

November 9, 2015

Ms. Christa Buhagiar, Finance Director
City of West Covina
1444 West Garvey Avenue
West Covina, CA 91790

Dear Ms. Buhagiar :

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m) (1) (A), the City of West Covina Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period January 1 through June 30, 2016 (ROPS 15-16B) to the California Department of Finance (Finance) on September 30, 2015. Finance has completed its review of the ROPS 15-16B.

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

- Item No. 14 – Litigation fees in the amount of \$600,000 are not allowed. The Agency requests \$100,000 for the six-month period. In our April 13, 2015 Oversight Board (OB) Resolution No. OB-0035 determination letter; we approved the settlement agreement for the Hassen Imports Partnership (HIP) and West Covina Motors, Inc. (WCM) bankruptcy case. As such, no further litigation fees should be incurred. Further, no documentation was provided to support further legal costs will be needed for the bankruptcy case. Therefore, this item is not eligible for Redevelopment Property Tax Trust Funds (RPTTF) funding on this ROPS.
- Item Nos. 17, 78, 79, 80, 83, 84, 85, and 86 – Litigation fees totaling \$78,800 are not allowed. Litigation expenses not associated with challenging redevelopment dissolution statutes are generally considered an enforceable obligation outside the administrative cap. However, adequate documentation was not provided to show these expenditure requests are for on-going cases. To the extent the Agency can provide suitable documentation, such as status/court documents, previous litigation invoices, etc. the Agency may be able to obtain RPTTF in the future. Therefore, these items are not eligible for RPTTF funding on this ROPS.

In addition, Item No. 80 – Anticipated Litigation for Caltrans Eminent Domain appears to be a duplicate of Item No. 72 – Caltrans Eminent Domain. As such, the litigation costs claimed for Item No. 80 in the amount of \$38,800 is not necessary.

- Item No. 28 – 1996 CFD Refunding Bonds in the amount of \$33,154,550 is not eligible for RPTTF funding. The Agency requests \$768,300 in RPTTF for the six-month period;

however, it is 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 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 \$768,300 in RPTTF has been reclassified to Other Funds.

- Item No. 46 – 1998 - 2006 Bonds Fees. The Agency requested to decrease the six-month funding request from \$195,020 to \$38,040. As such, the RPTTF requested has been reduced by \$156,980.
- Item No. 70 – Litigation fees in the amount of \$5,000 are not allowed. This is for additional litigation costs related to the HIP case. As stated in Item No. 14 above, our April 13, 2015 OB Resolution No. OB-0035 determination letter approved a settlement agreement for this case; therefore, additional litigation costs should not be incurred. As such, this item is not eligible for RPTTF funding on this ROPS.
- Item Nos. 71 and 81 – Litigation costs totaling \$140,000 have been reclassified to the Administrative Cost Allowance (ACA). These items relate to estimated costs in challenging Finance's determinations. Pursuant to HSC section 34171 (d) (1) (F) (i), legal expenses related to civil actions, including writ proceeding, contesting the validity of the dissolution law, or challenging acts taken pursuant to the dissolution laws shall only be payable out of the ACA. Therefore, these items are considered a general administrative cost payable from the Agency's ACA.
- Item No. 77 – Housing administrative cost allowance pursuant to AB 471 in the amount of \$150,000 continues to be denied. 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.
- Item No. 101 – Loan agreement between the Agency and the City in the amount of \$870,365 is not allowed. Finance continues to deny the loan for prior litigation costs as stated in our OB Resolution No. OB-0030 letter dated January 16, 2015 and again in our OB Resolution No. OB-0037 letter dated November 2, 2015. The Agency's OB-0037 request is the same as in OB Resolution No. OB-0030; except the loan agreement has been modified to include a promissory note and deed of trust securing the loan. Finance notes the interest terms of the note is not in compliance with HSC section 34173 (h) (1) which states the loan interest is limited to the fixed annual simple interest at the previous quarter's LAIF rate. Further, all Agency real assets except those transferred to the City for government use are to be disposed of expeditiously and in a manner aimed at maximizing value. Therefore, securing the loan with deeds of trust of Agency property (West Covina Sportsplex) is also not approved. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item Nos. 103 – CFD Tax increment pledge for the period July through December 2014 (ROPS 14-15A) in the amount of \$739,500 is partially approved. Per the Owner Participation Agreement dated June 26, 1989 between the former RDA and Sylvan S. Shulman Co./West Covina Associates, the Agency is to pay 100 percent of the property tax revenue received for the listed property. During the ROPS 14-15A period the Agency paid \$1,450,000 based on an estimated calculation of the property tax revenue due for fiscal year 2014-15. According to a recalculation of the projected property tax revenue, the amount should be \$1,517,509, thus resulting in an underpayment of \$67,509 for fiscal year 2014-15. Finance approved and the CAC distributed \$1,464,500 for this obligation during the ROPS 14-15B period. Therefore, the remaining balance due for fiscal year 2014-15 is \$67,509. As such, the excess \$671,991 of the \$739,500 requested in RPTTF is denied.
- Item Nos. 104 – CFD Tax increment pledge for the period January through June 2015 (ROPS 15-16A) in the total amount of \$778,009 is not allowed. According to a recalculation of the projected property tax revenue, the Agency owes \$1,643,629 for fiscal year 2015-16. Finance approved \$754,290 during ROPS 15-16A for this obligation under Item No. 9. Likewise, Finance is approving an additional \$889,339 under Item No. 9 for this six-month period, totaling \$1,643,629. Therefore, the \$778,009 requested for this six-month period is not necessary and not eligible for RPTTF funding.
- Claimed administrative costs exceed the allowance by \$368,968. HSC section 34171 (b) (2) limits fiscal year 2015-16 administrative expenses to three percent of distributed RPTTF in the preceding fiscal year or \$250,000, whichever is greater. As a result, the Agency is eligible for \$318,860 in administrative expenses. The Los Angeles County Auditor-Controller distributed \$250,000 administrative costs for the July through December 2015 period, thus leaving a balance of \$68,860 available for the January through June 2016 period. Although \$214,588 is claimed for administrative cost, Item Nos. 71 and 81 for litigation fees totaling \$140,000 and Item Nos. 92 through 100 for consulting services totaling \$83,240 are considered administrative expenses and should be counted toward the cap. Therefore, \$368,968 of excess administrative cost allowance is not allowed.

