COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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August 31, 2012

Honorable John Chiang
Controller, State of California
P.O. Box 942850
Sacramento, CA 94250-5872

Dear Mr. Chiang:

REPORT ON AGREED-UPON PROCEDURES AUDIT PURSUANT TO ABX1 26 OF THE FORMER REDEVELOPMENT AGENCY OF THE CITY OF COVINA

California Health and Safety Code (HSC) Section 34182 requires each county Auditor-Controller (A-C) to conduct, or cause to be conducted, an agreed-upon procedures (AUP) audit of each former redevelopment agency (RDA or Agency) in their respective county by July 1, 2012. On June 27, 2012, State Assembly Bill 1484 (AB 1484) extended the July 1 deadline to October 1, 2012. The audits are to establish each RDA's assets and liabilities; to document and determine each agency's pass-through payment obligations to other taxing entities; and to determine and document the amount and terms of any indebtedness incurred by the former RDA.

We have completed the AUP engagement of the former RDA of the City of Covina, the results of which are attached. The procedures performed were agreed upon by the California State Controller's Office, California Department of Finance (Finance), and Los Angeles County (LAC) A-C. The initial Recognized Obligation Payment Schedule (ROPS) was prepared by, and is the responsibility of, the RDA's Successor Agency's management. Our responsibility was to apply the AUP.

Some of the AUP required legal determinations of whether the obligations were properly authorized, complied with applicable laws and regulations, and were binding on the Agency. We have utilized the Office of the County Counsel to provide the legal determinations required by the AUP. The results of County Counsel's legal analysis are presented in Attachment E.

Except for those obligations listed as "questionable" or "unenforceable", the obligations we reviewed are, to the best of our knowledge, allowable pursuant to the HSC prior to the passage of AB 1484. Questionable and unenforceable obligations identified during

this engagement are summarized in Exhibit 1. Supporting documentation related to terms and amounts for each obligation reviewed during this engagement are available for review upon request.

The AUP were completed by Vavrinek, Trine, Day & Co., LLP, an independent Certified Public Accounting (CPA) firm, and LAC A-C staff. The attached documents constitute our report on the AUP and include a summary of the review of a sample of obligations from the Agency's ROPS (Exhibit 1); the AUP (Attachment A); the results of procedures performed by the independent CPA firm (Attachments B and C); and the results of procedures performed by A-C staff (Attachment D). We have also attached an analysis prepared by our County Counsel (Attachment E) for those ROPS items that required additional review; and a copy of the Finance ROPS review and final approval letters (Attachment F). In addition, at the completion of this AUP audit, the Agency provided a response (Attachment G) to the final report.

This report is intended solely for the information and use of the LAC A-C, the Successor Agency, the Successor Agency Oversight Board, and applicable State agencies, and is not intended to be, and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

If you have any questions regarding these reports, please contact the RDA Audit Manager at RDAaudits@auditor.lacounty.gov.

Very truly yours,

Wendy L. Watanabe
Auditor-Controller

WLW:JET:JLS:SJL

Attachments

c: Ana J. Matosantos, Director, California Department of Finance
Successor Agency Oversight Board
Debbie Pacheco, Senior Management Analyst, Successor Agency of the Former RDA for the City of Covina

Review of a Sample of Obligations from the Recognized Obligation Payment Schedule for the Successor Agency of the City of Covina RDA

State Department of Finance – Approval Letters

The original Recognized Obligation Payment Schedule (ROPS) submitted by the successor agency of the City of Covina RDA did not disclose the amount for total outstanding obligations and as such, the final ROPS approved by the State Department of Finance (Finance) was for the six month period. Finance determined that for the period July 1 to December 31, 2012 the items below are not enforceable obligations:

(Jan-June 2012)

Project Name/ Debt Obligation	Description	Outstanding Debt or Obligation for six month period
Heritage Plaza- MG Enterprises	Park Construction	$754,712
Neighborhood Preservation Services	Neighborhood Preservation Employee Costs	33,457
Hospital Project	Citrus Valley Health Partners Intercommunity Campus Project Area 1	Not disclosed
Redevelopment Programs	Programs, capital project consultants, marketing, economic development for elimination of blight	48,478
Housing Set Aside Deferral 1995	Repayment for housing fund	44,000
Administrative Costs	Administrative cost claimed exceeds allowance by $28,370.	28,370
Low-Mod Housing Program	Low/mod programs, admin, consultant, employees, etc.	80,075
	Total	$989,092

(July- Dec 2012)

Project Name/ Debt Obligation	Description	Outstanding Debt or Obligation for six month period
Administrative Costs	administrative cost claimed exceeds allowance by $22,000	$22,000
	Total	$22,000

Questionable Obligations

The agreed-upon procedures performed by the independent audit firm and the Auditor-Controller determined that the sample items for period January to June 2012 are questionable obligations:

Project Name/ Debt Obligation	Description	Total Outstanding Debt or Obligation
Badillo Heights	Litigation - Settlement	$15,000
Consulting & Legal Services	Legal and consulting for oversight and wind-down	200,000
Investment sales	loss on liquidation of investments	50,000
Housing Set Aside Deferral 1995	Repayment for housing fund	44,000
SERAF loan from Housing 2010	Repayment for housing fund	2,540,091
Maintenance of Agency owned property	Maintain assets under AB1X 26	10,000
Rental Covenants	Monitor affordable housing compliance	6,500
	Total	$2,865,591

Unenforceable Obligations

The legal analysis performed by our County Counsel identified $27,715,000 in unenforceable obligations that were subsequently removed from the final approved (ROPS).

