

**VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY
TECHNICAL ADVISORY COMMITTEE
REGULAR MEETING
AGENDA**

Southern California Logistics Airport
18374 Phantom Street, Theater Room
Victorville, CA 92394

And

County Government Center
385 North Arrowhead Dr., 3rd Floor – Advantage Room
San Bernardino, CA 92415

Wednesday, September 21, 2016
3:30 P.M.

CALL TO ORDER

ITEM 1 PUBLIC COMMENT

DISCUSSION AGENDA

ITEM 2 TAX INCREMENT DISTRIBUTION ROPS 16-17A

ITEM 3 BUSINESS AND COMMENTS

ITEM 4 ADJOURNMENT

VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY
TECHNICAL ADVISORY COMMITTEE AND BOARD OF COMMISSIONERS
MEETING OF: September 21, 2016

SUBMITTED BY: Marc Puckett
Treasurer

DATE: August 10, 2016

SUBJECT: Tax Increment Distribution
ROPS 16-17A

RECOMMENDATIONS: That the Honorable Board of Commissioners approve a final distribution of taxes to its member jurisdictions and the affected taxing entities.

FISCAL IMPACT: \$10,948,709

DISCUSSION: From December 17, 2015 through April 30, 2016, VVEDA has collected \$17,414,875 in tax increment revenues. Of that amount, the San Bernardino County (County) remitted \$4,803,837 in pass-through payments to affected taxing entities and paid County Administrative Fees of \$22,244. Also, staff is recommending withholding \$250,000 for Administrative Cost Allowance as approved by the Department of Finance (DOF) on ROPS 16-17A. In addition, adjustments to the total amount each member jurisdiction is eligible to receive based on the Joint Powers Agreement distribution methodology due to the determination by DOF results in residual funds of \$1,390,085 (column 8 on Table 1). This amount will be reconciled with DOF and distributed to all affected taxing entities at a later date. VVEDA has attempted to coordinate with the County and DOF to enable the residual funds' distribution sooner (see attached letter). However, the County and DOF are not willing to diverge from the prior period adjustment process established by law. Staff believes this will result in the residual funds' distribution, at the earliest, in June 2019.

VVEDA's fiscal consultant, RSG, Inc. (RSG) has prepared a tax increment distribution analysis based on the tax increment revenues received by VVEDA through April 30, 2016. The RSG tax increment distribution analysis reconciled receipts from the original project area and Amendment 4 and 8 areas in the amount of \$17,392,631. The tax increment distribution is provided in Table 1 attached to this report.

A tax distribution of the reconciled receipts (the fifth column on Table 1) less the amount of pass-through payments, County Administrative Fees paid by the County, withholding of ROPS 16-17A Administrative Cost Allowance and the residual funds to be distributed at a later date would result in the distribution of \$10,948,709 to member jurisdictions.

Staff remains available for any questions or comments you might have.

MP:ka

Attachments: RSG Distribution of Taxes
Letter to County

TABLE 1

WVEDA

DISTRIBUTION OF TAX INCREMENT REVENUE (DECEMBER 17, 2015 THROUGH APRIL 30, 2016)

