DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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November 13, 2013

Mr. Jeff Zwack, Development Services Director
City of Upland
460 North Euclid Avenue
Upland, CA 91786

Dear Mr. Zwack:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Upland Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 30, 2013 for the period of January through June 2014. Finance has completed its review of your ROPS 13-14B, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations for the reasons specified:

- Item No. 2 – 2006 Tax Allocation Bonds in the amount of $7,784. The Agency requested $310,000 Redevelopment Property Tax Trust Fund (RPTTF) funding, however, the total amount due during ROPS 13-14B is $302,216. Therefore, the requested funding is adjusted by $7,784 ($310,000-$302,216) to $302,216.

- Item No. 12 – Anticipated Rent Revenues in the amount of $7,000. It is our understanding that this item recognizes anticipated rent revenues to be received by the Agency during the ROPS period, rather than a request for funding an obligation. Therefore, at the Agency's request, this item has been removed and retired from the ROPS.

- Item No. 14 – City of Upland (City) Loan Agreement for a prior period shortfall between in the amount of $54,097. HSC section 34179 (10) (e) states all actions taken by the Oversight Board (OB) shall be approved by resolution. The Agency acknowledges that the OB did not approve this Loan Agreement by resolution, and the action was not presented to Finance for review pursuant to HSC section 34179 (h). Therefore, this item is not eligible for RPTTF funding at this time.

- Item No. 15 – 2013 Tax Allocation Bonds debt service payment in the amount of $4,900. The Agency requested $380,000 for RPTTF funding, however, the total amount due during ROPS 13-14B is $375,100. Therefore, the requested funding is adjusted by $4,900 ($380,000-375,100) to $375,100.

- Item No. 16 – 2013 Tax Allocation Bonds in the amount of $2,628,000. The Agency is requesting funding for debt service payments due during the July through December 2014 (ROPS 14-15A) period. HSC section 34171 (d) (1) (A) permits reserves to be held only when required by the bond indenture, or when the next property tax allocation will be insufficient to pay all obligations under the provisions of the bond for the next payment due in the following half of the fiscal year. Based on our review of the bond indentures, we did not note any requirement to create such reserves. Additionally, based on the history of the Agency's RPTTF distributions, it is our understating the next property tax allocation will be sufficient to make debt service payments due for this item. Therefore, this item is not eligible for RPTTF funding.

- The Agency's claimed administrative costs exceed the allowance by $47,500. HSC section 34171 (b) limits fiscal year 2013-14 administrative expenses to three percent of property tax allocated to the successor agency or $250,000, whichever is greater. As a result, the Agency is eligible for $250,000 in administrative expenses. The San Bernardino Auditor-Controller's Office distributed $137,500 for the July through December 2013 (ROPS 13-14A) period, thus leaving a balance of $112,500 available for the January through June 2014 period. Although $125,000 is claimed for administrative cost, Item No. 4-Consulting Services, Item No. 7-Legal Advisory Services, and Item No. 11-Auditing Services, totaling $35,000 are considered administrative expenses and should be counted toward the cap. Therefore, $47,500 of excess administrative cost is not allowed.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that are required to be used prior to requesting RPTTF. Pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. The Agency self-reported rent revenues from the ROPS 13-14A period in the amount of $4,500 as Other Funds and stated this balance is available to be used for the payment of enforceable obligations.

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

- Item No. 5 – Property Maintenance expenses in the amount of $4,500. The Agency requests $40,000 of RPTTF; however Finance is reclassifying $4,500 to Other Funds. This item was determined to be an enforceable obligation for the ROPS 13-14B period, and the obligation does not require payment from property tax revenues and the Agency has $4,500 in Other Funds. Therefore, Finance is approving RPTTF in the amount of $35,500 and the use of Other Funds in the amount of $4,500 for this item.

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the CAC and the State Controller. The amount of RPTTF approved in the below table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for items denied in whole or in part as enforceable obligations and for items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 13-14B.

If you disagree with the determination with respect to any items on your ROPS 13-14B, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's maximum approved RPTTF distribution for the reporting period is $819,651 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014		
Total RPTTF requested for non-administrative obligations		3,461,097
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations	**$**	**3,586,097**
Total RPTTF requested for non-administrative obligations		**3,461,097**
Denied Items		
Item No. 2		(7,784)
Item No. 14		(54,097)
Item No. 15		(4,900)
Item No. 16		(2,628,000)
		(2,694,781)
Reclassified as administrative obligaitons		
Item No. 4		(12,500)
Item No. 7		(12,500)
Item No. 11		(10,000)
		(35,000)
		731,316
Reclassified Item		
Item No. 5		(4,500)
Total RPTTF approved for non-administrative obligations		**726,816**
Total RPTTF requested for administrative obligations		**125,000**
Reclassified Items		
Item No. 4		12,500
Item No. 7		12,500
Item No. 11		10,000
		35,000
Total RPTTF for administrative obligations		**160,000**
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)		**112,500**
Total RPTTF approved for obligations		**839,316**
ROPS III prior period adjustment		(19,665)
Total RPTTF approved for distribution	**$**	**819,651**
Administrative Cost Cap Calculation		
Total RPTTF for 13-14A (July through December 2013)		2,610,129
Total RPTTF for 13-14B (January through June 2014)		731,316
Less approved unfunded obligations from prior periods		(54,097)
Total RPTTF for fiscal year 2013-14		**3,287,348**
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or $250,000)		250,000
Administrative allowance for 13-14A (July through December 2013)		137,500
Allowable RPTTF distribution for administrative cost for ROPS 13-14B		**112,500**

