

November 14, 2014

Ms. Nita McKay, Director of Finance & 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 14-15B) to the California Department of Finance (Finance) on October 2, 2014 for the period of January 1 through June 30, 2015. Finance has completed its review of your ROPS 14-15B, which may have included obtaining clarification for various items.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item Nos. 73, 74, and 76 – Loan Agreement and Cooperative Agreement totaling \$959,278 is denied. The Agency submitted Oversight Board Resolution No. 0027 to Finance on October 9, 2014. The resolution approved a cooperative agreement between the Agency and the City of West Covina (City), in which the City would advance administrative, operational, and other costs, such as consultant and legal services. Per Section 4 of the agreement, beginning with the period January 1 to June 30, 2015, the City would provide the various services specified in the agreement and will submit to the Agency an invoice for costs incurred on behalf of Agency activities and operations. Although Finance is approving Resolution No. 0027, the costs claimed under these items are denied as follows:
  - Item No. 73 – The requested amount of \$821,365 continues to be denied. This item was previously denied in ROPS 14-15A under Item Nos. 31 through 38, and subsequently during ROPS 14-15A Meet and Confer. The Agency contends the amount relates to litigation costs paid by Other Funds during the ROPS I and ROPS II period. The Los Angeles County-Auditor Controller (CAC) did not allow these costs to be funded by ROPS III Redevelopment Property Tax Trust Fund (RPTTF) funding during its review of the ROPS III Prior Period Adjustments because the costs were incurred outside the ROPS III period. Therefore, the Agency has relisted the total amount under Item No. 73 as a city loan obligation. However, the recently approved cooperative agreement is effective beginning with the ROPS 14-15B period, and it does not mention reimbursement of past costs incurred by the City.

Pursuant to HSC sections 34173 (h), the city, county, or city and county that authorized the creation of a redevelopment agency may loan or grant funds to an Agency for administrative costs, enforceable obligations, or project-related expenses at the city's discretion. However, in order for it to be considered a loan, the Agency should execute a loan agreement with terms identifying the loan amount, ROPS items paid for, and loan repayment terms. The loan agreement should also be approved by the oversight board. As such, the item is not eligible for RPTTF funding.

- Item No. 74 – The requested \$89,500 is denied. Insufficient documentation was provided to support the amount claimed. The Agency provided a breakdown of the amount requested and explained that the amount was an estimate of operational costs and project costs to be incurred by City staff. However, the document was insufficient to support how the Agency determined the estimated requested amount. Therefore, the item is not eligible for RPTTF funding.
- Item No. 76 – The requested \$48,413 is denied. The Agency contends the costs claimed were Agency litigation costs incurred by the City during the period May 2013 through June 2014. Pursuant to HSC section 34177 (l) (3), the ROPS is forward looking to the next six month period. The requested amount for this item is for expenditures that were incurred in the past. Therefore, the item is not eligible for RPTTF funding.
- Item No. 75 – Anticipated/Existing Litigation in the amount of \$49,000 is not an enforceable obligation. The Agency contends the amount represents costs incurred that exceeded the total authorized amount for Item No. 15 during the ROPS 13-14B period. However, based on the CAC's ROPS 13-14B Prior Period Adjustments review, the Agency only spent \$44,721 in excess of what was authorized pursuant to the CAC's review of the Proof of Payment. Further, the CAC allowed the excess amount to net against remaining ROPS 13-14B cash available. Therefore, the requested amount of \$49,000 is denied and is not eligible for RPTTF funding.
- Claimed administrative costs exceed the allowance by \$298,145. HSC section 34171 (b) limits fiscal year 2014-15 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 \$282,397 in administrative expenses. The Los Angeles Auditor-Controller's Office distributed \$250,000 for the July through December 2014 period, thus leaving a balance of \$32,397 available for the January through June 2015 period. Although \$127,629 is claimed for administrative costs, Item Nos. 19 and 68 in the amount of \$65,000 are considered administrative expenses and should be counted toward the cap. Therefore, \$160,232 of excess administrative cost is not allowed.

In addition, Finance notes Item No. 9 was previously funded in ROPS 13-14A and the Agency did not use the distributed funding. This item's share of administrative allowance has been previously funded, and the Agency reports to have fully expended the administrative costs associated with this line item in ROPS 13-14A. As a result, \$725,000 was not included in total RPTTF when calculating the administrative costs allowance for the fiscal year.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15B form the estimated obligations and actual payments (prior period adjustments)

associated with the January through June 2014 period. HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to review 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.

Except for the items denied in whole or in part or items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15B. If you disagree with the determination with respect to any items on your ROPS 14-15B, 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 \$2,857,489 as summarized in the Approved RPTTF Distribution Table on the next page:

<b>Approved RPTTF Distribution For the period of January through June 2015</b>	
Total RPTTF requested for non-administrative obligations	4,254,307
Total RPTTF requested for administrative obligations	127,629
<b>Total RPTTF requested for obligations on ROPS</b>	<b>\$ 4,381,936</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>4,254,307</b>
<u>Denied Items</u>	
Item No. 73	(821,365)
Item No. 74	(89,500)
Item No. 75	(49,000)
Item No. 76	(48,413)
	(1,008,278)
<u>Reclassified Items</u>	
Item No. 19	(15,000)
Item No. 68	(50,000)
	(65,000)
<b>Total RPTTF authorized for non-administrative obligations</b>	<b>\$ 3,181,029</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>127,629</b>
<u>Reclassified Items</u>	
Item No. 19	15,000
Item No. 68	50,000
	65,000
Administrative costs in excess of the cap (see Admin Cost Cap table on the next page)	(160,232)
<b>Total RPTTF authorized for administrative obligations</b>	<b>\$ 32,397</b>
<b>Total RPTTF authorized for obligations</b>	<b>\$ 3,213,426</b>
ROPS 13-14B prior period adjustment	(355,937)
<b>Total RPTTF approved for distribution</b>	<b>\$ 2,857,489</b>

<b>Administrative Cost Cap Calculation</b>	
Total RPTTF for 14-15A (July through December 2014)	6,957,189
Total RPTTF for 14-15B (January through June 2015)	3,181,029
Less amount approved for Item No. 9 on ROPS 13-14A	(725,000)
<b>Total RPTTF for fiscal year 2014-2015</b>	<b>9,413,218</b>
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or \$250,000)	282,397
Administrative allowance for 14-15A (July through December 2014)	250,000
<b>Allowable RPTTF distribution for administrative cost for ROPS 14-15B</b>	<b>32,397</b>
Total RPTTF administrative obligations after Finance adjustments	192,629
<b>Administrative costs in excess of the cap</b>	<b>\$ (160,232)</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. During the ROPS 14-15B review, Finance requested financial records to support the cash balances reported by the Agency; however, the Agency did not provide bridging documents to support the amounts reported. The beginning balances for Bond Proceeds, Other Funds, and RPTTF could not be supported by the Agency's financial records. As a result, Finance will continue to work with the Agency after the ROPS 14-15B 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 15-16A.

Please refer to the ROPS 14-15B schedule that was used to calculate the approved RPTTF amount:

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

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, 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 for whatever reason 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 Cindie Lor, Supervisor, or Hugo Lopez, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD  
Acting Program Budget Manager

cc: Ms. Nancy Ramos, Administrative Assistant, City of West Covina  
Mr. Mike Lee, Assistant City Manager / CDC Director, City of West Covina  
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County  
California State Controller's Office