| TAXING ENTITY | Actual Revenue Received | | | Total Received Revenue Through Apr 30 | Administrative Cost Allowance (VVEDA) | Total Amount to be Distributed to Member Jurisdictions for Debt Service /1 | Remaining RPTTF Revenue to be Distributed to Affected Taxing Entities |
|--|---------------------------------------|---|---|---------------------------------------|---------------------------------------|--|---|
| | 1993 Received Revenue Dec 17 - Apr 30 | Amendment IV Received Revenue Dec 17 - Apr 30 | Amendment VIII Received Revenue Dec 17 - Apr 30 | | | | |
| Total Pass Through Payments | 4,452,378 | 52,592 | 298,867 | 4,803,837 | | | |
| <i>Apple Valley (JPA Member)*</i> | | | | | | | |
| Total | 1,225,829 | - | - | 1,225,829 | 155,849.78 | 326,278.00 | 743,701.17 |
| <i>Hesperia (JPA Member)*</i> | | | | | | | |
| Total | 251,595 | - | - | 251,595 | 31,987.39 | - | 219,607.88 |
| <i>SB County (JPA Member)*</i> | | | | | | | |
| Total | 376,182 | 32,623 | - | 408,805 | 51,974.73 | - | 356,829.97 |
| <i>Victorville (JPA Member)*</i> | | | | | | | |
| Total | 4,735,868 | 13,652 | 721,646 | 5,471,166 | - | 5,471,166.14 | - |
| <i>Adelanto (JPA Member)*</i> | | | | | | | |
| Total | - | 80,134 | - | 80,134 | 10,188.10 | - | 69,945.94 |
| SCLA* | 4,644,829 | 75,453 | 430,983 | 5,151,265 | - | 5,151,264.94 | - |
| Subtotal - Distribution to Member Jurisdictions | 11,234,303 | 201,862 | 1,152,629 | 12,588,794 | 250,000.00 | 10,948,709.09 | 1,390,084.96 |
| TOTAL | 15,686,681 | 254,454 | 1,451,496 | 17,392,631.00 | | | |

* Note A: JPA Member Jurisdiction payments shown in Table 1 include 100% of the allocation of monies formerly referred to as "low and moderate income housing set aside" as well as non-housing (80%) monies. The total distribution amount shown in Table 1 adds the figures shown in the "Former Low/Mod Housing (20%)" row and "Total Member Jurisdiction Allocations" row, as shown in Tables A, B and C.

* Note B: County Auditor-Controller administrative fees are excluded from Table 1.

/1 Adjustment to the total amount each jurisdiction is eligible to receive based on the JPA distribution methodology due to the determination by DOF.

VVEDA

ROPS 16-17A CALCULATED DISTRIBUTION OF RECEIVED REVENUE FOR 1993 PROJECT AREA

TABLE A

| | SCLA | Victorville | Hesperia | Apple Valley | SB County | TOTAL |
|---|------------------|------------------|----------------|------------------|----------------|-------------------|
| Total Tax Increment Collected by County (Dec 17, 2015 to Apr 30, 2016) | 2,264,397 | 9,407,601 | 564,612 | 2,661,889 | 808,283 | 15,706,783 |
| Member Jurisdiction Pro Rata Share | 14.42% | 59.90% | 3.59% | 16.95% | 5.15% | 100% |
| Administrative Fees to County Auditor-Controller | 2,898 | 12,040 | 723 | 3,407 | 1,034 | 20,102 |
| Former Low/Mod Housing (20%) ¹ | 452,879 | 1,881,520 | 112,922 | 532,378 | 161,657 | 3,141,357 |
| Total Pass Throughs | 611,909 | 2,711,104 | 173,621 | 739,202 | 216,541 | 4,452,378 |
| REMAINING TAX INCREMENT TO BE DIVIDED (Net of Admin, Pass Throughs, and Low/Mod) | 1,196,711 | 4,802,937 | 277,346 | 1,386,902 | 429,051 | 8,092,947 |
| ALLOCATION TO MEMBER JURISDICTIONS | | | | | | |
| Member Jurisdiction (50%) (Except SCLA 100%) | 1,196,711 | 2,401,468 | 138,673 | 693,451 | 214,525 | 4,644,829 |
| Member Jurisdictions' Allocation to SCLA (see below) | 3,448,118 | | | | | 3,448,118 |
| TOTAL MEMBER JURISDICTION ALLOCATIONS | 4,644,829 | 2,401,468 | 138,673 | 693,451 | 214,525 | 8,092,947 |
| MEMBER JURISDICTIONS' ALLOCATION TO SCLA | | | | | | |
| Remaining Tax Increment to SCLA (50%) | | 2,401,468 | 138,673 | 693,451 | 214,525 | 3,448,118 |
| Subtotal - Distribution to Member Jurisdictions (Includes Former Low/Mod Housing) | | | | | | 11,234,303 |

¹ The "Former Low/Mod Housing (20%)" row is included in the above table for purposes of calculating the remaining tax increment to be divided for the 50/50 split with SCLA per the JPA agreement. 100% of the figures shown in this row are subsequently added together with the figures in the "Total Member Jurisdiction Allocations" row to derive the total amounts to be distributed to the JPA Member Jurisdictions. The sum total of the figures in these rows can be seen in the summary table (Table 1).