June 2012 Disbursement to Successor Agency

The total obligations approved for the six-month period from July 1 to December 31, 2012 by Finance is **$3,763,667.50**. Based on the available RDA funds, less pass-through payments paid directly by the A-C and the administrative fees, the A-C remitted **$3,012,797.19** for the six-month period from July 1 to December 31, 2012 to the Successor Agency, City of Covina on June 1, 2012.

Attachment A

County of Los Angeles

Independent Accountants' Report on Applying Agreed-Upon Procedures pursuant to ABx1 26 (Redevelopment Dissolution Bill)

For the Redevelopment Agency of the City of Covina

May 4, 2012

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Wendy L. Watanabe
Los Angeles County Auditor-Controller
500 West Temple Street, Suite 525
Los Angeles, CA 90012

We have performed the Agreed-Upon Procedures enumerated in the Auditor-Controller's statement of work, Attachment A, which were agreed to by the California State Controller's Office, Department of Finance, and the Los Angeles County Auditor-Controller, solely to assist you in ensuring that the dissolved redevelopment agency of the City of Covina, California is complying with its statutory requirements with respect to ABx1 26. Management of the successor agency is responsible for the accounting records pertaining to statutory compliance. This Agreed-Upon Procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The scope of this engagement was limited to performing the Agreed-Upon Procedures (AUP) at your direction as set forth in Attachment A.

Attachment B and Attachment C identify the findings noted as a result of the procedures performed.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion as to the appropriateness of the results summarized in Attachment B and Attachment C. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the County, State Controller's Office, and Department of Finance, and is not intended to be, and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
May 4, 2012

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ATTACHMENT A

The procedures performed were as follows:

A. Redevelopment Agency Dissolution and Restrictions

For each former RDA reviewed, perform the following:

1. Based on the EOPS for the period of August 1 through December 31, 2011, provided by the Auditor-Controller:

    a. For all obligations listed, identify the payee, a description of the nature of the work/service agreed to, and the amount of payment(s) made by month through December 31, 2011, and compare it to the legal document that forms the basis for the obligation. Note any discrepancies. Any obligations for which the successor agency cannot produce a supporting legal document, or which the supporting legal document does not support the obligation, should be noted as "questionable" in the AUP report.
    b. Identify all obligations listed on the EOPS that were entered into after June 29, 2011.

2. Based on the EOPS for the period January 1 through June 30, 2012, provided by the Auditor-Controller:

    a. Identify and document the project name and project area associated with each obligation.
    b. For each obligation, identify the payee, a description of the nature of the work/service agreed to, and the amount of payments to be made by month through June 30, 2012, and compare it to the legal document that forms the basis for the obligation. Note any discrepancies. Any obligations for which the successor agency cannot produce a supporting legal document, or for which the supporting legal document does not support the obligation, should be noted as "questionable" in the AUP report.
    c. Identify all obligations listed on the EOPS that were entered into after June 29, 2011.

3. With regard to the Low and Moderate Income Housing Fund (L&M Fund) of the former redevelopment agency:

    a. Inquire and document whether the former redevelopment agency transferred the L&M Fund to the successor agency.
    b. If the L&M Fund was transferred, document the date of transfer and summarize the manner in which the transfer was performed. (e.g., the accounting fund, X, and bank account, Y, were re-titled in the name of the successor agency)
    c. Document the total value of the L&M Fund transferred to the redevelopment agency's successor agency and the date of transfer.

4. With regard to the housing activities and assets of the former redevelopment agency:

    a. Inquire and document whether the housing activities and/or assets were transferred to the successor agency.
    b. If housing activities were transferred, obtain the underlying documentation authorizing the transfer. (e.g., resolution of the city or county assuming the housing activity from the redevelopment agency)
    c. If the transfer included assets, obtain a list of the assets and their reported value from the successor agency.

B. Successor Agency

2. With regard to the administrative responsibilities and assets of the former redevelopment agency:

    a. Inquire and document whether the former redevelopment agency transferred its administrative responsibilities to the successor agency (e.g., documents and records, etc.), and the date of the transfer.
    b. Inquire whether the former redevelopment agency transferred assets other than real property to the successor agency. (e.g., cash and investments)
    c. If assets other than real property were transferred, document the transfer date, and summarize the manner in which the transfer(s) were performed (e.g., accounting fund, X, and bank account, Y, were renamed in the name of the successor agency), and the total value of the assets transferred.
    d. Inquire if real property was transferred from the former redevelopment agency to the successor agency.
    e. If real property was transferred, examine and document evidence of the transfer(s), such as re-recorded titles filed at the Registrar-Recorder/County Clerk.

3. Determine if the successor agency has established the Redevelopment Obligation Retirement Fund(s) in its accounting system.

