DEPARTMENT OF FINANCE

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December 18, 2012

Mr. A.J. Wilson, Executive Director
Inland Valley Development Successor Agency
1601 East Third Street, Suite 100
San Bernardino, CA 92408

Dear Mr. Wilson:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 19, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Inland Valley Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on September 4, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 19, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on November 13, 2012.

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 items being disputed.

- Item Nos. 21 through 24 – Reserve Requirements in the total amount of $4,767,985 funded by Redevelopment Property Tax Trust Fund (RPTTF). Finance continues to deny the items. Finance denied the items as the underlying agreements for these items did not require a reserve account. The Agency contends the items are enforceable obligations because a reserve or "revolving fund" is required in order for the Agency to meet its obligations. However, the agreements do not require a reserve account to be maintained. Only the current amounts due should be listed on the ROPS. Therefore, these line items are not enforceable obligations and not eligible for RPTTF funding.

  For Items 23 and 24, the Agency stated that payments were made from reserve balances due to insufficient RPTTF funding from previous ROPS periods. If there is insufficient RPTTF funding available for items approved on a prior ROPS, the Agency should list the unfunded items and amounts on a subsequent ROPS, or the Agency may enter into a loan with the City for payment of approved enforceable obligations rather than using reserve balances especially because the funding source was not approved for use on the prior ROPS.

- Item Nos. 25 through 29, 31 and 37 – Various Construction Contracts in the total amount of $65,707,000 funded by bond proceeds. Finance continues to deny the items.

Finance denied the items as HSC section 34163(b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011. It is our understanding that the contracts for these line items were awarded after June 27, 2011. The Agency contends the items are enforceable obligations because the projects were identified in the 2011 Bond Project Funds. We note that pursuant to HSC section 34191.4 (c) successor agencies that have been issued a Finding of Completion by Finance will be allowed to use excess proceeds from bonds issued prior to December 31, 2010 for the purposes for which the bonds were issued. Successor agencies are required to defease or repurchase on the open market for cancellation any bonds that cannot be used for the purpose they were issued or if they were issued after December 31, 2010. The bond proceeds requested for use were issued in June 2011. Therefore, the items are not enforceable obligations.

- Item No. 30 –Terminal and Customs Completion Project and Fund Control Agreement in the amount of $2,692,604 funded by bond proceeds. Finance continues to deny the item. Finance denied the item as the Agreement was between Norton Development Company and San Bernardino International Airport Authority, and the funds were to be provided by Citizen Business Bank. As the former RDA is neither a party to the contract nor responsible for the payment of the contract, this line item is not an enforceable obligation. The Agency contends the item is an enforceable obligation because the project was identified in the 2011 Bond Project Funds. We note that pursuant to HSC section 34191.4 (c), successor agencies that have been issued a Finding of Completion by Finance will be allowed to use excess proceeds from bonds issued prior to December 31, 2010 for the purposes for which the bonds were issued. Successor Agencies are required to defease or repurchase on the open market for cancellation any bonds that cannot be used for the purpose they were issued or if they were issued after December 31, 2010. The bond proceeds requested for use were issued in June 2011. Therefore, the item is not an enforceable obligation.

- Item No. 43 – Kohl's Reimbursement Agreement in the amount of $36,325 funded by RPTTF. Finance no longer objects to the item. Finance denied the item as the term for this agreement ends before December 31, 2012. Therefore, no obligations need to be paid for the January through June 2013 period. The Agency contends the item is an enforceable obligation because the amount shown represents the final residual payments due to Kohl's under the agreement – this amount is for tax proceeds from a prior period. The amount requested is the final payment from an enforceable obligation that ends December 31, 2012. Therefore, the item is an enforceable obligation.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: $12,340,089 as summarized below:

| Approved RPTTF Distribution Amount<br>For the period of January through June 2013 | | |
|---|---|---|
| Total RPTTF funding requested for obligations | $ | 16,405,682 |
| Less: Six-month total for items denied or reclassified as administrative cost | | |
| Item 21 | | 2,420,000 |
| Item 22 | | 1,051,485 |
| Item 23 | | 667,254 |
| Item 24 | | 434,246 |
| Total approved RPTTF for enforceable obligations | $ | 11,832,697 |
| Plus: Allowable RPTTF distribution for administrative cost for ROPS III | | 507,392 |
| **Total RPTTF approved:** | $ | 12,340,089 |

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

The amount available from the RPTTF is the same as the property tax increment that was available prior to enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. 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 successor agency in the RPTTF.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS III. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2013. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not questioned on this ROPS or a preceding ROPS.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Mr. Gary Silvius, Director of Finance, Inland Valley Department Agency
Ms. Vaness Doyle, Auditor Controller Manager, County of San Bernardino
California State Controller's Office