AGENDA ITEM NO. 4

OVERSIGHT BOARD FOR THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF SAN BERNARDINO

Meeting Date: September 22, 2014

To: Oversight Board Members

From: Lisa Connor, Oversight Board Secretary

Subject: Public Comment Session With Respect to the Successor Agency's Other Funds and Accounts Due Diligence Review

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RECOMMENDATION: It is recommended that the Oversight Board conduct a public comment session with respect to the Successor Agency's Other Funds and Accounts Due Diligence Review pursuant to California Health and Safety Code § 34179.6 (b).

BACKGROUND: The Redevelopment Agency of the City of San Bernardino was dissolved February 1, 2012. The Oversight Board for the Successor Agency to the Redevelopment Agency of the City of San Bernardino ("Oversight Board") has been established pursuant to Health and Safety Code ("HSC") § 34179 to assist in the wind-down of the dissolved redevelopment agency.

Per HSC § 34179.5, the Successor Agency is required to employ a licensed accountant, approved by the County Auditor-Controller, to conduct a due diligence review ("DDR") to determine the unobligated balances, as defined in the HSC, that are available for transfer to taxing entities. A separate DDR is required for both the Low- and Moderate-Income Housing Fund ("LMIHF") and the Other Funds and Accounts ("OFA") of the former redevelopment agency. Per HSC, once approved by the Oversight Board, the LMIHF and OFA DDRs are to be submitted to the Department of Finance ("DOF"). At least five (5) business days prior to approving a DDR, the Oversight Board must conduct a public comment session with respect to a DDR. The Oversight Board-approved LMIHF DDR was previously submitted to the DOF (per Oversight Board Resolution No. 2012-19 of December 18, 2012).

The attached OFA DDR was prepared by Eadie & Payne, LLP, Certified Public Accountants as a sub-consultant to and under the auspices of Rogers, Anderson, Malody & Scott, LLP, Certified Public Accountants ("Eadie & Payne/RAMS"). These CPA firms were approved by the County Auditor-Controller for this assignment. Due to delays experienced in completing the City of San Bernardino's Comprehensive Annual Financial Report ("CAFR"), which provided the basis for the OFA DDR and other matters, Eadie & Payne/RAMS were unable to provide the OFA DDR to Successor Agency staff until September 2014.

The OFA DDR indicates that the total amount of assets held by the Successor Agency in its OFA as of June 30, 2012 was $145,511,980. Once legally restricted, non-liquid and clawed-back assets are subtracted from this amount, the balance is $4,155. Therefore, consistent with the

HSC, Eadie & Payne/RAMS has determined that the amount of the Successor Agency's unobligated liquid assets subject to transfer to the County Auditor-Controller for distribution to the taxing entities is $4,155 (see Exhibit 9 of the attached OFA DDR for a summary of these findings).

For your information and consideration, staff suggests that the Oversight Board consider holding a special meeting on or after September 29, 2014 for the purpose of considering the approval of the OFA DDR.

FISCAL IMPACT: Per the OFA DDR, Eadie & Payne/RAMS has determined that the Successor Agency's unobligated liquid assets subject to transfer to the County Auditor-Controller for distribution to the taxing entities is $4,155.

ATTACHMENT: OFA DDR

DRAFT
Subject to Change

SUCCESSOR AGENCY TO THE CITY OF SAN BERNARDINO ECONOMIC DEVELOPMENT AGENCY

Independent Accountant's Report on Applying Agreed-Upon Due Diligence Review Procedures

All Other Funds of the Successor Agency Combined (Excluding the Low and Moderate Income Housing Fund)

SUCCESSOR AGENCY TO THE CITY OF SAN BERNARDINO
ECONOMIC DEVELOPMENT AGENCY

DRAFT
Subject to Change

Due Diligence Review Pursuant to Health & Safety Code Section 34179.5
All Other Funds Combined (Excluding the Low and Moderate Income Housing Fund)

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DRAFT
Subject to Change

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Oversight Board of the Successor Agency to the
City of San Bernardino Economic Development Agency
San Bernardino, California

We have performed the minimum required agreed-upon procedures enumerated in Attachment A, which were agreed to by the Oversight Board of the Successor Agency for the City of San Bernardino Economic Development Agency (Successor Agency), the California State Controller's Office, and the State of California Department of Finance, solely to assist you in determining the Successor Agency's statutory compliance with California Health and Safety Code Section 34179.5. Management of the Successor Agency is responsible for the accounting records pertaining to statutory compliance pursuant to California Health and Safety Code Section 34179.5.

This engagement to apply agreed-upon procedures was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The scope of this engagement was limited to performing the minimum required agreed-upon procedures as set forth in Attachment A along with the results of the procedures performed.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion as to the appropriateness of the results summarized after each procedure in Attachment A. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the applicable agencies and the Successor Agency, and is not intended to be, and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

San Bernardino, California
September __, 2014

Our procedures and results are as follows:

Citation:

34179.5(c)(1) The dollar value of assets transferred from the former redevelopment agency to the successor agency on or about February 1, 2012.

Procedure(s):

1. Obtain from the Successor Agency a listing of all assets that were transferred from the former redevelopment agency to the Successor Agency on February 1, 2012. Agree the amounts on this listing to account balances established in the accounting records of the Successor Agency. Identify in the Agreed-Upon Procedures (AUP) report the amount of the assets transferred to the Successor Agency as of that date.

   Results:
   We obtained from the Successor Agency a listing of all assets that were transferred from the former redevelopment agency (excluding the Low and Moderate Income Housing Fund) to the Successor Agency on February 1, 2012. We noted that the assets transferred, excluding the Low and Moderate Income Housing Fund, totaled $147,024,847. The amounts on the listing agreed to account balances in the accounting records of the Successor Agency. The listing of all assets transferred is attached as Exhibit 1.

Citation:

34179.5(c)(2) The dollar value of assets and cash and cash equivalents transferred after January 1, 2011, through June 30, 2012, by the redevelopment agency or the successor agency to the city, county, or city and county that formed the redevelopment agency and the purpose of each transfer. The review shall provide documentation of any enforceable obligation that required the transfer.

Procedure(s):

2. If the State Controller's Office has completed its review of transfers required under both Sections 34167.5 and 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to the AUP report. If this has not yet occurred, perform the following procedures:

   A. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from all other funds of the former redevelopment agency (excluding the Low and Moderate Income Housing Fund) to the city, county, or city and county that formed the redevelopment agency for the period from January 1, 2011 through January 31, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.

   B. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from all other funds (excluding the Low and Moderate Income Housing Fund) of the Successor Agency to the city, county, or city and county that formed the redevelopment agency for the period from February 1, 2012 through June 30, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.

   C. For each transfer, obtain the legal document that formed the basis for the enforceable obligation that required any transfer. Note in the AUP report the absence of any such legal document or the absence of language in the document that required the transfer.

   Results:
   The State Controller's Office has completed its review of transfers required under Sections 34167.5 and 34178.8 for the period January 1, 2011 through January 31, 2012 and has issued its report regarding such review. See Exhibit 10 for the State Controller's Asset Transfer Review Report dated March 6, 2013.

Citation:

34179.5(c)(3) The dollar value of any cash or cash equivalents transferred after January 1, 2011, through June 30, 2012, by the redevelopment agency or the successor agency to any other public agency or private party and the purpose of each transfer. The review shall provide documentation of any enforceable obligation that required the transfer.

Procedure(s):

3. If the State Controller's Office has completed its review of transfers required under both Sections 34167.5 and 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to the AUP report. If this has not yet occurred, perform the following procedures:

   A. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from all other funds of the former redevelopment agency (excluding the Low and Moderate Income Housing Fund) to any other public agency or to private parties for the period from January 1, 2011 through January 31, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.

   B. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from all other funds of the Successor Agency (excluding the Low and Moderate Income Housing Fund) to any other public agency or private parties for the period from February 1, 2012 through June 30, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.

   C. For each transfer, obtain the legal document that formed the basis for the enforceable obligation that required any transfer. Note in the AUP report the absence of any such legal document or the absence of language in the document that required the transfer.

   Results:
   The State Controller's Office has completed its review of transfers required under Sections 34167.5 and 34178.8 for the period January 1, 2011 through January 31, 2012 and has issued its report regarding such review. See Exhibit 10 for the State Controller's Asset Transfer Review Report dated March 6, 2013.

Citation:

34179.5(c)(4) The review shall provide expenditure and revenue accounting information and identify transfers and funding sources for the 2010–11 and 2011–12 fiscal years that reconciles balances, assets, and liabilities of the successor agency on June 30, 2012 to those reported to the Controller for the 2009–10 fiscal year.

Procedure(s):

4. Perform the following procedures:

   A. Obtain from the Successor Agency a summary of the financial transactions of the redevelopment agency and the Successor Agency in the format set forth in the schedule provided for the fiscal periods indicated in the schedule. For purposes of this summary, the financial transactions should be presented using the modified accrual basis of accounting. End-of-year balances for capital assets (in total) and long-term liabilities (in total) should be presented at the bottom of this summary schedule for information purposes.

   Results:
   We obtained a summary of the financial transactions of the redevelopment agency and the Successor Agency in the format set forth in the schedule provided for the fiscal periods indicated in the schedule. The financial transactions are presented using the modified accrual basis of accounting for the periods ended June 30, 2010, June 30, 2011, and January 31, 2012; and using the full accrual basis of accounting for the period ended June 30, 2012. End-of-year balances for capital assets (in total) and long-term liabilities (in total) are presented at the bottom of the summary schedule for information purposes. The summary of the financial transactions is attached as Exhibit 2.

   B. Ascertain that for each period presented, the total of revenues, expenditures, and transfers account fully for the changes in equity from the previous fiscal period.

   Results:
   We verified that the total of revenues, expenditures, and transfers for each period presented account fully for the changes in equity from the previous fiscal period. We noted that the beginning equity as presented for the period ended January 31, 2012 included prior period adjustments amounting to an increase in equity of $2,649,674. We also noted the net change in equity for the period ended January 31, 2012 included net transfers out of $6,319,438, which consisted of the following:

Results (continued):

Combined fund balances of City Federal Grant Funds as of June 30, 2011, administered by the redevelopment agency and reported as part of the redevelopment agency's accounting records for financial reporting through June 30, 2011. The City's Federal Grant Funds were transferred to the City for administration and financial reporting as a result of the dissolution of the redevelopment agency.	$ (5,122,118)
Federal grants related transfers between redevelopment agency funds and the City's Federal Grant Funds during the period from July 1, 2011 to January 31, 2012.	(2,183,082)
Transfer to the City for the redevelopment agency's share of the 1999 Certificates of Participation debt service payment.	(625,750)
Lease revenue for the redevelopment agency from the City classified as interfund transfers to appropriately eliminate with related debt service transactions in City funds for financial reporting of the City.	1,611,512
Total transfers as reported for the period ended January 31, 2012 in Exhibit 2	$ (6,319,438)

C. Compare amounts in the schedule relevant to the fiscal year ended June 30, 2010 to the State Controller's report filed for the redevelopment agency for that period.

Results:
We compared the amounts in the schedule relevant to the fiscal year ended June 30, 2010 to the State Controller's report filed for the redevelopment agency for that period and noted that the capital assets and long-term debt presented on the schedule as of June 30, 2010 agreed to the audited financial statements, but not to the State Controller's Report. No other variances were noted.

D. Compare amounts in the schedule for the other fiscal periods presented to account balances in the accounting records or other supporting schedules. Describe in the report the type of support provided for each fiscal period.

Results:
We compared the amounts in the schedule for the redevelopment agency for the 12 months ended June 30, 2011 to the 2011 audited financial statements of the City of San Bernardino Economic Development Agency, and no exceptions were noted. We compared the amounts on the schedule for the redevelopment agency for the 7 months ended January 31, 2012 to the trial balances of the City of San Bernardino Economic Development Agency, and to the 2012 City Comprehensive Annual Financial Report (CAFR), and no exceptions were noted. We compared the amounts on the schedule for the Successor Agency for the 5 months ended June 30, 2012 to the trial balances of the City of San Bernardino Successor Agency, and to the 2012 City CAFR, and no exceptions were noted.

Citation:

34179.5(c)(5) A separate accounting for the balance for the Low and Moderate Income Housing Fund for all other funds and accounts combined shall be made as follows:

(A) A statement of the total value of each fund as of June 30, 2012.

Procedure(s):

5. Obtain from the Successor Agency a listing of all assets of all other funds of the Successor Agency as of June 30, 2012 (excluding the previously reported assets of the Low and Moderate Income Housing Fund) for the report that is due December 15, 2012. Agree the assets listed to recorded balances reflected in the accounting records of the Successor Agency. The listings should be attached as an exhibit to the appropriate AUP report.

   Results:
   We obtained a listing of assets of the Successor Agency as of June 30, 2012 (excluding the previously reported assets of the Low and Moderate Income Housing Fund). We agreed the assets listed to balances reflected in the City's 2012 Comprehensive Annual Financial Report. The listing of assets is attached in Exhibit 3.

Citation:

34179.5(c)(5)(B) An itemized statement listing any amounts that are legally restricted as to purpose and cannot be provided to taxing entities. This could include the proceeds of any bonds, grant funds, or funds provided by other governmental entities that place conditions on their use.

Procedure(s):

6. Obtain from the Successor Agency a listing of asset balances of all other funds of the Successor Agency held on June 30, 2012 (excluding the previously reported assets of the Low and Moderate Income Housing Fund) that are restricted for the following purposes:

   A. Unspent bond proceeds:

      i. Obtain the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures, amounts set aside for debt service payments, etc.).

      ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).

      iii. Obtain from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted.

      Results:
      We obtained a listing of all restricted unspent bond proceeds of all other funds of the Successor Agency held on June 30, 2012 (excluding the Low and Moderate Income Housing Fund). The results of Procedures 6.A.i., 6.A.ii., 6.A.iii., and 6.D. applied to this listing are attached as Exhibit 4.

   B. Grant proceeds and program income that are restricted by third parties:

      i. Obtain the Successor Agency's computation of the restricted balances (e. g., total proceeds less eligible project expenditures).

      ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).

      iii. Obtain from the Successor Agency a copy of the grant agreement that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted.

Results:
According to Successor Agency officials, there were no grant proceeds and program income held by the Successor Agency to the former redevelopment agency as of June 30, 2012 that are restricted by third parties.

C. Other assets considered to be legally restricted:

i. Obtain the Successor Agency's computation of the restricted balances (e. g., total proceeds less eligible project expenditures).

ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).

iii. Obtain from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by Successor Agency as restricted.

Results:
We obtained a listing of all legally restricted other assets of all other funds of the Successor Agency held on June 30, 2012 (excluding the Low and Moderate Income Housing Fund). The results of Procedures 6.C.i., 6.C.ii., 6.C.iii., and 6.D. applied to this listing are attached as Exhibit 5.

D. Attach the above-mentioned Successor Agency prepared schedule(s) as an exhibit to the AUP report. For each restriction identified on these schedules, indicate in the report the period of time for which the restrictions are in effect. If the restrictions are in effect until the related assets are expended for their intended purpose, this should be indicated in the report.

Results:
We have attached the schedules provided by the Successor Agency (excluding the Low and Moderate Income Housing Fund) as Exhibits 4 and 5.

Citation:

34179.5(c)(5)(C) An itemized statement of the values of any assets that are not cash or cash equivalents. This may include physical assets, land, records, and equipment. For the purpose of this accounting, physical assets may be valued at purchase cost or at any recently estimated market value. The statement shall list separately housing-related assets.

Procedure(s):

7. Perform the following procedures:

   A. Obtain from the Successor Agency a listing of assets balances of all other funds of the Successor Agency as of June 30, 2012 (excluding the Low and Moderate Income Housing Fund) that are not liquid or otherwise available for distribution (such as capital assets, land held for resale, long-term receivables, etc.) and ascertain if the values are listed at either purchase cost (based on book value reflected in the accounting records of the Successor Agency) or market value as recently estimated by the Successor Agency.

   Results:
   We obtained a listing of asset balances of all other funds of the Successor Agency (excluding the Low and Moderate Income Housing Fund) as of June 30, 2012 that are not liquid or otherwise available for distribution (such as capital assets, land held for resale, long-term receivables, etc.) and ascertained that the values are listed at purchase cost (based on book value reflected in the accounting records of the Successor Agency). This listing is attached as Exhibit 6.

   Subsequent to the release of the audited City of San Bernardino Comprehensive Annual Financial Report for June 30, 2012, the City provided documentation supporting an assertion that the purchase of a certain property held for resale in 2011 was made using bond proceeds that were pledged from the 20% set-aside revenues of the Low and Moderate Income Housing Fund (LMIHF). The transaction was incorrectly reported in a capital projects fund in 2011, instead of the LMIHF, and therefore the property was transferred to the Successor Agency upon RDA dissolution and reported in the Successor Agency as of June 30, 2012. The City intends to correct this misstatement in fiscal year ended June 30, 2013 as a prior period adjustment.

   B. If the assets listed at 7(A) are listed at purchase cost, trace the amounts to a previously audited financial statement (or to the accounting records of the Successor Agency) and note any differences.

   Results:
   We traced the amounts of the assets listed at 7(A) to the accounting records of the Successor Agency as of June 30, 2012 and noted no variances.

   C. For any differences noted in 7(B), inspect evidence of disposal of the asset and ascertain that the proceeds were deposited into the Successor Agency trust fund. If the differences are due to additions (this generally is not expected to occur), inspect the supporting documentation and note the circumstances.

   Results:
   This procedure was not applicable since no variances were noted in Procedure 7(B).

   D. If the assets listed at 7(A) are listed at recently estimated market value, inspect the evidence (if any) supporting the value and note the methodology used. If no evidence is available to support the value and/or methodology, note the lack of evidence.

Results:
This procedure was not applicable since the assets listed in Procedure 7(A) were presented at purchase cost.

Citation:

34179.5(c)(5)(D) An itemized listing of any current balances that are legally or contractually dedicated or restricted for the funding of an enforceable obligation that identifies the nature of the dedication or restriction and the specific enforceable obligation. In addition, the successor agency shall provide a listing of all approved enforceable obligations that includes a projection of annual spending requirements to satisfy each obligation and a projection of annual revenues available to fund those requirements. If a review finds that future revenues together with dedicated or restricted balances are insufficient to fund future obligations and thus retention of current balances is required, it shall identify the amount of current balances necessary for retention. The review shall also detail the projected property tax revenues and other general purpose revenues to be received by the successor agency, together with both the amount and timing of the bond debt service payments of the successor agency, for the period in which the oversight board anticipates the successor agency will have insufficient property tax revenue to pay the specified obligations.

Procedure(s):

8. Perform the following procedures:

   A. If the Successor Agency believes that asset balances need to be retained to satisfy enforceable obligations, obtain from the Successor Agency an itemized schedule of asset balances (resources) as of June 30, 2012 that are dedicated or restricted for the funding of enforceable obligations and perform the following procedures. The schedule should identify the amount dedicated or restricted, the nature of the dedication or restriction, the specific enforceable obligation to which the dedication or restriction relates, and the language in the legal document that is associated with the enforceable obligation that specifies the dedication of existing asset balances toward payment of that obligation.

      i. Compare all information on the schedule to the legal documents that form the basis for the dedication or restriction of the resource balance in question.

      ii. Compare all current balances to the amounts reported in the accounting records of the Successor Agency or to an alternative computation.

      iii. Compare the specified enforceable obligations to those that were included in the final Recognized Obligation Payment Schedule approved by the California Department of Finance.

      iv. Attach as an exhibit to the report the listing obtained from the Successor Agency. Identify in the report any listed balances for which the Successor Agency was unable to provide appropriate restricting language in the legal document associated with the enforceable obligation.