4. Obtain audited financial statements of the redevelopment agency for the fiscal years ended June 30, 2010 and June 30, 2011. Prepare a schedule listing the name and balance of each asset shown in the government-wide financial statements for each of the two years, as of June 30th (or fiscal year end, if different). Obtain unaudited asset balances as of January 31, 2012, from the successor agency which are comparable to the 2010 and 2011, amounts and include those on the schedule (marked as "unaudited"). If the successor agency is unable to provide comparable balances, indicate the reason and leave the 2012 column blank. Include the comparative asset listing as an attachment to the AUP report.

C. Draft Recognized Obligation Payment Schedules (ROPS)

5. Obtain a list of all payments from the successor agency's general ledger for the period February 1 through May 31, 2012. Trace and agree payments made by the successor agency to a corresponding obligation on the draft ROPS provided by the Auditor-Controller. Note any discrepancies. It is anticipated that auditors will review all payments for smaller former RDAs and review a sample of payments for larger former RDAs. The specific number of payments to be examined for each RDA will be determined during the review in consultation with the Auditor-Controller.

6. Compare each enforceable obligation from the draft ROPS provided by the Auditor-Controller to the legal document that forms the basis for the obligation (e.g., contract, bond indenture, etc.). Note any discrepancies. Any obligations for which the successor agency cannot produce a supporting legal document, or for which the supporting legal document does not support the obligation, should be noted as "questionable" in the AUP report.

E. Other Procedures

5. Issue draft Agreed-Upon Procedures report to the Auditor-Controller by June 15, 2012.

6. Issue final Agreed-Upon Procedures report to the Auditor-Controller by June 29, 2012.

The findings of the procedures performed as described in Attachment A are as follows:

A. Redevelopment Agency Dissolution and Restrictions

A1.a For obligations selected by the County's Auditor-Controller for testing on the Enforceable Obligation Payment Schedule (EOPS) for the period August 1 through December 31, 2011, we identified the payee, description of the nature of the work/service agreed to, and the amount of payments made by month through December 31, 2011, and compared it to the legal document that forms the basis for the obligation.

- *Questionable*: The following obligation listed on the EOPS is questionable. The executed legal document between the RDA and the City of Covina that formed the basis for the obligation was not created within two years of the formation of the RDA. We also noted monthly payments schedules were based on estimates and did not agree with the agreement provided.

Information extracted from EOPS (August - December 2011)			Payments by month				
Project Name / Debt Obligation	**Payee**	**Description**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**
CRA	City of Covina	Loan for operation expenses of agency	$200,417	$200,417	$200,417	$200,417	$200,417

- *Questionable*: The following obligations listed on the EOPS are questionable. The obligations related to the ABx1 27 payment schedule provide by the Department of Finance.

Information extracted from EOPS (August - December 2011)			Payments by month				
Project Name / Debt Obligation	**Payee**	**Description**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**
ABx1 27 Payment	Los Angeles County	"Voluntary" payment initial	-	-	-	-	-
ABx1 27 Payment	Los Angeles County	"Voluntary" payment ongoing - estimated to be $668,301 based on initial payment amount	-	-	-	-	-

- *Questionable*: The following obligation listed on the EOPS is questionable. The obligation was based on the RDA budget for administrative activities for the fiscal year ending June 30, 2012. We noted monthly payments on the EOPS of $48,478 did not agree to monthly payments on the RDA budget of administrative activities for $48,525 for the fiscal year ending June 30, 2012.

Information extracted from EOPS (August - December 2011)			Payments by month				
Project Name / Debt Obligation	**Payee**	**Description**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**
Redevelopment Programs	Various	Programs, capital projects, consultants, marketing, economic development for elimination of blight for PA1 & PA2	$ 48,478	$ 48,478	$ 48,478	$ 48,478	$ 48,478

ATTACHMENT B

A1.a *Continued*

- *Questionable*: The following obligations listed on the EOPS are questionable. The executed legal document that formed the basis for the obligation supported the payee, description and payment schedules, however, the legal agreements were noted to be entered into after June 29, 2011.

Information extracted from EOPS (August - December 2011)			Payments by month				
Project Name / Debt Obligation	**Payee**	**Description**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**
Badillo Heights	Steve Eide	Litigation - return of deposit	-	$ 25,000	-	-	-
Badillo Heights	Steve Eide	Litigation - settlement	-	15,000	-	-	-

- *Questionable*: The executed legal document that formed the basis for the obligation agreed to the payee and description. However, the obligation amount and monthly payments did not agree to the support provided. The legal document stated an obligation amount not to exceed $330,000, but the EOPS stated an obligation amount of $106,000.

Information extracted from EOPS (August - December 2011)				Payments by month				
Project Name / Debt Obligation	**Payee**	**Description**	**Total Outstanding Obligation**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**
YWCA	YWCA Wings	Transitional housing	$ 106,000	-	-	-	-	-

A1.b Covina Successor Agency identified that the "Badillo Heights Settlement" obligation listed in the EOPS for the period August 1 through December 31, 2011, was entered into after June 29, 2011.

A2.a Based on the EOPS for the period January 1 through June 30, 2012, provided by the Auditor-Controller, there were no additional obligations selected to test. Obligations were tested with the ROPS.

A2.b Based on the EOPS for the period January 1 through June 30, 2012, provided by the Auditor-Controller, there were no additional obligations selected to test. Obligations were tested with the ROPS.

