



April 15, 2016

Mr. William Garay, Director of Finance
Inland Valley Development Agency
1601 East Third Street, Suite 100
San Bernardino, CA 92408

Dear Mr. Garay:

Subject: 2016-17 Annual Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the Inland Valley Development Agency Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period July 1, 2016 through June 30, 2017 (ROPS 16-17) to the California Department of Finance (Finance) on January 29, 2016. Finance has completed its review of the ROPS 16-17.

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

- Item No. 13 – Airport Operation with a total outstanding amount of \$21,478,578 is not allowed. This item does not fall within any definitive category of enforceable obligation as outlined in HSC section 34171 (d) (1). Finance took into consideration the following agreements provided by the Agency to support the requested funding:
 - Amended Joint Exercise of Powers Agreement (JPA) dated January 24, 1990, which established the Inland Valley Development Agency (IVDA)
 - Joint Exercise of Powers Agreement that Created an Agency to be known as the San Bernardino Regional Airport Authority, dated March 20, 1992
 - Agency Settlement Agreement between the IVDA, the City of Redlands, the City of Highland, and the East Valley Association, dated April 28, 1992
 - The Military Base Reuse and Airport Financing Agreement between the IVDA and the San Bernardino International Airport Authority (SBIAA)

Based on our review of these agreements, there does not appear to be any enforceable obligation that existed before June 28, 2011 requiring the Agency to continue to pay for SBIAA Airport Operations. To the extent the Agency can provide adequate documentation to support this item as an enforceable obligation, this item may be considered an enforceable obligation in future ROPS. Therefore, this line item is not an enforceable obligation and the requested \$5,587,738 is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 19 – Transition Cost Obligations in the total outstanding amount of \$3,204,392 are not allowed. Pursuant to the San Bernardino County Employee Retirement Association (SBCERA) letter dated November 19, 2012, the total unfunded liability due and payable to

SBCERA by the IVDA as of June 30, 2012 was \$4,417,206. Our review of available documents shows the Agency has requested and received RPTTF totaling \$5,809,781 since the ROPS III through ROPS 15-16B periods. Since more than the required dollar amount has been authorized for this item, it is no longer eligible for RPTTF funding. Therefore, the requested \$1,602,198 is not eligible for RPTTF funding.

- Item No. 57 – 2014 Tax Allocation Refunding Bonds Refinancing Costs in the total outstanding amount of \$750,000 has been reclassified to the Administrative Cost Allowance (ACA). Finance continues to reclassify this item to the ACA. As noted in our previous letters of determination, the Agency's request to conduct a tax analysis and obtain a legal opinion regarding the feasibility of refunding the Series 2014 taxable bonds 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.

Therefore, Finance continues to reclassify this item from RPTTF to the ACA; the requested \$450,000 RPTTF has been reclassified for the ROPS 16-17.

- Item No. 58 – Perris Campus Plaza, LLC Tax Reimbursement in the total outstanding amount of \$178,294, is not allowed. Finance continues to deny this item. The Agency provided a Redevelopment Cooperation Agreement (Agreement) between the 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. In addition, the Agency provided a letter from ICO Real Estate Group, Inc. dated December 14, 2015, requesting Tax Increment Reimbursement for the Perris Campus Plaza, LLC in the amount of \$19,442. However, ICO Real Estate Group, Inc. is not party to the Agreement. Further, the Agreement does not contemplate any tax increment reimbursement payment to ICO Real Estate Group, Inc. by IVDA. Therefore, this item is not an enforceable obligation and the requested amount of \$120,000 is not eligible for RPTTF funding.

- Item No. 60 – Legal Service fees in the total outstanding amount of \$50,000 are not allowed. The Agency did not provide any documentation to support the amount requested. To the extent the Agency can provide documentation, such as the executed contract, vendor invoices, to support the requested funding, the Agency may be able to obtain RPTTF funding in the future. Therefore, this item is not an enforceable obligation and the requested amount of \$50,000 is not eligible for RPTTF funding.

