DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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December 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 14, 2014. 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 Finance on October 2, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 14, 2014. 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, 2014.

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. 9 – CFD Tax Increment Pledge totaling $12,977,095. Finance did not deny this item during our original review; however during the meet and confer, the Agency requested the amount be increased for the ROPS 14-15B period by $725,000 from $739,500 to a total of $1,464,500. Finance approves this request. It is our understanding that this amount was due during the July through December 2013 (ROPS 13-14A) period. However, per the Agency, due to misinterpretation of the default provisions of the agreement, the Agency did not make the required payment and may be obligated to pay the past due amount for ROPS 13-14A, as well as the current amount due for ROPS 14-15B. We note that Finance accommodated this request during the July through December 2014 (ROPS 14-15A) meet and confer as well. However, it is our understanding that the amount will not be paid prior to December 31, 2014 and the unpaid amount will be captured in a future prior period adjustment. Therefore, the Agency is seeking authority and funds to make the payment in ROPS 14-15B.

  We note that the Agency may be required in future ROPS periods to provide supporting documentation for the amounts actually paid. The amount paid in the 2014-15 fiscal year cannot exceed $2,204,000 which represents the total amount due this fiscal year as well as the amount from the ROPS 13-14A period that the Agency may be obligated to pay. The County Auditor-Controller (CAC) may take a prior period adjustment pursuant to HSC section 34186 (a) if the amounts expended are not adequately supported.

In addition, Finance did note in our original determination that Item No. 9 was previously funded in ROPS 13-14A and the Agency did not use the distributed funding. Therefore, 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 Redevelopment Property Tax Trust Fund (RPTTF) when calculating the administrative costs allowance for the fiscal year. The Agency did not contest this calculation during the meet and confer.

- Item Nos. 19 – AB 1484 Auditing Fees in the amount of $15,000. Finance no longer reclassifies this item as an administrative cost, but the amount requested is reduced to $5,191. We note that this item is associated with the annual audit fees pursuant to HSC section 34177 (n), and not audit fees related to the Due Diligence Reviews. Therefore the item is approved. Pursuant to the documentation provided by the Agency, the Agency's annual share of the total audit amount costs is only $5,191. As such, $5,191 is approved for funding and $9,809 is denied.

- Item No. 68 – Litigation expenses in the amount of 450,000. Finance no longer reclassifies this item as an administrative expense. During the meet and confer process, the Agency clarified this item is attorney's fees payable to Alvarez-Glasman Colvin for litigation expenses incurred related to the appeal of case number 34-2013-80001479. HSC section 34171 (b) allows litigation expenses related to assets or obligations and may be funded with RPTTF outside the administrative cap. Therefore, this item is an enforceable obligation eligible for RPTTF funding outside of the administrative cost allowance.

- Item No. 73 – Loan Agreement payable to the City of West Covina (City). Finance continues to deny this item at this time. As stated in our original determination, this item was previously denied in ROPS 14-15A under Item Nos. 31 through 38, and subsequently during the 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 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.

  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. We note the Oversight Board (OB) action approving the loan was only submitted to Finance for review on December 4, 2014 and Finance initiated review of the OB action. Because the item is still currently under review by Finance, the item is denied at this time. To the extent the OB action is approved by Finance, the item may be listed on a future ROPS.

- Item No. 74 – Cooperative Agreement totaling $89,500. Finance continues to deny this item at this time. Finance originally determined that the documentation provided by the

Agency was insufficient to support the amount claimed. During the meet and confer, the Agency provided a breakdown of the amount requested per project area and percentage of time each employee anticipates spending on the individual projects. The Agency did not provide additional information on how the percentages were calculated or the basis for the estimated percentages. This information is pertinent as the employee costs include the City Manager, Assistant City Manager, Director of Finance, and three additional Managers, which are generally considered part of allocated administrative costs. Therefore, Finance maintains that the documentation provided by the Agency to support this item is insufficient to support the amount requested. To the extent the Agency can support the actual percent allocations, this item may be listed on future ROPS.

- Item No. 75 – Anticipated/Existing Litigation in the amount of $49,000. Finance continues to deny this item at this time. The Agency claims the requested 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 the amount 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.

  During the meet and confer, the Agency continued to claim these costs were paid by the City and not the Agency. As such, the Agency submitted an OB action approving a loan between the Agency and the City for the loan of the funds used to pay the item. However, the OB action was only submitted to Finance for review on December 4, 2014 and Finance initiated review of the OB action. We note that because the items are still currently under review by Finance, the item totaling $49,000 is denied at this time. To the extent the OB action is approved by Finance, the item may be listed on future ROPS.

- Item No. 76 – Loan Agreement with the City totaling $48,413. Finance continues to deny this item. Finance previously denied this item because the loan is related to litigation costs incurred by the City during the period May 2013 through June 2014. In addition, the requested amount is for expenditures that were incurred in the past. Therefore, the item was not eligible for RPTTF funding. We note that the OB took an action to approve a loan to cover previous costs. However, the OB action approving the loan was only submitted to Finance for review on December 4, 2014 and Finance initiated review of the OB action. We note that because the item is still currently under review by Finance, the item is denied at this time. To the extent the OB action is approved by Finance, the item may be listed on future ROPS.

- Claimed administrative costs exceed the allowance by $71,532. 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 $306,097 in administrative expenses. The Los Angles Auditor-Controller's Office distributed $250,000 for the July through December 2014 period, thus leaving a balance of $56,097 available for the January through June 2015 period. Therefore, $71,532 of the requested administrative costs are not allowed.

In addition, per Finance's letter dated November 14, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

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. The Agency's maximum approved RPTTF distribution for the reporting period is $3,671,189 as summarized in the Approved RPTTF Distribution Table below:

Approved RPTTF Distribution For the period of January through June 2015		
Total RPTTF requested for non-administrative obligations		4,254,307
Total RPTTF requested for administrative obligations		127,629
Total RPTTF requested for obligations on ROPS	**$**	**4,381,936**
RPTTF adjustment to Item No. 9		725,000
Total RPTTF adjustments	**$**	**725,000**
Total RPTTF requested for non-administrative obligations		**4,979,307**
Denied Items		
Item No. 19		(9,809)
Item No. 73		(821,365)
Item No. 74		(89,500)
Item No. 75		(49,000)
Item No. 76		(48,413)
		(1,008,278)
Total RPTTF authorized for non-administrative obligations	**$**	**3,971,029**
Total RPTTF requested for administrative obligations		**127,629**
		-
Administrative costs in excess of the cap (see Admin Cost Cap table on the next page)		(71,532)
Total RPTTF authorized for administrative obligations	**$**	**56,097**
Total RPTTF authorized for obligations	**$**	**4,027,126**
ROPS 13-14B prior period adjustment		(355,937)
Total RPTTF approved for distribution	**$**	**3,671,189**

Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	6,957,189
Total RPTTF for 14-15B (January through June 2015)	3,971,029
Less amount approved for Item No. 9 on ROPS 13-14A	(725,000)
Total RPTTF for fiscal year 2014-2015	**10,203,218**
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or $250,000)	306,097
Administrative allowance for 14-15A (July through December 2014)	250,000
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	**56,097**
Total RPTTF administrative obligations	127,629
Administrative costs in excess of the cap	**$ (71,532)**

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

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 Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, 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