VVEDA **TABLE B**
ROPS 16-17A CALCULATED DISTRIBUTION OF RECEIVED REVENUE FOR AMENDMENT IV AREA

| | Victorville | Adelanto | SB County | TOTAL |
|---|---------------|---------------|---------------|----------------|
| Total Tax Increment Collected by County (Dec 17, 2015 to Apr 30, 2016) | 27,567 | 161,616 | 65,597 | 254,780 |
| Member Jurisdiction Pro Rata Share | 10.82% | 63.43% | 25.75% | 100% |
| Administrative Fees to County Auditor-Controller | 35 | 207 | 84 | 326 |
| Former Low/Mod Housing (20%) ¹ | 5,513 | 32,323 | 13,119 | 50,956 |
| Total Pass Throughs | 5,740 | 33,465 | 13,387 | 52,592 |
| REMAINING TAX INCREMENT TO BE DIVIDED (Net of Admin, Pass Throughs, and Low/Mod) | 16,278 | 95,622 | 39,007 | 150,906 |
| ALLOCATION TO MEMBER JURISDICTIONS | | | | |
| Member Jurisdiction (50% net of Admin, Pass Throughs, and Low/Mod) | 8,139 | 47,811 | 19,503 | 75,453 |
| Member Jurisdictions' Allocation to SCLA (50% net of Admin, Pass Throughs, and Low/Mod) | 8,139 | 47,811 | 19,503 | 75,453 |
| TOTAL MEMBER JURISDICTION ALLOCATIONS | 16,278 | 95,622 | 39,007 | 150,906 |
| Subtotal - Distribution to Member Jurisdictions (Includes Former Low/Mod Housing) | | | | 201,862 |

¹ The "Former Low/Mod Housing (20%)" row is included in the above table for purposes of calculating the remaining tax increment to be divided for the 50/50 split with SCLA per the JPA agreement. 100% of the figures shown in this row are subsequently added together with the figures in the "Total Member Jurisdiction Allocations" row to derive the total amounts to be distributed to the JPA Member Jurisdictions. The sum total of the figures in these rows can be seen in the summary table (Table 1).

VVEDA **TABLE C**
ROPS 16-17A CALCULATED DISTRIBUTION OF RECEIVED REVENUE FOR AMENDMENT VIII AREA

| | Victorville | Adelanto | SB County | Apple Valley | TOTAL |
|---|----------------|----------|-----------|--------------|----------------|
| Total Tax Increment Collected by County (Dec 17, 2015 to Apr 30, 2016) | 1,453,313 | - | - | - | 1,453,313 |
| Member Jurisdiction Pro Rata Share | 100% | 0% | 0% | 0% | 100% |
| Administrative Fees to County Auditor-Controller | 1,816 | - | - | - | 1,816 |
| Former Low/Mod Housing (20%) ¹ | 290,663 | - | - | - | 290,663 |
| Total Pass Throughs | 298,867 | - | - | - | 298,867 |
| REMAINING TAX INCREMENT TO BE DIVIDED (Net of Admin, Pass Thrus, and Low/Mod) | 861,967 | - | - | - | 861,967 |
| ALLOCATION TO MEMBER JURISDICTIONS | | | | | |
| Member Jurisdiction (50% net of Admin, Pass Throughs, and Low/Mod) | 430,983 | - | - | - | 430,983 |
| Member Jurisdictions' Allocation to SCLA (50% net of Admin, Pass Throughs, and Low/Mod) | 430,983 | - | - | - | 430,983 |
| TOTAL MEMBER JURISDICTION ALLOCATIONS | 861,967 | - | - | - | 861,967 |
| Subtotal - Distribution to Member Jurisdictions (Includes Former Low/Mod Housing) | | | | | 1,152,629 |

¹ The "Former Low/Mod Housing (20%)" row is included in the above table for purposes of calculating the remaining tax increment to be divided for the 50/50 split with SCLA per the JPA agreement. 100% of the figures shown in this row are subsequently added together with the figures in the "Total Member Jurisdiction Allocations" row to derive the total amounts to be distributed to the JPA Member Jurisdictions. The sum total of the figures in these rows can be seen in the summary table (Table 1).

