



May 16, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 17, 2014. 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 Finance on March 4, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 17, 2014. 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 May 5, 2014.

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.

- Item Nos. 31 through 38 – Various line items totaling \$821,365. We continue to deny these items at this time. These line items were previously approved by Finance on ROPS III; however, upon completion of the Prior Period Adjustment (PPA) for the ROPS III period the County Auditor Controller (CAC) made an adjustment for the amounts listed because the Agency had paid these items in the ROPS I and II periods using Other Funds. During the Meet and Confer process, the Agency stated that these items were deemed enforceable obligations on past ROPS and they should receive RPTTF this period to cover these over expenditures. The Agency submitted the attorney contracts and copies of the cancelled checks; however, we were unable to validate the amounts requested are related to litigation due to a lack of documentation such as the corresponding invoices from each firm identifying the services provided and the related lawsuits. Additionally, the Agency did not identify what Other Funds were used to make these payments in the ROPS I and II periods. If these expenditures were paid by the City of West Covina (City), the Agency may enter into a loan agreement with the City pursuant to HSC section 34173 (h) and place the receipt and use of the loan on a subsequent ROPS for review. Therefore, we continue to deny these items at this time.
- Item Nos. 65 and 66 – Reimbursement request for ROPS 13-14A unfunded obligations totaling \$448,912. Finance continues to deny these items. 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. During the Meet and Confer process, the Agency stated that they are concerned that the CAC will identify that these amounts were not expended during the ROPS 13-14B period and will recapture the funds through the PPA process. However, the Agency has not shown that there is a funding shortfall related to these items. Therefore, these items are not eligible for additional RPTTF funding on this ROPS. If a subsequent PPA occurs on ROPS 14-15B, the Agency should re-submit these items at that time.

- Item No. 61 – AB 1484 Audit Fees totaling \$5,000. Finance no longer denies this item. During the Meet and Confer process, the Agency contended that this item was for the Agency's annual financial audit. HSC section 34177 (n) requires a successor agency to conduct an annual audit. Therefore, this item is approved for \$5,000 in RPTTF funding.
- 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 administrative expenses and should be counted toward the cap. Therefore, \$29,664 of excess administrative cost is not allowed.
 - Item No. 19 – AB 1484 Audit Fees totaling \$15,000 continues to be reclassified as an administrative cost. During the initial review, the Agency had provided City invoices to support these costs incurred by the City for the Consolidated Annual Financial Report; however, such costs are the responsibility of the City, not the Agency. During the Meet and Confer process, the Agency stated that this item was incurred by the Agency in completing the Due Diligence Reviews; however, these costs should have already been paid in prior ROPS periods. The Agency did not provide any other documents indicating that these costs have not been paid. As it is unclear what audit costs the Agency is claiming, this item is being reclassified as an administrative expense.
 - Items Nos. 54 and 68 totaling \$38,000 are considered administrative expenses and were been reclassified. Finance continues to reclassify these items as administrative costs. The Agency contends the items are enforceable obligations because all of the services are required for implementation of specific projects that are enforceable obligations and are not administrative in nature. However, the legal services for Item No. 68 is not related to litigation expenses and the advocate services for Item No. 54 do not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):
 - Any litigation expenses related to assets or obligations.
 - Settlements and judgments.
 - The costs of maintaining assets prior to disposition.
 - Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

In addition, Finance noted that 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. The Agency's maximum approved RPTTF distribution for the reporting period is \$4,986,917 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. 65	(22,403)
Item No. 66	(426,509)
	(1,270,277)
<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	\$ 6,232,189
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	\$ 6,482,189
ROPS 13-14A prior period adjustment	(1,495,272)
Total RPTTF approved for distribution	\$ 4,986,917

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>

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 Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, 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