

May 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 15, 2016. Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the Inland Valley Development 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 29, 2016. Finance issued a ROPS determination letter on April 15, 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 28, 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. 13 – Airport Operation with a total outstanding amount of \$21,478,578. Finance no longer denies this item; however, Finance reduces the amount requested to \$0. 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 (SBIAA), 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)

Finance initially denied this item because the Agency did not provide adequate documentation to support this item. During the Meet and Confer process, the Agency contended that the amount requested is for the entire one-year period to support the airport operations. The Agency provided a list of the 2015-16 year-to-date airport operations expenditures and checks showing payments to SBIAA that were made by the Agency. However, these expenditures have already been approved and paid for on prior ROPS. The Agency did not provide support to show how the amounts requested were determined.

Therefore, Finance is reducing the requested of \$5,587,738 from the Redevelopment Property Tax Trust Fund (RPTTF) to \$0.

- Item No. 19 – Transition Cost Obligations in the total outstanding amount of \$3,204,392. Finance continues to deny this item. 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 initial 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. As such, Finance initially denied this item since more than the required dollar amount had been authorized for this item.

During the Meet and Confer process, the Agency contended that the total amount due is \$8,010,973. However, the amount due from the Agency is \$4,417,206 and the remaining \$3,593,767 is the amount due from SBIAA. The Agency did not provide any documents to show how the amount due from SBIAA is an obligation of the Agency. Therefore, the requested \$1,602,198 is not an enforceable obligation of the Agency and not eligible for RPTTF funding.

- Item No. 58 – Perris Campus Plaza, LLC Tax Reimbursement in the total outstanding amount of \$178,294. Finance no longer denies \$38,884 of 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. Finance initially denied this item because the Agency was not able to provide this document to support the amount requested.

During the Meet and Confer process, the Agency provided documentation from SBRDA supporting \$38,884 of the amount requested. Therefore, Finance no longer denies \$38,884 of this item and continues to deny the remaining \$81,116 of RPTTF funding requested.

- Item No. 63 – City Creek By-Pass Repair in the total outstanding amount of \$350,000. Finance continues to deny this item. 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, Finance initially denied this item because these documents are insufficient to support the requested amount. During the Meet and Confer process, the Agency contended that this item is an enforceable obligation for the same reasons as Item No. 13; however, no additional information was provided to explain how this item is required for payment under the Military Base Reuse and Airport Finance Agreement between the IVDA and SBIAA or how the amount requested was determined. To the extent the Agency can provide documentation, such as the specific requirement to complete such work under the Military Base Reuse and Airport Finance Agreement between the IVDA and SBIAA, an executed contract, or 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. Finance continues to deny these items. The Agency requested funding for these items because they contended that 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 are not enforceable obligations because they were fully funded and they are not eligible for RPTTF funding of \$50,000 (\$25,000 + \$20,000 + \$5,000).

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.

During the Meet and Confer process, the Agency contended that as a condition of subordination that was required for the issuance of the 2014 Tax Allocation Refunding Bonds, the Agency had agreed to analyze the pass-through formula for the pass-through obligations under the agreements reference above. Additionally, the Agency has not had sufficient funds to procure the specialty services needed to complete this work as per the school district agreements. However, the Agency did not identify where in the documents it obligates the Agency to complete such a review or how the amount requested was determined.

- Item No. 85 – JPA Obligations (Unfunded Liability) in the total outstanding amount of \$24,753,360. Finance continues to deny this item. Finance initially denied this item because the Agency was unable to provide sufficient documentation to support the amount claimed.

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. During the Meet and Confer process, the Agency contended that this item is an enforceable obligation pursuant to HSC section 34171 (d) (1) (C) and (E). The Agency contends the obligation originates from the City of Redlands vs. County of San Bernardino Judgment dated June 15, 1992, and the Amended JPA, dated February 12, 1990.

However, no additional information was provided to specifically identify what obligation is owed under either of the agreements identified or how the amount was determined. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding of \$3,349,492 on the ROPS.