A2.c Covina Successor Agency identified that the "Badillo Heights Settlement" and "Heritage Plaza Special Inspection Agreement" obligations listed in the EOPS for the period January 1 through June 30, 2012, were entered into after June 29, 2011.

A3.a With regard to the Low and Moderate Income Housing Fund (L&M Fund) of the former redevelopment agency (RDA), the former RDA transferred the L&M Fund to the Covina Successor Agency.

A3.b The L&M fund was transferred to the Covina Successor Agency on January 31, 2012. The bank account was re-titled as Successor Agency to Covina Redevelopment Agency on January 31, 2012, and funded on February 2, 2012. All of the former RDA's fund balances including the L&M fund were transferred to the Covina Successor Agency funds S051, S052, S053, and S055.

A3.c The total value of assets of the L&M fund transferred to Covina Successor Agency was $3,514,340 on January 31, 2012.

A4.a With regard to the housing activities and assets of the former RDA, the housing activities were transferred to the Covina Housing Authority and the assets were transferred to Covina Successor Agency.

A4.b We obtained Resolution No. 12-7045 dated January 30, 2012, and noted the Resolution authorized the housing activities be transferred to Covina Housing Authority.

A4.c The City of Covina has indicated that the following assets were transferred to the Covina Successor Agency; Cash ($3,514,340) and ($2,813,209 bond proceeds), and Due from Other Funds ($4,699).

B. Successor Agency

B2.a With regard to the administrative responsibilities and assets of the former RDA, the former RDA asserted that it transferred its administrative responsibilities to Covina Successor Agency including documents and records on January 31, 2012.

B2.b The former RDA asserts that assets other than real property were transferred to Covina Successor Agency.

B2.c The following assets were transferred to the Covina Successor Agency on January 31, 2012; Cash ($10,850,091) and ($7,358,522 bond proceeds), Accounts Receivable ($450,404), Land Held for Resale ($8,544,607) and Due from Other Funds ($255,395). The bank account was re-titled as Successor Agency to Covina Redevelopment Agency on January 31, 2012, and funded on February 2, 2012. All of the former RDA's fund balances were transferred to the Covina Successor Agency Funds S301, S302, S511, S521, S531, S513, S514, and S522.

B2.d Real property was transferred from the former RDA to Covina Successor Agency. Covina Successor Agency asserts the real property reported on the former RDA's financial statements are held in the name of the former RDA.

B2.e Real property was transferred from the former RDA to the Covina Successor Agency. Covina Successor Agency asserts the real property reported on the former RDA's financial statements are held in the name of the former RDA. The successor agency has not requested title change documents from the County as of May 4, 2012, the last day of fieldwork.

B3 Covina Successor Agency has established the Redevelopment Obligation Retirement Fund in the accounting system as Fund S300.

B4 See comparative asset balances derived from the former RDA's audited government-wide financial statements for the fiscal year ended June 30, 2010 and 2011, and the unaudited balances as of January 31, 2012, at Attachment C.

C. Draft Recognized Obligation Payment Schedule (ROPS)

C5 For all payments from the successor agency's general ledger for the period February 1 through May 4, 2012, the last day of fieldwork, we traced and agreed the payments to a corresponding obligation on the draft ROPS provided by the Auditor-Controller.

➢ *Questionable*: The following payments per Covina Successor Agency's general ledger did not agree to the draft ROPS' monthly estimated payments.

ROPS Line #	Payee	Description	March Actual Payment	March ROPS	April Actual Payment	April ROPS
6	US Bank	Property purchased for redevelopment	$ 12,061	$ 12,160	$ 12,061	$ 12,160
7	Al-Sal Oil	Property lease	14,667	7,333	11,539	7,333
8	RJS Financial	Property lease	99,680	49,840	-	49,840
10	Covina Gardens KBS L.P.	Low-mod housing renovations	312,586	500,000	-	500,000
11	Habitat for Humanity	Grant for building of affordable home	8,954	6,597	-	-
12	MG Enterprises	Park construction	91,307	-	138,053	-
15	Willdan	Special inspection	1,789	-	-	-
17	Bank of New York	Fiscal agent fees to maintain bond funds	6,577	-	-	-
18				-		-
19	Covina Valley USD	Equipment removal and site preparation	50,000	-	-	-
21	CCLA & others	Low-moderate transitional housing	756	4,354	3,184	4,354
22	City of Covina/Covina Housing Authority	Low-mod programs, admin, consultant, employees, etc.	742	40,038	-	40,038
24	City of Covina	Redevelopment employee costs	-	44,343	1,147	44,343
25	City of Covina	Administration, overhead, etc	416	88,283	212	88,283
26	Various	Programs,capital proj, consultants, marketing, economic development for elimination of blight	5,333	48,478	5,310	48,478
27	City of Covina/Covina Housing Authority	Low-moderate housing rental subsidy	6	-	-	-

The City of Covina noted that the above expenses are on a cash basis and may not agree with the ROPS as the ROPS was prepared using the accrual basis.

