DEPARTMENT OF FINANCE

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April 17, 2014

Mr. Allen Parker, City Manager
City of San Bernardino
300 North D Street, 6th Floor
San Bernardino, CA 94218

Dear Mr. Parker:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the San Bernardino City Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to the California Department of Finance (Finance) on March 12, 2014 for the period of July through December 2014. Finance has completed its review of your ROPS 14-15A, 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. 7 – 2002A Tax Allocation Bonds debt service payment in the amount of $631,688. The Agency requests $631,688 for interest due April 1, 2014. Our review indicates this amount was already requested during the ROPS for the period January through June 2014 (ROPS 13-14B). However, according to the debt service schedule, $593,888 is due on October 1, 2014. Therefore, the requested Redevelopment Property Tax Trust Fund (RPTTF) funding has been adjusted by $37,800 ($631,888 – $593,888).

- Item No. 10 – 2010A Recovery Zone debt service payment in the amount of $258,875. The Agency is receiving a "Federal Direct Payment" subsidy as other revenue pledged for debt service. Finance requested Trustee Bank statements for the Reserve Fund account to support the amounts claimed. However, to date, the Agency has been unable to provide any documentation to support the amounts claimed. To the extent the Agency can provide this documentation, the Agency may be able to obtain RPTTF funding on future ROPS.

- Item Nos. 12, 13, 99 and 100 – 1995H Highland Lutheran SR Housing and 1995R Casa Ramona SR Housing bonds debt service payments totaling $174,812. It is our understanding other revenue is received monthly from third parties. During the Meet and Confer process for the ROPS period January through June 2014 (ROPS 13-14B), the Agency contended that other revenues received are required to fund other obligations related to the projects and are not available to fund debt service payments. However, pursuant to the Bond Indenture, Section 5.02, on the 15th of each month, a portion of

gross revenues deposited in the Revenue Fund, in order of priority, should be applied towards annual trustees fees, then applied to fund the taxes, assessments, and insurance for the projects, then applied to fund interest and principal due on the next succeeding due date. To date, the Agency was unable to provide documentation to support the amount that was held in the Revenue Fund, and Trustee invoices supporting the credit of $2,902 and $59,953 applied towards Item Nos. 99 and 100. However, Finance expects the Agency to provide documentation, such as copies of the bond fiscal statements, to support the current balance through the Meet and Confer process. If other revenue is determined to be available, the funding source should change from "RPTTF" to "Other Funds", reflecting the proper use of other revenue accordingly. Therefore these line items are not eligible for RPTTF funding.

- Item No. 38 – Long Term Property Maintenance costs in the amount of $11,500,000 are not enforceable obligations. Finance requested documentation to support the amounts claimed. However, to date, the Agency has been unable to provide documentation to support the amounts claimed. To the extent the Agency can provide suitable documentation, such as executed contracts or vendor invoices to support the requested funding, the Agency may be able to obtain RPTTF funding on future ROPS.

  Finance notes this item contains more than one contract and more than one payee. On future ROPS, the Agency should list each contract as a separate obligation with its own item number and list them in sequential order. Pursuant to HSC 34177 (m) (1), the Agency is required to complete the ROPS in a manner provided by Finance.

- Item No. 82 – Debt Service Reserve Fund (DSRF) Replenishment in the amount of $4,849,838. The Agency requests funds needed to replenish the DSRF to the required balances for Item Nos. 3, 4, 6 through 11, and 28. Finance continues to reclassify the funding source of this item to "Other Funds" as stated in the ROPS 13-14B Meet and Confer determination letter dated December 17, 2013.

  During the July through December 2013 period (ROPS 13-14A) Finance approved $6,408,144 in RPTTF funding for this item. Finance authorized $17,569,239 in RPTTF funds for ROPS 13-14A enforceable obligations, and applied a ROPS II Prior Period Adjustment (PPA) in the amount of $5,876,914, resulting in $11,692,325 in RPTTF funds approved for distribution, which was fully distributed by the San Bernardino County Auditor Controller. The Agency also received $510,467 in RPTTF funds for administrative costs. Consequently, sufficient RPTTF funding was available for the Agency to replenish the required reserves for the ROPS 13-14A period, including the funding that is available from the PPA of $5,876,914.