- Item No. 63 – City Creek By-Pass Repair in the total outstanding amount of \$350,000 is not allowed. The Agency provided a Military Base Reuse and Airport Finance Agreement between the IVDA and SBIAA, and a Schedule of IVDA proposed projects for fiscal years 2010-14. However, these documents are insufficient to support the requested amount because they do not establish the existence of an enforceable obligation as defined in HSC section 34171 (d) (1). To the extent the Agency can provide documentation, such as the executed contract, vendor invoices, to support the requested funding, the Agency may be able to obtain RPTTF funding in the future. Therefore, this item is not an enforceable obligation and the requested amount of \$350,000 is not eligible for RPTTF funding on the ROPS.
- Item Nos. 69, 74 and 75 – Various Obligations with a total outstanding obligation of \$52,500 are not allowed. The Agency requested funding for these items because they received insufficient RPTTF for approved enforceable obligations as listed and approved on the Agency's ROPS 15-16A. However, our review shows RPTTF in the amount of \$9,995,818 as authorized for ROPS 15-16A period was distributed by the San Bernardino County Auditor-Controller (CAC) through the distribution in the amount of \$7,102,277 from RPTTF, and \$2,893,541 from the prior period adjustment. Therefore, these items were fully funded and are not eligible for RPTTF funding of \$50,000 (\$25,000 + \$20,000 + \$5,000) on the ROPS due to insufficient RPTTF in a prior period.

Further, the Agency provided three separate memorandum of understanding, respectively, between the IVDA and (1) San Bernardino Community College District, (2) San Bernardino City Unified School District, and (3) San Bernardino County Superintendent of Schools, related to subordination of pass-through payments for the Agency's 2014 Refunding Bond issuance as support for Item No. 69. However, these documents do not obligate the Agency to make payments to any of the entities.

- Item No. 85 – JPA Obligations (Unfunded Liability) in the total outstanding amount of \$24,753,360 is not allowed. Finance continues to deny this item. As stated in our letter dated December 17, 2015, Finance initially denied this item 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.

The Agency subsequently provided the following:

- Settlement Agreement between the IVDA, Finance and the California State Controller, dated February 27, 2014
- Amended JPA, dated February 12, 1990
- Letter from the Department of the Air Force, dated May 13, 2014
- Indenture of Trust between the Agency and U.S. Bank National Association, dated May 1, 2014, and an Official Statement, both related to the Agency's 2014 Tax Allocation Refunding Bonds

However, these documents are not sufficient to support the amount requested because they do not establish the existence of any enforceable obligation requiring the IVDA to make payment. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding of \$3,349,492 on the ROPS.

- Item No. 88 – Litigation Reserve in the total outstanding amount of \$150,000 is not allowed. Finance previously authorized RPTTF funding totaling \$75,000 for this line item during the ROPS 14-15A and ROPS 15-16B periods. As noted in our letter of determination dated December 17, 2015, it was 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.

Although HSC section 34171 (d) (1) (F) (i) allows litigation expenses related to assets or obligations, the Agency was unable to provide sufficient documentation to support the amount requested on the ROPS. The Agency provided the cover page of the complaint filed by the EVWD with the United States District Court, Central District of California, Eastern Division. However, this document is insufficient to support actual payments that have been made with respect to this item and insufficient as the basis for any cost allocation to the Agency. Therefore, this item is not eligible for \$50,000. To the extent the Agency is able to provide documentation to support the requested funding, the Agency may be able to obtain RPTTF funding in future ROPS.

