



November 15, 2013

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

Dear Mr. Wilson:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the Successor Agency (Agency) to the Inland Valley Development Agency submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on October 01, 2013 for the period of January through June 2014. Finance has completed its review of your ROPS 13-14B, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations for the reasons specified:

- Item No. 11 – San Bernardino Valley Municipal Water District (District) Reimbursement Agreement in the amount of \$3,956,384. Finance continues to deny this item. It is our understanding the County Auditor-Controller Property Tax Division processed apportionments totaling \$6.5 million in error to the Agency in fiscal years 2008-09 and 2009-10. As a result, the Agency owes \$6.5 million to the District. Per the negotiated settlement, the Agency and the District entered into a promissory note to pay back funds over time. However, HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011. Additionally, Finance denied this item as an inclusion to the ROPS in the letter dated May 17, 2013. Therefore, this line item is not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding at this time. However, if the Agency can provide additional information surrounding the obligation it believes is owed to the District, this Item may become enforceable on a future ROPS. This additional information could also be provided through the Meet and Confer process.
- Item No. 14 – South Drainage/Gateway South Project in the amount of \$350,000. Finance continues to deny this item. The agreement executed on July 1, 2012 for professional services is between the San Bernardino International Airport Authority (SBIAA) and Tom Dodson and Associates, the former RDA is not a party to the contract. Further, HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. Additionally, Finance denied this item as an inclusion to the

ROPS in the letter dated May 17, 2013. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item Nos. 38 – Capital Projects Staffing costs totaling \$515,679. No documentation was provided to support the amounts claimed. Therefore, this item is not eligible for Other Funds.
- Item No. 46 – I-10/Tippecanoe Avenue Improvements in the amount of \$4,278,000. No documentation was provided to support the amounts claimed. Therefore, this line item is not an enforceable obligation and is not eligible for Bonds or RPTTF funding.
- Item No. 47 – Goods Movement - 3rd and 5th Street Improvements in the amount of \$7,500,000. The Letter Agreement (Agreement) for the design and construction of certain street improvements within the City of Highland is dated November 12, 2008. However, funding from the San Bernardino Associated Governments is a funding source specified in the Agreement. No other documentation was provided to support the amounts claimed. Therefore, this line item is not an enforceable obligation and is not eligible for Bonds or RPTTF funding.
- Item Nos. 48 through 50 – Various Improvement/Infrastructure Projects totaling \$36,600,000. No documentation was provided to support the amounts claimed. Therefore, these line items are not enforceable obligations and are not eligible for Bonds or RPTTF funding.
- Item No. 52 – Inland Valley Development Joint Powers Authority Obligations in the amount of \$400,000,000. The Military Base Reuse and Airport Financing Agreement (Agreement) was executed between the Agency and SBIAA on January 19, 2011. It is our understanding that the principle decision makers are the same for both the Agency and SBIAA; therefore, we question the validity of the agreement. Consequently, this item is not an enforceable obligation and is not eligible for RPTTF funding.
- Item No. 53 – Reimbursement of the July 2012 True-up Payment in the amount of \$797,250. This line item is the remaining balance of the true-up payment due to the San Bernardino County Auditor-Controller 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 line item is not an enforceable obligation and is not eligible for RPTTF funding.
- Claimed administrative costs exceed the allowance by \$19,317. HSC section 34171 (b) limits the fiscal year 2013-2014 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. The San Bernardino County Auditor-Controller's Office distributed \$201,492 in administrative costs for the July through December 2013 period, thus leaving a balance of \$534,795 available for the January through June 2014 period. Although \$554,112 is claimed for administrative cost, only \$534,795 is available pursuant to the cap. Therefore, \$19,317 of excess administrative cost is not allowed.

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14B form the estimated obligations and actual payments (prior period adjustments)

associated with the January through June 2013 period. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. The amount of RPTTF approved in the below table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14B. If you disagree with the determination with respect to any items on your ROPS 13-14B, 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 \$12,569,834 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	18,470,413
Total RPTTF requested for administrative obligations	554,112
Total RPTTF requested for obligations	\$ 19,024,525
Total RPTTF requested for non-administrative obligations	18,470,413
<u>Denied Items</u>	
Item No. 11	(798,413)
Item No. 46	(500,000)
Item No. 47	(500,000)
Item No. 49	(50,000)
Item No. 50	(50,000)
Item No. 52	(3,533,483)
Item No. 53	(797,250)
	<u>(6,229,146)</u>
Total RPTTF approved for non-administrative obligations	12,241,267
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)	534,795
Total RPTTF approved for obligations	12,776,062
ROPS III prior period adjustment	(206,228)
Total RPTTF approved for distribution	12,569,834
Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	12,301,635
Total RPTTF for 13-14B (January through June 2014)	12,241,267
Total RPTTF for fiscal year 2013-14	24,542,902
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or \$250,000)	736,287
Administrative allowance for 13-14A (July through December 2013)	201,492
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	534,795

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. Beginning with the ROPS 13-14B period, Finance required successor agencies to identify fund balances for various types of funds in its possession. During our ROPS 13-14B review, Finance requested financial

records to support the fund balances reported by the Agency; however, Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 13-14B review period to properly identify the Agency's fund balances. If it is determined the Agency possesses fund balances that are available to pay approved obligations, the Agency should request the use of these fund balances prior to requesting RPTTF in ROPS 14-15A.

Please refer to the ROPS 13-14B schedule that was used to calculate the approved RPTTF amount:

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14B Forms by Successor Agency/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS%2013-14B%20Forms%20by%20Successor%20Agency/).

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2014. This determination applies only to items where 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 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 denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC 34177.5 (i). Finance's review of items that have received a Final and Conclusive determination 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 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.

To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to HSC section 34171 (d), HSC section 34191.4 (c)(2)(B) requires these proceeds be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

Please direct inquiries to Nichelle Thomas, Supervisor or Susana Medina-Jackson, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Alka Chudasma, Interim Director of Finance, City of Inland Valley
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office