



April 17, 2014

Ms. Nita McKay, Director of Finance & Administrative Services
City of West Covina
1444 West Garvey Avenue
West Covina, CA 91790

Dear Ms. McKay:

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 14-15A) to the California Department of Finance (Finance) on March 4, 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. 31 through 38 and 61 – Various line items totaling \$826,365. These line items were previously approved by Finance on ROPS 13-14A. However, upon completion of the Prior Period Adjustment (PPA) for the ROPS 13-14A period the County Auditor Controller (CAC) made an adjustment for the amounts listed above. HSC section 34186 (a) specifies prior period adjustments self-reported by successor agencies are subject to audit by the CAC and the State Controller. Since Finance does not have authority to overturn CAC determinations, these line items are not enforceable obligations and not eligible for RPTTF funding on this ROPS.
- Item Nos. 65 and 66 – Reimbursement request for ROPS 13-14A unfunded obligations totaling \$448,912. During ROPS 13-14A, the Agency spent amounts in excess of those approved by Finance. The Agency provided supporting documentation to validate these amounts and additional RPTTF funding was approved during the ROPS 13-14B period. Therefore, the Agency was fully funded for these obligations during ROPS 13-14B. As such, there is no funding shortfall related to these items and the amounts requested for these line items are not enforceable obligations and not eligible for RPTTF funding on this ROPS.
- Claimed administrative costs exceed the allowance by \$29,664. HSC section 34171 (b) limits fiscal year 2014-15 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 \$226,664 is

claimed for administrative cost, Item Nos. 19, 54, and 68 totaling \$53,000 are considered as administrative expenses and should be counted toward the cap. Therefore, \$29,664 of excess administrative cost is not allowed.

In addition, Finance noted the following:

The Agency interchanged Item Nos. 67 and 68 on this ROPS. For consistency purposes between ROPS periods, Item Nos. 67 and 68 will be restored to the original format listed on the ROPS template as follows:

- Item No. 67 – Project Administrative Costs
- Item No. 68 – Legal Costs for Enforceable Obligations

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 \$4,981,917 as summarized below:

Approved RPTTF Distribution	
For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	7,555,466
Total RPTTF requested for administrative obligations	226,664
Total RPTTF requested for obligations	\$ 7,782,130
Total RPTTF requested for non-administrative obligations	7,555,466
<u>Denied Items</u>	
Item No. 31	(587,509)
Item No. 32	(172,343)
Item No. 33	(22,204)
Item No. 34	(17,602)
Item No. 35	(7,946)
Item No. 36	(13,182)
Item No. 37	(429)
Item No. 38	(150)
Item No. 61	(5,000)
Item No. 65	(22,403)
Item No. 66	(426,509)
	(1,275,277)
<u>Reclassified Items</u>	
Item No. 19	(15,000)
Item No. 54	(18,000)
Item No. 68	(20,000)
	(53,000)
Total RPTTF for non-administrative obligations	\$ 6,227,189
Total RPTTF requested for administrative obligations	226,664
<u>Reclassified Items</u>	
Item No. 19	15,000
Item No. 54	18,000
Item No. 68	20,000
	53,000
Administrative costs in excess of the cap	(29,664)
Total RPTTF authorized for administrative obligations	\$ 250,000
Total RPTTF authorized for obligations	\$ 6,477,189
ROPS 13-14A prior period adjustment	(1,495,272)
Total RPTTF approved for distribution	\$ 4,981,917

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