Pursuant to HSC section 34186 (a) (1), the Agency was required to report on the ROPS 15-16B form the estimated obligations versus actual payments (prior period adjustment) associated with the January through June 2015 period (ROPS 14-15B). HSC section 34186 (a) (1) also specifies the prior period adjustment self-reported by the Agency is subject to review by the county auditor-controller (CAC). The amount of RPTTF approved in the table on the following page 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 the items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 15-16B. If you disagree with Finance's determination with respect to any items on your ROPS 15-16B, except for those items which are the subject of litigation disputing Finance's previous or related determinations, 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 \$2,036,895 as summarized in the Approved RPTTF Distribution table on the following page:

Approved RPTTF Distribution	
For the period of January through June 2016	
Total RPTTF requested for non-administrative obligations	8,101,606
Total RPTTF requested for administrative obligations	214,588
Total RPTTF requested for obligations on ROPS 15-16B	\$ 8,316,194
RPTTF adjustment to non-administrative obligations	(156,980)
Total RPTTF adjustments	\$ (156,980)
Total RPTTF requested for non-administrative obligations	7,944,626
<u>Denied Items</u>	
Item No. 14	(100,000)
Item No. 17	(5,000)
Item No. 70	(5,000)
Item No. 77	(150,000)
Item No. 78	(10,000)
Item No. 79	(5,000)
Item No. 80	(38,800)
Item No. 83	(5,000)
Item No. 84	(5,000)
Item No. 85	(5,000)
Item No. 86	(5,000)
Item No. 101	(870,365)
Item No. 103	(671,991)
Item No. 104	(778,009)
	(2,654,165)
<u>Reclassified Items</u>	
Item No. 28	(768,300)
Item No. 71	(100,000)
Item No. 81	(40,000)
Item No. 92	(8,400)
Item No. 93	(20,178)
Item No. 94	(8,400)
Item No. 95	(8,400)
Item No. 96	(4,200)
Item No. 97	(8,462)
Item No. 98	(8,400)
Item No. 99	(8,400)
Item No. 100	(8,400)
	(991,540)
Total RPTTF authorized for non-administrative obligations	\$ 4,298,921
Total RPTTF requested for administrative obligations	214,588
<u>Reclassified Items</u>	
Item No. 71	100,000
Item No. 81	40,000
Item No. 92	8,400
Item No. 93	20,178
Item No. 94	8,400
Item No. 95	8,400
Item No. 96	4,200
Item No. 97	8,462
Item No. 98	8,400
Item No. 99	8,400
Item No. 100	8,400
	223,240
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(368,968)
Total RPTTF authorized for administrative obligations	\$ 68,860
Total RPTTF authorized for obligations	\$ 4,367,781
ROPS 14-15B prior period adjustment	(2,330,886)
Total RPTTF approved for distribution	\$ 2,036,895

Administrative Cost Cap Calculation	
Total RPTTF for 15-16A (July through December 2015)	6,329,754
Total RPTTF for 15-16B (January through June 2016)	4,298,921
Total RPTTF for fiscal year 2015-2016	10,628,675
Administrative cost cap for fiscal year 2015-16 (Greater of 3% of Total RPTTF or \$250,000)	318,860
Administrative allowance for ROPS 15-16A (July through December 2015)	(250,000)
Remaining administrative cost cap for ROPS 15-16B	68,860
ROPS 15-16B administrative obligations after Finance adjustments	(437,828)
Administrative costs in excess of the cap	\$ (368,968)

On the ROPS 15-16B form, the Agency reported cash balances and activity for the period January 1 through December 31, 2015. Finance will perform a review of the Agency's self-reported cash balances on an ongoing basis. Please be prepared to submit financial records and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved obligations, HSC section 34177 (l) (1) (E) requires these balances be used prior to requesting RPTTF.

Please refer to the ROPS 15-16B schedule used to calculate the total RPTTF approved for distribution:

<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, 2016. This determination only applies to items when 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 ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if it was not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items 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 available prior to the enactment of the redevelopment dissolution statutes. 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.

Please direct inquiries to Kylie Oltmann, Supervisor, or Zuber Tejani, 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