- Item No. 89 – Reimbursement of the July 2012 True-up Payment in the total outstanding amount of \$797,250 is not allowed. Finance continues to deny this item. This item represents the remaining balance of the true-up payment due to the CAC per the Notice for Demand Letter dated July 9, 2012. The July 2012 True Up process was in place to collect residual pass-through payments owed to the affected taxing entities for the January through June 2012 period (ROPS II), and was not tied to an enforceable obligation as defined in HSC section 34171 (d). Therefore, this item is not an enforceable obligation now and is not eligible for \$797,250 RPTTF funding on the ROPS.
- Item No. 91 – ROPS 15-16B RPTTF Shortfall in the total outstanding amount of \$758,200 is not allowed. The Agency requested funding for this item due to insufficient RPTTF received for approved enforceable obligations listed on the Agency's ROPS for the 15-16B period. The Agency provided a cancelled check to evidence the advance of funds by the IVDA JPA to the Agency in the amount of \$758,200. However, our review of the Agency's ROPS 15-16B Schedule and the CAC ROPS 15-16B Distribution Report shows that Finance authorized \$9,895,909 from RPTTF, which was fully funded by the CAC through the distribution of RPTTF in the amount of \$9,895,909. As the Agency has not shown that a shortfall in funding actually occurred, this item is not an enforceable obligation and is not eligible for \$758,200 RPTTF funding on the ROPS.
- Item Nos. 92 through 95 – Various obligations with a total outstanding amount of \$116,948,976 are not allowed. The Agency provided the following documents to support the amounts requested:
 - Settlement Agreement between the IVDA, Finance and the California State Controller, dated February 27, 2014
 - Amended JPA, dated February 12, 1990
 - Letter from the Department of the Air Force, dated May 13, 2014
 - Indenture of Trust between the Agency and U.S. Bank National Association, dated May 1, 2014, and an Official Statement, both related to the Agency's 2014 Tax Allocation Refunding Bonds

However, these documents are not sufficient to support the amount requested because they do not establish the existence of any enforceable obligation requiring the IVDA to make payment. Therefore, these items are not enforceable obligations and the requested funding of \$17,825,909 (3,980,276 + 4,410,767 + 5,024,098 + 4,410,768) is not eligible for RPTTF funding.

- The Agency's claimed administrative costs exceed the allowance by \$1,431,615. HSC section 34171 (b) (3) limits the fiscal year 2016-17 ACA to three percent of actual distributed RPTTF in the preceding fiscal year or \$250,000, whichever is greater; not to exceed 50 percent of the distributed RPTTF in the preceding fiscal year. As a result, the Agency's maximum ACA is \$492,564 for the fiscal year 2016-17.

Although \$1,474,179 is claimed for administrative cost, Item No. 57 - 2014 Refunding Tax Allocation Bonds Refinancing Costs, in the amount of \$450,000, is considered an administrative cost and should be counted toward the cap. Therefore, \$1,431,615 of excess ACA is not allowed.

- On the ROPS 16-17 form, the Agency reported cash balances and activity for the period of July 1, 2015 through June 30, 2016. Pursuant to HSC section 34177 (I) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting RPTTF. Therefore, the funding source for the following item has been reclassified to Other Funds and in the amount specified below:
 - Item No. 56 – 2014 Tax Allocation Bonds Series A and B, debt service payment in the amount of \$12,063,160. The Agency requests \$12,063,160 from RPTTF; however, Finance is reclassifying \$6,126 to Other Funds. This item is an enforceable obligation for the ROPS 16-17 period. However, the obligation does not require payment from property tax revenues and the Agency has \$6,126 in available Other Funds. Therefore, Finance is approving RPTTF in the amount of \$12,057,034 and the use of Other Funds in the amount of \$6,126, totaling \$12,063,160 for the ROPS 16-17 period.

Except for the items denied in whole or in part or the items that have been adjusted, Finance is not objecting to the remaining items listed on your ROPS 16-17. If you disagree with Finance's determination with respect to any items on your ROPS 16-17, 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 \$12,549,598 as summarized in the Approved RPTTF Distribution Table on page 7 (See Attachment).

ROPS distributions will occur twice annually, one distribution for the July 1, 2016 through December 31, 2016 (ROPS A period), and one distribution for the January 1, 2017 through June 30, 2017 (ROPS B period) based on Finance's approved amounts. Since Finance's determination is for the entire ROPS 16-17 period, the Agency is authorized to receive up to the maximum approved RPTTF through the combined ROPS A and B period distributions.

