DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

May 17, 2016

Mr. Marc Puckett, Assistant Town Manager - Finance and Administration
Town of Apple Valley
14975 Dale Evans Parkway
Apple Valley, CA 92307

Dear Mr. Puckett:

Subject: 2016-17 Annual Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 6, 2016. Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the City of Apple Valley Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period of July 1, 2016 through June 30, 2017 (ROPS 16-17) to Finance on January 28, 2016. Finance issued a ROPS determination letter on April 6, 2016. 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 25, 2016.

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. 14 – Low and Moderate Income Housing Fund (LMIHF) loan repayment for the purposes of the Educational Revenue Augmentation Fund (ERAF) in the total outstanding obligation amount of $528,819. Finance continues to partially deny this item as explained in our May 15, 2015 ROPS letter to the Agency for the July through December 2015 period (ROPS 15-16A) and reiterated below.

  HSC section 34191.4 (b) (2) (A) allows this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the fiscal year 2012-13 base year. According to the San Bernardino County Auditor-Controller's (CAC) report, the amounts distributed to the taxing entities for fiscal year 2012-13 and 2015-16 are zero and $621,536, respectively. Pursuant to the repayment formula, the maximum repayment amount authorized for 2016-17 is $310,768. Therefore, the excess amount, $218,051 ($528,819 - $310,768) is not eligible for funding from Redevelopment Property Tax Trust Funds (RPTTF) on this ROPS.

  During the Meet and Confer the Agency contended that residual funds from the Victor Valley Economic Development Authority (VVEDA) distribution attributed to Apple Valley should be included in the calculation to determine the amount of the ERAF loan that the

Agency is able to repay during ROPS 15-16A. However, the Agency does not receive RPTTF for the VVEDA project area from the CAC, rather the Agency is a payee of VVEDA. Therefore, the residual calculation appropriately does not include residuals from the VVEDA project area.

- Item No. 29 – Redevelopment Agency Obligations paid via Advanced Funds in the total outstanding obligation amount of $3,281,514 is not allowed. Finance continues to deny this item. We note that this item is related to an alleged negative cash balance of the former RDA. During the Low and Moderate Income Housing Funds (LMIHF) and Other Funds and Accounts (OFA) Due Diligence Reviews (DDR) required pursuant to HSC section 34179.6, it is our understanding that the former RDA commingled its LMIHF and other funds. In doing so, the former RDA pulled funding from its commingled account to pay for its various obligations. The Agency claims that some of the commingled LMIHF amounts were used to pay for non-housing obligations resulting in a negative balance in the OFA DDR totaling $3,281,514.

  During the Meet and Confer the Agency again provided a Contract between the Town of Apple Valley (Town) and a third party dated September 26, 2006. However, the former RDA was not a party to this contract. The Agency also provided a Promissory Note and resolutions made by the Apple Valley Public Financing Authority. However, this loan was included in Oversight Board Resolution 2015-07 which was denied by Finance on June 8, 2015. Specifically, Finance determined the original Promissory Notes (Notes) were executed to reflect the General Fund appropriations allocated to the Agency in the Town budget, the principal balance of the Notes would equal the amount advanced to the Agency, and that the Agency was to repay the Notes, interest free, from available tax increment.

  Finance further determined that although the Agency had provided executed copies of promissory notes, financial statements, and trial balances, the Agency was unable to provide adequate documentation to support the receipt of funds from the Town. Both the Notes and the subsequent Ratification and Amendments appeared to be reimbursement agreements for services provided by the Town to the Agency, rather than a loan of cash.

  For these reasons, Finance denied the Oversight Board Action 2015-07. To the extent the Agency receives an Oversight Board action and can provide additional documentation to demonstrate the loans meet the requirements of HSC section 34191.4 (b) as they were amended in 2015, the Agency may submit the Oversight Board action to Finance for review. If the Oversight Board action is approved by Finance, the Agency may list the loans on a future ROPS for review. However, at this time, this line item is not an enforceable obligation and is not eligible for RPTTF funding of $3,281,514.

Except for the items denied in whole or in part, or for the item that has been adjusted, Finance is not objecting to the remaining items listed on your ROPS 16-17.

On the ROPS 16-17 form, the Agency reported cash balances and activity for the period of July 1, 2015 through June 30, 2016. Finance performs a review of the Agency's self-reported cash balances on an ongoing basis. 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 enforceable obligations, HSC section 34177 (l) (1) (E) requires these balances to be used prior to requesting RPTTF.

The Agency's maximum approved RPTTF distribution for the reporting period is $2,946,718 as summarized in the Approved RPTTF Distribution Table on Page 4 (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

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 Evelyn Suess, Dispute Resolution Supervisor, or Nicole Prisakar, at (916) 445-3274.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Mr. Orlando Acevedo, Economic Development Manager, Town of Apple Valley
Ms. Linda Santillano, Property Tax Manager, San Bernardino County

Attachment

Approved RPTTF Distribution For the period of July 2016 through June 2017			
	ROPS A Period	ROPS B Period	Total
Requested RPTTF (excluding administrative obligations)	$ 4,563,308	$ 1,632,975	$ 6,196,283
Requested Administrative RPTTF	125,000	125,000	250,000
Total RPTTF requested for obligations on ROPS 16-17	**4,688,308**	**1,757,975**	**$ 6,446,283**
Total RPTTF requested	**4,563,308**	**1,632,975**	**6,196,283**
Denied Items			
Item No. 14	(218,051)	0	(218,051)
Item No. 29	(3,281,514)	0	(3,281,514)
Total RPTTF authorized	**1,063,743**	**1,632,975**	**$ 2,696,718**
Total Administrative RPTTF authorized	**125,000**	**125,000**	**$ 250,000**
Total RPTTF approved for distribution	**1,188,743**	**1,757,975**	**$ 2,946,718**