Results:
8.A.i.: We compared the information on the schedule to the legal documents that formed the basis for the dedication or restriction of the cash balance. We noted that the amounts on the schedule were supported by legal documentation. No exceptions were noted.

8.A.ii.: We compared the amounts on the schedule to the City's 2012 Comprehensive Annual Financial Report (CAFR), and noted that the total on the schedule of $897,561, plus the $4,183,433 payment remitted to the County (see Procedure 10), agreed to the amount reported in the CAFR for accounts payable of $5,080,994.

8.A.iii: We compared the items listed on the schedule to the final Recognized Obligation Payment Schedule (ROPS) approved by the California Department of Finance. We noted that the items on the schedule were for approved enforceable obligations or administrative expenses on ROPS I.

8.A.iv: The schedule is attached as Exhibit 7.

B. If the Successor Agency believes that future revenues together with balances dedicated or restricted to an enforceable obligation are insufficient to fund future obligation payments and thus retention of current balances is required, obtain from the Successor Agency a schedule of approved enforceable obligations that includes a projection of the annual spending requirements to satisfy each obligation and a projection of the annual revenues available to fund those requirements and perform the following procedures:

i. Compare the enforceable obligations to those that were approved by the California Department of Finance. Procedures to accomplish this may include reviewing the letter from the California Department of Finance approving the Recognized Enforceable Obligation Payment Schedules for the six-month period from January 1, 2012 through June 30, 2012 and for the six-month period July 1, 2012 through December 31, 2012.

ii. Compare the forecasted annual spending requirements to the legal document supporting each enforceable obligation.

   a. Obtain from the Successor Agency its assumptions relating to the forecasted annual spending requirements and disclose in the report major assumptions associated with the projections.

iii. For the forecasted annual revenues:

   a. Obtain from the Successor Agency its assumptions for the forecasted annual revenues and disclose in the report major assumptions associated with the projections.

Results:
Successor Agency officials believe that future revenues together with balances dedicated or restricted to an enforceable obligation are sufficient to fund future obligation payments.

C. If the Successor Agency believes that projected property tax revenues and other general purpose revenues to be received by the Successor Agency are insufficient to pay bond debt service payments (considering both the timing and amount of the related cash flows), obtain from the Successor Agency a schedule demonstrating this insufficiency and apply the following procedures to the information reflected in that schedule.

i. Compare the timing and amounts of bond debt service payments to the related bond debt service schedules in the bond agreement.

ii. Obtain the assumptions for the forecasted property tax revenues and disclose major assumptions associated with the projections.

iii. Obtain the assumptions for the forecasted other general purpose revenues and disclose major assumptions associated with the projections.

Results:
Successor Agency officials believe that projected property tax revenues and other general purpose revenues to be received by the Successor Agency are sufficient to pay bond debt service payments.

D. If procedures A, B, or C were performed, calculate the amount of current unrestricted balances necessary for retention in order to meet the enforceable obligations by performing the following procedures.

i. Combine the amount of identified current dedicated or restricted balances and the amount of forecasted annual revenues to arrive at the amount of total resources available to fund enforceable obligations.

ii. Reduce the amount of total resources available by the amount forecasted for the annual spending requirements. A negative result indicates the amount of current unrestricted balances that need to be retained.

iii. Include the calculation in the AUP report.

Results:
This procedure was not applicable.

Citation:

34179.5(c)(5)(E) An itemized list and analysis of any amounts of current balances that are needed to satisfy obligations that will be placed on the Recognized Obligation Payment Schedules for the current fiscal year.

Procedure(s):

9. If the Successor Agency believes that cash balances as of June 30, 2012 need to be retained to satisfy obligations on the Recognized Obligation Payment Schedule (ROPS) for the period of July 1, 2012 through June 30, 2013, obtain a copy of the final ROPS for the period of July 1, 2012 through December 31, 2012 and a copy of the final ROPS for the period January 1, 2013 through June 30, 2013. For each obligation listed on the ROPS, the Successor Agency should add columns identifying (1) any dollar amounts of existing cash that are needed to satisfy that obligation and (2) the Successor Agency's explanation as to why the Successor Agency believes that such balances are needed to satisfy the obligation. Include this schedule as an attachment to the AUP report.

   Results:
   We obtained a copy of the final ROPS II for the period of July 1, 2012 through December 31, 2012. For each obligation listed on the ROPS II – Form A –Redevelopment Property Tax Trust Fund (RPTTF), the Successor Agency believes that the amount shown in the total column is the amount of existing cash that is needed to satisfy that obligation. We obtained a copy of the Department of Finance's approval letter of ROPS II dated May 31, 2012 and noted the total approved amount of $12,857,031. We verified the actual distribution from the RPTTF for ROPS II in the amount of $11,165,764, which was received prior to June 30, 2012. We noted the difference between the approved ROPS II amount to be funded from the RPTTF and the actual distribution from the RPTTF was $1,691,267.

   We obtained a copy of the final ROPS III for the period of January 1, 2013 through June 30, 2013. For each obligation listed on the ROPS III, the Successor Agency believes that the amount shown in the six-month total column is the amount of existing cash or anticipated cash from the next RPTTF distribution that is needed to satisfy that obligation. We obtained a copy of the Department of Finance's approval letter of ROPS III dated December 18, 2012 and noted the total approved amount to be funded from the RPTTF of $12,866,300. We also noted the allowable RPTTF distribution for administrative costs of $382,233. We verified the actual distribution from the RPTTF for ROPS III in the amount of $12,068,863, which was received in February 2013. We noted the difference between the approved ROPS III amount to be funded from the RPTTF and the actual distribution from the RPTTF was $1,179,670.

   The Successor Agency believes that existing cash balances of $14,036,701 at June 30, 2012 are needed to satisfy approved obligations on ROPS II and III for the period July 1, 2012 through June 30, 2013. This was determined based on the Successor Agency's comparison of the obligations that were formally approved by the Department of Finance with the actual distributions from the RPTTF for those approved obligations. The schedule is attached in Exhibit 8.

Citation:

34179.5(c)(6) The review shall total the net balances available after deducting the total amounts described in subparagraphs (B) to (E), inclusive, of paragraph (5). The review shall add any amounts that were transferred as identified in paragraphs (2) and (3) of subdivision (c) if an enforceable obligation to make that transfer did not exist. The resulting sum shall be available for allocation to affected taxing entities pursuant to Section 34179.6. It shall be a rebuttable presumption that cash and cash equivalent balances available to the successor agency are available and sufficient to disburse the amount determined in this paragraph to taxing entities. If the review finds that there are insufficient cash balances to transfer or that cash or cash equivalents are specifically obligated to the purposes described in subparagraphs (B), (D), and (E) of paragraph (5) in such amounts that there is insufficient cash to provide the full amount determined pursuant to this paragraph, that amount shall be demonstrated in an additional itemized schedule.

Procedure(s):

10. Include (or present) a schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities. Amounts included in the calculation should agree to the results of the procedures performed in each section above. The schedule should also include a deduction to recognize amounts already paid to the County Auditor-Controller on July 12, 2012 as directed by the California Department of Finance. The amount of this deduction presented should be agreed to evidence of payment. The attached example summary schedule may be considered for this purpose. Separate schedules should be completed for the Low and Moderate Income Housing Fund and for all other funds combined (excluding the Low and Moderate Income Housing Fund).

    Results:
    The schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities for all other funds (excluding the Low and Moderate Income Housing Fund) is attached as Exhibit 9.

Procedure(s):

11. Obtain a representation letter from Successor Agency management acknowledging their responsibility for the data provided to the practitioner and the data presented in the report or in any attachments to the report. Included in the representations should be an acknowledgment that management is not aware of any transfers (as defined by Section 34179.5) from either the former redevelopment agency or the Successor Agency to other parties for the period from January 1, 2011 through June 30, 2012 that have not been properly identified in the AUP report and its related exhibits. Management's refusal to sign the representation letter should be noted in the AUP report as required by attestation standards.

    Results:
    We obtained a representation letter dated September __, 2014 from the Successor Agency's Management acknowledging their responsibility for the data provided to us, the data presented in the report and in all attachments to the report.

    Included in the representations there is an acknowledgment that management is not aware of any transfers (as defined by Section 34179.5) from either the former redevelopment agency or the Successor Agency to other parties for the period from January 1, 2011 through June 30, 2012 that have not been properly identified in this Agreed-Upon Procedures report and its related exhibits.

SUCCESSOR AGENCY TO THE CITY OF SAN BERNARDINO
ECONOMIC DEVELOPMENT AGENCY

Exhibit 1

DRAFT
Subject to Change

Due Diligence Review Pursuant to Health & Safety Code Section 34179.5
All Other Funds Combined (Excluding the Low and Moderate Income Housing Fund)

Procedure 1 – Listing of all assets that were transferred from the former redevelopment agency to the Successor Agency on February 1, 2012.

Assets	EDA Special Revenue Fund	EDA Debt Service Fund	EDA Capital Projects Fund	Capital Assets from Government Wide	Total
Cash and investments*	$ 13,692,260	$ -	$ 21,376,982	$ -	$ 35,069,242
Cash and investments with fiscal agents	-	36,773,859	-	-	36,773,859
Receivables	(2,447)	-	2,289,725	-	2,287,278
Due from the City of San Bernardino	-	-	2,232,925	-	2,232,925
Property held for resale*	1,243,758	-	47,342,478	-	48,586,236
Other assets	-	-	347,200	-	347,200
Land	-	-	-	11,631,572	11,631,572
Buildings and improvements, net	-	-	-	8,567,001	8,567,001
Equipment, net	-	-	-	256,947	256,947
Unamortized bond issuance costs	-	-	-	1,272,587	1,272,587
Total	$ 14,933,571	$ 36,773,859	$ 73,589,310	$ 21,728,107	$ 147,024,847

* The balances presented in this schedule were used in the preparation of the City of San Bernardino Comprehensive Annual Financial Report (audited); the balances do not reflect the effect of a prior period adjustment related to property held for resale as noted in the Results section of Procedure 7.A. in the accompanying report. The prior period adjustment increases cash and investments and decreases property held for resale by $2,678,838.

SUCCESSOR AGENCY TO THE CITY OF SAN BERNARDINO
ECONOMIC DEVELOPMENT AGENCY

Exhibit 2

DRAFT
Subject to Change

Due Diligence Review Pursuant to Health & Safety Code Section 34179.5
All Other Funds Combined (Excluding the Low and Moderate Income Housing Fund)

Procedure 4 – Summary of financial transactions of the former redevelopment agency and the Successor Agency.

	Redevelopment Agency 12 Months Ended 6/30/2010	Redevelopment Agency 12 Months Ended 6/30/2011	Redevelopment Agency 7 Months Ended 1/31/2012	Successor Agency 5 Months Ended 6/30/2012
Assets (modified accrual basis)				
Cash and investments	$ 42,606,798	$ 28,989,886	$ 44,189,969	$ 34,506,252
Cash with fiscal agents	28,842,893	38,673,779	36,773,859	36,912,220
Deposits	322,000	300,000	200,000	300,000
Accounts receivable, net	-	-	-	134,766
Interest receivable	-	-	-	202
Notes receivable	47,031,904	27,097,286	50,230,779	1,364,254
Leases receivable	16,932,502	16,932,502	-	-
Taxes receivable	614,255	220,366	-	11,206
Other receivable	49,847	3,022,335	-	-
Due from City of San Bernardino	427,683	403,905	2,658,425	2,232,925
Due from other governments	738,724	6,091,381	-	-
Advances to other funds	74,238,920	86,190,881	93,127,650	-
Property held for resale	71,260,653	101,505,210	66,844,977	48,607,836
Other assets	-	-	347,200	-
Unamortized bond issuance costs	-	-	-	1,237,905
Capital assets, net	-	-	-	20,204,414
Total Assets	$ 283,066,179	$ 309,427,531	$ 294,372,859	$ 145,511,980
Liabilities (modified accrual basis)				
Accounts payable	$ 1,602,207	$ 2,289,151	$ 256,670	$ 5,080,994
Due to City of San Bernardino	270,000	270,000	270,000	-
Advances from other funds	74,238,920	86,190,881	83,983,348	-
Deposits payable	5,040	55,040	4,532	4,532
Retentions payable	-	-	9,741	143,505
Interest payable	-	-	-	2,410,453
Short-term note payable	16,250,000	16,250,000	16,250,000	16,250,000
Deferred revenue	22,459,272	22,415,687	9,810,000	-
Long term liabilities	-	-	-	179,054,273
Total Liabilities	114,825,439	127,470,759	110,584,291	202,943,757
Equity	168,240,740	181,956,772	183,788,568	(57,431,777)
Total Liabilities + Equity	$ 283,066,179	$ 309,427,531	$ 294,372,859	$ 145,511,980
Total Revenues:	$ 58,103,895	$ 79,631,465	$ 42,605,895	$ 15,392,207
Total Expenditures:	(65,495,869)	(65,915,433)	(37,104,335)	(22,979,547)
Total Transfers:	-	-	(6,319,438) *	-
Total Extraordinary Gain or Loss:	-	-	-	(49,844,437)
Net change in equity	(7,391,974)	13,716,032	(817,878)	(57,431,777)
Beginning Equity:	175,632,714	168,240,740	184,606,446 *	-
Ending Equity:	$ 168,240,740	$ 181,956,772	$ 183,788,568	$ (57,431,777)
Other Information (show year end balances for all three years presented):				
Capital assets as of end of year	$ 21,281,927	$ 20,807,068	$ 20,455,520	$ 20,204,414
Long-term debt as of end of year	171,765,709	185,136,738	-	179,054,273

* See additional comments in the results section of Procedure 4.B.

SUCCESSOR AGENCY TO THE CITY OF SAN BERNARDINO
ECONOMIC DEVELOPMENT AGENCY

Exhibit 3

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Subject to Change

Due Diligence Review Pursuant to Health & Safety Code Section 34179.5
All Other Funds Combined (Excluding the Low and Moderate Income Housing Fund)

Procedure 5 – Listing of assets of all other funds of the Successor Agency as of June 30, 2012.

Assets	Successor Agency 6/30/2012 Per CAFR	Prior Period Adjustment*	Adjusted Balance at 6/30/2012 (unaudited)
Cash and investments	$ 34,506,252	$ 2,678,838	$ 37,185,090
Cash with fiscal agents	36,912,220	-	36,912,220
Deposits**	300,000	-	300,000
Accounts receivable, net	134,766	-	134,766
Interest receivable	202	-	202
Notes receivable	1,364,254	-	1,364,254
Taxes receivable	11,206	-	11,206
Due from City of San Bernardino	2,232,925	-	2,232,925
Property held for resale	48,607,836	(2,678,838)	45,928,998
Unamortized bond issuance costs	1,237,905	-	1,237,905
Capital assets, net	20,204,414	-	20,204,414
Total	$ 145,511,980	$ -	$ 145,511,980

CAFR = City of San Bernardino Comprehensive Annual Financial Report (audited)

* See Results section of Procedure 7.A. in the accompanying report regarding the prior period adjustment.

** The nature and disposition of this escrow deposit related to an agreement for assignment of contract executed on May 5, 2010 is currently under review.

SUCCESSOR AGENCY TO THE CITY OF SAN BERNARDINO
ECONOMIC DEVELOPMENT AGENCY

Exhibit 4

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Subject to Change

Due Diligence Review Pursuant to Health & Safety Code Section 34179.5
All Other Funds Combined (Excluding the Low and Moderate Income Housing Fund)

Procedure 6.A – Listing of restricted Unspent Bonds Proceeds as of June 30, 2012.

6.A. Listing of restricted Unspent Bond Proceeds as of June 30, 2012			
Asset Description	**Enforceable Obligation**	**Amount**	**Procedure Results**
Capital Reserve Fund Account with Fiscal Agent	1999 Refunding Certificates of Participation (Police Station, South Valle Refundings and 201 Building Projects)	$ 4,004,049	6.A.i.: We obtained the Successor Agency's computation of the restricted balances related to these unspent bond proceeds. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amount reported in the capital reserve fund account in the fiscal agent statement as of June 30, 2012. 6.A.iii.: We obtained a copy of the Official Statement for the Certificates of Participation and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.
Tri City Escrow Fund Account with Fiscal Agent	2002A Tax Allocation Refunding Bonds	5,005,498	6.A.i.: We were not provided with a computation of the restricted balances related to these unspent bond proceeds by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amount reported in the Tri City escrow fund account in the fiscal agent statement as of June 30, 2012. 6.A.iii.: We obtained a copy of the Official Statement for the Bonds and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.
Project Account with Fiscal Agent	2010A Tax Allocation Bonds (4th Street Corridor Project-Federally Taxable Recovery Zone Economic Development Bonds)	6,054,574	6.A.i.: We were not provided with a computation of the restricted balances related to these unspent bond proceeds by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amount reported in the project account in the fiscal agent statement as of June 30, 2012. 6.A.iii.: We obtained a copy of the Official Statement for the Bonds and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.

SUCCESSOR AGENCY TO THE CITY OF SAN BERNARDINO
ECONOMIC DEVELOPMENT AGENCY

Exhibit 4

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Subject to Change

Due Diligence Review Pursuant to Health & Safety Code Section 34179.5
All Other Funds Combined (Excluding the Low and Moderate Income Housing Fund)

6.A. Listing of restricted Unspent Bond Proceeds as of June 30, 2012 (continued)			
Asset Description	**Enforceable Obligation**	**Amount**	**Procedure Results**
Project Fund Account with Fiscal Agent	2010B Tax Allocation Bonds (Northwest Redevelopment Project Area)	2,704,170	6.A.i.: We were not provided with a computation of the restricted balances related to these unspent bond proceeds by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amount reported in the project fund account in the fiscal agent statement as of June 30, 2012. 6.A.iii.: We obtained a copy of the Official Statement for the Bonds and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.
Total Unspent Bonds Proceeds		**$ 17,768,291**	

Procedure 6.C – Listing of Other Assets considered to be legally restricted as of June 30, 2012.

6.C. Listing of Other Assets considered to be legally restricted as of June 30, 2012			
Asset Description	**Enforceable Obligation**	**Amount**	**Procedure Results**
Special Fund and Reserve Accounts with Fiscal Agent	1996 Lease Revenue Refunding Bonds	$ 1,257,263	6.A.i.: We were not provided with a computation of the restricted balances related to these restricted balances by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amounts reported in the special fund and reserve accounts in the fiscal agent statements as of June 30, 2012. 6.A.iii.: We obtained a copy of the Official Statement for the Bonds and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.
Special Fund and Reserve Accounts with Fiscal Agent	1997A Public Facilities Lease Revenue Refunding Bonds	945,197	6.A.i.: We were not provided with a computation of the restricted balances related to these restricted balances by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amounts reported in the special fund and reserve accounts in the fiscal agent statements as of June 30, 2012. 6.A.iii.: We obtained a copy of the Official Statement for the Bonds and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.
Reserve, Interest, and Principal Accounts with Fiscal Agent	1998A Tax Allocation Refunding Bonds (Central City Merged Project)	1,456,903	6.A.i.: We were not provided with a computation of the restricted balances related to these restricted balances by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amounts reported in the reserve, interest and principal accounts in the fiscal agent statements as of June 30, 2012. 6.A.iii.: We obtained a copy of the Official Statement for the Bonds and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.