On the ROPS 16-17 form, the Agency was not required to report the estimated obligations versus actual payments (prior period adjustment) associated with the July 1, 2015 through December 31, 2015 period (ROPS 15-16A). The Agency will report actual payments for ROPS 15-16A and ROPS 15-16B on the ROPS 18-19 form pursuant to HSC section 34186 (a) (1). A prior period adjustment will be applied to the Agency's future RPTTF distribution. Therefore, the Agency should retain any difference in unexpended RPTTF. Please refer to the ROPS 16-17 schedule used to calculate the total RPTTF approved for distribution:

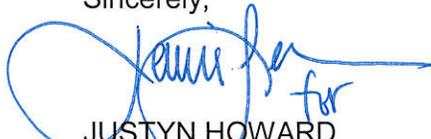
<http://www.dof.ca.gov/redevelopment/ROPS>

Absent a Meet and Confer, this is Finance's determination related to the enforceable obligations reported on your ROPS for the period July 1, 2016 through June 30, 2017. This determination only applies to items when funding was requested for the 12-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: Mr. Michael Burrows, Executive Director, Inland Valley Development Agency
Ms. Linda Santillano, Property Tax Manager, San Bernardino County

Attachment

Approved RPTTF Distribution			
For the period of July 2016 through June 2017			
	<u>ROPS A Period</u>	<u>ROPS B Period</u>	<u>Total</u>
Requested RPTTF (excluding administrative obligations)	\$ 23,605,870	\$ 19,448,075	\$ 43,053,945
Requested Administrative RPTTF	774,337	699,842	1,474,179
Total RPTTF requested for obligations on ROPS 16-17	24,380,207	20,147,917	\$ 44,528,124
Total RPTTF requested	23,605,870	19,448,075	43,053,945
<u>Denied Items</u>			
Item No. 13	(2,837,738)	(2,750,000)	(5,587,738)
Item No. 19	(801,098)	(801,098)	(1,602,196)
Item No. 58	(80,000)	(40,000)	(120,000)
Item No. 60	(50,000)	0	(50,000)
Item No. 63	(350,000)	0	(350,000)
Item No. 69	(25,000)	0	(25,000)
Item No. 74	(20,000)	0	(20,000)
Item No. 75	(5,000)	0	(5,000)
Item No. 85	(1,674,746)	(1,674,746)	(3,349,492)
Item No. 88	(50,000)	0	(50,000)
Item No. 89	(797,250)	0	(797,250)
Item No. 91	(758,200)	0	(758,200)
Item No. 92	(1,990,138)	(1,990,138)	(3,980,276)
Item No. 93	(2,205,384)	(2,205,383)	(4,410,767)
Item No. 94	(3,349,352)	(1,674,746)	(5,024,098)
Item No. 95	(2,205,384)	(2,205,384)	(4,410,768)
	(17,199,290)	(13,341,495)	(30,540,785)
<u>Reclassified Items</u>			
Item No. 56	(6,126)	0	(6,126)
Item No. 57	(375,000)	(75,000)	(450,000)
	(381,126)	(75,000)	(456,126)
Total RPTTF authorized	6,025,454	6,031,580	\$ 12,057,034
Total Administrative RPTTF requested	774,337	699,842	1,474,179
<u>Reclassified Item</u>			
Item No. 57	375,000	75,000	450,000
Total Administrative RPTTF after Finance adjustments	1,149,337	774,842	1,924,179
Administrative costs in excess of the cap (see Administrative Cost Allowance Cap table below)	(656,773)	(774,842)	(1,431,615)
Total Administrative RPTTF authorized	492,564	0	\$ 492,564
Total RPTTF approved for distribution	6,518,018	6,031,580	\$ 12,549,598

Administrative Cost Allowance Cap Calculation	
Actual RPTTF distributed for fiscal year 2015-16	\$ 16,998,186
Less sponsoring entity loan and Administrative RPTTF	579,371
Actual RPTTF distributed for 2015-16 after adjustment	<u>16,418,815</u>
Administrative Cap for 2016-17 per HSC section 34171 (b)	492,564
ROPS 16-17 Administrative RPTTF after Finance adjustments	1,924,179
Administrative Cost Allowance in excess of the cap	<u>\$ (1,431,615)</u>