



May 15, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 01, 2015. 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 Finance on February 23, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 01, 2015. Subsequently, the Agency requested a Meet and Confer session on one or more of the determinations made by Finance. The Meet and Confer session was held on April 14, 2015.

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 determinations being disputed.

- Item No. 9 – Community Financial District (CFD) Tax Increment Pledge (Pledge) in the amount of \$1,450,000. Finance continues to partially deny this item. Information provided by the Agency during our original review indicates this amount was requested because it ties to the total amount paid in September 2014. To that extent, Finance notes that during the Meet and Confer process for the July through December 2014 (ROPS 14-15A) period, the Agency requested the amount for this item be increased for the ROPS 14-15A period from \$739,500 to a total of \$1,464,500. Finance determined that this amount was originally 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 was obligated to pay the past due amount for the July through December 2013 (ROPS 13-14A) period as well as the amount due for ROPS 14-15A.

During the Meet and Confer process the Agency also claimed that this full amount is due during the ROPS 15-16A period and these funds are needed so the Agency does not default on the Pledge. However, based on the payment schedule previously provided by the Agency, the total amount due in ROPS 15-16A is \$754,290. Therefore, a total of \$754,290 is approved for ROPS 15-16A and the remaining \$695,710 (\$1,450,000 - \$754,290) is denied.

- Item No. 10 – Coastal Sage and Scrub CFD obligation in the amount of \$114,000. Finance no longer partially denies this item. During the Meet and Confer process the Agency provided additional information to support the estimate included on the ROPS 15-16A.
- Item No. 15 – Anticipated/Existing Litigation totaling \$150,000 for ROPS 15-16A. During the Meet and Confer process, the Agency requested this item be removed from the ROPS. This item was reclassified as an administrative expense in our original ROPS 15-16A letter. Per the Agency's request, the amount will not be reclassified, rather it will be removed.
- Item No. 28 – 1996 CFD Refunding Bonds in the amount of \$36,513,300 is not eligible for RPTTF funding. Finance continues to reclassify the requested RPTTF funds to Other Funds. The Agency did not provide any additional documentation to support the request for RPTTF. Therefore, as previously determined, the Agency requests \$1,200,000 in RPTTF and \$2,158,750 from Other Funds for the ROPS 15-16A period; however, 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. Finance continues to reclassify the requested RPTTF funds to Other Funds. The Agency did not provide any additional documentation to support the request for RPTTF. Therefore, as previously determined, the Agency requests \$2,000,000 in RPTTF. 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. 60 – Special Assessments on RDA-owned parcels in the amount of \$16,500 was partially denied. Finance no longer partially denies this item. During the Meet and Confer process the Agency provided additional information to support the estimate included on the ROPS 15-16A.
- 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 as further discussed below. Therefore, \$100,655 (\$350,655 - \$250,000) of 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 items' 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 January through June 2014 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. However, the CAC did not revise the prior period adjustment. Therefore, the prior period adjustment from our original letter remains unchanged.

In addition, per Finance's letter dated April 01, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- 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. 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.

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.

The Agency's maximum approved RPTTF distribution for the reporting period is \$4,587,100 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	(695,710)
Item No. 15	(150,000)
Item No. 50	(1,163,039)
Item No. 77	(150,000)
	(2,158,749)
<u>Reclassified Items</u>	
Item No. 28	(1,200,000)
Item No. 30	(2,000,000)
	(3,200,000)
Total RPTTF authorized for non-administrative obligations	\$ 6,329,754
Total RPTTF requested for administrative obligations	350,655
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(100,655)
Total RPTTF authorized for administrative obligations	\$ 250,000
Total RPTTF authorized for obligations	\$ 6,579,754
ROPS 14-15A prior period adjustment	(1,992,654)
Total RPTTF approved for distribution	\$ 4,587,100

Administrative Cost Cap Calculation	
Total RPTTF for non-administrative obligations	6,329,754
Less amount approved for Item Nos. 10, 22 and 60	(136,360)
Total RPTTF for the ROPS 15-16A period	6,193,394
Allowable administrative cost for fiscal year 2015-16 (Greater of 3% or \$250,000)	250,000
Total RPTTF administrative obligations after Finance adjustments	350,655
Administrative costs in excess of the cap	\$ (100,655)

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>

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 Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-3274.

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