6.C. Listing of Other Assets considered to be legally restricted as of June 30, 2012 (continued)			
Asset Description	**Enforceable Obligation**	**Amount**	**Procedure Results**
Rebate Fund, Reserve, Interest, and Principal Accounts with Fiscal Agent	1998B Subordinated Tax Allocation Refunding Bonds (Central City Merged Project)	647,217	6.A.i.: We were not provided with a computation of the restricted balances related to these restricted balances by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amounts reported in the rebate fund, reserve, interest and principal accounts in the fiscal agent statements as of June 30, 2012. 6.A.iii.: We obtained a copy of the Official Statement for the Bonds and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.
Reserve and Lease Payment Accounts with Fiscal Agent	1999 Refunding Certificates of Participation (Police Station, South Valle Refundings and 201 Building Projects)	1,147,003	6.A.i.: We were not provided with a computation of the restricted balances related to these restricted balances by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amount reported in the reserve and lease payment accounts in the fiscal agent statements as of June 30, 2012. 6.A.iii.: We obtained a copy of the Official Statement for the Certificates of Participation and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.
Reserve, Interest, and Principal Accounts with Fiscal Agent	2002 Tax Allocation Refunding Bonds	2,685,299	6.A.i.: We were not provided with a computation of the restricted balances related to these restricted balances by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amounts reported in the reserve, interest and principal accounts in the fiscal agent statements as of June 30, 2012. 6.A.iii.: We obtained a copy of the Official Statement for the Bonds and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.

6.C. Listing of Other Assets considered to be legally restricted as of June 30, 2012 (continued)			
Asset Description	**Enforceable Obligation**	**Amount**	**Procedure Results**
Reserve, Interest, and Principal Accounts with Fiscal Agent	2002A Tax Allocation Bonds (Mount Vernon Project)	263,661	6.A.i.: We were not provided with a computation of the restricted balances related to these restricted balances by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amounts reported in the reserve, interest and principal accounts in the fiscal agent statements as of June 30, 2012. 6.A.iii.: We obtained a copy of the Official Statement for the Bonds and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.
Reserve, Interest, and Principal Accounts with Fiscal Agent	2005A Tax Allocation Revenue Refunding Bonds	5,100,985	6.A.i.: We were not provided with a computation of the restricted balances related to these restricted balances by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amounts reported in the reserve, interest and principal accounts in the fiscal agent statements as of June 30, 2012 6.A.iii.: We obtained a copy of the Official Statement for the Bonds and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.
Reserve, Interest, and Principal Accounts with Fiscal Agent	2005B Tax Allocation Revenue Refunding Bonds	1,942,827	6.A.i.: We were not provided with a computation of the restricted balances related to these restricted balances by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amounts reported in the reserve, interest and principal accounts in the fiscal agent statements as of June 30, 2012. 6.A.iii.: We obtained a copy of the Official Statement for the Bonds and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.

SUCCESSOR AGENCY TO THE CITY OF SAN BERNARDINO
ECONOMIC DEVELOPMENT AGENCY

Exhibit 5

DRAFT
Subject to Change

Due Diligence Review Pursuant to Health & Safety Code Section 34179.5
All Other Funds Combined (Excluding the Low and Moderate Income Housing Fund)

6.C. Listing of Other Assets considered to be legally restricted as of June 30, 2012 (continued)			
Asset Description	**Enforceable Obligation**	**Amount**	**Procedure Results**
Reserve, Interest, and Principal Accounts with Fiscal Agent	Tax Allocation Bonds (20% Set Aside) Taxable Series 2006	2,700,109	6.A.i.: We were not provided with a computation of the restricted balances related to these restricted balances by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amounts reported in the reserve, interest and principal accounts in the fiscal agent statements as of June 30, 2012. 6.A.iii.: We obtained a copy of the Official Statement for the Bonds and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.
Reserve, Interest, and Principal Accounts with Fiscal Agent	2010A Tax Allocation Bonds (4th Street Corridor Project-Federally Taxable Recovery Zone Economic Development Bonds)	687,830	6.A.i.: We were not provided with a computation of the restricted balances related to these restricted balances by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amounts reported in the reserve, interest and principal accounts in the fiscal agent statements as of June 30, 2012. 6.A.iii.: We obtained a copy of the Official Statement for the Bonds and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.
Reserve, Interest, and Principal Accounts with Fiscal Agent	2010B Tax Allocation Bonds (Northwest Redevelopment Project Area)	309,635	6.A.i.: We were not provided with a computation of the restricted balances related to these restricted balances by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amounts reported in the reserve, interest and principal accounts in the fiscal agent statements as of June 30, 2012. 6.A.iii.: We obtained a copy of the Official Statement for the Bonds and noted language restricting the use of the balances. 6.D.: Restrictions are in effect until the proceeds are expended for their intended purpose.

6.C. Listing of Other Assets considered to be legally restricted as of June 30, 2012 (continued)			
Asset Description	**Enforceable Obligation**	**Amount**	**Procedure Results**
Cash and Investments	Citizens Trust	17,357,792	6.A.i.: We were not provided with a computation of the restricted balances related to these restricted balances by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amounts reported in the Citizens Trust Statement from Citizens Business Bank as of June 30, 2012. 6.A.iii.: We obtained a copy of the Business Loan Agreement for $16,250,000 and the related Commercial Pledge Agreement and noted that the loan was collateralized by the Citizens Trust account. 6.D.: The collateralization pledge will remain in full force and effect until the lender notifies the Agency in writing to the contrary.
Cash and Investments	Citizens Certificate of Deposit	705,448	6.A.i.: We were not provided with a computation of the restricted balances related to these restricted balances by the Sucessor Agency. 6.A.ii.: We agreed the total to the general ledger cash accounts and the amounts reported in the Citizens Certificate of Deposit Statement from Citizens Business Bank as of June 30, 2012. 6.A.iii.: We obtained a copy of the Assignment of Deposit Account dated May 28, 2010 between the Redevelopment Agency, San Bernardino Auto Center, and Citizens Business Bank, and noted that the loan was collateralized by the certificate of deposit held by Citizens Business Bank. 6.D.: The collateralization pledge will remain in full force and effect until the lender notifies the Agency in writing to the contrary.
Total Other Assets Considered to be Legally Restricted		**$ 37,207,169**	

SUCCESSOR AGENCY TO THE CITY OF SAN BERNARDINO
ECONOMIC DEVELOPMENT AGENCY

Exhibit 6

DRAFT
Subject to Change

Due Diligence Review Pursuant to Health & Safety Code Section 34179.5
All Other Funds Combined (Excluding the Low and Moderate Income Housing Fund)

Procedure 7 – Assets that are not liquid or otherwise available for distribution as of June 30, 2012.

Assets that are not liquid or otherwise available for distribution	Successor Agency 6/30/2012 Per CAFR	Prior Period Adjustment*	Adjusted Balance at 6/30/2012 (unaudited)
Deposits**	$ 300,000	-	$ 300,000
Accounts receivable, net	134,766	-	134,766
Interest receivable	202	-	202
Notes receivable	1,364,254	-	1,364,254
Taxes receivable	11,206	-	11,206
Due from City of San Bernardino	2,232,925	-	2,232,925
Property held for resale	48,607,836	(2,678,838)	45,928,998
Unamortized bond issuance costs	1,237,905	-	1,237,905
Capital assets, net	20,204,414	-	20,204,414
Total	$ 74,093,508	$ (2,678,838)	$ 71,414,670

CAFR = City of San Bernardino Comprehensive Annual Financial Report (audited)

* See Results section of Procedure 7.A. in the accompanying report regarding the prior period adjustment.

** The nature and disposition of this escrow deposit related to an agreement for assignment of contract executed on May 5, 2010 is currently under review.

SUCCESSOR AGENCY TO THE CITY OF SAN BERNARDINO
ECONOMIC DEVELOPMENT AGENCY

Exhibit 7

DRAFT
Subject to Change

Due Diligence Review Pursuant to Health & Safety Code Section 34179.5
All Other Funds Combined (Excluding the Low and Moderate Income Housing Fund)

Procedure 8.A. – Schedule of asset balances dedicated or restricted for the funding of enforceable obligations as of June 30, 2012

Payee	Nature of Dedication or Restriction and Approved ROPS I Enforceable Obligation	Amount Dedicated or Restricted
Advanced Office Services	Administration	$ 495
Aztec Uniform Towel Rental	Administration	326
Beacon Economics LLC	Administration	3,750
California Computer Options	Administration	2,497
Chevron Chemical Co Credit Cards	Administration	3,346
Federal Express Corporation	Administration	62
Firstcom Music	Administration	600
Freeman Office Products	Administration	131
ICCS Corporation	Administration	2,300
Kaiser Foundation Health Plan Inc	Administration	2,845
Konica Minolta Business Solutions	Administration	1,329
Linkline Communications Inc	Administration	151
Pitney Bowes	Administration	1,056
Protection One Alarm Monitoring Inc	Administration	301
Sparkletts Drinking Water	Administration	18
State of California EPA Dept of Toxic Substances	Administration	8
Statewide Security Systems	Administration	285
Steelworkers Oldtimers Foundation	Administration	36,057
Tiger Direct Com	Administration	469
Toshiba Business Solutions	Administration	12
Toshiba Financial Services	Administration	1,683
Tyco Integrated Security LLC	Administration	2,140
U.S. Treasury	Administration	4,536
US Bank	Administration	1,092
USA Mobility Wireless Inc	Administration	12
Vacant Property Security LLC	Administration	453
Verizon California	Administration	2,872
Wells Fargo Processing Center	Administration	387
		69,213

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SUCCESSOR AGENCY TO THE CITY OF SAN BERNARDINO
ECONOMIC DEVELOPMENT AGENCY

Exhibit 7

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Subject to Change

Due Diligence Review Pursuant to Health & Safety Code Section 34179.5
All Other Funds Combined (Excluding the Low and Moderate Income Housing Fund)

Payee	Nature of Dedication or Restriction and Approved ROPS I Enforceable Obligation	Amount Dedicated or Restricted
continued from previous page		
Aecom USA Inc	Contracts/DDAs/OPAs	$ 45,075
American Jetting Services	Contracts/DDAs/OPAs	350
Amtech Reliable Elevator Co	Contracts/DDAs/OPAs	270
Andy Gump Inc	Contracts/DDAs/OPAs	5,781
Arrow Power Sweeping Inc	Contracts/DDAs/OPAs	4,649
Arrowhead Group Inc DBA Basic Backflow	Contracts/DDAs/OPAs	328
Avalon Building Maintenance	Contracts/DDAs/OPAs	7,244
BP California	Contracts/DDAs/OPAs	74,297
Broadway Premium Funding	Contracts/DDAs/OPAs	470
City of San Bernardino Water	Contracts/DDAs/OPAs	30,410
CMB Infrastructure Investment Group III	Contracts/DDAs/OPAs	433,125
Corelogic	Contracts/DDAs/OPAs	2,261
CSR Air Conditioning & Heating Inc	Contracts/DDAs/OPAs	6,230
Dataquick Information Systems Inc	Contracts/DDAs/OPAs	1,704
Dewey Pest Control	Contracts/DDAs/OPAs	170
Dibs Safe & Lock Service	Contracts/DDAs/OPAs	396
Donegan Tree Service	Contracts/DDAs/OPAs	350
Home Depot GECF Commercial Account	Contracts/DDAs/OPAs	372
IE Alarm Systems	Contracts/DDAs/OPAs	45
Inland Empire Landscape Inc	Contracts/DDAs/OPAs	1,975
Joes Lawnmower Supplies Inc	Contracts/DDAs/OPAs	2,826
John P. Sessions	Contracts/DDAs/OPAs	355
Lilburn Corporation	Contracts/DDAs/OPAs	14,262
Maintex Maintenance Experts	Contracts/DDAs/OPAs	558
National Construction & Maintenance	Contracts/DDAs/OPAs	7,975
National Construction Rentals Inc	Contracts/DDAs/OPAs	858
Patriot Environmental Lab Services Inc	Contracts/DDAs/OPAs	1,680
Randall D. Jacobs	Contracts/DDAs/OPAs	1,860
Sanborn Fire Protection & Mechanical Contractors	Contracts/DDAs/OPAs	475
Sharp Exterminator Company	Contracts/DDAs/OPAs	505
Sign A Rama	Contracts/DDAs/OPAs	90
Sign A Rama	Contracts/DDAs/OPAs	537
Southern California Edison	Contracts/DDAs/OPAs	166,311
Sweet Dreams Realty	Contracts/DDAs/OPAs	10,000
Terminix Processing Center	Contracts/DDAs/OPAs	231
United Site Services	Contracts/DDAs/OPAs	1,808
University Park Promenade & Shops LLC	Contracts/DDAs/OPAs	921
Windstream	Contracts/DDAs/OPAs	1,594
		828,348
Total obligations accrued in accounts payable		$ 897,561

SUCCESSOR AGENCY TO THE CITY OF SAN BERNARDINO
ECONOMIC DEVELOPMENT AGENCY

Exhibit 8

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Due Diligence Review Pursuant to Health & Safety Code Section 34179.5
All Other Funds Combined (Excluding the Low and Moderate Income Housing Fund)

Procedure 9 – Cash balances needed to satisfy obligations on the ROPS

Period	Explanation as to why the Successor Agency believes that such balances are needed to satisfy the obligation	Amount	Dollar amounts of existing cash that are needed to satisfy that obligation
ROPS II (July 1, 2012 - December 31, 2012)	Total obligations requested to be paid for with RPTTF on ROPS II	$ 13,885,835	
ROPS II (July 1, 2012 - December 31, 2012)	Less: Total RPTTF obligations questioned by Finance	1,028,804	
ROPS II (July 1, 2012 - December 31, 2012)	Maximum RPTTF obligations approved by Finance (see attached letter from Finance dated May 31, 2012)	12,857,031	
ROPS II (July 1, 2012 - December 31, 2012)	Less: Actual RPTTF distribution for ROPS II received prior to June 30, 2012	11,165,764	$ 11,165,764
ROPS II (July 1, 2012 - December 31, 2012)	Additional amount to be retained (approved ROPS II less actual RPTTF distribution)	$ 1,691,267	1,691,267
ROPS III (January 1, 2013 - June 30, 2013)	Total obligations requested to be paid for with RPTTF on ROPS III	$ 12,892,900	
ROPS III (January 1, 2013 - June 30, 2013)	Less: Items denied as enforceable obligations by Finance (see attached letter from Finance dated December 18, 2012)	(26,600)	
ROPS III (January 1, 2013 - June 30, 2013)	Total approved RPTTF for enforceable obligations (see attached letter from Finance dated December 18, 2012)	12,866,300	
ROPS III (January 1, 2013 - June 30, 2013)	Add: Allowable RPTTF distribution for administrative cost on ROPS III (see attached letter from Finance dated December 18, 2012)	382,233	
ROPS III (January 1, 2013 - June 30, 2013)	Less: Actual RPTTF distribution for ROPS III received in February 2013	(12,068,863)	
ROPS III (January 1, 2013 - June 30, 2013)	Additional amount to be retained (approved ROPS III less actual RPTTF distribution)	$ 1,179,670	1,179,670
			$ 14,036,701

DEPARTMENT OF FINANCE
EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

May 31, 2012

Ms. Teri Baker, Director of Administrative Services
City of San Bernardino
201 North E Street, Suite 301
San Bernardino, CA 92401

Dear Ms. Baker:

Subject: Recognized Obligation Payment Schedule Approval Letter

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the City of San Bernardino Successor Agency submitted Recognized Obligation Payment Schedules (ROPS) to the California Department of Finance (Finance) on May 25, 2012 for the periods January to June 2012 and July to December 2012. Finance is acknowledging appropriate oversight board approval. Finance has completed its review of your ROPS, which may have included obtaining clarification for various items.

This letter supersedes Finance's letter dated April 27, 2012. Except for items disallowed in whole or in part as enforceable obligations noted below. Finance is approving the remaining items listed in your ROPS.

HSC section 34171 (d) lists enforceable obligation (EO) characteristics. Based on a sample of line items reviewed and application of the law, the following do not qualify as EOs:

<u>January to June 2012 ROPS:</u>

- Page 5 of 9, line items 1 through 67 – Capital project funding agreement between the former redevelopment agency (RDA) and San Bernardino Economic Development Corporation (SBEDC) in the amount of $525 million, including any and all related projects, contracts, or agreements. The amount questioned is based on the total amount identified in the agreement. ABx1 26 requires agencies to expeditiously wind down the affairs of the dissolved redevelopment agencies and provide the successor agencies with limited authority that extends only to the extent needed to implement a wind down of RDA affairs and perform under enforceable obligations. As of June 28, 2011, RDAs were prohibited from creating any new obligations and engaging in any new redevelopment. As of February 1, 2012, the RDA's authority was suspended and the RDA ceased to exist. Any transfers of the RDA's powers are impacted by those prohibitions and that dissolution and there is no authority that can be transferred to any other entity to take out or make new loans or engage in any other activity to create obligations. Thus, any specific obligations that did not exist as of June 27, 2011 are not EOs on the successor agency within the meaning of HSC section 34171 (d) (1).

- Page 5 of 9, line 20 – Housing capitalization agreement between the former RDA and Affordable Housing Solutions (AHS) in the amount of $375 million, including any and all related projects, contracts, or agreements. The amount questioned is based on the total

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amount identified in the agreement; however, no amounts were reported for the 6-month period. The requirement to set aside 20 percent of RDA tax increment for low and moderate income housing purposes ended with the passing of the redevelopment dissolution legislation. HSC section 34177 (d) requires that all unencumbered balances in the Low and Moderate Income Housing Fund be remitted to the county auditor controller for distribution to the taxing entities. Therefore, this item is not an EO.

- Various contracts totaling $17.3 million. The contracts/agreements were not with the RDA and are therefore not EOs:

Item Number	Page Number	Project	Amount
2	4	Arden Gurtrie Section 108	$10,325,497
118	5	Downtown Transit Center - Rialto & E	3,500,000
119	5	SBx/ Omnitrans Bus Line	3,500,000
		Total	$17,325,497

- Administrative cost claimed exceeds allowance by $2.3 million. HSC section 34171 (b) limits the fiscal year 2011-12 administrative cost allowance to five percent of the property tax allocated to the successor agency or $250,000, whichever is greater. Five percent of the property tax allocated is $638,077 and is therefore the maximum administrative cost allowance.

<u>July to December 2012 ROPS:</u>

- Form A, line items 54 through 65 – Capital project funding agreement between the former RDA and SBEDC in the amount of $525 million, including any and all related projects, contracts, or agreements. The amount questioned is based on the total amount identified in the agreement for the reasons specified above; however, no amounts were reported for the 6-month period.

- Form B, line items 51 through 75 – Housing capitalization agreement between the former RDA and AHS in the amount of $375 million, including any and all related projects, contracts, or agreements. The amount questioned is based on the total amount identified in the agreement for the reasons specified above.