August 9, 2016

Via Electronic Mail

Linda Santillano, Property Tax Manager
San Bernardino County Auditor-Controller/Treasurer/Tax Collector
222 W. Hospitality Lane
San Bernardino, CA 92415

**SUBJECT: VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY RESIDUAL
RPTTF DISTRIBUTION**

Dear Ms. Santillano:

The Victor Valley Economic Development Authority ("VVEDA") and RSG staff met with San Bernardino County ("County") Auditor-Controller/Treasurer/Tax Collector ("Auditor-Controller") staff on March 25, 2016 to discuss a potential alternative Redevelopment Property Tax Trust Fund ("RPTTF") distribution methodology to ensure that the legal requirements pertaining to bond issues prior to redevelopment dissolution are met and that affected taxing entities could also receive the residual due to these entities on a more timely basis. Auditor-Controller staff expressed concerns about the County's liability in using a modified RPTTF distribution methodology, receiving questions from bondholders, and making an exception for VVEDA. VVEDA staff requested that Auditor-Controller staff confer with the County's legal counsel about the proposed alternative distribution methodology and followed up by e-mail on April 18, 2016, as well as by phone. We haven't received a response to date.

As quite a bit of time has gone by since our meeting, we wanted to memorialize, in detail, the chronology of VVEDA's efforts to adjust the distribution methodology in a way that would avoid VVEDA receiving funds it cannot spend and to benefit taxing entities by approximately \$1.5 million every six months. In fact, right now VVEDA is holding \$2,885,191.90 that is for the affected taxing entities from the previous two ROPS periods. Under the current method of distribution, we believe this amount won't be sent to the taxing entities until the next prior period adjustment is applied in approximately 34 months.

VVEDA staff requested the meeting referenced above after the California Department of Finance ("DOF") denied the distribution of RPTTF revenue to VVEDA member jurisdictions without outstanding debt service. VVEDA then met with DOF through the Meet and Confer appeals process and communicated to DOF that if it could not receive all of the VVEDA tax

increment to distribute to all member jurisdictions, then it would prefer to receive just the tax increment pledged to the Southern California Logistics Airport Authority (“SCLA”) bonds, the Town of Apple Valley (“Apple Valley”) bonds, and amounts needed for VVEDA administrative funding and for enforceable obligations approved in the future. This represents an alternative distribution methodology from the one currently in place. DOF directed VVEDA to discuss whether this preferred distribution could be applied with the Auditor-Controller.

Summary

VVEDA is legally bound by a joint powers agreement (“JPA Agreement”) and also limited by DOF determinations regarding that JPA Agreement. Bonds were issued by SCLA prior to redevelopment dissolution that are secured by the City of Victorville (“Victorville”) and SCLA portion of VVEDA’s tax increment revenues. Some of these bonds are in default and in order to comply with the terms of the bond indenture, VVEDA was required to request the outstanding amount of default payments and reserve requirements on the Recognized Obligation Payment Schedule (“ROPS”), even though this amount exceeds the portion of tax increment that is legally pledged for the SCLA bonds. In response to this request, DOF authorized that all of VVEDA tax increment (not just the Victorville/SCLA share) be distributed to VVEDA, leaving no residual payments to the taxing entities. Table 1 identifies the amounts of the Victorville/SCLA share and the total VVEDA tax increment during the current and previous ROPS periods.