ATTACHMENT B

C6 For obligations selected by the County's Auditor-Controller for testing on the draft ROPS for the period January 1 through June 30, 2012, we identified the payee, description of the nature of the work/service agreed to, and the amount of payments made by month through June 30, 2012, and compared it to the legal document that forms the basis for the obligation.

- *Questionable*: The following obligations listed on the draft ROPS for the period January 1 through June 30, 2012, are questionable. Obligations were supported by agreements between the City and the RDA that were not entered into within 2 years of the formation of the RDA. Furthermore, no support was provided by the Covina Successor Agency for monthly payments reported on the ROPS.

Information extracted from ROPS (January - June 2012)

Project Name / Debt Obligation	Payee	Description	Payments by month					
			Jan	Feb	Mar	Apr	May	June
Rental Subsidy Program	City of Covina/Covina Housing Authority	Low-Moderate housing rental subsidy	-	-	-	-	-	-
Hospital Project	City of Covina	Citrus Valley Health Partners Intercommunity Campus Project Area 1	-	-	-	-	-	-
DPAP	City of Covina/Covina Housing Authority	Down payment assistance program	-	-	-	-	-	-
135 E Badillo (old BofA)	City of Covina/Covina Housing Authority	Low-moderate housing	-	-	-	-	-	-
Rehabilitation and Preservation Programs	City of Covina/Covina Housing Authority	Affordable housing programs	-	-	-	-	-	-
Downtown Site	City of Covina/Covina Housing Authority	New Housing Initiatives-affordable housing	-	-	-	-	-	-
Scattered Multi-family	City of Covina/Covina Housing Authority	Affordable housing Rehab Sites	-	-	-	-	-	-
Scattered Single-family	City of Covina/Covina Housing Authority	Affordable housing sites	-	-	-	-	-	-
Land Acquisition	City of Covina	Elimination of blight	-	-	-	-	-	-
Parking Lot Acquisition and Construction	City of Covina	Elimination of blight & creation of LMH	-	-	-	-	-	-
Corridor Revitalization & Streetscape Improvements	City of Covina	Elimination of blight	-	-	-	-	-	-
Corners of Citrus & Rowland	City of Covina	Elimination of blight Project Area 1	-	-	-	-	-	-
Radisson Freeway Sign	City of Covina	Elimination of blight Project Area 1	-	-	-	-	-	-
South Citrus Auto Corridor	City of Covina	Elimination of blight Project Area 1	-	-	-	-	-	-
Public Infrastructure & Facilities	City of Covina	Elimination of blight Project Area 2		-	-	-	-	-
Potential Mixed use Projects	City of Covina/Covina Housing Authority	Elimination of blight/provide affordable housing, Project Area 2	-	-	-	-	-	-
Public Infrastructure & Facilities	City of Covina	Elimination of blight Project Area 2	-	-	-	-	-	-
Downtown Revitalization	City of Covina	Elimination of blight Project Area 2	-	-	-	-	-	-
147-151 E College St	Housing fund	Repayment to LMH	-	-	-	-	-	-

C6 *Continued*

- *Questionable*: The following obligations listed on the draft ROPS for the period January 1 through June 30, 2012, are questionable. The obligations agreed to the executed legal documentation supporting the payee, project name, and description of the service. However, the monthly payment amounts reported on the draft ROPS were estimates contingent on contractor services. The contract did not explicitly include a monetary monthly obligation.

Information extracted from ROPS (January - June 2012)			Payments by month					
Project Name / Debt Obligation	Payee	Description	Jan	Feb	Mar	Apr	May	June
Shoppers Lane	Gentry Brothers, Inc	Public Improvements	$ 53,284	-	-	-	-	-
200 W Rowland	Covina Gardens KBS L.P.	Low-Mod housing renovations	458,494	$ 500,000	$ 500,000	$ 500,000	$ 500,000	$ 500,000
Habitat - 436 E Cypress	Habitat for Humanity	Grant for building of affordable home	6,597	6,957	6,597	-	-	-
Heritage Plaza	MG Enterprises	Park Construction	377,356	377,356	-	-	-	-
Fiscal Agent Fees	Bank of New York	Fiscal agent fees to maintain bond funds	13,500	-	-	-	-	-

- *Questionable*: The following obligations listed on the draft ROPS for the period January 1 through June 30, 2012, are questionable. The obligations agreed to the executed legal documentation supporting the payee, project name, description of the service and obligation amounts. However, the contracts were noted to be entered into after June 29, 2011.

Information extracted from ROPS (January - June 2012)			Payments by month					
Project Name / Debt Obligation	Payee	Description	Jan	Feb	Mar	Apr	May	June
Heritage Plaza	Willdan	Special Inspection	$ 30,000	-	-	-	-	-
Badillo Heights	Steve Eide	Litigation - settlement	15,000	-	-	-	-	-

C6 *Continued*

- *Questionable*: The following obligations listed on the draft ROPS for the period January 1 through June 30, 2012, are questionable. Covina Successor Agency did not provide legal documentation supporting the payee, project name, description of the service, and obligation amounts.