- Various contracts totaling $16.3 million. The contracts/agreements below were not with the RDA and are therefore not EOs:

Item Number	Form	Project	Amount
19	A	Arden Gurtrie Section 108	$10,325,497
34	A	Downtown Transit Center - Rialto & E	2,500,000
35	A	SBx/ Omnitrans Bus Line	3,500,000
		Total	$16,325,497

- Administrative cost claimed exceeds allowance by $1 million. HSC section 34171 (b) limits the fiscal year 2012-13 administrative cost allowance to three percent of the property tax allocated to the successor agency or $250,000, whichever is greater. Three percent of the property tax allocated is $374,477 and is therefore the maximum administrative cost allowance.

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This is our determination with respect to any items funded from the Redevelopment Property Tax Trust Fund (RPTTF) for the June 1, 2012 property tax allocations. If your oversight board disagrees with our determination with respect to any items not funded with property tax, any future resolution of the disputed issue may be accommodated by amending the ROPS for the appropriate time period. Items not questioned during this review are subject to a subsequent review, if they are included on a future ROPS. If an item included on a future ROPS is not an enforceable obligation, Finance reserves the right to remove that item from the future ROPS, even if it was not removed from the preceding ROPS.

Please refer to Exhibit 12 at http://www.dof.ca.gov/assembly_bills_26-27/view.php for the amount of RPTTF that was approved by Finance based on the schedule submitted.

As you are aware the amount of available RPTTF is the same as the property tax increment that was available prior to ABx1 26. 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 in the RPTTF.

Please direct inquiries to Evelyn Suess, Supervisor or Mindy Patterson, Lead Analyst at (916) 322-2985.

Sincerely,

Mark Hill

MARK HILL
Program Budget Manager

cc: Mr. Larry Walker, Auditor Controller, County of San Bernardino
Ms. Vanessa Doyle, Property Tax Manager, County of San Bernardino
Ms. Linda Santillano, Supervising Accountant, County of San Bernardino
Mr. Franz Zyss, Accountant III, County of San Bernardino

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Exhibit 12 from http://www.dof.ca.gov/assembly bills 26-27/view.php

The schedule below represents the amount of property tax requested to pay for enforceable obligations from the Redevelopment Property Tax Trust Fund (RPTTF) for the January through June 2012 ROPS and the July through December 2012 ROPS. It also details Finance's questioned and approved amount of RPTTF from our reviews of the agencies' ROPS. Please note, the amount of available RPTTF is the same as the property tax increment that was available prior to ABx1 26. 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 in the RPTTF. Additionally, Health and Safety Code section 34177 (l) (E) states that RPTTF is an appropriate 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. Therefore, successor agencies should exhaust all other available funding sources and only use RPTTF as a last resort.

		January to June 2012			July to December 2012		
County	Successor Agency	Total Obligations Requested to be Paid for with RPTTF per 6-Month Period (Includes Pass-Through Payments listed in ROPS)	Total RPTTF Obligations Questioned by Finance per 6-Month Period	Maximum RPTTF Obligations Approved by Finance per 6-Month Period (see footnote at the bottom of the page)	Total Obligations Requested to be Paid for with RPTTF per 6-Month Period (Does not include pass-through payments listed in ROPS)	Total RPTTF Obligations Questioned by Finance per 6-Month Period	Maximum RPTTF Obligations Approved by Finance per 6-Month Period (see footnote at the bottom of the page)
San Bernardino	City of San Bernardino Economic Development Agency	$ 19,042,032	$ 4,275,073	$ 14,766,960	$ 13,885,835	$ 1,028,804	$ 12,857,031

Footnote: Each ROPS is limited to the amount of net property tax after pass-throughs and county auditor-controller costs for that period. Consequently, the amount of property tax actually received by each Successor Agency will differ from the sums shown in the columns titled Maximum RPTTF Obligations Approved by Finance per 6-Month Period.

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DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. ▪ GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

December 18, 2012

Ms. Teri Baker, Assistant to the City Manager
City of San Bernardino
300 North D Street, 6th Floor
San Bernardino, CA 94218

Dear Ms. Baker:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 18, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of San Bernardino Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 30, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 18, 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 2, 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 items being disputed.

As related to items 50, 63 through 75, 77, and 79, ABx1 26 requires agencies to expeditiously wind down the affairs of the dissolved redevelopment agencies (RDAs) and provides successor agencies with limited authority only to the extent needed to implement the wind down of RDA affairs and perform under enforceable obligations. As of June 27, 2011, RDAs were prohibited from creating any new obligations and engaging in any new redevelopment. As of February 1, 2012, the RDAs were dissolved and ceased to exist. Any attempted transfers of an RDA's powers to a third party were also impacted by the prohibitions and the dissolution. Since the San Bernardino RDA no longer had the power to take out or make new loans or engage in any other activity to create obligations as of June 27, 2011, these powers could not be transferred to a third party. Thus, any specific obligations, whether by the former RDA or a third party acting on behalf of the former RDA that did not exist as of June 27, 2011, are not enforceable obligations within the meaning of HSC section 34171(d)(1). This conclusion includes the funding agreements executed with the Affordable Housing Solutions, Inc. (AHS) and San Bernardino Economic Development Corporation, Inc., (SBEDC), including any and all related projects, contracts, or agreements that arose from those funding agreements. In addition, Finance provides the following clarifications:

- Item No. 50 – Turtle Island Construction Services (Turtle Island) in the amount of $1.1 million to be paid from the Low and Moderate Income Housing Fund (LMIHF). Finance continues to deny this item. Finance denied the item as an enforceable

obligation as HSC section 34176 (a) (1) requires the housing entity to be responsible for the housing duties and obligations previously performed by the redevelopment agency (RDA). The Agency states the item is an enforceable obligation because the Acquisition and Development Residual Receipts Loan Agreement with Lugo Senior Apartments dated December 10, 2010 creates an obligation for the former RDA to oversee expenditures of the loan recipient. The Agency contends that this obligation was assigned on March 3, 2011 to the AHS, who then entered into a contract with Turtle Island on July 8, 2011 to provide the oversight services based on a Housing Funding Agreement. As noted above, this item is not an enforceable obligation; therefore HSC section 34177 (d) applies which requires that all unencumbered balances in the LMIHF be remitted to the county auditor controller for distribution to the taxing entities.

- Items Nos. 63 through 75, 77, and 79 – Contracts with various third parties regarding the Regal Cinema and Theatre Square Project, the 4th Street Downtown Streetscape Project, and the Stadium Parking Lot Project in the amount of $2.3 million to be paid from "Other Funds". Finance denied the items as enforceable obligations as the former RDA is neither a party to the contracts nor responsible for payment of the contracts. The Agency contends the items are enforceable obligations because the Financing Agreement with CMB Export LLC dated March 1, 2011; EB-5[1] is an obligation of the former RDA to construct the projects. While the Financing Agreement requires the former RDA to use the loan proceeds on any one of a number of projects, it does not obligate the former RDA to enter into the contract in question. Furthermore, the Agency contends that this obligation under the EB-5 Financing Agreement was assigned on March 3, 2011 to the SBEDC, who then entered into contracts with various third parties after June 27, 2011 to construct the projects based on the Project Funding Agreement. Finance continues to deny these items as noted above. In addition, HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011.

Items Nos. 31, 37, and 38 were reclassified by Finance as administrative costs. Finance no longer reclassifies items 31 and 38 as administrative costs; however, Finance denies item 37 as an enforceable obligation. The Agency contends that item 31 reflects retirement benefits they are contractually obligated to pay to its employees pursuant to HSC section 34171 (d) (1) (C); item 37 reflects the financial software that is required to enable the Agency to track its financial rights, duties, and obligations; and item 38 reflects costs incurred to maintain properties owned by the Agency prior to disposition pursuant to HSC section 34171 (d) (1) (F). Finance agrees that legally enforceable payments required in connection with the Agency' employees and the costs of maintaining assets prior to disposition are enforceable obligations under HSC section 34171 (d) (1). Therefore, items 31 and 38 are enforceable obligations and should not be included in the administrative cap. The financial software is administrative in nature and should be included in the administrative cap; however, the July 26, 2011 contract provided for the services is between the SBEDC and Springbrook Software. Since the Agency is not a party to the contract and the financial software and services under the contract are not provided to the Agency, item 37 is neither an enforceable obligation nor should it be reclassified as an administrative cost.

[1] The federal EB-5 Visa Regional Center Program is administered by the United States Citizenship and Immigration Service to allow foreign nationals to obtain permanent residency status in the United States upon the investment of $500,000 in a qualified investment activity that generates jobs in the United States. *Source: Memorandum from the City of San Bernardino to Finance dated 11/1/12*

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Furthermore, per Finance's ROPS letter dated October 18, 2012, the following items not disputed by the Agency continue to be denied:

- Item Nos. 51 through 59, 61 through 62, and 81 – Miscellaneous Consultant Services in the amount of $599,500 from the LMIHF and Redevelopment Property Tax Trust Fund (RPTTF). HSC section 34176 (a) (1) requires the housing entity to be responsible for the housing duties and obligations previously performed by the RDA. Therefore, these items are not enforceable obligations.

The Agency's maximum approved RPTTF distribution for the reporting period is: $13,248,533 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013		
Total RPTTF funding requested for obligations	$	12,892,900
Less: Six-month total for items denied:		
Item 37		6,600
Item 54		5,000
Item 57		5,000
Item 58		10,000
Total approved RPTTF for enforceable obligations	$	12,866,300
Plus: Allowable RPTTF distribution for administrative cost for ROPS III		382,233
Total RPTTF approved:	$	13,248,533

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.

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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. Mike Trout, Project Manager, City of San Bernardino
Ms. Vanessa Doyle, Property Tax Manager, San Bernardino County
California State Controller's Office

SUCCESSOR AGENCY TO THE CITY OF SAN BERNARDINO
ECONOMIC DEVELOPMENT AGENCY

Exhibit 9

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Due Diligence Review Pursuant to Health & Safety Code Section 34179.5
All Other Funds Combined (Excluding the Low and Moderate Income Housing Fund)

Procedure 10 – Computation of the balance available for allocation to affected taxing entities

Total amount of assets held by the successor agency as of June 30, 2012 (Procedure 5)	$ 145,511,980
Add the amount of any assets transferred to the city or other parties for which an enforceable obligation with a third party requiring such transfer and obligating the use of the transferred assets did not exist (Procedures 2 and 3)	-
Less assets legally restricted for uses specified by debt covenants, grant restrictions, or restrictions imposed by other governments (Procedure 6)	(54,975,460)
Less assets that are not cash or cash equivalents (e.g., physical assets) (Procedure 7)	(71,414,670)
Less balances that are legally restricted for the funding of an enforceable obligation (net of projected annual revenues available to fund those obligations) (Procedure 8)	(897,561)
Less balances needed to satisfy ROPS for the 2012-13 fiscal year (Procedure 9)	(14,036,701)
Less the amount of payments made on July 12, 2012 to the County Auditor-Controller as directed by the California Department of Finance	(4,183,433)
Amount to be remitted to county for disbursement to taxing entities	$ 4,155

Procedures 2 and 3 – A copy of the State Controller's Asset Transfer Review Report - March 2013 is attached.

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CITY OF SAN BERNARDINO ECONOMIC DEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012

JOHN CHIANG
California State Controller

March 2013

Exhibit 10

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JOHN CHIANG
California State Controller

March 6, 2013

Allen J. Parker, City Manager
City of San Bernardino/Redevelopment Successor Agency
200 North D Street, 6th Floor
San Bernardino, CA 92418

Dear Mr. Parker:

Pursuant to Assembly Bill 26 (ABX1 26, Chapter 5, Statutes of 2011, First Extraordinary Session), the State Controller's Office reviewed the asset transfers made by the San Bernardino Economic Development Agency (RDA) for the period of January 1, 2011, through January 31, 2012. Our review included, but was not limited to real and personal property, cash funds, accounts receivable, deeds of trust and mortgages, contract rights, and any rights to payments of any kind from any source.

Our review found that the San Bernardino RDA made an unallowable transfer of $108,372,060.20 in assets, or 100%, to the San Bernardino Economic Development Corporation.

Additionally, our review identified $420,512,906.15 in San Bernardino RDA assets that have not yet been transferred to any agency. The City of San Bernardino is ordered to transfer these assets to the San Bernardino Redevelopment Successor Agency.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/vb

Attachment

cc: Richard J. Chivaro, Chief Legal Counsel
State Controller's Office
Scott Freesmeier, Audit Manager
Division of Audits, State Controller's Office
Si Lau, Auditor-in-Charge
Division of Audits, State Controller's Office

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Attachment—City's Response to Draft Review Report

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Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the City of San Bernardino Economic Development Agency (RDA) for the period of January 1, 2011, through January 31, 2012. Our review included, but was not limited to, real and personal property, cash funds, accounts receivable, deeds of trust and mortgages, contract rights, and any rights to payments of any kind from any source.

Our review found that the San Bernardino RDA made an unallowable transfer of $108,372,060.20 in assets, or 100%, to the San Bernardino Economic Development Corporation.

Additionally, our review identified $420,512,906.15 in San Bernardino RDA assets that have not yet been transferred to any agency. The City of San Bernardino is ordered to transfer these assets to the San Bernardino Redevelopment Successor Agency.

Background

In January of 2011, the Governor of the State of California proposed statewide elimination of redevelopment agencies (RDAs), beginning with the fiscal year (FY) 2011-12 State budget. The Governor's proposal was incorporated into Assembly Bill 26 (ABX1 26, Chapter 5, Statutes of 2011, First Extraordinary Session), which was passed by the Legislature and signed into law by the Governor on June 28, 2011.

ABX1 26 prohibited RDAs from engaging in new business, established mechanisms and timelines for dissolution of the RDAs, and created RDA Successor Agencies to oversee dissolution of the RDAs and redistribution of RDA assets.

A California Supreme Court decision on December 28, 2011 (California Redevelopment Association et al. v. Matosantos) upheld ABX1 26 and the Legislature's constitutional authority to dissolve the RDAs.

ABX1 26 was codified in the Health and Safety (H&S) Code beginning with section 34161.

In accordance with the requirements of H&S Code section 34167.5, the State Controller is required to review the activities of RDAs, "to determine whether an asset transfer has occurred after January 1, 2011, between the city or county, or city and county that created a redevelopment agency, or any other public agency, and the redevelopment agency," and the date at which the RDA ceases to operate, or January 31, 2012, whichever is earlier.

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The SCO has identified transfers of assets that occurred during that period between the City of San Bernardino RDA, the City of San Bernardino, and/or other public agencies. By law, the SCO is required to order that such assets—except those that already had been committed to a third party prior to June 28, 2011, the effective date of ABX1 26—be turned over to the Successor Agency. In addition, the SCO may file a legal order to ensure compliance with this order.

Objectives, Scope, and Methodology

Our review objective was to determine whether asset transfers that occurred after January 1, 2011, and the date upon which the RDA ceased to operate, or January 31, 2012, whichever was earlier, between the city or county, or city and county that created an RDA, or any other public agency, and the RDA, were appropriate.

We performed the following procedures:

- Interviewed Successor Agency personnel to gain an understanding of the Successor Agency operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the San Bernardino City Council, the Community Development Commission, and the San Bernardino Economic Development Agency.
- Reviewed accounting records relating to the recording of assets.
- Verified the accuracy of the Asset Transfer Assessment Form. This form was sent to all former RDAs to provide a list of all assets transferred between January 1, 2011, and January 31, 2012.
- Reviewed applicable financial reports to verify assets (capital, cash, property, etc.).

Conclusion

Our review found that the San Bernardino RDA made an unallowable transfer of $108,372,060.20 in assets, or 100%, to the San Bernardino Economic Development Corporation.

Additionally, our review identified $420,512,906.15 in San Bernardino RDA assets that have not yet been transferred to any agency. The City of San Bernardino is ordered to transfer these assets to the San Bernardino RDA Successor Agency.

Details of our findings and Orders of the Controller are in the Findings and Orders of the Controller section of this report. We also have included a detailed schedule of assets to be turned over to, or transferred to, the Successor Agency.

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Views of Responsible Officials

At an exit conference on September 19, 2012, we discussed the review results with Teri Baker, Assistant to the City Manager, and Jason Simpson, Director of Finance. At the exit conference, we stated that the final report will include the views of responsible officials. On November 21, 2012, the City responded to our draft report. The City's response is included as an attachment to this report.

Restricted Use

This report is solely for the information and use of the San Bernardino RDA Successor Agency, the Successor Agency Oversight Board, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record when issued final.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

March 6, 2013

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Findings and Orders of the Controller

**FINDING 1—
Unallowable transfers to the San Bernardino Economic Development Corporation**

The San Bernardino Economic Development Agency (RDA) transferred $108,372,060.20 in assets to the San Bernardino Economic Development Corporation (SBEDC) on March 17, 2011. The purpose of the asset transfers was to protect the RDA resources from elimination. All of the asset transfers to the SBEDC occurred during the period of January 1, 2011, through January 31, 2012, and the assets were not contractually committed to a third party prior to June 28, 2011.

On March 17, 2011, the mayor, Common Council, and Community Development Commission of the City of San Bernardino approved the transfer of real property assets to the SBEDC. This transfer was unallowable under Health and Safety (H&S) Code section 34167.5 and Assembly Bill (AB) 1484.

Pursuant to the provisions of H&S Code 34167.5 and AB 1484, the RDA may not transfer assets to a city, county, city and county, or any other public agency after January 1, 2011.

The City of San Bernardino contended that the SBEDC is a public nonprofit corporation created to provide charitable or other public purposes and that transfers from the RDA to the SBEDC are not prohibited under H&S Code section 34167.5. However, H&S Code section 34167.10 states the following:

> (a) Notwithstanding any other law, for purposes of this part and Part 1.85 (commencing with Section 34170), the definition of a city, county, or city and county includes, but is not limited to, the following entities:
>
> (1) Any reporting entity of the city, county, or city and county for purposes of its comprehensive annual financial report or similar report.
>
> (2) Any component unit of the city, county, or city and county.
>
> (3) Any entity which is controlled by the city, county, or city and county, or for which the city, county, or city and county is financially responsible or accountable.
>
> (b) The following factors shall be considered in determining that an entity is controlled by the city, county, or city and county, and are therefore included in the definition of a city, county, or city and county for purposes of this part and Part 1.85 (commencing with section 34170):
>
> (1) The city, county, or city and county exercises substantial municipal control over the entity's operations, revenues, or expenditures.
>
> (2) The city, county, or city and county have ownership or control over the entity's property or facilities.
>
> (3) The city, county, or city and county and the entity share common or overlapping governing boards, or coterminous boundaries.

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(4) The city, county, or city and county was involved in the creation or formation of the entity.

(5) The entity performs functions customarily or historically performed by municipalities and financed thorough levies of property taxes.

(6) The city, county, or city and county provides administrative and related business support for the entity, or assumes the expenses incurred in the normal daily operations of the entity.

(c) For purposes of this section, it shall not be relevant that the entity is formed as a separate legal entity, nonprofit corporation, or otherwise or is not subject to the constitution debt limitation otherwise applicable to a city, county, or city and county. The provisions in this section are declarative of existing law as the entities described herein are and were intended to be included within the requirements of this part and Part 1.85 (commencing with section 34170) and any attempt to determine otherwise would thwart the intent of these two parts.

