DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
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April 10, 2014

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 14-15A) to the California Department of Finance (Finance) on February 25, 2014 for the period of July through December 2014. Finance has completed its review of your ROPS 14-15A, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations for the reasons specified:

- Item Nos. 23, 24, 25, and 30 – Housing Set-Aside deferral, SERAF loan from Housing, and City loan repayments totaling $854,605 is not allowed at this time. HSC section 34176 (e) (6) (B) allows 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 2012-13 base year. Since the formula reflects a maximum repayment amount of $0 because the total residual balance for the base year was more than the total residual balance for the comparison year, the Agency must wait until the ROPS residual pass-through distributions are greater before requesting funding for this obligation. Therefore, the Agency may be able to request funding for the repayment of these amounts in a future ROPS period. As such the request on this ROPS period is denied.

- 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 is not allowed.

Finance notes that pursuant to HSC section 34183 (a) (2) (A), debt service payments have first priority for payment. As such, the additional Other Funds requested for the Debt Service Fund per Section 10.12 (d) of the Tax Allocation Refunding Bond 2013A's Indenture must be used for that purpose and be available for transfer to the Trustee when required. The amounts approved for debt service payments on this ROPS are restricted for that purpose and are not authorized to be used for other ROPS items.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2013 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 audit of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 14-15A. If you disagree with the determination with respect to any items on your ROPS 14-15A, 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 $3,938,967 as summarized below:

Approved RPTTF Distribution For the period of July through December 2014		
Total RPTTF requested for non-administrative obligations		4,757,269
Total RPTTF requested for administrative obligations		144,346
Total RPTTF requested for obligations	**$**	**4,901,615**
Total RPTTF requested for non-administrative obligations		**4,757,269**
Denied Items		
Item No. 23		(46,780)
Item No. 24		(362,871)
Item No. 25		(74,709)
Item No. 30		(370,245)
Item No. 36		(75,000)
		(929,605)
Total RPTTF authorized for non-administrative obligations	**$**	**3,827,664**
Total RPTTF authorized for administrative obligations	**$**	**144,346**
Total RPTTF authorized for obligations	**$**	**3,972,010**
ROPS 13-14A prior period adjustment		(33,043)
Total RPTTF approved for distribution	**$**	**3,938,967**

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 14-15A review, Finance requested financial records to support the cash balances reported by the

Agency; however, Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 14-15A 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 14-15B.

Please refer to the ROPS 14-15A 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, 2014. 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 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.

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 Hugo Lopez, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant 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