Table 1. VVEDA tax increment net of pass through payments

| ROPS period | 14-15B | 15-16A |
|--|------------|------------|
| VVEDA tax increment pledged to SCLA bonds (a.k.a., Victorville/SCLA share) | 13,230,890 | 10,622,431 |
| VVEDA tax increment not pledged to SCLA bonds | 2,469,443 | 1,966,363 |
| Total VVEDA tax increment | 15,700,333 | 12,588,794 |

The amounts of extra tax increment being held by VVEDA totals almost \$1.5 million from each biannual tax increment distribution. Given the current law, this amount will not be distributed to the taxing entities until the prior period adjustments have been complete, up to 3 years later. It is important to emphasize that the held funds are not pledged to the SCLA bonds.

VVEDA would like to have an alternative RPTTF distribution methodology applied. In the alternative methodology, there would be a distribution for the SCLA bonds that equals only the Victorville and SCLA share of the amount of taxes actually collected, as well as for Apple Valley’s bonds from its share of the amount of taxes collected and amounts needed for VVEDA administrative funding and for enforceable obligations approved in the future. The held funds would be distributed to taxing entities immediately rather than being held for 3 years by VVEDA.

VVEDA staff has met with and attempted to coordinate with the Auditor-Controller to apply the alternative distribution methodology. However, to date VVEDA has not received a definitive

response from the Auditor-Controller about whether the alternative distribution methodology could be applied.

The Joint Powers Agreement Distribution Methodology

Victorville, the City of Adelanto (“Adelanto”), Apple Valley, the City of Hesperia (“Hesperia”), the County, and SCLA entered into a JPA Agreement to form VVEDA. The JPA Agreement, as amended, specifies the distribution of tax increment revenue among its member jurisdictions. Initially, each member jurisdiction was entitled to the tax increment revenue attributed to their portion of the VVEDA Redevelopment Project Area.

The member jurisdictions pledged the following portions of their tax increment revenue, net of their 20% affordable housing set-aside, to pay the SCLA bonds’ debt service:

- Victorville, 100%¹,
- Adelanto, 50%,
- Apple Valley, 50%,
- Hesperia, 50%, and
- County, 50%.

Under the JPA Agreement, the member jurisdictions, aside from Victorville, receive the remaining 50% of their shares of tax increment revenue, as well as their 20% affordable housing set-aside. In addition to SCLA’s bonds, Apple Valley issued bonds secured by their 50% tax increment revenue portion. The remaining member jurisdictions used their shares of tax increment revenue to support local economic development without issuing bonds. This tax increment revenue distribution was followed until the dissolution of redevelopment agencies with the Governor’s approval of Assembly Bill x1 26 on June 28, 2011 and the California Supreme Court’s upholding thereof on December 29, 2011.

Redevelopment Dissolution Changes

Following redevelopment dissolution, VVEDA is required to submit a ROPS identifying the distribution of tax increment (now known as “RPTTF”) revenues for each six-month period. The ROPS is reviewed by an oversight board and DOF. Initially, DOF approved the JPA Agreement distribution on each ROPS. However, starting with the January to June 2015 (“14-15B”) ROPS, DOF began to deny the requested RPTTF distribution to member jurisdictions aside from funds encumbered for the payment of bond debt service (and VVEDA’s administrative funding), explaining that the distribution of unencumbered tax increment revenues under the JPA Agreement does not qualify as an enforceable obligation.

¹ SCLA is located within Victorville. The tax increment revenue associated with SCLA’s area is included in this pledge of tax increment, which is sometimes referred to as the Victorville/SCLA share.

Because the amount of RPTTF to be distributed is not known when each ROPS is prepared, VVEDA requests (and DOF approves) the total amount needed for the Apple Valley and SCLA bonds, including current debt service, defaulted past years' debt service, and required reserve replenishment. The latter two are only needed for certain SCLA bonds as Apple Valley bonds are not in default and have their reserve requirement satisfied. Because of the defaults and reserve replenishment, the total approved RPTTF exceeds available RPTTF each ROPS period. The Auditor-Controller, tasked with distributing RPTTF following redevelopment dissolution, provides the lesser of available and approved RPTTF.

