

November 13, 2014

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

Dear Mr. Garay:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the Inland Valley Development Agency Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to the California Department of Finance (Finance) on September 30, 2014 for the period of January 1 through June 30, 2015. Finance has completed its review of your ROPS 14-15B, which may have included obtaining clarification for various items.

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

- Item No. 53 – Reimbursement of the July 2012 True-up Payment in the amount of \$797,250 is not allowed. Finance continues to deny this item. 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 Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item No. 56 – 2014 Tax Allocation Refunding Bonds debt service payment in the amount of \$6,031,580 is partially approved. The total interest to be paid in the 2015 calendar year is \$9,583,510. However, Finance approved \$5,711,331 in ROPS 14-15A, leaving a balance of \$3,872,179 (\$9,583,510 - \$5,711,331) necessary to fund debt service. Therefore, the excess \$2,159,401 (\$6,031,580 - \$3,872,179) is not eligible for RPTTF funding on this ROPS.
- Item No. 57 – Tax Allocation Refunding Bonds Refinancing Costs in the amount of \$350,000 have been reclassified from RPTTF funding to Bond Proceeds. The Agency is authorized, as provided in HSC section 34177.5, to recover its costs related to the issuance of refunding bonds from the bond proceeds. The Oversight Board approved the recovery of the costs associated with the issuance from the bond proceeds. Therefore, Finance has reclassified the Agency's request to Bond Proceeds.

- Item No. 59 – Base Reuse Joint Powers Authority Obligations in the amount of \$3,903,698 is not allowed. It is our understanding this item relates to the revenue contribution to be made by members of the Inland Valley Development Authority Joint Powers Authority (IVDA JPA) for the continued operation of the IVDA JPA. Because this obligation does not fall within the meaning of an enforceable obligation as defined by HSC section 34171 (d) (1), this item is not eligible for RPTTF funding.
- Item No. 60 – Legal Services Fees in the amount of \$85,000. The Agency requests \$55,000; however, these fees are considered general administrative costs and have been reclassified from RPTTF to Administrative Cost Allowance. The Agency provided a legal services agreement between Lewis Brisbois Bisgaard & Smith LLP, entered into on July 1, 2014, and an engagement agreement from Kutak Rock LLP, dated February 12, 2014 for the provision of general legal services to the Agency. HSC section 34171 (b) does not allow the exclusion of general legal services from the administrative cost allowance.

Finance notes this item contains more than one contract and more than one payee. On future ROPS, the Agency must list each contract as a separate obligation with its own item number and list them in sequential order. Pursuant to HSC section 34177 (m) (1), the Agency is required to complete the ROPS in a manner provided by Finance. Future ROPS not completed in a manner provided by Finance may be rejected in its entirety and returned to the oversight board for reconsideration.

- Item Nos. 61 through 68 – Various Improvement Projects totaling \$17,300,000 are not allowed. Insufficient documentation was provided to support the amounts claimed. It is our understanding the San Bernardino International Airport Authority suffered damage during a storm on August 3, 2014. Subsequently, the Agency applied for a claim with Affiliated FM Insurance Company. The Agency provided a letter from Affiliated FM Insurance Company, dated August 18, 2014, and a schedule of proposed projects for fiscal years 2010-14. The Agency also provided an Agreement for Professional Services between the Agency and Thienes Engineering, Inc., entered into on June 13, 2012, which terminated June 1, 2013. However, these documents are insufficient to support the requested amounts. To the extent the Agency can provide adequate documentation to support the requested funding, and an explanation as to why Affiliated FM Insurance Company is not responsible, the Agency may be able to obtain RPTTF funding on future ROPS.
- Item No. 70 – Reserve Requirement for the 2014 Tax Allocation Refunding Bonds in the amount of \$6,031,580 is not allowed. Per HSC section 34171 (d) (1) (A), a reserve may be held if required by the bond indenture or when next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following half of the calendar year. Per the debt service payment schedule provided, the total interest to due in calendar year 2015 is \$9,583,354. Finance approved \$6,211,331 in ROPS 14-15A, leaving a balance of \$3,372,023 (\$9,583,354 - \$6,211,331). With the approval of the balance of \$3,372,023 in ROPS 14-15B, the Agency will have sufficient funds to pay debt service obligations due March 1 and September 1 of 2015. Therefore, this item is not eligible for RPTTF and Other Funding on this ROPS.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting RPTTF. Pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. The Agency provided financial records that displayed available Reserve Balances totaling \$2,661,486.

Therefore, the funding source for the following item has been reclassified to Reserve Balances and in the amount specified below:

- Item No. 56 – 2014 Tax Allocation Refunding Bonds Series A and B payment in the amount of \$6,031,580 RPTTF. This item is an enforceable obligation for the ROPS 14-15B period; however, the obligation does not require payment from property tax revenues and the Agency has \$2,661,486 in available Reserve Balances. Therefore, Finance is approving RPTTF in the amount of \$1,210,693 and Reserve Balances in the amount of \$2,661,486 for a total payment of \$3,872,179.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2014 period. HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to review by the county auditor-controller (CAC) and the State Controller. The amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's review of the Agency's self-reported prior period adjustment.

Except for items denied in whole or in part or items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15B. If you disagree with the determination with respect to any items on your ROPS 14-15B, 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 \$5,297,731 as summarized in the Approved RPTTF Distribution Table below:

Approved RPTTF Distribution For the period of January through June 2015	
Total RPTTF requested for non-administrative obligations	19,028,626
Total RPTTF requested for administrative obligations	597,168
Total RPTTF requested for obligations on ROPS	\$ 19,625,794
Total RPTTF requested for non-administrative obligations	19,028,626
<u>Denied Items</u>	
Item No. 53	(797,250)
Item No. 56	(2,159,401)
Item No. 59	(3,903,698)
Item No. 61	(750,000)
Item No. 63	(1,250,000)
Item No. 65	(200,000)
Item No. 66	(1,750,000)
Item No. 67	(50,000)
Item No. 70	(500,000)
	(11,360,349)
<u>Reclassified Items</u>	
Item No. 57	(50,000)
Item No. 60	(55,000)
Item No. 69	(50,000)
	(155,000)
Total RPTTF for non-administrative obligations	\$ 7,513,277
Cash Balances - Item reclassified to other funding sources	
Item No. 56	\$ (2,661,486)
	\$ (2,661,486)
Total RPTTF authorized for non-administrative obligations	\$ 4,851,791
Total RPTTF requested for administrative obligations	597,168
<u>Reclassified Item</u>	
Item No. 60	55,000
	55,000
Total RPTTF authorized for administrative obligations	\$ 652,168
Total RPTTF authorized for obligations	\$ 5,503,959
ROPS 13-14B prior period adjustment	(206,228)
Total RPTTF approved for distribution	\$ 5,297,731

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 the ROPS 14-15B review, Finance requested financial records to support the cash balances reported by the Agency. The accounting records provided did not tie to the amounts reported on the Report of Cash Balance. Finance has made no reclassification and will continue to work with the Agency to resolve any remaining issues as described above. If it is determined the Agency possesses additional cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 15-16A.

Please refer to the ROPS 14-15B schedule that was used to calculate the approved RPTTF amount:

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

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, 2015. This determination only applies 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 section 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 the 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 agency in the RPTTF.

Pursuant to HSC section 34177 (a) (3), only those payments listed on an approved ROPS may be made by the successor agency from the funds specified in the ROPS. However, if for whatever reason the Agency needs to make payments for approved obligations from another funding source, HSC section 34177 (a) (4) requires the Agency to first obtain oversight board approval.

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 Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

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