  Through an email dated April 4, 2014, the Agency contends that the ROPS II PPA was spent on other obligations, therefore impossible to fund the DSRF with a funding source that does not exist because the Agency has cash-flow problems.

  The items on which the funds were spent were not approved by Finance; therefore, the funds should be available for expenditure. HSC section 34177 (a) (3) states that only those payments listed on the approved ROPS may be made from the funding source specified in the ROPS. Also, HSC section 34183 (a) (2) explicitly requires debt service payments to be made first, followed by revenue bonds (to the extent revenues are insufficient to cover the payments due), and all other obligations, if sufficient RPTTF funding remains. Additionally, HSC section 34171 (d) (1) (A) permits reserves to be held

only when required by the bond indenture, or when the next property tax allocation will be insufficient to pay the next bond payment due in the following half of the fiscal year. Therefore, to the extent the Agency has not been funding approved enforceable obligations in this order; the Agency is in direct violation of the law. As such, the Agency should reverse those non-debt service transactions that were either not approved by Finance or subordinated to the Agency's debt service payments. Once corrected, the Agency should return the funding to each DSRF. Therefore, this item is not eligible for RPTTF funding; the funding source is being reclassified to "Other Funds".

- Item No. 85 – Unfunded Prior-Year Pass-Through Payment Obligations in the amount of $2,644,578. The Agency requests funding for unfunded prior year pass-through payment obligations payable to San Bernardino Municipal Water District (SBVMWD). During ROPS 13-14B, Finance approved $2,644,578 RPTTF funding for this item, therefore funds are available to make the payment. Additionally, the San Bernardino County Auditor-Controller distributed the full amount of RPTTF approved for ROPS 13-14B obligations in the amount of $11,202,042, therefore the Agency received sufficient funding for this obligation.

  The Agency contends that the item was unfunded because the funds allocated for the obligation were used to pay for the principal reduction portion of the 1998A, 1998B and 2006 TABs that was inadvertently not requested on ROPS 13-14B submitted to Finance. The funds were also used to pay for the debt service shortfall for the 1995H and 1995R Bonds. The Agency unfunded amounts have been included on ROPS 14-15A under Item Nos. 97 through 101.

  Finance has approved the shortfall for debt service for Item Nos. 97, 98, and 101. Based on our review of the information provided, the Agency cannot request both unfunded pass-through payments and debt service shortfalls at the same time. Therefore, this item is not eligible for additional RPTTF funding.

- Item No. 87 – Carousel Mall Past Due Property Tax in the amount of $869,691. Finance continues to deny this item. The amount consists of past due property taxes for nine parcels for tax years 2009, 2010, and 2012. The Agency acquired the property through a Purchase Money Note dated May 3, 2010, when the former owner defaulted.

  Based upon review of the County of San Bernardino Treasurer-Tax Collector's website during the ROPS 13-14B Meet and Confer process, it was determined that the current owner for all nine parcels is the Carousel Mall LLC, not the Agency. All of these properties were inappropriately transferred to the San Bernardino Economic Development Corporation (SBEDC) in March 2011, who then transferred the properties back to Carousel Mall LLC in December 2011. As of April 14, 2014, according to the Tax Collector's website, these properties are still in the name of Carousel Mall. Additionally, it appears the first payment for tax year 2009 was paid, and a refund issued to SBEDC for the second installment.

  Finance approved OB Resolution No. SBOB/2013-04 approving the acceptance by the Agency of the transfer of the assets from SBEDC back to the Agency through a determination letter dated March 13, 2014. At this point, it is not clear whether or not SBEDC holds title to the properties to affect a transfer back to the Agency, nor is it clear what amount, if any, is due for past due property taxes. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item Nos. 90 to 93 – Discounted Settlement of Lawsuits to foreclosure mechanics liens against former RDA properties totaling $2,309,000 funded by "Other" funds. Finance continues to deny these items. During the California State Controller Office's (Controller) Asset Transfer Review, the Controller ordered the return of several properties formerly owned by the Agency. The Agency contends the Controller's return order also includes any outstanding related liabilities related to those assets; therefore, those liabilities are now obligations of the Agency. Finance denied these items as it was our understanding that these liabilities were incurred or created during the time the properties were owned and operated by the SBEDC, and any contracts or agreements signed were executed between the SBEDC and various third parties; the former RDA was not a party to the contracts.