- Item No. 89 – Reimbursement of the July 2012 True-up Payment in the total outstanding amount of \$797,250. 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 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. Finance continues to deny this item. Our initial 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. During the Meet and Confer process, the Agency contended that the trial balances show a shortfall in ROPS 15-16B in the amount of \$758,200. However, as previously stated, Finance authorized \$9,895,909 from RPTTF and the CAC distributed \$9,895,909 from RPTTF. As such, no shortfall occurred during the ROPS 15-16B period. Therefore, this item is not an enforceable obligation and is not eligible for \$758,200 RPTTF funding.
- Item Nos. 92 through 95 – Various obligations with a total outstanding amount of \$116,948,976. Finance continues to deny these items. 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, Finance initially denied these items because the above documents are not sufficient to support the amount requested since they do not establish the existence of any enforceable obligation requiring the IVDA to make payment. During the Meet and Confer process, the Agency continued to object to Finance’s determination. However, no additional documentation was provided to show what obligations exist for each of these items or how the amounts were determined as being owed in the ROPS 16-17 period. 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. Finance continues to determine that the ACA exceeds the allowance. During the Meet and Confer process, the Agency did not feel that the ACA should be adjusted; however, no additional information was provided to show that the calculation was incorrect. 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. Finance continues to reclassify this item to the ACA. During the Meet and Confer process, the Agency contended that significant analysis and coordination is required to prepare materials to present the potential refinancing and conversion of the Taxable Series B, 2014 Tax Allocation Bonds to tax-exempt bonds and such costs are enforceable obligations pursuant to HSC section 34177.3 (b) and 34177.5 (a). However, neither of these sections define enforceable obligations and the legal costs requested are not employee costs associated with work on specific project implementation activities, which are specifically excluded from the ACA cap as defined by HSC section 34171 (b) (5).

Therefore, Finance continues to reclassify Item No. 57 to the ACA and \$1,431,615 of excess ACA is not allowed.

In addition, per Finance's letter dated April 15, 2016, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- 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. 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.

- 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 (l) (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:

- o 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.

The Agency's maximum approved RPTTF distribution for the reporting period is \$12,588,482 as summarized in the Approved RPTTF Distribution Table on page 8 (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

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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 Sues, Dispute Resolution Supervisor, or Mary Halterman, Analyst, (916) 445-3274.

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**

| <b>Approved RPTTF Distribution</b>   |                      |                      |                       |
|--|----------------------|----------------------|-----------------------|
| <b>For the period of July 2016 through June 2017</b>   |                      |                      |                       |
|  | <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             |
| <b>Total RPTTF requested for obligations on ROPS 16-17</b>                                       | <b>24,380,207</b>    | <b>20,147,917</b>    | <b>\$ 44,528,124</b>  |
| <b>Total RPTTF requested</b>   | <b>23,605,870</b>    | <b>19,448,075</b>    | <b>43,053,945</b>     |
| <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  | (41,116)             | (40,000)             | (81,116)              |
| 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)           |
|  | <u>(17,160,406)</u>  | <u>(13,341,495)</u>  | <u>(30,501,901)</u>   |
| <u>Reclassified Items</u>  |                      |                      |                       |
| Item No. 56  | (6,126)              | 0                    | (6,126)               |
| Item No. 57  | (375,000)            | (75,000)             | (450,000)             |
|  | <u>(381,126)</u>     | <u>(75,000)</u>      | <u>(456,126)</u>      |
| <b>Total RPTTF authorized</b>  | <b>6,064,338</b>     | <b>6,031,580</b>     | <b>\$ 12,095,918</b>  |
| <b>Total Administrative RPTTF requested</b>  | <b>774,337</b>       | <b>699,842</b>       | <b>1,474,179</b>      |
| <u>Reclassified Item</u>   |                      |                      |                       |
| Item No. 57  | 375,000              | 75,000               | 450,000               |
| Total Administrative RPTTF after Finance adjustments   | <u>1,149,337</u>     | <u>774,842</u>       | <u>1,924,179</u>      |
| Administrative costs in excess of the cap<br>(see Administrative Cost Allowance Cap table below) | (656,773)            | (774,842)            | (1,431,615)           |
| <b>Total Administrative RPTTF authorized</b>   | <b>492,564</b>       | <b>0</b>             | <b>\$ 492,564</b>     |
| <b>Total RPTTF approved for distribution</b>   | <b>6,556,902</b>     | <b>6,031,580</b>     | <b>\$ 12,588,482</b>  |
| <b>Administrative Cost Allowance Cap Calculation</b>   |                      |                      |                       |
| Actual RPTTF distributed for fiscal year 2015-16   |                      |                      | \$ 16,998,186         |
| Less sponsoring entity loan and Administrative RPTTF   |                      |                      | <u>579,371</u>        |
| Actual RPTTF distributed for 2015-16 after adjustment  |                      |                      | 16,418,815            |
| Administrative Cap for 2016-17 per HSC section 34171 (b)   |                      |                      | 492,564               |
| ROPS 16-17 Administrative RPTTF after Finance adjustments  |                      |                      | <u>1,924,179</u>      |
| <b>Administrative Cost Allowance in excess of the cap</b>  |                      |                      | <b>\$ (1,431,615)</b> |