The current relationship between the City of San Bernardino and the SBEDC is as follows:

- The Board of Directors for the SBEDC is made up of City of San Bernardino council members, who previously acted as the Board of the RDA (H&S Code section 34167.10 (a)(3)).
- The City of San Bernardino and the SBEDC share common governing boards and have coterminous boundaries (H&S Code section 34167.10 (b)(3)).
- The City of San Bernardino provides administrative and related business support for the SBEDC (H&S Code section 34167.10 (b)(6)).

However, it appears that some of the assets also may be subject to the provisions of H&S Code section 34181(a). H&S Code section 34181(a) states:

> The oversight board shall direct the successor agency to do all of the following:
>
> (a) Dispose of all assets and properties of the former redevelopment agency; provided however, that the oversight board may instead direct the successor agency to transfer ownership of those assets that were constructed and used for a governmental purpose, such as roads, school buildings, parks, police and fire stations, libraries, and local agency administrative buildings, to the appropriate public jurisdiction pursuant to any existing agreements relating to the construction or use of such an asset. [Emphasis added.] . . .

Order of the Controller

Based on H&S Code sections 34167.5 and 34167.10, the City of San Bernardino is ordered to direct the SBEDC and the SBEDC is ordered to reverse the transfers of assets (described in Schedule 1) in the amount of $108,372,060.20 and turn over the assets with any outstanding related liabilities to the Successor Agency. The Successor Agency is directed to properly dispose of these assets in accordance with H&S Code sections 34177(d) and (e) and 34181(a).

City's Response to Draft

SBEDC ASSETS VALUED AT $108,372,060.20

Introduction

As noted in several places, the Draft ATR indicates that the SCO's review "disclosed that the San Bernardino RDA made an unallowable transfer of $108,372,060.20 in assets, or 100%, to the San Bernardino Economic Development Corporation (SBEDC)." It further indicates that "the City of San Bernardino is ordered to transfer these assets to the San Bernardino Redevelopment Successor Agency." The assertion is factually inaccurate and the proposed order is legally impossible to perform. As further described below, former Redevelopment Agency of the City of San Bernardino (RDA) transferred the assets in question to the SBEDC pursuant to a transaction that at the time was allowable, legally authorized, enforceable, binding and valid. Further, the City of San Bernardino (City) does not control the SBEDC. Therefore, SCO does not have the authority to direct the City to require SBEDC to return these assets to the Successor Agency and the City does not have the legal authority to order or cause SBEDC to take this action, or for that matter to do anything.

Analysis

By way of background, on March 3, 2011, the former RDA and the SBEDC entered into a Project Funding Agreement ("Funding Agreement") pursuant to which the SBEDC assumed all of the RDA's obligations and the responsibility to undertake the RDA's governmental functions. On March 17, 2011, in implementation of the Funding Agreement, the RDA Board of Directors directed RDA staff to transfer all of the RDA's assets to SBEDC (such assets are referred to herein as the "SBEDC Assets"). The Funding Agreement, the RDA's conveyance of its assets to SBEDC, the "restructuring of the manner in which the RDA conducts its governmental functions" and "all matters related thereto" were validated in accordance with Code of Civil Procedure Section 860, et seq., and Government Code Section 63611, as stated in that certain Judgment issued on July 27, 2011, by the Superior Court of the State of California, County of San Bernardino, Case No. CIVDS 1103893 ("Validation Judgment").

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The Funding Agreement and the transfer of RDA Assets to SBEDC occurred during March 2011, prior to the effective date of ABX1 26 or AB 1484; these actions were therefore valid, effective and binding on the RDA (and therefore the Successor Agency), as confirmed in the Validation Judgment. Notwithstanding the foregoing, the SCO's Draft ATR asserts that the transfer by the RDA to SBEDC of assets cumulatively valued at $108,372,060.20 was "unallowable" and directs the City to transfer these assets to the Successor Agency.

In the Draft ATR, the SCO asserts that Health & Safety Code (HSC) section 34167.5 applies to the RDA's transfer of its assets to SBEDC and authorizes the SCO to direct the reversal of such transfer. SCO further asserts that HSC section 34167.10, as applied to SBEDC, results in the conclusion that the SBEDC is controlled by the City and therefore HSC section 34167.5 applies to SBEDC in the same manner as such statute would apply to the City. As discussed below, SCO misunderstands the relationship among the RDA, City and SBEDC and therefore mistakenly applies HSC section 34167.5 to the SBEDC Assets.

The City does not control SBEDC. The City and SBEDC had no relationship at the time SBEDC was formed, at the time the RDA and SBEDC entered into the Funding Agreement, and at the time the RDA transferred its assets to SBEDC. As recited in Section 1.4.B of the Bylaws of the San Bernardino Economic Development Corporation, Inc., SBEDC was formed by the RDA for the purpose of assisting the RDA with its governmental functions and responsibilities. Three of the six members of the Board of Directors of SBEDC are appointed by the Community Development Commission of the City of San Bernardino ("CDC"). Even now, these three SBEDC Board members are appointed by the CDC and the City does not have the right to appoint (or remove) any SBEDC Board members. Although the RDA and City had common governing boards, the RDA and City were at all times separate and distinct legal entities (see *Pacific States Enterprises, Inc. v. The City of Coachella et al.* (1993) 13 Cal. App. 4th 1414; *Long Beach Community Redevelopment Agency v. David Morgan* (1993) 14 Cal. App. 4th. 1047).

HSC section 34167.5 directs SCO to "review the activities of redevelopment agencies in the state to determine whether an asset transfer has occurred after January 1, 2011, between the city or county, or city and county that created a redevelopment agency or any other public agency, and the redevelopment agency." If SCO determines that such a transfer occurred, HSC section 34167.5 directs SCO to "order the available assets to be returned... to the successor agency." Because SBEDC is not a city, county, city and county, or any other public agency, HSC section 34167.5 is inapplicable to SBEDC and inapplicable to any transfers made by the RDA to SBEDC.

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In the Draft ATR, SCO treats SBEDC as the City for purposes of applying HSC section 34167.5, relying on HSC section 34167.10. HSC section 34167.10 provides as follows:

(a) Notwithstanding any other law, for purposes of this part and Part 1.85 (commencing with Section 34170), the definition of a city, county, or city and county includes, but is not limited to, the following entities:

(1) Any reporting entity of the city, county, or city and county for purposes of its comprehensive annual financial report or similar report.

(2) Any component unit of the city, county, or city and county.

(3) Any entity which is controlled by the city, county, or city and county, or for which the city, county, or city and county is financially responsible or accountable.

(b) The following factors shall be considered in determining that an entity is controlled by the city, county, or city and county, and are therefore included in the definition of a city, county, or city and county for purposes of this part and Part 1.85 (commencing with section 34170):

(1) The city, county, or city and county exercises substantial municipal control over the entity's operations, revenues, or expenditures.

(2) The city, county, or city and county has ownership or control over the entity's property or facilities.

(3) The city, county, or city and county and the entity share common or overlapping governing boards, or coterminous boundaries.

(4) The city, county, or city and county was involved in the creation or formation of the entity.

(5) The entity performs functions customarily or historically performed by municipalities and financed thorough levies of property taxes.

(6) The city, county, or city and county provides administrative and related business support for the entity, or assumes the expenses incurred in the normal daily operations of the entity.

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(c) For purposes of this section, it shall not be relevant that the entity is formed as a separate legal entity, nonprofit corporation, or otherwise, or is not subject to the constitution debt limitation otherwise applicable to a city, county, or city and county. The provisions in this section are declarative of existing law as the entities described herein are and were intended to be included within the requirements of this part and Part 1.85 (commencing with section 34170) and any attempt to determine otherwise would thwart the intent of these two parts. In the Draft ATR, SCO asserts that: (1) the Board of Directors of SBEDC is made up of City Council members; (2) the City shares a common governing board and has coterminous boundaries with SBEDC; and (3) the City provides administrative and related business support to SBEDC. By implication, the Draft ATR concludes that SBEDC is controlled by the City within the meaning of HSC section 34167.10(b).

Contrary to SCO's assertion, SBEDC is not controlled by the City. The City does not have the authority to appoint SBEDC Board members. Further, the SCO's assertion that the City and SBEDC have coterminous boundaries is patently false. SBEDC does not have boundaries; it is a nonprofit corporation formed pursuant to the laws of the State of California, not a public entity. SBEDC has the legal authority to conduct business outside the boundaries of the City. Finally, prior to its dissolution, the RDA provided administrative support to SBEDC; however, at the time of the transfers and at the time ABX1 26 was enacted, the City provided no support, financial or otherwise, to SBEDC. Only now that SBEDC owns property and has contractual obligations entered into in reliance on RDA support does the City provide any administrative support to SBEDC and this support should, frankly, be provided by the Successor Agency pursuant to the validated Funding Agreement.

Because SBEDC is not controlled by the City within the meaning of HSC section 34167.1O(b), SCO does not have the authority to direct the City to return SBEDC Assets to the Successor Agency pursuant to section 34167.5. Even if the SCO refuses to revise the Draft ATR and continues to order the City to return SBEDC Assets to the Successor Agency (notwithstanding SCO's lack of legal authority to do so), the City does not control SBEDC and would be unable to legally require SBEDC to take such an action.

SCO does not allege that the RDA was not authorized in March 2011 (prior to the enactment of AB1x 26) to convey its assets to a nonprofit corporation created by the CDC/RDA, or whose governing board overlapped with the RDA's governing board, because nothing in HSC section 34167.10 or elsewhere in ABX1 26 or AB 1484 prohibits such actions. The California legislature could have included entities formed by the CDC or RDA within the scope of HSC section 34167.10, but elected not to do so. Given that section 34167.10 is specifically crafted to address asset transfers to entities created and/or controlled by cities and counties and does not refer even once to entities created and/or controlled by redevelopment agencies or successor agencies, it is clear that the legislature knew how to, but chose not to, require transfers to such entities to be unwound.

SCO's Comment

The Validation Judgment cited by the City does not override the provisions in ABX1 26 and AB 1484, which prohibit transfers of property such as the ones made to the SBEDC; nor does the Validation Judgment prevent the SCO from requiring that such assets be turned over to the Successor Agency for disposition in accordance with the provisions of these two bills. Furthermore, this Validation Judgment was issued prior to the California Supreme Court ruling that upheld the provisions in ABX1 26 and the subsequent passage of AB 1484.

Contrary to the City's assertion, the SBEDC is controlled by the City, and H&S Code section 34167.10 applies to the SBEDC. The City believes strongly that H&S Code section 34167.10 does not apply, as the former RDA, not the City, created the SBEDC. The creator of the entity is only one of six factors that must be considered to determine if an entity is controlled by the City.

Specifically, 34167.10(b) states that the following factors shall be considered in determining that an entity is controlled by the city, county, or city and county, and are therefore included in the definition of a city, county, or city and county:

(1) The city, county, or city and county exercises substantial municipal control over the entity's operations, revenues, or expenditures.

(2) The city, county, or city and county has ownership or control over the entity's property or facilities.

(3) The city, county, or city and county and the entity share common or overlapping governing boards, or coterminous boundaries.

(4) The city, county, or city and county was involved in the creation or formation of the entity.

(5) The entity performs functions customarily or historically performed by municipalities and financed thorough levies of property taxes.

(6) The city, county, or city and county provides administrative and related business support for the entity, or assumes the expenses incurred in the normal daily operations of the entity.

The City control is achieved by items (1), (3) and (5) above.

For Item 1, the City exercises substantial municipal control over the entity's operations, revenues, or expenditures. Resolution No. CDC 2011-8 states:

> The SBEDC's board is comprised of six voting directors: three to be appointed by the Commission and the remaining three to be appointed by the official actions of the following for one board member each by 1) the Board of education of the San Bernardino Unified School District . . . 2) the Board of Supervisors of the County of San Bernardino . . . 3) Board of Directors of the San Bernardino Chamber of Commerce . . .

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The Community Development Commission is the City Council for the City of San Bernardino and it appoints three, or 50%, of the voting members of the SBEDC.

For Item 3, the City and the entity (SBEDC) share common or overlapping governing boards. As stated above under (1) the SBEDC governing boards members comprise half of the City's councilmembers.

For Item 5, the SBEDC performs functions customarily or historically performed by municipalities and financed thorough levies of property taxes, specifically, redevelopment activities.

The Finding and Order of the Controller remain as stated.

FINDING 2—
Did not transfer assets to the Successor Agency

The RDA had not yet transferred $420,512,906.15 in assets as of January 31, 2012. These assets are recorded on the RDA's ledgers and should have been transferred to the Successor Agency by January 31, 2012.

H&S Code section 34175(b) states:

> All assets, properties, contracts, leases, books and records, buildings, and equipment of the former redevelopment agency are transferred on February 1, 2012, to the control of the successor agency, for administration pursuant to the provisions of this part. This includes all cash or cash equivalents and amounts owed to the redevelopment agency as of February 1, 2012. . . .

H&S Code section 34177(d) states:

> Remit unencumbered balances of redevelopment agency funds to the county auditor-controller for distribution to the taxing entities, including, but not limited to, the unencumbered balance of the Low and Moderate Income Housing Fund of a former redevelopment agency. In making the distribution, the county auditor-controller shall utilize the same methodology for allocation and distribution of property tax revenues provided in Section 34188.

H&S Code section 34177(e) states:

> Dispose of assets and properties of the former redevelopment agency as directed by the oversight board; provided, however, that the oversight board may instead direct the successor agency to transfer ownership of certain assets pursuant to subdivision (a) of Section 34181. . . .

H&S Code section 34181(a) states:

> The overnight board shall direct the successor agency to do all of the following:
>
> (a) Dispose of all assets and properties of the former redevelopment agency; provided however, that the oversight board may instead direct the successor agency to transfer ownership of those assets that were constructed and used for a governmental purpose, such as roads, school buildings, parks, police and fire stations, libraries, and local agency administrative buildings, to the appropriate public jurisdiction pursuant to any existing agreements relating to the construction or use of such an asset. [Emphasis added.] . . .

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H&S Code section 34181(c) states that the oversight board shall direct the successor agency to: (c) Transfer housing assets pursuant to section 34176.

Order of the Controller

Based on H&S Code section 34175 (b), the City of San Bernardino and/or the SBEDC is ordered to transfer the remaining RDA assets (described in Schedule 2), in the amount of $420,512,906.15, to the Successor Agency. The Successor Agency is directed to properly dispose of these assets in accordance with H&S Code sections 34177(d), (e), and (l); and 34181(a). In addition, in accordance with H&S Code section 34177 (d), the Successor Agency is directed to transmit the balance of Low and Moderate Income Housing funds to the San Bernardino County Auditor-Controller for distribution in accordance with H&S Code section 34188.

City's Response to Draft

SUCCESSOR AGENCY ASSETS VALUED AT $420,512,906.15

Introduction

As noted in several places, the Draft ATR indicates that the SCO's review "identified $420,512,906.15 in San Bernardino RDA assets that have not yet been transferred to any agency." It further indicates that "the City of San Bernardino is ordered to transfer these assets to the San Bernardino Redevelopment Successor Agency." The assertion is factually inaccurate, the proposed order is legally impossible to perform and the amount indicated includes $258,676,796-worth of non-tangible assets, which are either offsets to bonds payable or are inter- fund accounts receivable (i.e., between redevelopment project areas) and therefore should not be included as tangible assets within the ATR. As further described below, the assets in question were transferred to the Successor Agency by operation of law; no affirmative action to transfer these assets is needed. Further, the Successor Agency Assets do not belong to the City and never have (within relevant time periods) belonged to the City. The City is unable to transfer these assets or cause these assets to be transferred to the Successor Agency, as the assets are already held by the Successor Agency.

Analysis

The SCO's audit staff were previously advised that a portion of the $420,512,906.15 they identified as San Bernardino RDA assets included amounts which are non-tangible assets and are only accounting entries, not assets. Specifically, they were informed that $193,955,410 represented an accounting entry of an "Amount to be Provided for Long Term Debt," which is an off-set to bonds payable and is not a tangible asset. For example, as bonds payable reduces so does the "Amount to be Provided for Long Term Debt." Further, SCO audit staff was informed that an additional $64,721,386 represents inter-fund redevelopment project area accounts receivables, which are off-set by an accounts payable, which is also non-tangible since these funds will never be repaid between

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redevelopment project areas. Once the accounts receivable and the accounts payable are combined, the result will be zero. With respect to the SCO's assertion that the RDA, Successor Agency or City has somehow failed to comply with a statutory duty because certain assets have not been transferred by the RDA to the Successor Agency, the SCO apparently misunderstands the structure of ABX1 26 and AB 1484. HSC section 34175(b) provides that "[a]ll assets, properties, contracts, leases, books and records, buildings, and equipment of the former redevelopment agency are transferred on February 1, 2012, to the control of the successor agency, for administration pursuant to the provisions of this part. This includes all cash or cash equivalents and amounts owed to the redevelopment agency as of February 1, 2012." HSC section 34175(b) states that the assets "are transferred" to the Successor Agency on February 1, 2012, not that redevelopment agencies "shall transfer" assets to successor agencies as of that date. Nothing in ABX1 26 or AB 1484 requires any affirmative action to be taken to effectuate this transfer. Had an affirmative transfer been required, it would have created legal turmoil as some agencies would, invariably, have failed to make the required transfers before being dissolved and ceasing to exist on February 1, 2012; those assets not transferred on time would have no clear ownership or any statutorily authorized way to resolve such ownership dilemma.

Thus, in accordance with HSC section 34175(b), any and all assets owned by the RDA as of February 1, 2012 (collectively referred to herein as "Successor Agency Assets") were transferred to the Successor Agency by operation of law; no affirmative action to transfer these assets is needed. Additionally, it is irrelevant what books, ledgers or accounts may say regarding the ownership of these Successor Agency Assets, as they are legally owned by the Successor Agency regardless of any such designation.

Further, the Successor Agency Assets do not belong to the City and never have (within relevant time periods) belonged to the City. The City is unable to transfer these assets or cause these assets to be transferred to the Successor Agency, as the assets are already held by the Successor Agency.

SCO's Comment

The City is incorrect in its interpretation of H&S Code section 34175(b), which states "all assets, properties, contracts, leases, books, and records, buildings and equipment of the former redevelopment agency are transferred . . ." Nowhere does it state "tangible assets," as the City suggests. The SCO is to ensure that all assets are to be transferred to the control of the Successor Agency, and the Successor Agency oversight has the authority to dispose of the assets in accordance with the ABX1 26 and AB 1484. The Successor Agency, with Oversight Board approval, must determine which assets are tangible or not.

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The City contends that the assets transfer automatically by operation of law so that no action is needed. However, this does not address the fact that some of the assets cannot be transferred without a change in the ownership documents that are still in the name of the former RDA. The City also contends that even if an action is needed, the City has no responsibility for the action as the RDA was a separate agency. However, because the members of the City council also sat as the Board of the former RDA, the council was, and is responsible for ensuring that the former RDA complied with all ABX1 26 and AB 1484 requirements, including the proper and complete transfer of all assets.

Revised Finding and Order

The Successor Agency is directed to review the list of assets in Attachment 4 and make the necessary accounting changes to reflect them on its records. The City is ordered to work with the Successor Agency to implement changes in ownership documents or other actions that the Successor Agency identifies as necessary to fully implement the transfers.

