

May 15, 2015

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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 16, 2015. 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 15-16A) to Finance on March 3, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 16, 2015. 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 30, 2015.

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. 56 – 2014 Tax Allocation Refunding Bonds. Finance no longer denies a portion of this item. The Agency requests \$6,031,580 for debt service payments, which agrees with the debt service schedule.
- Item No. 57 – 2014 Tax Allocation Refunding Bonds Refinancing Costs in the amount of \$250,000. Finance continues to reclassify this item to the Administrative Cost Allowance (ACA). During the Meet and Confer process, the Agency objected to Finance's determination; however, no additional documentation was provided to support this item is related to an enforceable obligation. The request to conduct a tax analysis and obtain a legal opinion regarding the feasibility of refunding the taxable Series 2014 into tax-exempt bonds does not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):
 - Any litigation expenses related to assets or obligations.
 - Settlements and judgments.
 - The costs of maintaining assets prior to disposition.
 - Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

To the extent the Agency wants to conduct the analysis, the costs must be funded out of the ACA. Therefore, Finance continues to reclassify this item to the ACA.

- Item No. 71 – Litigation Reserve in the amount of \$150,000. Finance continues to deny this item. Finance denied this item because it is our understanding the Inland Valley Development Agency (IVDA) Joint Powers Authority (JPA), and not the Agency, is named as a Real Party in Interest in a complaint filed by the East Valley Water District (EVWD) on January 22, 2014, with the United States District Court, Central District of California. During the Meet and Confer process, the Agency contended that there is no distinction in the action separating the Agency from the IVDA JPA. However, the Agency and the IVDA JPA are separate legal entities and the court documents provided name the IVDA JPA, not the Agency, as a real party in interest. To the extent the Agency becomes a named party and incurs costs related to the lawsuit, the Agency may request funding on a subsequent ROPS. Therefore, this item is currently not an enforceable obligation and not eligible for funding.
- Item No. 72 – Reimbursement of the July 2012 True-up Payment in the amount of \$797,250. 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 (CAC) 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). During the Meet and Confer process, the Agency continued to object to Finance's determination; however, no additional information was provided. Therefore, this item is not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item Nos. 73 through 75 and 80 – Various Property Maintenance costs totaling \$92,500. Finance no longer denies Item No. 74 and partially approves Item Nos. 73, 75, and 80. Finance initially denied these items because insufficient documentation was provided to support the amounts claimed. The Agency provided Finance's Long-Range Property Management Plan determination letter as support for the amounts claimed. However, the Agency did not provide sufficient documentation to describe the nature, scope, costs, and timing of the work to be done. During the Meet and Confer process, the Agency provided cost estimates for each of the items. Therefore, Finance makes the following determinations:
 - Item No. 73 is approved for \$8,500 and the remaining \$26,500 continues to be denied.
 - Item No. 74 is approved for the \$20,000 requested.
 - Item No. 75 is approved for \$5,000 and the remaining \$2,500 continues to be denied.
 - Item No. 80 is approved for \$23,500 and the remaining \$6,500 continues to be denied.
- Item Nos. 76 through 79 and 81 – Various Reimbursement and Interagency Agreements totaling \$15,793,949 are not allowed. Finance continues to deny these items. During the Meet and Confer process, the Agency continued to object to Finance's determinations; however, no additional documentation was provided to support these

items as enforceable obligations. The Agency provided a Settlement Agreement, a Cooperation Agreement, and a Stipulated Judgment to support the amounts requested as further discussed below:

- The Settlement Agreement between the Agency, Finance, and the California State Controller's Office (SCO) – Pursuant to the Settlement Agreement, the Agency was allowed to use bond proceeds derived from the Agency's 2011 Tax Allocation Bonds in the amount of \$ 8,925,000 to fund two projects (I-10 Tippecanoe and Goods Movement - 3rd and 5th Street) currently listed on the Agency's ROPS. Finance approved the use of bond proceeds for these projects in ROPS 14-15A, and again during this ROPS period. The Settlement Agreement does not require RPTTF funding for these projects.
- The Stipulated Judgment (Judgment) between the City of Redlands (Plaintiff and Petitioner), and the former Redevelopment Agency (RDA), the County of San Bernardino, the City of San Bernardino, the City of Colton, and the City of Loma Linda (Defendants and Respondents) – Pursuant to the Stipulated Judgment, the Court affirmed that IVDA was duly formed and validly exists, that an amended joint exercise of powers agreement was properly approved, executed, and entered into, and that the redevelopment plan for the Inland Valley Redevelopment Project Area was validly prepared and adopted by IVDA in accordance with all applicable laws. The Judgment does not obligate the RDA to make a financial contribution to any party.
- The Cooperation Agreement (Agreement) between the RDA and the San Bernardino Valley Municipal Water District (District) – It is our understanding the RDA and the District entered into the Agreement for the former RDA to make pass-through payments to the District from tax revenues generated from the Redevelopment Project Area. Pursuant to HSC section 34183 (a) (1), the San Bernardino County Auditor-Controller (CAC) is responsible for making pass-through payments pursuant to any existing agreements. As the Agreement relates to pass-through payments currently made by the CAC, it is not necessary to list this item on the Agency's ROPS.
- During our review, which may have included obtaining financial records, Finance initially 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 had provided financial records that displayed available Other Funds totaling \$8,561,244.