Information extracted from ROPS (January - June 2012)			Payments by month					
Project Name / Debt Obligation	**Payee**	**Description**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**
Consulting & Legal Services	BB&K, Robert Neiuber, Nuala Gasser, Lisa Brancheau, Cyndie Petersen, HDL, Urban Futures, RSG	Legal and consulting for oversight and windown	-	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000
Investment sales	Wells Fargo, H.Beck, Inc., Morgan Stanley Smith Barney	loss on liquidation of investments	-	50,000	-	-	-	-
SERAF loan from	Housing Fund	Repayment for housing fund	-	-	-	-	-	-
Maintenance of Agency owned property	Andy Gump/United fencing & various others	Maintain assets under ABx1 26	-	-	-	9,300	-	10,000
Rental Covenants	ULI/Covina Housing Authority/consultants	Monitor affordable housing compliance	-	-	-	-	-	6,500
Housing Set Aside	Housing Fund	Repayment for housing fund	-	-	-	-	-	44,000

- *Questionable*: The following obligations listed on the draft ROPS for the period January 1 through June 30, 2012, are questionable. The obligations agreed to the executed legal documentation supporting the payee, project name, and description of the service. However, it was noted that the monthly payments on the draft ROPS were estimated based on budget and contract amounts. The monthly estimates were allocated equally by month over budget period/ contract term.

Information extracted from ROPS (January - June 2012)			Payments by month					
Project Name / Debt Obligation	**Payee**	**Description**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**
McGill House	CCLA & others	Low-moderate Transitional housing	$ 4,354	$ 4,354	$ 4,354	$ 4,354	$ 4,354	$ 4,354
Heritage Plaza	Willdan	Special Inspection	30,000	-	-	-	-	-
Badillo Heights	Steve Eide	Litigation - settlement	15,000	-	-	-	-	-
Land Exchange Agreement	Covina Valley USD	Equipment removal and site preparation	-	-	-	50,000	-	-
Low-Mod Housing Program	City of Covina/Covina Housing Authority	low/mod programs, admin, consultant, employees, etc.	40,038	40,038	40,038	40,038	40,038	40,038
Neighborhood Preservation Services	City of Covina	Neighborhood Preservation Employee Costs	16,728	16,728	16,728	16,728	16,728	16,728
Redevelopment Programs	Various	Programs,capital proj,consultants,marketing, economic development for elimination of blight	48,478	48,478	48,478	48,478	48,478	48,478

C6 *Continued*

- *Questionable*: The following obligations listed on the draft ROPS for the period January 1 through June 30, 2012, are questionable. We agreed the obligations to the executed legal documentation supporting the payee, project name, and description of the service. However, the contract terminated early due to project completion, as such, no obligation payments should be noted from January 1 to June 30, 2012.

Information extracted from ROPS (January - June 2012)

Project Name / Debt Obligation	Payee	Description	Payments by month: Jan	Feb	Mar	Apr	May	June
Heritage Plaza	Willdan	Project management	$ 8,988	-	-	-	-	-
Heritage Plaza	Willdan	Project design	-	-	-	-	-	-

- *Questionable*: The following obligation listed on the draft ROPS for the period January 1 through June 30, 2012, is questionable. We agreed the obligation to the executed legal documentation supporting the payee, project name, and description of the service. Monthly payment amounts on the draft ROPS varied from the payment schedule provided by the Covina Successor Agency due to changes of interest rates.

Information extracted from ROPS (January - June 2012)

Project Name / Debt Obligation	Payee	Description	Payments by month: Jan	Feb	Mar	Apr	May	June
Note Payable 626 S Citrus Avenue	US Bank	Property purchased for redevelopment	$12,160	$12,160	$12,160	$12,160	$12,160	$ 158,083

- *Questionable*: The following obligation listed on the draft ROPS for the period January 1 through June 30, 2012, is questionable. We agreed the obligation to the executed legal documentation supporting the payee, project name, and description of the service. However, the monthly payment amounts reported for January 2012 and June 2012, did not agree to the monthly payments outlined in the lease agreement.

Information extracted from ROPS (January - June 2012)

Project Name / Debt Obligation	Payee	Description	Payments by month: Jan	Feb	Mar	Apr	May	June
Lease Payable RJS Financial	RJS Financial	Property lease	$ 249,200	$ 49,840	$ 49,840	$ 49,840	$ 49,840	$ 348,880

- *Questionable*: The following obligation listed on the draft ROPS for the period January 1 through June 30, 2012, is questionable. We agreed the obligation to the executed legal documentation supporting the payee, project name, and description of the service. However, the agreement did not identify the month the payment must be made.

Information extracted from ROPS (January - June 2012)

Project Name / Debt Obligation	Payee	Description	Payments by month: Jan	Feb	Mar	Apr	May	June
Vocational Facility	Covina Valley USD	Build new educational facility	-	-	-	-	-	$ 1,300,000

The following table presents asset balances derived from the former RDA's audited government-wide financial statements for the years ended June 30, 2010 and 2011, and the unaudited asset balances as of January 31, 2012.