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Schedule 1—
Summary of Unallowable Transfers to the San Bernardino Economic Development Corporation

Capital Assets	$ 108,372,060.20
Total unallowable transfers	$ 108,372,060.20

Note: See Schedule 3 for details.

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Schedule 2—
RDA Assets that should have been Transferred to the Successor Agency as of January 31, 2012

RDA Administrative	$ 698.54
RDA State College	63,209,230.55
RDA Central City North	18,739,389.97
RDA Central City West	3,058.01
RDA Southeast Industrial Park	55,326,414.73
RDA Northwest	30,939,774.62
RDA Tri City	21,370,495.81
RDA Uptown	3,896,304.76
RDA South Valle	6,701,748.30
RDA Central City Projects	77,574,326.03
RDA Low and Moderate Income Housing Fund	61,389,467.42
RDA Mount Vernon Business Corridor	5,179,634.44
RDA Main Street, Inc.	475.00
RDA Telecommunications	327,077.87
RDA Fortieth Street Project	891,208.62
RDA Affordable Housing Solutions	11,939,812.75
San Bernardino Economic Development Corporation	8,077,308.41
CMB-EB5	54,045,381.90
Carousel Mall	901,098.42
Total of all Current Assets	$ 420,512,906.15

Note: See Schedule 4 for details.

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Schedule 3—
Detail of Unallowable Transfers to the San Bernardino Economic Development Corporation

State College	$ 6,745,091.90
Central City North	13,992,688.70
Southeast Industrial Park	3,034,927.85
Parking District I and II	757,930.00
Northwest	47,200.00
Uptown	418,000.00
Central City Projects	47,203,541.26
Low-Moderate 20%	33,744,679.13
Mount Vernon Corridor	1,067,987.51
AHS – Low Moderate Funded	1,360,013.85
Total of all Capital Assets	$ 108,372,060.20

Fund Name	Property Name	Value
State College	Land NW of Little League/I215, 1999 T	2,027,209.39
	Land Inv Golf Course	4,712,432.51
	LHR APN 0146241070000, 1256 Wall S	5,450.00
	Total	6,745,091.90
Central City North	NR Sturges Center for Arts	29,290.00
	Land - 478 & 480 North D	87,180.39
	Land APN 134-131-06/15, SS Bldg	770,581.66
	Land - 5th & E (from LM)	500,000.00
	Land Cinema Complex	11,964,000.00
	Land - 450 North F	150,000.00
	Cal Theatre 562 W 4th	301,003.82
	Sturges SWC E & 8th	30,632.83
	Miller 4th and E NW Corn 134-131-2	160,000.00
	Total	13,992,688.70
Southeast Industrial Park	LHR Water Dept Prop, 014125204&014	2,506,800.00
	LHR APN0136 461 09 0000 882 Washin	21,030.35
	SBIP Pioneer and Emmet Way SEC	69,760.69
	Wade Rockwell Parking	437,336.81
	Total	3,034,927.85
Parking District I & II	LAND INVESTMENT	757,930.00
	Total	757,930.00
Northwest	LHR APN 0139231340000, 1348 W Union	20,550.00
	LHR APN 0148173070000, 2355 Ramona	21,500.00
	LHR APN 0280062070000, 686 Santa Fe	5,150.00
	Total	47,200.00

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Subject to Change

Schedule 3 (continued)

Fund Name	Property Name	Value
Uptown	LHR 1108 W 2nd St apn0138-301-07 B	385,000.00
	Sutherland Behind Fun Corner	33,000.00
	Total	418,000.00
Central City Projects	LAND INVESTMENT	25,646,711.71
	LHR 567 N Sierra Way (YWCA Bldgs)	604,755.74
	LHR Woolworth Bldg	706,994.88
	LHR APN 0280131230000, 904 Foisy S	9,845.13
	LHR 3rd St/Waterman Ave, APN 0135-	500,000.00
	LHR 170-174 SOUTH E STREET BLDG, 0	441,102.95
	LHR 385 N E St, APN 0134-241-64, 0	74,417.07
	LHR Convention Center/Exhibit Hall	2,451,570.00
	LHR - 333 North H St, APN 134-182-	318,143.78
	LHR Carrousel Mall	16,450,000.00
	Total	47,203,541.26
Low-Moderate 20%	LHR Fook Sung 0134-054-24	409,020.90
	LHR Penshun/Expo 0134-093-19	2,908,092.52
	LHR Abitante 0134-093-05	1,147,887.13
	LHR 0134-093-45 (708&720 4th St)	1,022,263.88
	LHR 0134-101-04, 05, 06 (Garner)	351,824.32
	LHR 163 N Allen (Meadowbrook Park	444,933.07
	LHR 251 E 49th St	502,427.88
	LHR 495 N G, 0134-101-28 (Allied)	1,750,000.00
	LHR 167 E 2nd St (Meadowbrook)	553,669.41
	LHR 796 W 5th 0134-054-25 (Bland)	143,000.00
	LHR 631 N G	90,447.68
	LHR 696 w 5TH APN0134-061-21, 22,	900,000.00
	LHR 770 W 5th, Apn 0134-054-26(Naj	885,000.00
	LHR 723-739 W5th, Aon 0134-093-07	1,089,000.00
	LHR 673 W5th, Apn 0134-101-02, 03	617,875.00
	LHR 255 E 49th	503,017.00
	LHR 701 N 5th St, APN 0134-093-08	640,486.47
	LHR 299 E 49th St (LM Infill)	1,042,749.30
	LHR 288 E 49th	5,000.00
	LHR 2656 W 5th St (5th/Meridian)	170,953.10
	LHR 288 E 49th, SB 92408	515,162.67
	LHR 2695 W 5th ST (5th/Meridian)	170,406.05
	LHR 2682 W 5th #A,B,C,D (5th/Meri	54,182.89
	LHR 2624 W 5th (5th/Meridian)	170,385.34
	LHR 2639 W 5th (5th/Meridian)	149,765.50
	LHR 2633 W 5th (5th/Meridian)	150,140.07
	LHR 2625 W 5th 92410 (5th/Meridia	158,052.00
	LHR 2657 W 5th 92410 (5th/Meridian	138,797.57

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Schedule 3 (continued)

Fund Name	Property Name	Value
	LHR 2643 W 5th (5th/Meridian)	154,650.64
	LHR 2082 e 19TH (lm)	193,591.30
	LHR - 2120 Medical Center Drive	1,064,476.12
	LHR - 2196 Medical Center Drive	5,064,352.57
	LHR - apn 0143-191-46 Highland & M	551,887.91
	LHR 2120 Medical Center Dr (Meta)	270,000.00
	LHR - 2642 West 5th Street #1-4	157,411.24
	LHR - 2670 West 5th Street #1-4	149,835.27
	LHR - lm 2295 E Sunrise Lane	200,968.24
	LHR - 2632/2638 West 5th Street	498,282.52
	LHR - 2619 W 5th St, Units 1-4	236,578.64
	LHR - APN 0134-014-24,25,26,27	145,492.00
	LHR - 2683 WEST 5TH STREET (LM)	226,518.97
	LHR - 2164 East 19th Street (LM)	154,324.39
	LHR - 2043 E. 19th St (AHS/LM)	212,805.29
	LHR - 2694 West 5th Street (LM)	243,201.01
	LHR - 2225 E. Sunrise Lane (LM)	240,600.34
	LHR - 839-867 N Lugo/185-187 E 9th	3,955,023.52
	LHR 746 W 5th St/Spruce St Lots	2,678,819.45
	LHR - 2068 E. 19th St. MECH/LM	278,239.73
	LHR - 2056 E. 19th St. MECH/LM	269,419.56
	2557 Victoria	(53.15)
	1146 N Sierra Way	(23.20)
	1265 Kendall	70,819.02
	2044 E Sunrise	21,459.00
	2055 E Sunrise	21,459.00
	Total	33,744,679.13
Mt Vernon Corridor	LHR 542 N Mt Vernon	49,907.30
	LHR, APN 0138-114-09 (MtV)	60,822.28
	552 N Mt Vernon	47,000.00
	LHR 540 N Mt Vernon (0138-115-04/0	270,436.71
	LHR 1307 W SPRUCE (5TH&MTV) ARRIOL	35,521.75
	Virgilio 0138-115-06	309,486.93
	LHR APN 0138-115-07 (ALLEN-MTV)	103,028.00
	LHR Apn 0139-291-60 (757 N MtVerno	32,162.27
	LHR Apn 0139-291-61 (761 N MtVerno	52,722.27
	578 N Mt Vernon	106,900.00
	Total	1,067,987.51
AHS - Low Mod Funded	LHR AHS/nsp 1888 Argyle	155,788.39
	LHR AHS/nsp 202 E 19th	6,404.26
	LHR AHS/nsp 1058 N. Sierra	45,773.22
	LHR AHS/nsp 2091 Sepulveda	72,633.03

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Subject to Change

Schedule 3 (continued)

Fund Name	Property Name	Value
	LHR AHS/nsp 1725 N Mt View	37,885.45
	LHR AHS/nsp 2044 E Sunrise Ln	134,090.63
	LHR AHS/nsp 2165 E 19th	149,233.03
	LHR AHS/home 1356 Hillside Drive	152,923.83
	LHR AHS/home 1394 Hillside Drive	200,020.77
	LHR AHS/home 1853 Fairfax Drive	205,262.48
	LHR AHS/home 1384 Hillside Drive	199,998.76
	Total	1,360,013.85
	Total of all Funds Capital Assets	108,372,060.20

DRAFT
Subject to Change

Schedule 4—
Ledger Detail of the Assets that should have been Transferred to the Successor Agency

This schedule is a copy of the agency's ledgers as provided by the agency. All of the agency's assets are included in the SCO's finding #1 – Unallowable transfers to the San Bernardino Economic Development Corporation and/or finding #2 – Assets that should have been transferred to the successor agency. For each agency fund that has assets the SCO has noted which assets that were included in finding #1 or #2.

Fund: Administrative

1	RDA Administrative				
2	BALANCE SHEET				
3	1/31/2012				
4					
5		01 TI	34 ESGP	66 AHS	Total
6	ASSETS:				
7	PETTY CASH	400			400
8	WELLS FARGO BANK	368,534.35			368,534.35
9	FIRST INT/WELLS FARGO - STAFF/SEC	48,104.85			48,104.85
10	CITIZENS BUSINESS BANK - STAFF/SEC	24,961.63			24,961.63
11	CITIZENS BUSINESS BANK	4,596,339.13			4,596,339.13
12	TAX INCREMENT/OTHER INVESTMENTS	-6,280,093.82			-6,280,093.82
13	A/R I RDA Emergency Shelter Grant		956.94		956.94
14	A/R I RDA Affordable Housing Solu			-956.94	-956.94
15	RDA Mall Transfer	500			500
16	EDC Transfer	590,363.73			590,363.73
17	Mall LLC Transfer	650,000.00			650,000.00
18	EMPLOYEE COMPUTER PURCHASE PROGRAM	1,588.67			1,588.67
19	TOTAL ASSETS	698.54	956.94	-956.94	698.54
20		==========	==========	==========	==========

Finding 1

The Administrative fund does not contain any capital assets; therefore, Finding 1 does not apply to this fund.

Finding 2

The sum of the line items outlined tie to the total of the Administrative fund current assets:
400 + 368,534.35 + 48,104.85 + 24,961.63 + 4,596,339.13 + (6,280,093.82) + 956.94 + (956.94) + 500 + 590,363.73 + 650,000.00 + 1,588.67 = **698.54**

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: State College

90	RDA State College			
91	BALANCE SHEET			
92	1/31/2012			
93				
94		60 GLTDAG	70 GFAAG	Total
95	ASSETS:			
96	Current Bond Issues - 2002A Ref TA			937,568.48
97	Current Bond Issues - 2005A			507,559.67
98	Current Bond Issues - 2005B			326,158.13
99	TAX INCREMENT/OTHER INVESTMENTS			170,123.35
100	A/R TRADE			34,209.15
101	A/R I RDA Central City North			15,000,292.78
102	A/R I RDA Central City Security			1,833,919.84
103	A/R I RDA Operation Second Chance			876,304.05
104	A/R I RDA Central City Projects			9,493,262.15
105	A/R I RDA Collateralized Mortgage			904.42
106	A/R I RDA Main Street, Inc.			874,535.55
107	A/R I RDA Telecommunications			1,535,483.76
108	A/R I RDA Neighborhood Stabilizat			2,014,554.72
109	A/R I San Bdno Economic Dev Corp			653,118.10
110	A/R I Carousel Mall			-314,919.05
111	A/R I Enterprise Zone			51,846.61
112	NR Finance-$1310000 (09-10 Budget)			1,332,925.00
113	Land NW of Lil League/I215, 1999 T			2,027,209.39
114	Land Inv Golf Course		4,712,432.51	4,712,432.51
115	LHR APN 0146241070000, 1256 Wall S			5,450.00
116	AMOUNT TO BE PROVIDED FOR LTD	24,846,655.39		24,846,655.39
117	Salaries and Vacation Leave Payabl	494,448.08		494,448.08
118	AMOUNT AVAILABLE FOR DEBT SERVICE	2,540,280.37		2,540,280.37
119	TOTAL ASSETS	27,881,383.84	4,712,432.51	69,954,322.45
120		==========	==========	==========

Finding 1

The sum of the line items outlined tie to the total of the State College fund capital assets:

2,027,209.39 + 4,712,432.51 + 5,450.00 = **6,745,091.90**

Finding 2

The State College current asset total is less the total of the capital assets noted above:

69,954,322.45 - 6,745,091.90 = **63,209,230.55**

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: Central City North

197	RDA Central City North				
198	BALANCE SHEET				
199	1/31/2012				
200					
201		50 DSF	60 GLTDAG	70 GFAAG	Total
202	ASSETS:				
203	CURRENT BOND ISSUES - 1999 COP, SV	63,146.50			63,146.50
204	CURRENT BOND ISSUES - 1999 COP, PO	502,268.42			502,268.42
205	Current Bond Issues - 2002A Ref TA	115,340.32			115,340.32
206	Current Bond Issues - 2005A	438,243.93			438,243.93
207	Current Bond Issues - 2005B	105,706.26			105,706.26
208	A/R TRADE				2,397.25
209	A/R I RDA Parking District Expans				652,095.97
210	A/R I RDA Main Street, Inc.				3,188,877.28
211	A/R I San Bdno Economic Dev Corp				2,805.25
212	Sturges Center				11,012.24
213	State Phase1, Land swap with State				462,993.06
214	NR Sturges Center for Arts				29,290.00
215	Land-478&480 North D				87,180.39
216	Land APN 134-131-06/15, SS Bldg				770,581.66
217	Land - 5th & E (from LM)				500,000.00
218	Land Cinema Complex				11,964,000.00
219	Land - 450 North F				150,000.00
220	Cal Theatre 562 W 4th				301,003.82
221	Sturges SWC E & 8th			30,632.83	30,632.83
222	Miller 4th and E NW Corn 134-131-2				160,000.00
223	AMOUNT TO BE PROVIDED FOR LTD		11,985,562.38		11,985,562.38
224	AMOUNT AVAILABLE FOR DEBT SERVICE		1,208,941.11		1,208,941.11
225	TOTAL ASSETS	1,224,705.43	13,194,503.49	30,632.83	32,732,078.67
226		==========	==========	==========	==========

Finding 1

The sum of the line items outlined tie to the total of the Central City North fund capital assets:

29,290.00 + 87,180.39 + 770,581.66 + 500,000.00 + 11,964,000.00 + 150,000.00 + 301,003.82 + 30,632.83 = **13,992,688.70**

Finding 2

The Central City North current asset total is less the total of the capital assets noted above:

32,732,078.67 - 13,992,688.70 = **18,739,389.97**

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: Central City West

312	RDA Central City West				
313	BALANCE SHEET				
314	1/31/2012				
315					
316		01 TI	02 BP	20 LM TI	Total
317	ASSETS:				
318	TAX INCREMENT/OTHER INVESTMENTS	3,058.01			3,058.01
319	TOTAL ASSETS	3,058.01			3,058.01
320		==========	==========	==========	==========

Finding 1

The Central City West fund does not contain any capital assets; therefore, Finding 1 does not apply to this fund.

Finding 2

As the fund does not contain any capital assets, the current asset total was **3,058.01**

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: Southeast Industrial Park

398	RDA Southeast Industrial Park	
399	BALANCE SHEET	
400	1/31/2012	
401		
402		Total
403	ASSETS:	
404	Current Bond Issues - 2002A Ref TA	526,852.68
405	Current Bond Issues - 2005A	2,523,484.92
406	Current Bond Issues - 2005B	614,814.32
407	TAX INCREMENT/OTHER INVESTMENTS	1,169,233.59
408	A/R TRADE	2,900.00
409	A/R I RDA State College	2,000,000.00
410	A/R I RDA Central City North	5,772,047.47
411	A/R I RDA Northwest	3,278,549.82
412	A/R I RDA Central City Projects	12,969,508.82
413	A/R I RDA Main Street, Inc.	552,078.40
414	CITY OF SAN BERNARDINO	270,000.00
415	Auto Plaza Reader Board	850,000.00
416	NR SB Auto Center Prop PBID	974,698.00
417	LHR Water Dept Prop, 014125204&014	2,506,800.00
418	LHR APN0136 461 09 0000 882 Washin	21,030.35
419	SBIP Pioneer and Emmet Way SEC	69,760.69
420	Wade Rockwell PArking	437,336.81
421	AMOUNT TO BE PROVIDED FOR LTD	20,572,171.64
422	AMOUNT AVAILABLE FOR DEBT SERVICE	3,250,075.07
423	TOTAL ASSETS	58,361,342.58
424		==========

Finding 1

The sum of the line items outlined tie to the total of the Southeast Industrial Park fund capital assets:

2,506,800.00 + 21,030.35 + 69,760.69 + 437,336.81 = **3,034,927.85**

Finding 2

The Southeast Industrial Park current asset total is less the total of the capital assets noted above:

58,361,342.58 – 3,034,927.85 = **55,326,414.73**

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: Parking District I & II

454	RDA Parking District						
455	BALANCE SHEET						
456		1/31/2012					
457							
458		04 PD	05 PDII	50 DSF	60 GLTDAG	70 GFAAG	Total
459	ASSETS:						
460	LAND INVESTMENT					757,930.00	757,930.00
461	TOTAL ASSETS					757,930.00	757,930.00
462		==========	==========	==========	==========	==========	==========
463							
464	LIABILITIES:						
465	A/P I RDA Central City North		652,095.97				652,095.97
466	PARKING FACILITIES LEASE REVENUE				1,950,000.00		1,950,000.00
467	REDEMPTION PARKING DISTRICT				-1,950,000.00		-1,950,000.00
468	TOTAL LIABILITIES		652,095.97				652,095.97
469							
470							
471	FUND BALANCE:						
472	INVESTMENT IN FIXED ASSETS					757,930.00	757,930.00
473	Reserved for Unclaimed Bonds Stat	6,286.58					6,286.58
474	RETAINED EARNINGS	-6,286.58	-652,095.97				-658,382.55
475	TOTAL FUND BALANCE		-652,095.97			757,930.00	105,834.03
476							
477							
478	TOTAL LIAB. & FUND BALANCE					757,930.00	757,930.00
479		==========	==========	==========	==========	==========	==========

Finding 1

The LAND INVESTMENT line item is the total capital assets for the Parking District fund.
757,930.00

Finding 2

Finding 2 does not apply to the Parking District fund, as the LAND INVESTMENT account is included as part of capital assets.

