



May 15, 2015

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

Dear Mr. Zwack:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 14, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Upland Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to Finance on March 02, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 14, 2015. Subsequently, the Agency requested a Meet and Confer session on one or more of the determinations made by Finance. The Meet and Confer session was held on April 30, 2015.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of the specific determinations being disputed.

- Item Nos. 21 and 22 – City of Upland (City) Loan Agreement No. 1 and Loan Agreement No. 2 repayments totaling \$1,337,938. We note that Finance's original review of these items included the Agency's Oversight Board (OB) Resolution Nos. 2015-1 and 2015-2, respectively. Finance continues to deny these items. During the Meet and Confer process, the Agency claimed the loans are the result of the Agency's negative cash balance originating from the July 2012 True Up payment made to the San Bernardino County Auditor-Controller (CAC). However, according to the documentation provided, \$680,000 of the total represents funds that should have been distributed to the Agency by the CAC for the purpose of covering the Agency's fiscal year (FY) 2010-11 enforceable obligations while \$657,938 was utilized to pay for the Agency's miscellaneous expenses during FY 2011-12.

The July 2012 True Up process was to collect residual pass-through payments owed to the affected taxing entities for the January through June 2012 period. Pursuant to HSC section 34183.5, the True Up payment was the calculated difference between the total Redevelopment Property Tax Trust Fund (RPTTF) distributed to the Agency in January of 2012 for the January through June 2012 ROPS (ROPS I) period and the amount approved on the ROPS I. Based on records provided by the CAC, after the July True Up, the CAC distributed \$2,414,509 to the Agency in Redevelopment Property Tax Trust

Fund (RPTTF) for the ROPS I period for enforceable obligations. Per the Agency's prior period actuals tab of the January through June 2013 ROPS (ROPS III), this amount was received and spent. Therefore, we have determined that the Agency did not experience a shortfall of RPTTF as a result of the July True Up payment.

In addition, per Finance's letter dated April 14, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- The administrative costs claimed are within the fiscal year administrative cap pursuant to HSC section 34171 (b). However, Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the obligations listed on the ROPS. HSC section 34179 (i) requires the oversight board to exercise a fiduciary duty to the taxing entities. Therefore, Finance encourages the oversight board to apply adequate oversight when evaluating the administrative resources required to successfully wind-down the Agency.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 15-16A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2014 period. HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. The amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's review of the Agency's self-reported prior period adjustment.

During our review of the Agency's prior period adjustment reporting, Finance noted the Agency spent Other Funds in the amount of \$9,120 for Item No. 12, a previously retired ROPS item. Finance reminds the Agency that this item is a revenue source and not an obligation, therefore does not belong on the ROPS. While the Agency did not request spending authority on the ROPS 14-15A, the Agency properly reported revenues and expenditures for other funds. The Agency should report the funding request spending authority using Other Funds on the ROPS in the future. Pursuant to HSC section 34177 (a) (3), only those payments listed in the ROPS may be made by the successor agency and only from the funds specified in the ROPS.

In addition, Finance noted the following during our review:

- On the Agency's Detail General Ledger report for the period July 1, 2014 through December 31, 2014, the Agency made transfers totaling \$2,369,724 from Reserve Balances to bond trustees that were not requested and approved in ROPS 14-15A.

As noted above, per HSC section 34177 (a) (3), only those payments listed on ROPS may be made by the Agency from the funds specified on the ROPS. However, these items were determined to be enforceable obligations for the ROPS 15-16A period. Therefore, Finance is increasing the Agency's authorization for the ROPS 15-16A period to ensure that authorization is consistent with expenditures for the approved enforceable obligations. As these Reserve Balances were previously expended, the increase in authorization should not result in increased expenditures for the current ROPS period, but should merely allow the Agency to reconcile actual expenditures to the authorization.

HSC sections 34177 (a) (4) and 34173 (h) provide mechanisms when Agency payments must exceed the amounts authorized by Finance. Please ensure the proper expenditure

authority is received from your Oversight Board and Finance prior to making payments on enforceable obligations.

Except for the items denied in whole or in part, Finance is not objecting to the remaining items listed on your ROPS 15-16A. The Agency's maximum approved RPTTF distribution for the reporting period is \$2,845,961 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution	
For the period of July through December 2015	
Total RPTTF requested for non-administrative obligations	4,094,190
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 4,219,190
Total RPTTF requested for non-administrative obligations	4,094,190
<u>Denied Items</u>	
Item No. 21	(680,000)
Item No. 22	(657,938)
	(1,337,938)
Total RPTTF authorized for non-administrative obligations	\$ 2,756,252
Total RPTTF requested for administrative obligations	125,000
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 2,881,252
Total ROPS 14-15A PPA	(35,291)
Total RPTTF approved for distribution	\$ 2,845,961

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. During the ROPS 15-16A review, Finance requested financial records to support the cash balances reported by the Agency; however, the Agency was unable to support the amounts reported. The beginning balances for Reserve Balances could not be supported by the Agency's financial records. In addition, the Agency claimed to have a negative cash balance that was funded by City loans; however, the Agency could not identify which periods the obligations were funded by the City loans. As a result, Finance will continue to work with the Agency after the ROPS 15-16A review period to properly identify the Agency's cash balances. If it is determined the Agency possesses cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 15-16B.

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

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

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2015. This determination only applies to items where funding was requested for the six-month period. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5

(i). Finance's review of items that have received a Final and Conclusive determination is limited to confirming the scheduled payments as required by the obligation.

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

Pursuant to HSC section 34177 (a) (3), only those payments listed on an approved ROPS may be made by the successor agency from the funds specified in the ROPS. However, if the Agency needs to make payments for approved obligations from another funding source, HSC section 34177 (a) (4) requires the Agency to first obtain oversight board approval.

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

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-3274.

Sincerely,



JUSTYN HOWARD
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