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. Beginning with the ROPS 13-14B period, Finance required successor agencies to identify fund balances for various types of funds in its possession. During our ROPS 13-14B review, Finance requested financial records to support the fund balances reported by the Agency; however, Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 13-14B review period to properly identify the Agency's fund balances. If it is determined the Agency possesses fund balances that are available to pay approved obligations, the Agency should request the use of these fund balances prior to requesting RPTTF in ROPS 14-15A.

For funding sources other than RPTTF, Finance made adjustments and/or reclassifications to the Prior Period Adjustments form to ensure consistency with the funding sources and amounts approved by Finance. HSC Section 34177 (a) (3) states that the Agency can only make payments listed on the ROPS, from the funds listed and authorized by Finance. In addition, adjustments were made to the Fund Balances form based upon information provided by the Agency during our review. Although these adjustments and/or reclassifications have no effect on the amount of RPTTF the Agency receives, they will affect the Agency's fund balances for the funds sources involved.

Based upon a review of the Fund Balances form, the following adjustments were made:

- Beginning Available Fund Balance (Actual 01/01/13), Bonds Issued on or before December 31, 2010 should be $3,030,278 to reflect the total 1998, 2003, and 2006 required bond reserves held at that time. It is our understanding required reserves totaling $2,810,859 for the 1998 and 2003 bonds were utilized in the July through December 2013 (ROPS III) period toward the issuance of the 2013 refunding bonds. As such, Expenditures for ROPS III Enforceable Obligations (Actual 06/30/13), Bonds Issued on or before December 31, 2010 has been adjusted to $2,810,859. Accordingly, Retention of Available Fund Balance (Actual 06/30/13) and (Estimated 12/31/13), Bonds Issued on or before December 31, 2010 has been revised to $219,419 to reflect the retention of only the required reserves for the 2006 bonds going forward.

- Revenue/Income (Actual 06/30/13), Bonds Issued on or After January 1, 2011 should be $26,585,507 to record the total proceeds and required reserves from the issuance of the 2013 refunding bonds in March 2013. Accordingly, Retention of Available Fund Balance (Actual 06/30/13) and (Estimated 12/31/13), Bonds Issued on or after January 1, 2011 has been revised to $2,435,586 to reflect the retention of the required bond reserves going forward. Expenditures for ROPS 13-14A enforceable obligations (Actual 06/30/13) should be $24,149,921, as the 2013 bond proceeds were used to refund the 1998 and 2003 bonds in September 2013.

- Beginning Available Fund Balance (Actual 01/01/13), Non-Admin RPTTF in the amount of $3,542,841 and Admin RPTTF in the amount of $159,000 should both be zero. RPTTF distributed from the CAC for the ROPS III period should be reflected as income for the period. As such, Revenue/Income (Actual 06/30/13), Non-Admin RPTTF has been adjusted to $3,542,841 and Admin has been adjusted to $159,000.

- Expenditures for ROPS 13-14A Enforceable Obligations (Actual 06/30/13), other funds should be zero. Pursuant to HSC Section 34177 (a) (3), the Agency can only make

payments listed on the ROPS from the funds listed and authorized by Finance. The Agency did not request, nor did Finance authorize, the use of other funding in the ROPS 13-14A period. Therefore, the estimated expense from other funding for the period has been adjusted to zero. Finance has reclassified the funding source for ROPS 13-14B Item No. 5 to the available Other Funds balance, as explained above.

Please refer to the ROPS 13-14B schedule that was used to calculate the approved RPTTF amount:

http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14B Forms by Successor Agency/.

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2014. This determination applies only to items where funding was requested for the six month period. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC 34177.5 (i). Finance's review of items that have received a Final and Conclusive determination is limited to confirming the scheduled payments as required by the obligation.

The amount available from the RPTTF is the same as the amount of property tax increment that was available prior to enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax is limited to the amount of funding available to the successor agency in the RPTTF.

To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to HSC section 34171 (d), HSC section 34191.4 (c)(2)(B) requires these proceeds be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

Please direct inquiries to Nichelle Thomas, Supervisor or Susana Medina-Jackson, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Liz Chavez, Housing Manager, City of Upland
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office