  Additionally, Finance denied the transfer of liabilities related to these properties through a determination letter dated March 13, 2014 for OB Resolution No. SBOB/2013-04. Therefore, these items are not enforceable obligations and are not eligible for "Other Funds".

- Item Nos. 94, 95, 113 and 114 – Unfunded Prior-Year Pass-Through Obligations totaling $2,940,241. The Agency provided demand letters from Rialto Unified School District, San Bernardino City Unified School District, San Bernardino County Superintendent of Schools, and San Bernardino Community College District that requested payments of underfunded pass-throughs for fiscal years 2008-9 through 2010-11 based on a Los Angeles Unified School District court decision. However, the Agency is not named as a party to the court decision and has not shown that the requested payments are binding. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding.

- Item Nos. 102 through 107 – Various obligations to correct a Prior Period Adjustment error totaling $944,503. Finance continues to deny these items. Finance originally denied these over expenditures during the Meet and Confer for ROPS 13-14B as follows:

ROPS 14-15A Item No.	ROPS III PPA Item No.	Description	Authorized	Actual	Disallowed
102	2	1997A Bond	$22,500	$43,656	$21,156
103	9	2005B TAB	430,887	431,106	219
104	15	CMB-E $10,000,000	261,600	262,500	900
105	26	Woolworth Bldg	506,637	517,053	10,416
106	33	Litigation – Carousel Mall (Placo)	40,000	107,119	67,119
107	38	Long Term Property Maintenance	102,000	946,693	844,693
		Total	**$1,363,624**	**$2,308,127**	**$944,503**

Finance requested supporting documentation to support the amounts claimed. However, to date, the Agency has not provided documentation to support the items claimed. Once sufficient support is provided, the Agency may be able to obtain RPTTF funding on future ROPS.

- Claimed administrative costs exceed the allowance by $423,162. HSC section 34171 (b) limits the fiscal year 2014-2015 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater. Although $821,984 is claimed for administrative cost, only $398,822 is available pursuant to the cap. Therefore, $423,162 of excess administrative cost is not allowed.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2013 period. HSC section 34186 (a) also specifies 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 table below includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part as enforceable obligations or for the items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15A. If you disagree with the determination with respect to any items on your ROPS 14-15A, 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 Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is $7,833,989 as summarized below:

Approved RPTTF Distribution For the period of July through December 2014		
Total RPTTF requested for non-administrative obligations		27,399,459
Total RPTTF requested for administrative obligations		821,984
Total RPTTF requested for obligations	**$**	**28,221,443**
Total RPTTF requested for non-administrative obligations		**27,399,459**
Denied Item		
Item No. 7		(37,800)
Item No. 10		(258,875)
Item No. 12		(41,938)
Item No. 13		(38,194)
Item No. 38		(1,385,200)
Item No. 85		(2,644,578)
Item No. 87		(869,691)
Item No. 94		(42,742)
Item No. 95		(2,223,398)
Item No. 99		(59,274)
Item No. 100		(35,406)
Item No. 102		(21,156)
Item No. 103		(219)
Item No. 104		(900)
Item No. 105		(10,416)
Item No. 106		(67,119)
Item No. 107		(844,503)
Item No. 113		(81,700)
Item No. 114		(592,431)
		(9,255,540)
Reclassified Item		
Item No. 82		(4,849,838)
Total RPTTF authorized for non-administrative obligations	**$**	**13,294,081**
Total RPTTF requested for administrative obligations		**821,984**
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(423,162)
Total RPTTF authorized for administrative obligations	**$**	**398,822**
Total RPTTF authorized for obligations	**$**	**13,692,903**
ROPS 13-14A prior period adjustment		(5,858,914)
Total RPTTF approved for distribution	**$**	**7,833,989**

Administrative Cost Cap Calculation		
Total RPTTF authorized for non-administrative obligations		13,294,081
Percent allowed pursuant to HSC section 34171 (b)		3%
Total RPTTF allowable for administrative obligations		**398,822**
Total RPTTF administrative obligations after Finance adjustments		821,984
Administrative costs in excess of the cap	**$**	**(423,162)**

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 14-15A 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 14-15A 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 14-15B.

Please refer to the ROPS 14-15A 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 July 1 through December 31, 2014. 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 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 Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Lisa Connor, Project Manager, City of San Bernardino
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office