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: Northwest

538	RDA Northwest	
539	BALANCE SHEET	
540	1/31/2012	
541		
542		Total
543	ASSETS:	
544	Current Bond Issues - 2002A Ref TA	444,711.38
545	Current Bond Issues - 2005A	388,089.62
546	Current Bond Issues - 2005B	228,173.61
547	Current Bond Issues - 2010B	3,013,286.29
548	Current Bond Issues - 2010A	6,730,950.48
549	TAX INCREMENT/OTHER INVESTMENTS	1,319,809.90
550	A/R I RDA Operation Second Chance	2,097,191.42
551	NR Fakhoury, 09/19/07	251,772.75
552	LHR APN 0139231340000, 1348 W Unio	20,550.00
553	LHR APN 0148173070000, 2355 Ramona	21,500.00
554	LHR APN 0280062070000, 686 Santa F	5,150.00
555	AMOUNT TO BE PROVIDED FOR LTD	14,617,963.34
556	AMOUNT AVAILABLE FOR DEBT SERVICE	1,847,825.83
557	TOTAL ASSETS	30,986,974.62
558		==========

Finding 1

The sum of the line items outlined tie to the total of the Northwest fund capital assets:

20,550.00 + 21,500.00 + 5,150.00 = **47,200.00**

Finding 2

The Northwest current asset total is less the total of the capital assets noted above:

30,986,974.62 – 47,200.00 = **30,939,774.62**

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: Tri City

589	RDA Tri City						
590	BALANCE SHEET						
591	1/31/2012						
592							
593		01 TI	02 BP	20 LM TI	50 DSF	60 GLTDAG	Total
594	ASSETS:						
595	Current Bond Issues - 2002A Ref TA				5,459,029.90		5,459,029.90
596	Current Bond Issues - 2005A				761,965.14		761,965.14
597	Current Bond Issues - 2005B				407,408.44		407,408.44
598	TAX INCREMENT/OTHER INVESTMENTS	2,494,358.95					2,494,358.95
599	Finance-HUB $900K	900,000.00					900,000.00
600	AMOUNT TO BE PROVIDED FOR LTD					4,879,246.73	4,879,246.73
601	AMOUNT AVAILABLE FOR DEBT SERVICE					6,468,486.65	6,468,486.65
602	TOTAL ASSETS	3,394,358.95			6,628,403.48	11,347,733.38	21,370,495.81
603		==========	==========	==========	==========	==========	==========

Finding 1

The Tri City fund does not contain any capital assets; therefore, Finding 1 does not apply to this fund.

Finding 2

As the fund does not contain any capital assets, the current asset total was **21,370,495.81.**

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: Uptown

630	RDA Uptown						
631	BALANCE SHEET						
632	1/31/2012						
633							
634		01 TI	02 BP	20 LM TI	50 DSF	60 GLTDAG	Total
635	ASSETS:						
636	Current Bond Issues - 2002A Ref TA				80,855.44		80,855.44
637	Current Bond Issues - 2005A				186,935.35		186,935.35
638	Current Bond Issues - 2005B				148,572.99		148,572.99
639	TAX INCREMENT/OTHER INVESTMENTS	746,325.55					746,325.55
640	A/R I Enterprise Zone	-2,506.02					-2,506.02
641	LHR 1108 W 2nd St apn0138-301-07 B	385,000.00					385,000.00
642	Sutherland Behind Fun Corner	33,000.00					33,000.00
643	AMOUNT TO BE PROVIDED FOR LTD					2,365,477.87	2,365,477.87
644	AMOUNT AVAILABLE FOR DEBT SERVICE					370,643.58	370,643.58
645	TOTAL ASSETS	1,161,819.53			416,363.78	2,736,121.45	4,314,304.76
646		==========	==========	==========	==========	==========	==========

Finding 1

The sum of the line items outlined tie to the total of the Uptown fund capital assets:

385,000.00 + 33,000.00 = **418,000.00**

Finding 2

The Uptown current asset total is less the total of the capital assets noted above:

4,314,304.76 – 418,000.00 = **3,896,304.76**

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: South Valle

672	RDA South Valle						
673	BALANCE SHEET						
674	1/31/2012						
675							
676		01 TI	02 BP	20 LM TI	50 DSF	60 GLTDAG	Total
677	ASSETS:						
678	CURRENT BOND ISSUES - 1999 COP, SV				188,084.86		188,084.86
679	Current Bond Issues - 2002A Ref TA				124,852.93		124,852.93
680	Current Bond Issues - 2005A				362,506.45		362,506.45
681	Current Bond Issues - 2005B				111,930.81		111,930.81
682	TAX INCREMENT/OTHER INVESTMENTS	333,209.81					333,209.81
683	A/R TRADE	892					892
684	A/R I Enterprise Zone	2,506.02					2,506.02
685	AMOUNT TO BE PROVIDED FOR LTD					4,876,257.34	4,876,257.34
686	AMOUNT AVAILABLE FOR DEBT SERVICE					701,508.08	701,508.08
687	TOTAL ASSETS	336,607.83			787,375.05	5,577,765.42	6,701,748.30
688							

Finding 1

The South Valle fund does not contain any capital assets; therefore, Finding 1 does not apply to this fund.

Finding 2

As the fund does not contain any capital assets, the current asset total was **21,370,495.81.**

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: Central City Projects

798	RDA Central City Projects		
799	BALANCE SHEET		
800	1/31/2012		
801			
802		70 GFAAG	Total
803	ASSETS:		
804	Current Bond Issues Cash w/Fiscal		2,531,354.38
805	CURREND BOND ISSUES - COP ISSUES		1,838,319.86
806	CURRENT BOND ISSUES - LEASE REVENU		945,184.90
807	CURRENT BOND ISSUES - 1999 COP, SV		4,485,396.21
808	TAX INCREMENT/OTHER INVESTMENTS		353,723.44
809	A/R TRADE		100,024.96
810	A/R I RDA Central City North		5,215,827.95
811	A/R I RDA Central City Security		8,635,473.70
812	A/R I RDA Central City West		446,825.35
813	A/R I RDA Main Street, Inc.		175,198.35
814	A/R I San Bdno Economic Dev Corp		8,635.00
815	A/R I Carousel Mall		455,591.45
816	A/R I Sustainable Communities Scr		311,083.85
817	Carousel Mall Acquisition Fee Escr		300,000.00
818	LEASE PAYMENT RECEIVABLE		16,921,490.34
819	LAND INVESTMENT	22,569,480.59	25,646,711.71
820	LHR 567 N Sierra Way (YWCA Bldgs)		604,755.74
821	LHR Woolworth Bldg		706,994.88
822	LHR APN 0280131230000, 904 Foisy S		9,845.13
823	LHR 3rd St/Waterman Ave, APN 0135-		500,000.00
824	LHR 170-174 SOUTH E STREET BLDG, 0		441,102.95
825	LHR 385 N E St, APN 0134-241-64, 0		74,417.07
826	LHR Convention Center/Exhibit Hall		2,451,570.00
827	LHR - 333 North H St, APN 134-182-		318,143.78
828	LHR Carrousel Mall		16,450,000.00
829	INVESTMENT IN FIXED ASSETS E	758,559.29	758,559.29
830	AMOUNT TO BE PROVIDED FOR LTD		20,062,919.16
831	AMOUNT AVAILABLE FOR DEBT SERVICE		10,508,717.84
832	AMOUNT AVAILABLE FOR DS - DEFEASED		3,520,000.00
833	TOTAL ASSETS	23,328,039.88	124,777,867.29
834		==========	==========

Finding 1

The sum of the line items outlined tie to the total of the Central City Projects fund capital assets:

25,646,711.71 + 604,755.74 + 706,994.88 + 9,845.13 + 500,000.00 + 441,102.95 + 74,417.07 + 2451,570.00 + 318,143.78 + 16,450,000.00 = **47,203,541.26**

Finding 2

The Central City Projects current asset total is less the total of the capital assets noted above:

124,777,867.29 – 47,203,541.26 = **77,574,326.03**

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: Low-Moderate 20%

1015	RDA Low & Moderate Income Housing Fund					
1016	BALANCE SHEET					
1017	1/31/2012					
1018						
1019		46 IMPOUND	50 DSF	60 GLTDAG	66 AHS	Total
1020	ASSETS:					
1050	LHR Fook Sung 0134-054-24					409,020.90
1051	LHR Penshun/Expo 0134-093-19					2,908,092.52
1052	LHR Abitante 0134-093-05					1,147,887.13
1053	LHR 0134-093-45 (708&720 4th St)					1,022,263.88
1054	LHR 0134-101-04, 05, 06 (Garner)					351,824.32
1055	LHR 163 N Allen (Meadowbrook Park					444,933.07
1056	LHR 251 E 49th St					502,427.88
1057	LHR 495 N G, 0134-101-28 (Allied)					1,750,000.00
1058	LHR 167 E 2nd St (Meadowbrook)					553,669.41
1059	LHR 796 W 5th 0134-054-25 (Bland)					143,000.00
1060	LHR 631 N G					90,447.68
1061	LHR 696 w 5TH APN0134-061-21, 22,					900,000.00
1062	LHR 770 W 5th, Apn 0134-054-26(Naj					885,000.00
1063	LHR 723-739 W5th, Aon 0134-093-07					1,089,000.00
1064	LHR 673 W5th, Apn 0134-101-02, 03					617,875.00
1065	LHR 255 E 49th					503,017.00
1066	LHR 701 N 5th St, APN 0134-093-08					640,486.47
1067	LHR 299 E 49th St (LM Infill)					1,042,749.30
1068	LHR 288 E 49th					5,000.00
1069	LHR 2656 W 5th St (5th/Meridian)					170,953.10
1080	LHR 288 E 49th, SB 92408					515,162.67
1081	LHR 2695 W 5th ST (5th/Meridian)					170,406.05
1082	LHR 2682 W 5th #A,B,C,D (5th/Meri					54,182.89
1083	LHR 2624 W 5th (5th/Meridian)					170,385.34
1084	LHR 2639 W 5th (5th/Meridian)					149,765.50
1085	LHR 2633 W 5th (5th/Meridian)					150,140.07
1086	LHR 2625 W 5th 92410 (5th/Meridia					158,052.00

Finding 1

The sum of the line items outlined tie to the total of the Low & Moderate Income Housing fund capital assets.
(1 of 2)

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: Low-Moderate 20%

1086	LHR 2625 W 5th 92410 (5th/Meridia					158,052.00
1087	LHR 2657 W 5th 92410 (5th/Meridian					138,797.57
1088	LHR 2643 W 5th (5th/Meridian)					154,650.64
1089	LHR 2082 e 19TH (lm)					193,591.30
1090	LHR - 2120 Medical Center Drive					1,064,476.12
1091	LHR - 2196 Medical Center Drive					5,064,352.57
1092	LHR - apn 0143-191-46 Highland & M					551,887.91
1093	LHR 2120 Medical Center Dr (Meta)					270,000.00
1094	LHR - 2642 West 5th Street #1-4					157,411.24
1095	LHR - 2670 West 5th Street #1-4					149,835.27
1096	LHR - lm 2295 E Sunrise Lane					200,968.24
1097	LHR - 2632/2638 West 5th Street					498,282.52
1098	LHR - 2619 W 5th St, Units 1-4					236,578.64
1099	LHR - APN 0134-014-24,25,26,27					145,492.00
1100	LHR - 2683 WEST 5TH STREET (LM)					226,518.97
1101	LHR - 2164 East 19th Street (LM)					154,324.39
1102	LHR - 2043 E. 19th St (AHS/LM)					212,805.29
1103	LHR - 2694 West 5th Street (LM)					243,201.01
1104	LHR - 2225 E. Sunrise Lane (LM)					240,600.34
1105	LHR - 839-867 N Lugo/185-187 E 9th					5,955,023.52
1106	LHR 746 W 5th St/Spruce St Lots					2,678,819.45
1107	LHR - 2068 E. 19th St. MECH/LM					278,239.73
1108	LHR - 2056 E. 19th St. MECH/LM					269,419.56
1109	2557 Victoria					-53.15
1110	1146 N Sierra Way					-23.2
1111	1265 Kendall					70,819.02
1112	2044 E Sunrise					21,459.00
1113	2055 E Sunrise					21,459.00
1114	AMOUNT TO BE PROVIDED FOR LTD			20,334,219.60		20,334,219.60
1115	AMOUNT AVAILABLE FOR DEBT SERVICE			265,780.40		265,780.40
1116	AMOUNT AVAILABLE FOR DS - DEFEASED			2,435,000.00		2,435,000.00
1117	TOTAL ASSETS		2,699,924.09	23,035,000.00		95,134,146.55
1118		==========	==========	==========	==========	==========

Finding 1

The sum of the line items outlined tie to the total of the Low & Moderate Income Housing fund capital assets

Total: 33,744,679.13
(2 of 2)

Finding 2

The Low & Moderate Income Housing current asset total is less the total of the capital assets noted above:

95,134,146.55 –
33,744,679.13 =
61,389,467.42

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: Mt. Vernon Corridor

1154	RDA Mt Vernon Business Corridor					
1155	BALANCE SHEET					
1156	1/31/2012					
1157						
1158		01 TI	02 BP	50 DSF	60 GLTDAG	Total
1159	ASSETS:					
1160	Current Bond Issues Cash w/Fiscal			263,639.86		263,639.86
1161	TAX INCREMENT/OTHER INVESTMENTS	1,573,223.22				1,573,223.22
1162	Bond proceeds 2002A Mt Vernon		45,084.21			45,084.21
1163	LHR 542 N Mt Vernon		49,907.30			49,907.30
1164	LHR, APN 0138-114-09 (MtV)		60,822.28			60,822.28
1165	552 N Mt Vernon		47,000.00			47,000.00
1166	LHR 540 N Mt Vernon (0138-115-04/0		270,436.71			270,436.71
1167	LHR 1307 W SPRUCE (5TH&MTV) ARRIOL		35,521.75			35,521.75
1168	Virgilio 0138-115-06		309,486.93			309,486.93
1169	LHR APN 0138-115-07 (ALLEN-MTV)		103,028.00			103,028.00
1170	LHR Apn 0139-291-60 (757 N MtVerno	32,162.27				32,162.27
1171	LHR Apn 0139-291-61 (761 N MtVerno	52,722.27				52,722.27
1172	578 N Mt Vernon	106,900.00				106,900.00
1173	AMOUNT TO BE PROVIDED FOR LTD				3,033,998.05	3,033,998.05
1174	AMOUNT AVAILABLE FOR DEBT SERVICE				263,689.10	263,689.10
1175	TOTAL ASSETS	1,765,007.76	921,287.18	263,639.86	3,297,687.15	6,247,621.95
1176		==========	==========	==========	==========	==========

Finding 1

The Mt. Vernon Corridor current asset total is less the total of the capital assets noted above:

49,907.30 + 60,822.28 + 47,000.00 + 270,436.71 + 35,521.95 + 309,486.93 + 103,028.00 + 32,162.27 + 52,722.27 + 106,900.00 = **1,067,987.51**

Finding 2

The sum of the line items outlined tie to the total of the Mt. Vernon Corridor fund capital assets:

6,247,621.95 – 1,067,987.51 = **5,179,634.44**

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: Main Street

1202	RDA Main Street, Inc.					
1203	BALANCE SHEET					
1204	1/31/2012					
1205						
1206		01 TI	02 BP	25 FRF	47 MS	Total
1207	ASSETS:					
1208	A/R I San Bdno Economic Dev Corp				475	475
1209	TOTAL ASSETS				475	475
1210		==========	==========	==========	==========	==========

Finding 1

The Main Street fund does not contain any capital assets; therefore, Finding 1 does not apply to this fund.

Finding 2

As the fund does not contain any capital assets, the current asset total was **475.**

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: Telecommunications

1234	RDA Telecommunications					
1235	BALANCE SHEET					
1236	1/31/2012					
1237						
1238		01 TI	02 BP	12 Tel-F	70 GFAAG	Total
1239	ASSETS:					
1240	TAX INCREMENT/OTHER INVESTMENTS			266,166.26		266,166.26
1241	INVESTMENT IN FIXED ASSETS E				60,911.61	60,911.61
1242	TOTAL ASSETS			266,166.26	60,911.61	327,077.87
1243		==========	==========	==========	==========	==========

Finding 1

The Main Street fund does not contain any capital assets; therefore, Finding 1 does not apply to this fund.

Finding 2

As the fund does not contain any capital assets, the current asset total was **327,077.87.**

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: Fortieth Street Projects

1265	RDA Fortieth Street Project		
1266	BALANCE SHEET		
1267	1/31/2012		
1268			
1269		01 TI	Total
1270	ASSETS:		
1271	TAX INCREMENT/OTHER INVESTMENTS	891,208.62	891,208.62
1272	TOTAL ASSETS	891,208.62	891,208.62
1273		==========	==========

Finding 1

The Fortieth Street Projects fund does not contain any capital assets; therefore, Finding 1 does not apply to this fund.

Finding 2

As the fund does not contain any capital assets, the current asset total was **891,208.62.**

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: AHS – Low Mod Funded

1293	RDA Affordable Housing Solutions			
1294	BALANCE SHEET			
1295	1/31/2012			
1296				
1297		66 AHS	67 AHS-P	Total
1298	ASSETS:			
1299	TAX INCREMENT/OTHER INVESTMENTS		100,958.79	100,958.79
1300	LHR AHS/nsp 1888 Argyle	155,788.39		155,788.39
1301	LHR AHS/nsp 202 E 19th	6,404.26		6,404.26
1302	LHR AHS/nsp 1058 n sierra	45,773.22		45,773.22
1303	LHR AHS/nsp 2091 Sepulveda	72,633.03		72,633.03
1304	LHR AHS/nsp 1725 N Mt View	37,885.45		37,885.45
1305	LHR AHS/nsp 2044 E Sunrise Ln	134,090.63		134,090.63
1306	LHR AHS/nsp 2165 E 19th	149,233.03		149,233.03
1307	LHR AHS/home 1356 Hillside Drive	152,923.83		152,923.83
1308	LHR AHS/home 1394 Hillside Drive	200,020.77		200,020.77
1309	LHR AHS/home 1853 Fairfax Drive	205,262.48		205,262.48
1310	LHR AHS/home 1384 Hillside Drive	199,998.76		199,998.76
1311	LHR Transfer from Low Mod Housing	11,838,853.96		11,838,853.96
1312	TOTAL ASSETS	13,198,867.81	100,958.79	13,299,826.60
1313		==========	==========	==========

Finding 1

The sum of the line items outlined in red tie to the total of the AHS – Low Mod Funded fund capital assets:

155,788.39 + 6,404.26 + 45,773.22 + 72,633.03 + 37,885.45 + 134,090.63 + 149,233.03 + 152,928.83 + 200,020.77 + 205,262.48 + 199,998.76 = **1,360,013.85**

Finding 2

The AHS - Low Mod Funded current asset total is less the total of the capital assets noted above:

13,299,826.60 – 1,360,013.85 = **11,939,812.75**

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Subject to Change

Schedule 4 (continued)

Fund: San Bernardino Economic Development Corporation

1337	San Bdno Economic Dev Corp			
1338	BALANCE SHEET			
1339	1/31/2012			
1340				
1341		01 TI	14 SBEDC	Total
1342	ASSETS:			
1343	Cash in Bank SCRIP		29,348.49	29,348.49
1344	CBB SBEDC		7,609,638.77	7,609,638.77
1345	A/R I RDA Northwest		70,087.00	70,087.00
1346	A/R I CMB-EB5		368,234.15	368,234.15
1347	TOTAL ASSETS		8,077,308.41	8,077,308.41
1348		==========	==========	==========

Finding 1

The San Bernardino Economic Development Corporation fund does not contain any capital assets; therefore, Finding 1 does not apply to this fund.

