

December 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 14, 2013. 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 Finance on September 30, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on November 8, 2013. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on December 3, 2013.

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 items being disputed.

- Item No. 13 – City Cooperative Agreement in the amount of \$500,000. Finance continues to deny this item. Finance initially denied the item as it is our understanding the cooperative agreement is for the advance and reimbursement of administrative costs, enforceable obligations, and project related expenses. However, it was not evident this item is tied to a specific enforceable obligation(s). During the Meet and Confer process, the Agency contended these costs are to reimburse the City of West Covina (City) for the advance of City-owned facilities, resources, and funds. However, no additional information was provided to demonstrate these costs are associated with specific enforceable obligations listed on the ROPS or that the Agency received insufficient distributions from the Redevelopment Property Tax Trust Fund (RPTTF) to pay approved enforceable obligations that would have necessitated a loan. Although this item is denied, we note that the items to be paid under the Cooperative Agreement appear to be eligible for funding using the Agency's administrative cost allowance. Therefore, the Agency is permitted to utilize its administrative cost allowance (listed on the ROPS as Item No. 12) for reimbursement of administrative costs incurred by the City on behalf of the Agency. However, this item is not an enforceable obligation and is not eligible for funding from RPTTF outside the administrative cost cap.

To the extent the City has loaned funds to fund specific enforceable obligations due to insufficient RPTTF funding, those items should be listed on a subsequent ROPS for Finance's review and approval.

- Item No. 49 – Litigation in the amount of \$375,000. The Agency requested \$200,000 in the 6-month period during ROPS 13-14B. Finance continues to deny this item. During the ROPS 13-14A Meet and Confer process, Finance requested previous invoices to establish the basis for the Agency's estimated litigation costs; however, the requested documentation was not provided to support the amount claimed. During the Meet and Confer process, the Agency still has not provided any documents to support the amount requested or documents showing the cost is related to litigation in which the Agency is named as a party. Therefore, this item is not eligible for RPTTF funding on this ROPS.
- Item No. 52 – ROPS I Redevelopment Obligation Retirement Fund (RORF) reserve totaling \$1,453,446. 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.

During the Meet and Confer, the Agency contended that Item No. 52 is a legally binding and enforceable agreement to pay the retirement benefit obligations. However, unfunded pension liabilities and retirement benefits were listed as Item Nos. 50 and 51, respectively, and not denied by Finance. Therefore, Finance's original determination stands and this item is not an enforceable obligation and not eligible for RPTTF funding.

- 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. During the Meet and Confer process, the Agency disputed the CAC's reported prior period adjustment. Subsequent documentation to support actual expenditures was provided to the CAC. This documentation compelled a reduction in the prior period adjustment to \$1,873,410 as updated in the summary table below.

In addition, per Finance's letter dated November 14, 2013, we continue to deny the following item not contested by the Agency during the Meet and Confer:

- 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.

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. The Agency's maximum approved RPTTF distribution for the reporting period is \$2,340,060 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>
<u>Denied Items</u>	
Item No. 13	(75,000)
Item No. 49	(200,000)
	(275,000)
<u>Reclassified Items</u>	
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)</b>	<b>92,855</b>
<b>Total RPTTF approved for obligations</b>	<b>4,213,470</b>
ROPS III prior period adjustment	(1,873,410)
<b>Total RPTTF approved for distribution</b>	<b>\$ 2,340,060</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 (I) (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_13-14B_Forms_by_Successor_Agency/).

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 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 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.

Ms. Nita McKay  
December 17, 2013  
Page 5

Please direct inquiries to Evelyn Sues, Dispute Resolution Supervisor, or Danielle Brandon, 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