



December 18, 2012

Mr. Tom Bachman, Assistant City Manager
City of West Covina
1444 W. Garvey Ave.
West Covina, CA 91790

Dear Mr. Bachman:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 14, 2012. 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 III) to the California Department of Finance (Finance) on August 30, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 14, 2012. 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 November 29, 2012.

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.

- Items 23 through 25 and 41 through 44 – Various City Loans totaling \$19,937,152. Finance continues to deny the items at this time. Finance denied the items per HSC section 34171 (d) (2), which states agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency (RDA) and the former RDA are not enforceable obligations. The Agency contends the items are enforceable obligations because the loans were entered into within the first two years of the RDA's creation with amounts disbursed as needed. HSC section 34171 (d) (2) also states loan agreements entered into between the former RDA and the city, county, or city and county that created it within two years of the date of creation of the RDA may be deemed to be enforceable obligations. The loan agreement was entered into within the first two years of the date of creation; however, the agreement does not specify dollar amounts to be loaned or advanced or specific repayment terms. Furthermore, the Agency did not provide documentation supporting any amounts of funds loaned within the first two years of creation. Finance has not issued a Finding of Completion to the Agency; therefore, the provisions of HSC section 34171 apply and these items are currently not enforceable obligations. Per HSC section 34191.4 (b), upon obtaining a Finding of Completion from Finance, loan agreements entered into between the RDA and the city, county, or city and county that created the RDA shall be deemed to be enforceable obligations provided the oversight board makes a finding the loan was for

legitimate redevelopment purposes. Therefore, the items are currently not enforceable obligations.

- Item 26 – Sales Tax Reimbursement in the amount of \$22,856,769. Finance continues to deny the item. Finance denied the item as it is an agreement between the City and the former RDA. The Agency contends the item is an enforceable obligation because it was originated by a bond issuance in 1990. However, the reimbursement agreement is not for the sole purpose of securing or repaying the debt. The agreement between former RDA and the City is to repay the city sales and use tax revenues with available revenues not used to satisfy the bond payments. Therefore, the agreement is not an enforceable obligation eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item 27 – Golf course Agreement in the amount of \$45 million. Finance continues to deny the item. Finance denied the item as it is a loan between the City and the former RDA. The Agency contends the item is an enforceable obligation because the project consists of a multitude of enforceable obligations binding on the former RDA; however, those obligations are not listed on the ROPS. The item listed on the ROPS is an implementation agreement dated June 21, 2011, between the City of West Covina and the former RDA totaling \$45 million. HSC section 34171 (d) (2) states agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. Therefore, the item is not an enforceable obligation and not eligible for RPTTF funding.
- Administrative Items
 - Item 18 – Project Administrative Costs totaling \$350,000. Finance continues to reclassify the item as an administrative cost counting towards the administrative cost cap. The Agency contends the item is an enforceable obligation because it pertains to employee costs associated with managing and maintaining properties owned by the Agency prior to disposition. However, the Agency did not provide any documentation during the meet and confer process to support that these costs are property related or the basis for amount estimated.
 - Items 20, 21, 39, and 40 – Legal Services for the Agency and Oversight Board totaling \$484,600. Finance continues to reclassify the items as administrative costs counting towards the administrative cap. The Agency contends the items are enforceable obligations because they are for services to assist the Agency wind down the affairs of the former RDA. While HSC section 34177.3 (b) allows the Agency to create enforceable obligations to wind down the affairs of the former RDA, the services are not related to litigation expenses and are therefore administrative in nature. Therefore, the items are reclassified as administrative costs.

Claimed administrative costs exceed the allowance by \$257,260. HSC section 34171 (b) limits the fiscal year 2012-13 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$368,040 for administrative expenses. The Los Angeles Auditor Controller's Office distributed \$241,173 of administrative costs for the July through December 2012 period, thus leaving \$126,867 available for the January through June 2013 period. Although \$242,181 is claimed for administrative costs, Item numbers 18, 20, 21, 39, and

40 totaling \$141,946 are considered administrative expenses and should be counted toward the cap. Therefore, \$257,260 of excess administrative cost is not allowed.

Several item numbers indicate they are for anticipated or existing litigation. HSC section 34171 (b) allows litigation expenses related to assets or obligations to be funded with property tax outside the administrative cap. Therefore, the items are enforceable obligations. The funding is limited specifically to bringing or contesting a legal action in court; otherwise, general legal services are considered administrative costs.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: \$6,085,305 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 8,692,846
Less: Six-month total for item(s) denied or reclassified as administrative cost	
Item 18*	35,000
Item 20*	10,000
Item 21*	30,000
Item 23	730,744
Item 24	133,410
Item 25	0
Item 26	0
Item 27	0
Item 39*	36,946
Item 40*	30,000
Item 41	730,744
Item 42	730,744
Item 43	133,410
Item 44	133,410
Total approved RPTTF for enforceable obligations	\$ 5,958,438
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	126,867
Total RPTTF approved:	\$ 6,085,305

*Reclassified as administrative cost

Administrative Cost Calculation	
Total RPTTF for the period July through December 2012	\$ 6,309,574
Total RPTTF for the period January through June 2013	5,958,438
Total RPTTF for fiscal year 2012-13:	\$ 12,268,012
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or \$250,000)	368,040
Administrative allowance for the period of July through December 2012	241,173
Allowable RPTTF distribution for administrative cost for ROPS III:	\$ 126,867

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated

obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

The amount available from the RPTTF is the same as the property tax increment that was available prior to 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 successor agency in the RPTTF.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS III. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2013. 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 questioned on this ROPS or a preceding ROPS.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

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