	(Year Ended)		
Assets	**6/30/2010**	**6/30/2011**	(unaudited) **1/31/2012**
Cash and investments	$ 27,504,266	$ 28,186,689	$ 24,536,161
Restricted cash and investments at fiscal agent	1,418,394	1,418,394	1,418,394
Receivables	3,967,188	1,043,495	180,226
Deferred charges	1,349,865	1,295,675	-
Due from City of Covina	733,513	478,696	261,725
Loans and notes receivable	-	2,765,770	2,747,725
Land and improvements held for resale	18,294,244	8,747,381	8,544,608
Capital assets, not depreciated	2,748,561	613,211	1,843,794
Capital assets, depreciation (net of accumulated depreciation)	8,248,946	8,172,807	8,309,942
Total Assets	**$ 64,264,977**	**$ 52,722,118**	**$ 47,842,575**

The Covina Successor Agency noted that the above amounts include bond funds. Specifically, the January 31, 2012, cash and investments include $10,131,731 of bond proceeds that are not available for future distribution to other taxing entities.

Successor Agency – City of Covina

The results of those procedures performed by the Auditor-Controller (A-C) are as follows:

Procedure B.1.a

Inspect evidence that the successor agency was established by February 1, 2012.

Results

No exceptions were noted as a result of performing this procedure.

Procedure B.1.b

Inspect evidence that the oversight board members were appointed and their names were submitted to the Department of Finance (Finance) by May 1, 2012.

Results

No exceptions were noted as a result of performing this procedure.

Procedure C.1

Obtain a copy of the draft Recognized Obligation Payment Schedule (ROPS) from the successor agency.

Results

No exceptions were noted as a result of performing this procedure.

Procedure C.2

Inspect evidence that the initial draft ROPS was prepared by March 1, 2012 by the successor agency.

Results

No exceptions were noted as a result of performing this procedure.

Procedure C.3

Determine if the certified draft ROPS was approved by the oversight board. If the certified draft ROPS was not approved by the date of this report, we noted it as a finding.

Results

No exceptions were noted as a result of performing this procedure.

Procedure C.4

Determine if the draft ROPS was submitted to the County A-C, State Controller, and Finance.

Results

No exceptions were noted as a result of performing this procedure.

Procedure E.1

Obtain a copy of pass-through payment agreements from the successor agency.

Results

No exceptions were noted as a result of performing this procedure. The successor agency has provided the A-C with copies of all pass-through agreements.

Procedure E.2

Obtain a list of pass-through obligations from the successor agency as of January 31, 2012, including the recipient and terms of each pass-through obligation.

Results

No exceptions were noted as a result of performing this procedure.

Procedure E.3

Obtain a list of pass-through payments made for the period July 1, 2011 to January 31, 2012 and verified payments.

Results

No exceptions were noted as a result of performing this procedure. The Covina Successor Agency provided the A-C a list of pass-through obligations for the period July 1, 2011 to January 31, 2012 along with verification of payment. In addition, the A-C distributed the County Entities' share of statutory and contractual pass-through payments for the period November 1 to December 31, 2011, and invoiced the successor agency for the month of January. The amounts paid and owed are as follows:

Pass-through Taxing Entity	Pass-through Amount Paid	Pass-through Amount Owed
County	$442,364.13	$11,905.62
Other County Entities	27,390.67	0
City	63,880.37	0
Special Districts	7,066.31	0
Schools	21,129.19	0
TOTAL	**$561,830.67**	**$11,905.62**

Attachment E

COUNTY OF LOS ANGELES
OFFICE OF THE COUNTY COUNSEL

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LOS ANGELES, CALIFORNIA 90012-2713

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JOHN F. KRATTLI
County Counsel

August 20, 2012

TO: WENDY WATANABE
Auditor-Controller

FROM: JUDY W. WHITEHURST
Assistant County Counsel
Government Services Division

RE: **Legal Analysis of Covina ROPS Items**

Pursuant to your request, our office performed a legal analysis to supplement the agreed-upon procedures audit you conducted pursuant to Health & Safety Code section 34182(a). Specifically, you requested that we review the five obligations identified in the "Findings" section below to determine whether each is an "enforceable obligation" pursuant to ABx1 26 (Chapter 5, Statutes 2011) as amended by AB 1484 (Chapter 26, Statutes 2012). We have consulted with outside counsel and come to the conclusions discussed below.

FINDINGS

1. The Supplemental Educational Revenue Augmentation Fund ("SERAF") Loan is likely an enforceable obligation. This item was identified by the Auditor-Controller as Item #2 on the January through June 2012 Recognized Obligation Payment Schedule ("ROPS").

2. Repayment of the Housing Set-Aside Deferral is likely an enforceable obligation. This item was identified by the Auditor-Controller as Item #1 on the January through June 2012 ROPS.

3. The January 25, 2011 Cooperation Agreement between the Covina Redevelopment Agency ("Agency") and the City of Covina ("City") and reported as having $20,000,000 outstanding is not an enforceable obligation. This item was identified by the Auditor-Controller as Items #35 through 37 on the January through June 2012 ROPS.

4. The January 25, 2011 Cooperation Agreement between the Covina Redevelopment Agency ("Agency") and the City of Covina ("City") and reported as having $7,000,000 outstanding is not an enforceable obligation. This item was identified by the Auditor-Controller as Items #38 through 44 on the January through June 2012 ROPS.

5. Repayment to the Low and Moderate Income Housing Fund ("LMIHF") related to 147-151 E. College Street is not an enforceable obligation based on the documentation provided. This item was identified by the Auditor-Controller as Item #45 on the January through June 2012 ROPS.