Finding 2

As the fund does not contain any capital assets, the current asset total was **8,077,308.41**

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Subject to Change

Schedule 4 (continued)

Fund: CMB-EB5

1373	CMB-EB5					
1374	BALANCE SHEET					
1375	1/31/2012					
1376						
1377		13 CMB $15M	16 $10M CMB	17 $8M CMB	60 GLTDAG	Total
1378	ASSETS:					
1379	CMB $15 M	6,561,985.99				6,561,985.99
1380	CMB $8 M			8,000,000.00		8,000,000.00
1381	CMB $10 M		6,468,127.28			6,468,127.28
1382	LA Engineering Comm Bank Retention		15,268.63			15,268.63
1383	AMOUNT TO BE PROVIDED FOR LTD				33,000,000.00	33,000,000.00
1384	TOTAL ASSETS	6,561,985.99	6,483,395.91	8,000,000.00	33,000,000.00	54,045,381.90
1385		==========	==========	==========	==========	==========

Finding 1

The CMB-EB5 fund does not contain any capital assets; therefore, Finding 1 does not apply to this fund.

Finding 2

As the fund does not contain any capital assets, the current asset total was **54,045,381.90**

DRAFT
Subject to Change

Schedule 4 (continued)

Fund: Carousel Mall

1411	Carousel Mall			
1412	BALANCE SHEET			
1413	1/31/2012			
1414				
1415		15 Mall LLC	31 CC Mall	Total
1416	ASSETS:			
1417	PETTY CASH		500	500
1418	CBB Carousel Mall 245122652		248,623.42	248,623.42
1419	CBB Carousel Mall LLC 245122702	650,000.00		650,000.00
1420	A/R I San Bdno Economic Dev Corp	1,975.00		1,975.00
1421	TOTAL ASSETS	651,975.00	249,123.42	901,098.42
1422		==========	==========	==========

Finding 1

The Carousel Mall fund does not contain any capital assets; therefore, Finding 1 does not apply to this fund.

Finding 2

As the fund does not contain any capital assets, the current asset total was **901,098.42**

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Attachment—
City's Response to
Draft Review Report

Exhibit 10

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Subject to Change

OFFICE OF THE CITY MANAGER

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November 21, 2012

Mr. Jeffrey V. Brownfield, Chief
Division of Audits
California State Controller
P. O. Box 942850
Sacramento, California 94250-5874

Attn: Mr. Steven Mar, Chief, Local Government Audits Bureau

Re: **Response to State Controller Draft Asset Transfer Review for the Successor Agency to the Redevelopment Agency of the City of San Bernardino**

Dear Mr. Brownfield:

This letter is in response to your November 6, 2012 letter, which transmitted a Draft Asset Transfer Review ("Draft ATR") for the Successor Agency to the Redevelopment Agency of the City of San Bernardino ("Successor Agency") that was prepared by staff of the State Controller's Office ("SCO"). In your letter you invited the Successor Agency to submit its comments on the Draft ATR to the SCO. In that regard, the Successor Agency's comments on the Draft ATR, as follows:

SBEDC ASSETS VALUED AT $108,372,060.20

Introduction

As noted in several places, the Draft ATR indicates that the SCO's review "disclosed that the San Bernardino RDA made an unallowable transfer of $108,372,060.20 in assets, or 100%, to the San Bernardino Economic Development Corporation ("SBEDC"). It further indicates that "the City of San Bernardino is ordered to transfer these assets to the San Bernardino Redevelopment Successor Agency." The assertion is factually inaccurate and the proposed order is legally impossible to perform. As further described below, former Redevelopment Agency of the City of San Bernardino ("RDA") transferred the assets in question to the SBEDC pursuant to a transaction that at the time was allowable, legally authorized, enforceable, binding and valid. Further, the City of San Bernardino ("City") does not control the SBEDC. Therefore, SCO does not have the authority to direct the City to require SBEDC to return these assets to the Successor Agency and the City does not have the legal authority to order or cause SBEDC to take this action, or for that matter to do anything.

Analysis

By way of background, on March 3, 2011, the former RDA and the SBEDC entered into a Project Funding Agreement ("Funding Agreement") pursuant to which the SBEDC assumed all of the RDA's obligations and the responsibility to undertake the RDA's governmental functions. On March 17, 2011, in implementation of the Funding Agreement, the RDA Board of Directors directed RDA staff to transfer all of the RDA's assets to SBEDC (such assets are referred to herein as the "SBEDC Assets"). The Funding Agreement, the RDA's conveyance of its assets to SBEDC, the "restructuring of the manner in which the RDA conducts its governmental functions" and "all matters related thereto" were validated in accordance with Code of Civil Procedure Section 860, *et seq.*, and Government Code Section 63611, as stated in that certain Judgment issued on July 27, 2011, by the Superior Court of the State of California, County of San Bernardino, Case No. CIVDS 1103893 ("Validation Judgment").

The Funding Agreement and the transfer of RDA Assets to SBEDC occurred during March 2011, prior to the effective date of ABlx 26 or AB 1484; these actions were therefore valid, effective and binding on the RDA (and therefore the Successor Agency), as confirmed in the Validation Judgment. Notwithstanding the foregoing, the SCO's Draft ATR asserts that the transfer by the RDA to SBEDC of assets cumulatively valued at $108,372,060.20 was "unallowable" and directs the City to transfer these assets to the Successor Agency.

In the Draft ATR, the SCO asserts that Health & Safety Code ("HSC") Section 34167.5 applies to the RDA's transfer of its assets to SBEDC and authorizes the SCO to direct the reversal of such transfer. SCO further asserts that HSC Section 34167.10, as applied to SBEDC, results in the conclusion that the SBEDC is controlled by the City and therefore HSC Section 34167.5 applies to SBEDC in the same manner as such statute would apply to the City. As discussed below, SCO misunderstands the relationship among the RDA, City and SBEDC and therefore mistakenly applies HSC Section 34167.5 to the SBEDC Assets.

The City does not control SBEDC. The City and SBEDC had no relationship at the time SBEDC was formed, at the time the RDA and SBEDC entered into the Funding Agreement, and at the time the RDA transferred its assets to SBEDC. As recited in Section 1.4.B of the Bylaws of the San Bernardino Economic Development Corporation, Inc., SBEDC was formed by the RDA for the purpose of assisting the RDA with its governmental functions and responsibilities. Three of the six members of the Board of Directors of SBEDC are appointed by the Community Development Commission of the City of San Bernardino ("CDC"). Even now, these three SBEDC Board members are appointed by the CDC and the City does not have the right to appoint (or remove) any SBEDC Board members. Although the RDA and City had common governing boards, the RDA and City were at all times separate and distinct legal entities (see *Pacific States Enterprises, Inc. v. The City of Coachella et al.* (1993) 13 Cal. App. 4th 1414; *Long Beach Community Redevelopment Agency v. David Morgan* (1993) 14 Cal. App. 4th. 1047).

HSC Section 34167.5 directs SCO to "review the activities of redevelopment agencies in the state to determine whether an asset transfer has occurred after January 1, 2011, between the city or county, or city and county that created a redevelopment agency or any other public agency,

and the redevelopment agency." If SCO determines that such a transfer occurred, HSC Section 34167.5 directs SCO to "order the available assets to be returned ... to the successor agency." Because SBEDC is not a city, county, city and county, or any other public agency, HSC Section 34167.5 is inapplicable to SBEDC and inapplicable to any transfers made by the RDA to SBEDC.

In the Draft ATR, SCO treats SBEDC as the City for purposes of applying HSC Section 34167.5, relying on HSC Section 34167.10. HSC Section 34167.10 provides as follows:

> "(a) Notwithstanding any other law, for purposes of this part and Part 1.85 (commencing with Section 34170), the definition of a city, county, or city and county includes, but is not limited to, the following entities:
>
> (1) Any reporting entity of the city, county, or city and county for purposes of its comprehensive annual financial report or similar report.
> (2) Any component unit of the city, county, or city and county.
> (3) Any entity which is controlled by the city, county, or city and county, or for which the city, county, or city and county is financially responsible or accountable.
>
> (b) The following factors shall be considered in determining that an entity is controlled by the city, county, or city and county, and are therefore included in the definition of a city, county, or city and county for purposes of this part and Part 1.85 (commencing with Section 34170):
>
> (1) The city, county, or city and county exercises substantial municipal control over the entity's operations, revenues, or expenditures.
> (2) The city, county, or city and county has ownership or control over the entity's property or facilities.
> (3) The city, county, or city and county and the entity share common or overlapping governing boards, or coterminous boundaries.
> (4) The city, county, or city and county was involved in the creation or formation of the entity.
> (5) The entity performs functions customarily or historically performed by municipalities and financed thorough levies of property taxes.
> (6) The city, county, or city and county provides administrative and related business support for the entity, or assumes the expenses incurred in the normal daily operations of the entity.
>
> (c) For purposes of this section, it shall not be relevant that the entity is formed as a separate legal entity, nonprofit corporation, or otherwise, or is not subject to the constitution debt limitation otherwise applicable to a city, county, or city and county. The provisions in this section are declarative of existing law as the entities described herein are and were intended to be included within the requirements of this part and Part 1.85 (commencing with Section 34170) and any attempt to determine otherwise would thwart the intent of these two parts."

In the Draft ATR, SCO asserts that: (1) the Board of Directors of SBEDC is made up of City Council members; (2) the City shares a common governing board and has coterminous boundaries with SBEDC; and (3) the City provides administrative and related business support to SBEDC. By implication, the Draft ATR concludes that SBEDC is controlled by the City within the meaning of HSC Section 34167.10(b).

Contrary to SCO's assertion, SBEDC is not controlled by the City. The City does not have the authority to appoint SBEDC Board members. Further, the SCO's assertion that the City and SBEDC have coterminous boundaries is patently false. SBEDC does not have boundaries; it is a nonprofit corporation formed pursuant to the laws of the State of California, not a public entity. SBEDC has the legal authority to conduct business outside the boundaries of the City. Finally, prior to its dissolution, the RDA provided administrative support to SBEDC; however, at the time of the transfers and at the time ABlx 26 was enacted, the City provided no support, financial or otherwise, to SBEDC. Only now that SBEDC owns property and has contractual obligations entered into in reliance on RDA support does the City provide any administrative support to SBEDC and this support should, frankly, be provided by the Successor Agency pursuant to the validated Funding Agreement.

Because SBEDC is not controlled by the City within the meaning of HSC Section 34167.10(b), SCO does not have the authority to direct the City to return SBEDC Assets to the Successor Agency pursuant to Section 34167.5. Even if the SCO refuses to revise the Draft ATR and continues to order the City to return SBEDC Assets to the Successor Agency (notwithstanding SCO's lack of legal authority to do so), the City does not control SBEDC and would be unable to legally require SBEDC to take such an action.

SCO does not allege that the RDA was not authorized in March 2011 (prior to the enactment of ABlx 26) to convey its assets to a nonprofit corporation created by the CDC/RDA, or whose governing board overlapped with the RDA's governing board, because nothing in HSC Section 34167.10 or elsewhere in ABlx 26 or AB 1484 prohibits such actions. The California legislature could have included entities formed by the CDC or RDA within the scope of HSC Section 34167.10, but elected not to do so. Given that Section 34167.10 is specifically crafted to address asset transfers to entities created and/or controlled by cities and counties and does not refer even once to entities created and/or controlled by redevelopment agencies or successor agencies, it is clear that the legislature knew how to, but chose not to, require transfers to such entities to be unwound.

SUCCESSOR AGENCY ASSETS VALUED AT $420,512,906.15

Introduction

As noted in several places, the Draft ATR indicates that the SCO's review "identified $420,512,906.15 in San Bernardino RDA assets that have not yet been transferred to any agency." It further indicates that "the City of San Bernardino is ordered to transfer these assets to the San Bernardino Redevelopment Successor Agency." The assertion is factually inaccurate, the proposed order is legally impossible to perform and the amount indicated includes

$258,676,796-worth of non-tangible assets, which are either offsets to bonds payable or are inter-fund accounts receivable (i.e., between redevelopment project areas) and therefore should not be included as tangible assets within the ATR. As further described below, the assets in question were transferred to the Successor Agency by operation of law; no affirmative action to transfer these assets is needed. Further, the Successor Agency Assets do not belong to the City and never have (within relevant time periods) belonged to the City. The City is unable to transfer these assets or cause these assets to be transferred to the Successor Agency, as the assets are already held by the Successor Agency.

Analysis

The SCO's audit staff were previously advised that a portion of the $420,512,906.15 they identified as San Bernardino RDA assets included amounts which are non-tangible assets and are only accounting entries, not assets. Specifically, they were informed that $193,955,410 represented an accounting entry of an "Amount to be Provided for Long Term Debt", which is an off-set to bonds payable and is not a tangible asset. For example, as bonds payable reduces so does the "Amount to be Provided for Long Term Debt". Further, SCO audit staff was informed that an additional $64,721,386 represents inter-fund redevelopment project area accounts receivables, which are off-set by an accounts payable, which is also non-tangible since these funds will never be repaid between redevelopment project areas. Once the accounts receivable and the accounts payable are combined, the result will be zero.

With respect to the SCO's assertion that the RDA, Successor Agency or City has somehow failed to comply with a statutory duty because certain assets have not been transferred by the RDA to the Successor Agency, the SCO apparently misunderstands the structure of AB1x 26 and AB 1484. HSC Section 34175(b) provides that "[a]ll assets, properties, contracts, leases, books and records, buildings, and equipment of the former redevelopment agency are transferred on February 1, 2012, to the control of the successor agency, for administration pursuant to the provisions of this part. This includes all cash or cash equivalents and amounts owed to the redevelopment agency as of February 1, 2012." HSC Section 34175(b) states that the assets "are transferred" to the Successor Agency on February 1, 2012, not that redevelopment agencies "shall transfer" assets to successor agencies as of that date. Nothing in AB1x 26 or AB 1484 requires any affirmative action to be taken to effectuate this transfer. Had an affirmative transfer been required, it would have created legal turmoil as some agencies would, invariably, have failed to make the required transfers before being dissolved and ceasing to exist on February 1, 2012; those assets not transferred on time would have no clear ownership or any statutorily authorized way to resolve such ownership dilemma.

Thus, in accordance with HSC Section 34175(b), any and all assets owned by the RDA as of February 1, 2012 (collectively referred to herein as "Successor Agency Assets") were transferred to the Successor Agency by operation of law; no affirmative action to transfer these assets is needed. Additionally, it is irrelevant what books, ledgers or accounts may say regarding the ownership of these Successor Agency Assets, as they are legally owned by the Successor Agency regardless of any such designation.

Further, the Successor Agency Assets do not belong to the City and never have (within relevant time periods) belonged to the City. The City is unable to transfer these assets or cause these assets to be transferred to the Successor Agency, as the assets are already held by the Successor Agency.

General Comments

In addition to the foregoing, we have found several mistakes within the report, as follows:

Draft ATR, Page 2, first paragraph, reads, "The SCO has identified transfers of assets that occurred during that period between the City of San Bernardino RDA, the City of San Bernardino, and/or other public agencies." The record does not reflect any transfers of assets by the former RDA to the City or other public agencies. We have no idea what the SCO is referring to in this paragraph.

Draft ATR, Page 2, second bullet in the Objectives, Scope and Methodology section, reads, "Reviewed meeting minutes, resolutions and ordinances of the San Bernardino City Council, the Community Development Commission, and the San Bernardino Economic Development Agency." This narrative is erroneous as the San Bernardino Economic Development Agency has never had any meeting minutes, resolutions or ordinances.

Draft ATR, Page 3, first paragraph, makes a reference to James P. Simpson, Director of Finance. The City's Director of Finance is Mr. Jason Simpson.

Draft ATR, Page 5, in the narrative immediately preceding the final paragraph, there is a reference to the "overnight board". This erroneous reference to what should be the "oversight board" appears in several places in the report. We recommend that the SCO use the find and replace function in Word to globally correct this error.

Draft ATR, Schedule 2, the reference to RDA South Valley should be to RDA South Valle.

Draft ATR, Schedule 4, page 24, the reference to "Fund: South Valley" should be to "Fund: South Valle".

Draft ATR, Schedules 3 and 4, there are a multitude of capitalization errors. The report needs more careful proofreading prior to release.

General Comment, given that the SCO staff spent several weeks in the City of San Bernardino pursuing discovery, the Successor Agency does not understand why there are so many errors within the Draft ATR. The Successor Agency requests that the SCO carefully proofread the final ATR before releasing it.

Proposed Settlement Agreement with Department of Finance

In addition to the above, during its October 30, 2012 meeting with Department of Finance ("DOF"), Successor Agency representatives explained the history and dire nature of its approximately $15 million immediate cash flow deficiency and offered solution options to the problem as a means of avoiding bankruptcy proceedings on behalf of the Successor Agency. Successor Agency staff explained to the DOF that SBEDC is not a public agency, nor is SBEDC a corporation created by the City of San Bernardino. Rather, SBEDC is a nonprofit corporation formed by the former RDA (through the CDC) to assist the former RDA in the performance of its governmental functions. During that meeting, it was ultimately suggested that the DOF, Successor Agency and SBEDC enter into a settlement agreement that provides for: i) the SBEDC to immediately pursue the sale of four properties previously owned by the RDA to raise moneys to solve the Successor Agency's current cash flow deficiency/insolvency; ii) SBEDC would agree to transfer the balance of the SBEDC Assets to the Successor Agency for disposition pursuant to the Successor Agency's Long-Range Property Management Plan in accordance with the provision of AB1x 26 and AB 1484; and iii) upon sale of the four identified sites, the SBEDC would transfer the net sale proceeds to the Successor Agency and thereafter those funds would be used to pay for Successor Agency enforceable obligations that would otherwise be (or currently are) in default.

As of the date of this letter, the proposed settlement remains under review by the DOF. The Successor Agency anticipates receiving DOF's response to the proposed settlement by December 15, 2012. Anticipating a positive response, the Successor Agency recommends that the SCO revise the Draft ATR to include a reference to the proposed settlement agreement and provide that the Draft ATR will be finalized following execution of the settlement agreement.

The Successor Agency recommends that the SCO revise the Draft ATR in a manner consistent with the suggestions in this letter and provide the Successor Agency with the revised draft for further review and comment. If you have any questions, please contact me at (909) 384-5122.

Sincerely,

Andrea M. Travis-Miller

CITY OF SAN BERNARDINO
Andrea Travis-Miller
Interim City Manager

TB:lc

Cc: Teri Baker, City of San Bernardino Assistant to the City Manager
Jason Simpson, City of San Bernardino Finance Director
Scott Freesmeier, Audit Manager, SCO Division of Audits
Si Lau, Auditor-in-Charge, SCO Division of Audits

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