Although the RPTTF needed for the bonds exceeds the available RPTTF, VVEDA is not able to distribute all of the RPTTF received to Apple Valley and SCLA due to the JPA Agreement's distribution restrictions. The combination of DOF's denial of the complete JPA Agreement distribution and VVEDA's obligation to follow the JPA Agreement distribution results in remaining RPTTF that cannot be distributed to any of the member jurisdictions ("Residual RPTTF").

The Prior Period Adjustment

Until the July 2016 to June 2017 ("16-17") ROPS, each ROPS included a reconciliation between estimated obligations and actual payments for those obligations ("Prior Period Adjustment" or "PPA") for the ROPS period one year earlier. (For example, the January to June 2016 ("15-16B") ROPS included the PPA for the 14-15B period.) The PPA leads to a reduction in the following RPTTF distribution, essentially causing a return of approved and unspent funds to county auditor-controllers, who distribute the funds to taxing entities. Following the Governor's approval of Senate Bill 107 on September 22, 2015, the law changed such that the next PPA form will be submitted to county auditor-controller's commencing on October 1, 2018 and forwarded to DOF by February 1, 2019.

Although the law does not specify, it is likely that this PPA will be reduced from the following RPTTF distribution on June 1, 2019 and that the PPA for following years will continue to be processed on a 3-year delay. It appears that Residual RPTTF generated from the July 2015 to June 2016 period will be held by VVEDA until June 1, 2019, Residual RPTTF generated in the 16-17 period will be held by VVEDA until June 1, 2020, and so on.

Given that certain SCLA bonds are in default, the RPTTF distributions are closely watched by SCLA bondholders. Though the Residual RPTTF is not pledged to the SCLA bonds, VVEDA would prefer not to hold Residual RPTTF for 3 years while the SCLA bonds are in default to avoid attracting questions from bondholders. Instead, VVEDA would prefer to coordinate with the Auditor-Controller at the time of each RPTTF distribution so that VVEDA only receives RPTTF funds that can be distributed to Victorville/SCLA, to Apple Valley, for VVEDA's administrative funding, and for enforceable obligations approved in the future. The Residual RPTTF would then be distributed to taxing entities immediately.

In addition to preventing VVEDA from holding funds while the SCLA bonds are in default, this modified approach would allow taxing entities to receive their share of Residual RPTTF three years sooner than if the PPA process were applied. In 15-16B, the Residual RPTTF equaled \$1,495,107. In the July to December 2016 period, the Residual RPTTF equaled \$1,390,085 (See Attachment 1 for both distribution tables.). VVEDA projects that the Residual RPTTF will continue at approximately \$3 million per year. If the Residual RPTTF is not distributed to taxing entities until June 1, 2019, VVEDA will be holding approximately \$10.5 million of RPTTF Residual at that time.

VVEDA's Attempt to Adjust the RPTTF Distribution Methodology

VVEDA staff contacted the Auditor-Controller staff about modifying the Residual RPTTF distribution timing in March of 2016. VVEDA staff and Auditor-Controller staff met on March 25, 2016 to discuss VVEDA's preferred alternative distribution. Auditor-Controller staff expressed concerns about the County's liability in using a modified RPTTF distribution methodology, receiving questions from bondholders themselves, and making an exception to the prescribed PPA process for VVEDA.

VVEDA staff requested that Auditor-Controller staff confer with the County's legal counsel about VVEDA's proposed modified distribution methodology and followed up by e-mail on April 18, 2016, as well as by phone, without response. If VVEDA is unable to secure approval for the modified RPTTF distribution methodology, it has no option other than to hold Residual RPTTF until the PPA process allows their distribution to taxing entities.

In advance, I want to thank you for your continued consideration of this matter and I will look forward to your response. In the meantime, I can be reached at 760-955-5032.

Sincerely,



Keith C. Metzler
Executive Director

cc: Marc Puckett, VVEDA Treasurer
Kofi Antobam, VVEDA Controller
Hitta Mosesman, RSG, 309 West 4th Street, Santa Ana, CA 92701
Dima Galkin, RSG, 309 West 4th Street, Santa Ana, CA 92701