



November 14, 2013

Ms. Nita McKay, Director of Finance and Administrative Services  
City of West Covina  
1444 West Garvey Avenue  
West Covina, CA 91790

Dear Ms. McKay:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of West Covina 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 obligation for the reasons specified:

- Item No. 13 – City Cooperative Agreement in the amount of \$500,000. Finance continues to deny this item. It is our understanding the cooperative agreement is for the advance and reimbursement of administrative costs, enforceable obligations and project related expenses. However, it is not evident this item is tied to a specific enforceable obligation(s) or for administrative expenses. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding.
- Item No. 49 – Litigation in the amount of \$375,000. The Agency requested \$200,000 in the 6-month period during ROPS 13-14B. During the ROPS 13-14A meet and confer process, the Agency stated the litigation was close to reaching a settlement. Litigation is generally considered an enforceable obligation outside the cap; however, no documentation was provided to support the amount claimed. Therefore, this item is not eligible for RPTTF funding on this ROPS.
- Item No. 52 – ROPS I Redevelopment Obligation Retirement Fund (RORF) reserve in the amount of \$1,453,446 is not an enforceable obligation. Finance continues to deny this item. Only enforceable obligations as defined by HSC section 34171 (d) can be placed on the ROPS.

It is our understanding this amount was a RPTTF reduction adjusted by the Los Angeles County Auditor Controller (CAC) pursuant to HSC code section 34186 (a). HSC section 34186 (a) requires the CAC to adjust the RPTTF distributions for differences between actual payments and past estimated obligations. As a result, the CAC adjusted the ROPS III distribution by \$1,453,446 to account for excess tax increment provided to the

Agency for the ROPS I period. Therefore, this item is not an enforceable obligation and not eligible for funding on the ROPS.

- Claimed administrative costs exceed the allowance by \$59,597. HSC section 34171 (b) limits fiscal year 13-14 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 \$309,088 in administrative expenses. The Los Angeles Auditor Controller's Office distributed \$216,233 for the January through June 13-14A period, thus leaving a balance of \$92,855 available for the July through December 13-14B period. Although \$152,452 is claimed for administrative cost, only \$92,855 is available pursuant to the cap. Therefore, \$59,597 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 clarified that funds received on ROPS 13-14A have not been expended and are being requested again.

Therefore, the funding source for the following item is being reclassified to the funding source and in the amount specified below:

- Item No. 22 – Property Management Plan in the amount of 300,000. The Agency requests \$300,000 of RPTTF; however Finance is reclassifying \$300,000 to reserve funding. This item was determined to be an enforceable obligation for the ROPS 13-14B period. However, the Agency clarified they received the same amount on ROPS 13-14A and those funds have not been expended and can be used to fund the obligation on ROPS 13-14B. Therefore, Finance is approving the use of reserves in the amount of \$300,000, for Item No. 22.

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 county auditor-controller (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 the items denied in whole or in part as enforceable obligations or for the 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/](http://www.dof.ca.gov/redevelopment/meet_and_confer/)

The Agency's maximum approved RPTTF distribution for the reporting period is \$0 as summarized below:

<b>Approved RPTTF Distribution Amount For the period of January through June 2014</b>	
Total RPTTF requested for non-administrative obligations	4,695,615
Total RPTTF requested for administrative obligations	152,452
<b>Total RPTTF requested for obligations</b>	<b>\$ 4,848,067</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>4,695,615</b>
<b>Denied Items</b>	
Item No. 13	(75,000)
Item No. 49	(200,000)
	(275,000)
<b>Reclassified Items</b>	
Item No. 22	(300,000)
<b>Total RPTTF approved for non-administrative obligations</b>	<b>4,120,615</b>
<b>Total RPTTF for administrative obligations</b>	<b>152,452</b>
<b>Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)</b>	<b>92,855</b>
<b>Total RPTTF approved for obligations</b>	<b>4,213,470</b>
ROPS III prior period adjustment	(4,324,136)
<b>Total RPTTF approved for distribution</b>	<b>\$ (110,666)</b>

<b>Administrative Cost Cap Calculation</b>	
Total RPTTF for 13-14A (July through December 2013)	6,182,309
Total RPTTF for 13-14B (January through June 2014)	4,120,615
<b>Total RPTTF for fiscal year 2013-14</b>	<b>10,302,924</b>
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or \$250,000)	309,088
Administrative allowance for 13-14A (July through December 2013)	216,233
<b>Allowable RPTTF distribution for administrative cost for ROPS 13-14B</b>	<b>92,855</b>

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.

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/.](http://www.dof.ca.gov/redevelopment/ROPS/ROPS%2013-14B%20Forms%20by%20Successor%20Agency/)

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 Kylie Le, Supervisor or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD  
Assistant Program Budget Manager

cc: Ms. Denise Bates, Accounting Manager, City of West Covina  
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller  
California State Controller's Office