



April 1, 2015

Mr. Dennis Swink, Interim Finance Director
City of West Covina
1444 West Garvey Avenue
West Covina, CA 91790

Dear Mr. Swink:

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 15-16A) to the California Department of Finance (Finance) on February 23, 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. 9 – Community Financial District (CFD) Tax Increment Pledge in the amount of \$1,450,000 is partially denied. The Agency needs \$1,450,000 annually for this obligation; however, the Agency was approved and distributed \$739,500 in Redevelopment Property Tax Trust (RPTTF) in the ROPS 14-15B period, thus only \$710,500 is allowed for this ROPS period. Therefore, the excess \$739,500 is not eligible for RPTTF funding.
- Item No. 10 – Coastal Sage and Scrub CFD obligation in the amount of \$114,000 is partially denied. The Agency requests \$114,000 in RPTTF, however, the documentation provided supports only \$110,040 in assessment fees for the 6-month period; therefore, the excess \$3,960 is not eligible for RPTTF funding.
- Item No. 28 – 1996 CFD Refunding Bonds in the amount of \$36,513,300 is not eligible for RPTTF funding. The Agency requests \$1,200,000 in RPTTF and \$2,158,750 from Other Funds for the ROPS 15-16A period; however, it's our understanding the bond debt service payment may be payable from RPTTF only if there are insufficient Other Funds available. The Agency did not provide adequate documentation to support the amounts claimed cannot be paid with Other Funds. To the extent the Agency can provide suitable documentation, such as calculations showing funding is needed and displaying insufficient Other Funds available, the Agency may be able to obtain RPTTF on future ROPS. As such, the \$1,200,000 in RPTTF has been reclassified to Other Funds.

- Item No. 30 – Owner Participation Agreement - CFD in the amount of \$96,123,595 is not eligible for RPTTF funding. The Agency requests \$2,000,000 in RPTTF. It is our understanding; this obligation may be payable from RPTTF only if there are insufficient Other Funds available. The Agency did not provide adequate documentation to support the amounts claimed cannot be paid with Other Funds. To the extent the Agency can provide suitable documentation, such as calculations showing funding is needed and displaying insufficient Other Funds available, the Agency may be able to obtain RPTTF on future ROPS. As such, the \$2,000,000 in RPTTF has been reclassified to Other Funds.
- Item No. 50 – Unfunded Pension Liabilities in the amount of \$1,207,771 is partially denied. The Agency requests a lump-sum payment of \$1,207,771 in RPTTF. HSC 34177 (a) (5) prohibits the Agency from accelerating payment or making any lump-sum payments. Per the established schedule, Finance has approved \$44,732 for each ROPS period commencing with ROPS 13-14A. Therefore, \$44,732 of unfunded pension obligation is eligible for payment on this ROPS. The remaining balance of \$1,163,039 is not eligible for funding at this time and should continue to be placed on future ROPS until the obligation is retired.
- Item No. 60 – Special Assessments on RDA-owned parcels in the amount of \$16,500 is partially denied. The Agency provided documentation to support \$16,128, therefore the excess \$372 is not eligible for RPTTF funding.
- Item No. 77 – Housing administrative cost allowance pursuant to AB 471 in the amount of \$150,000. Pursuant to HSC section 34171 (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 (RDA) elected to not assume the housing functions and that the housing functions were transferred to a local housing authority in the territorial jurisdiction of the RDA. Because, the City of West Covina (City) is the City-formed Housing Authority (Authority), the Authority operates under the control of the City. Therefore, \$150,000 of housing entity administrative allowance is not allowed.
- Claimed administrative costs exceed the allowance by \$250,655. HSC section 34171 (b) limits fiscal year 2015-16 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 \$250,000 in administrative expenses. Although \$350,655 is requested for administrative cost, the Agency was unable to support the anticipated or existing litigation expenses for Item No. 15. Therefore, Item No. 15 in the amount of \$150,000 is considered an administrative expense and should be counted toward the cap. Therefore, \$250,655 ($\$350,655 + \$150,000 - \$250,000$) of excess administrative cost is not allowed. The administrative cost calculation also took into consideration the following:
 - The maximum allowed administrative costs are based on a percentage of approved RPTTF, which includes Item Nos. 10, 22, and 60. Of the requested amounts for these Item Nos., \$136,360 was previously funded in ROPS 14-15A and 14-15B. It is our understanding; the Agency did not use the approved funding in ROPS 14-15A and 14-15B period, and this non-use has been appropriately accounted for through the Prior Period Adjustment. However,

these item's share of administrative allowance has been previously funded on prior ROPS, and the Agency reports to have fully expended the administrative costs associated with these line items.

As demonstrated in the Administrative Cost Cap Calculation table below, \$136,360 is not eligible towards the administrative cost cap, thus reducing the three percent allocation to \$250,000.

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 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 that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 15-16A. If you disagree with the determination with respect to any items on your ROPS 15-16A, 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/

The Agency's maximum approved RPTTF distribution for the reporting period is \$4,538,978 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	11,688,503
Total RPTTF requested for administrative obligations	350,655
Total RPTTF requested for obligations on ROPS	\$ 12,039,158
Total RPTTF requested for non-administrative obligations	11,688,503
<u>Denied Items</u>	
Item No. 9	(739,500)
Item No. 10	(3,960)
Item No. 50	(1,163,039)
Item No. 60	(372)
Item No. 77	(150,000)
	(2,056,871)
<u>Reclassified Items</u>	
Item No. 15	(150,000)
Item No. 28	(1,200,000)
Item No. 30	(2,000,000)
	(3,350,000)
Total RPTTF authorized for non-administrative obligations	\$ 6,281,632
Total RPTTF requested for administrative obligations	350,655
<u>Reclassified Item</u>	
Item No. 15	150,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(250,655)
Total RPTTF authorized for administrative obligations	\$ 250,000
Total RPTTF authorized for obligations	\$ 6,531,632
ROPS 14-15A prior period adjustment	(1,992,654)
Total RPTTF approved for distribution	\$ 4,538,978

Administrative Cost Cap Calculation	
Total RPTTF for non-administrative obligations	6,281,632
Less amount approved for Item Nos. 10, 22 and 60	(136,360)
Total RPTTF for the ROPS 15-16A period	6,145,272
Allowable administrative cost for fiscal year 2015-16 (Greater of 3% or \$250,000)	250,000
Total RPTTF administrative obligations after Finance adjustments	500,655
Administrative costs in excess of the cap	\$ (250,655)

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 15-6A review, Finance requested financial records to support the cash balances reported by the Agency; however, the Agency did not provide any documents to support the amounts reported. The 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 15-16A 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 15-16B.

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 Veronica Green, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

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