



January 9, 2013

Ms. Liz Chavez, Housing Manager
City of Upland
205460 North Euclid Avenue
Upland, CA 91786

Dear Ms. Chavez:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated December 3, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Upland Successor Agency (Agency) submitted an oversight board approved Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) to the California Department of Finance (Finance) on November 7, 2012. Finance issued a LMIHF DDR determination letter on December 3, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more items adjusted by Finance. The Meet and Confer Session was held on January 3, 2013.

Based on a review of additional or clarifying information provided to Finance during the Meet and Confer process, Finance is revising the adjustments made in our previous LMIHF DDR determination letter. Specifically, we are revising the following adjustments.

- Transfers to the fiscal agent in the amount of \$1,502,875. During the initial review, the Agency did not provide adequate information to support the transfer of funds. At the Meet and Confer, the Agency provided sufficient documentation to support the transfer of rent revenues in this amount to the fiscal agent. Therefore, Finance reverses its original determination.
- Transfers to the City in the amount of \$4,826,060. The DDR presented this amount as rent revenues comingled with 20% set-aside funds in the LMIHF and was originally denied by Finance. Upon review of subsequent information provided by the Agency, Finance understands that rent revenues from the Sunset Ridge and Village Apartments have been pledged to pay for bonds. Therefore, Finance has reversed its original determination.
- Bond reserves in the amount of \$566,451 were not originally found to be legally restricted and the request to retain LMIHF was disallowed. However, documentation supporting the requirement for bond reserves to be held out of housing monies was presented by the Agency at the Meet and Confer and Finance has reversed its original determination.

As a result, there are no unencumbered LMIHF balances available for distribution. However, our determination does not include non-cash or cash equivalents in the amount of \$7.6 million, which continue to be denied by Finance as inclusions to the Housing Asset Transfer Form.

Pursuant to HSC section 34167.5 and 34178.8, the California State Controller's Office (Controller) has the authority to claw back assets that were inappropriately transferred to the city, county, or any other public agency. Determinations outlined in this letter and Finance's Housing Assets Transfer letter dated August 29, 2012 do not in any way eliminate the Controller's authority.

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

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Jeff Zwack, Development Services Director, City of Upland
Ms. Vanessa Doyle, Auditor Controller Manager, San Bernardino County
California State Controller's Office