		(40,000)
Item No. 69		(25,000)
Item No. 73		(8,500)
Item No. 74		(20,000)
Item No. 75		(7,500)
Item No. 80		(23,500)
Item No. 82		(1,641,718)
Item No. 83		(1,641,718)
Item No. 84		(2,161,010)
Item No. 85		(1,674,746)
Item No. 86		(1,893,577)
Item No. 87		(2,098,236)
Item No. 89		(797,250)
		(12,032,755)
Reclassified Item		
Item No. 57		(50,000)
		(50,000)
Total RPTTF authorized for non-administrative obligations	**$**	**9,607,678**
Total RPTTF requested for administrative obligations		**650,713**
Reclassified Item		
Item No. 57		50,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(412,482)
Total RPTTF authorized for administrative obligations	**$**	**288,231**
Total RPTTF authorized for obligations	**$**	**9,895,909**
ROPS 14-15B prior period adjustment		0
Total RPTTF approved for distribution	**$**	**9,895,909**

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)	9,607,678
Total RPTTF for fiscal year 2015-2016	**19,312,356**
Administrative cost cap for fiscal year 2015-16 (Greater of 3% of Total RPTTF or $250,000)	579,371
Administrative allowance for ROPS 15-16A (July through December 2015)	(291,140)
Remaining administrative cost cap for ROPS 15-16B	**288,231**
ROPS 15-16B administrative obligations after Finance adjustments	(700,713)
Administrative costs in excess of the cap	**$ (412,482)**

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

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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-3274.

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