During the Meet and Confer process, the Agency contended that the trial balances provided did not reflect all of the expenditures incurred in the ROPS 14-15A period, which resulted in the cash balances being overstated. Therefore, Finance will continue to work with the Agency to reconcile the cash balances and no longer reclassifies various items to Other Funds at this time.

- Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 15-16A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2014 period. HSC section 34186 (a) also specifies prior period adjustments (PPA) self-reported by successor

agencies are subject to audit by the CAC and the State Controller. However, Finance noted the following during our review:

- On the ROPS 14-15A PPA worksheet, the Agency understated the available RPTTF distribution received for approved obligations by \$2,893,541. According to the CAC report, the Agency received RPTTF in the amount of \$15,392,408; however, the Agency only reported \$12,498,867. During the Meet and Confer process, the Agency submitted a revised ROPS 14-15A PPA worksheet including expenditures of \$2,161,010 for an IVDA JPA Short Term Loan and \$732,553 for legal costs. However, these items were not approved on ROPS 14-15A and they do not appear to be enforceable obligations. Therefore, these funds should continue to be available for expenditure and Finance continues to increase the Agency's PPA by \$2,893,541 (\$2,161,010 + \$732,553) for the unauthorized expenditures.

In addition, per Finance's letter dated April 16, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 44 – Resolution No. 2010-06 for Airline Revenue Enhancements in the amount of \$10,000,000 is not allowed. Insufficient documentation was provided to support the amounts claimed. The Agency provided a former RDA Resolution No. 2010-06 adopted July 14, 2010 which approved an amendment to an Airline Joint Air Service Development Agreement following a request by the San Bernardino International Airport Authority (SBIAA). However, this document is insufficient to support the requested amount because it does not specify an Agency financial obligation to any party. To the extent the Agency can provide suitable documentation to support the requested funding, the Agency may be able to obtain RPTTF funding on future ROPS.
- Item No. 45 – Resolution No. 2011-01 for infrastructure/Operations in the amount of \$400,000,000 is not allowed. The Agency provided RDA Resolution 2011-01 which approved the Military Base Reuse and Airport Financing Agreement (Agreement) between the RDA and SBIAA entered into on January 19, 2011. The Agency also provided a schedule of projects and plans to be financed. The Agreement required the RDA to make an irrevocable pledge to transfer tax revenues received from the Redevelopment Project Area and to incur debts to finance SBIAA projects.

Finance continues to deny the Agreement as support for obligations on the ROPS. It is our understanding that the principle decision makers are the same for both the Agency and SBIAA; and the Agency did not provide any other documents to support the amounts claimed. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.

- The Agency's claimed administrative costs exceed the allowance by \$581,351. HSC section 34171 (b) limits fiscal year 2015-16 administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$291,140 in administrative expenses. Although \$837,491 is claimed for administrative costs, Item No. 57 for the 2014 Tax Allocation Refunding Bonds Refinancing Costs in the amount of \$35,000 is considered an administrative expense and should be counted toward the cap. Therefore, \$581,351 in excess administrative costs are not allowed.

Except for the items denied in whole or in part or for the items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 15-16A. The Agency's maximum approved RPTTF distribution for the reporting period is \$7,102,277 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution	
For the period of July through December 2015	
Total RPTTF requested for non-administrative obligations	31,166,377
Total RPTTF requested for administrative obligations	837,491
Total RPTTF requested for obligations on ROPS	\$ 32,003,868
Total RPTTF requested for non-administrative obligations	31,166,377
<u>Denied Items</u>	
Item No. 44	(1,500,000)
Item No. 45	(3,250,000)
Item No. 71	(50,000)
Item No. 72	(797,250)
Item No. 73	(26,500)
Item No. 75	(2,500)
Item No. 76	(3,903,698)
Item No. 77	(1,701,515)
Item No. 78	(4,119,474)
Item No. 79	(2,165,564)
Item No. 80	(6,500)
Item No. 81	(3,903,698)
	(21,426,699)
<u>Reclassified Item</u>	
Item No. 57	(35,000)
Total RPTTF authorized for non-administrative obligations	\$ 9,704,678
Total RPTTF requested for administrative obligations	837,491
<u>Reclassified Item</u>	
Item No. 57	35,000
	872,491
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(581,351)
Total RPTTF authorized for administrative obligations	\$ 291,140
Total RPTTF authorized for obligations	\$ 9,995,818
Self-reported ROPS 14-15A prior period adjustment (PPA)	0
Finance adjustment to ROPS 14-15A PPA	(2,893,541)
Total ROPS 14-15A PPA	(2,893,541)
Total RPTTF approved for distribution	7,102,277

Administrative Cost Cap Calculation	
Total RPTTF for non-administrative obligations	9,704,678
Percent allowed pursuant to HSC section 34171 (b)	3%
Total RPTTF allowable for administrative obligations	291,140
Total RPTTF administrative obligations after Finance adjustments	872,491
Administrative costs in excess of the cap	\$ (581,351)

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 15-16A review, Finance requested financial records to support the cash balances reported by the Agency. The numbers reported on the Report of Cash Balance form do not agree with the trial balances and general ledgers provided. Finance will continue to work with the Agency after the ROPS 15-16A review period 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 15-16B.

Please refer to the ROPS 15-16A schedule that was used to calculate the approved RPTTF amount:

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

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 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 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.

Mr. William Garay
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Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-3274.

Sincerely,



JUSTYN HOWARD
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