DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

March 23, 2015

Ms. Lisa Brancheau, Assistant to the City Manager
City of Covina
125 East College Street
Covina, CA 91723

Dear Ms. Brancheau:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Covina Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to the California Department of Finance (Finance) on February 24, 2015 for the period of July 1 through December 31, 2015. Finance has completed its review of your ROPS 15-16A, 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 No. 30 – the City loan repayment in the amount of $270,316 is not allowed. The Agency received a Finding of Completion on April 18, 2013. As such, the Agency may place loan agreements between the former redevelopment agency and sponsoring entity on the ROPS, as an enforceable obligation, provided the oversight board makes a finding the loan was for legitimate redevelopment purposes per HSC section 34191.4 (b) (1). Additionally, HSC section 34191.4 (b) (2) (A) specifies this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the fiscal year 2012-13 base year.

  According to the County Auditor-Controller's report, the ROPS residual pass-through amount distributed to the taxing entities for fiscal year 2012-13 and 2014-15 are $2,206,216 and $3,374,794, respectively. Pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), the maximum repayment amount authorized for 2015-2016 is $584,289. Therefore, of the total $854,605 requested for City Loans and SERAF loans, $270,319 of excess loan repayment is not eligible for funding on this ROPS. The Agency may be eligible for additional funding beginning ROPS 16-17A.

  Additionally, the outstanding balance for the City loan is overstated. Pursuant to HSC section 34191.4 (b) (2), the recalculation of the accumulated interest from loan origination is not to exceed the interest rate earned by funds deposited in the Local Agency Investment Fund (LAIF). The Agency's loan agreement uses an interest rate of 8.25% per annum from the date of the note until paid. However, the accumulated

interest on the loan should be recalculated using the quarterly LAIF interest rate at the time when the Agency's Oversight Board makes a finding the loan was for legitimate redevelopment purposes.

Finance has recalculated the total loan outstanding to be approximately $2,535,673, and has therefore reduced the outstanding loan balance reported on the Agency's ROPS Detail Form by $118,757.

- Item No. 36 – Housing administrative costs allowance pursuant to AB 471 totaling $75,000. Pursuant to HSC section 34177 (p), the housing entity administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency elected to not assume the housing functions. Because the housing entity to the former redevelopment agency of the City of Covina (City) is the City-formed Housing Authority (Authority), the Authority operates under the control of the City. Therefore, $75,000 of housing entity administrative allowance in Other Funds is not allowed.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 15-16A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2014 period. HSC section 34186 (a) also specifies 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 Redevelopment Property Tax Trust Fund (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.

The Agency's maximum approved RPTTF distribution for the reporting period is $80,890 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution For the period of July through December 2015		
Total RPTTF requested for non-administrative obligations		0
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations on ROPS	**$**	**125,000**
Total RPTTF authorized for non-administrative obligations		0
Total RPTTF authorized for administrative obligations		125,000
Total RPTTF authorized for obligations	**$**	**125,000**
ROPS 14-15A prior period adjustment		(44,110)
Total RPTTF approved for distribution	**$**	**80,890**

Please refer to the ROPS 15-16A 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 July 1 through December 31, 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 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 Kylie Oltmann, Supervisor or Nicole Prisakar, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Mr. Dilu De Alwis, Finance Director, City of Covina
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office