DISCUSSION

A. SERAF Loan from LMIHF 2010

It appears that on February 16, 2010,[1] the Agency adopted a resolution approving a loan from the LMIHF to pay obligations for the Supplemental Educational Revenue Augmentation Fund (SERAF) ("Loan"). According to the January 25, 2011 Covina Redevelopment Agency Agenda Item Commentary Item No.: NB3 ("Agency Agenda"), the original terms of the Loan call for a three-year term at zero percent interest, with payments due in May of 2010 and 2011. It is unclear whether any payment was made in May of 2010.

On January 25, 2011, the Agency Agenda indicates that the Agency adopted Resolution 11-652, which approved the Agency's agreement for early repayment of the Loan in full ("Agreement"). The total amount approved by the Agency to be paid to the LMIHF is $2,540,091. As with the original resolutions and loan agreements, we have not located a duly executed resolution adopting the Agreement. For purposes of this memorandum, we will assume the Agreement was properly approved by the Agency.

ABx1 26 provides for the dissolution and winding down of all Redevelopment Agencies in the State of California. *See, e.g.*, Health & Safety Code sections 34170-34191.[2] As part of the wind down process, ABx1 26 sets forth which redevelopment agency contracts remain enforceable and subject to

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[1] We base this information on the January 25, 2011 Covina Redevelopment Agency Agenda Item Commentary Item No: NB3. We were not provided with the adopting resolution and have not been able to locate it for independent verification.

[2] All further statutory references are to the Health & Safety Code.

payment by the redevelopment agency successor agencies. Section 34171. Generally, an "enforceable obligation" of a redevelopment agency means any of the following: bonds, loans of moneys, federally required payments, judgments/settlements, any legally binding contract, contracts for the continued administration of the redevelopment agency, and payments owing to the LMIHF of a redevelopment agency. *See* section 34171(d)(1)(A)-(G).

The Legislature recently enacted AB 1484 in the current session, which, among other things, modified section 34171(d)(1)(G) to require that any repayments to an LMIHF be made to a specific asset fund created by subdivision (d) of section 34176. Section 34176(d), in turn, implements strict spending restrictions on the funds in that they can only be used "in accordance with applicable housing-related provisions." These provisions were not in place prior to AB 1484. AB 1484 should not alter the analysis of this Agreement.

Here, the nature of the Agreement calls for an analysis of two different subdivisions of section 34171(d) -- subd. (G), dealing with payments owing to the LMIHF, and subd. (E) dealing with legally binding contracts.

Section 34171(d)(1)(G)

The Resolution documentation provided characterizes this transaction as a "loan," despite the absence of multiple parties and any interest obligation. The underlying SERAF obligation is derived from the state's passage of Assembly Bill 26 4X in 2009 (AB 26 4X is unrelated to ABx1 26, at issue in this memo).

In simplest terms, the Legislature directed the transfer to a Supplemental Educational Revenue Augmentation Fund (SERAF) of a calculated amount of property tax revenues that otherwise would go to redevelopment agencies, to be made available to schools to fund education. At the same time, an identical amount of dollars available to schools was taken and placed into a Supplemental Revenue Augmentation Fund (SRAF), to be used to reimburse the State for services the State provided within the County. In return, redevelopment agencies were given one-year extensions of their terms, so as to enjoy another year of tax increment financing.

Assuming the Agency Agenda is correct by stating that the Agency took a loan from the LMIHF, section 34171(d)(1)(G) provides for repayment of:

> Amounts borrowed from or payments owing to the Low and Moderate Income Housing Fund of a redevelopment agency, which had been deferred as of the effective date of the act adding this part; provided, however, that the Repayment schedule is approved by the oversight board.

There is no statutory limitation as to the identity of the borrower; further, other portions of the statutory scheme reflect a legislative intent to protecting housing funds. Given this, repayments owing (either of amounts already lent or of additional disbursements) are likely to be enforceable obligations under section 34171(d)(1)(G), upon approval of the repayment schedule by the oversight board. In this instance, payments due under the Agreement (and under the original loan) would likely be considered "deferred payments."

Section 34171(d)(1)(E)

In addition, the Agreement could separately be enforceable under section 34171(d)(1)(E), which allows for the enforcement of "any legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy." The loan contemplated by the Agreement is in favor of a "third party." The terms of the loan were ostensibly approved by resolution and the duties to be performed by the borrower (the Agency) were detailed in the resolution (*e.g.*. three-year repayment term at zero percent interest).

Still, it should be noted that if the Agency Agenda is correct, the repayment would no longer be early because the original loan and resolution that approved it called for repayment by May 2011. Further, the timing of the Agreement may present a challenge; in that, the Agreement was adopted on January 25, 2011, and the Agency Agenda reflects that the Agreement was made with full knowledge of the pending ABx1 26 legislation. Moreover, there does not seem to be any evidence that the Agency was required to repay the loan early and decided to do so on its own accord (i.e., for no consideration). Even if the Agreement, which is simply a promise to repay the Loan early, was deemed unenforceable, it would not necessarily follow that the underlying Loan is unenforceable. This is especially true in light of the Legislature's stated preference for finding agreements to pay amounts owing to or from the LMIHF to be enforceable obligations.

The Agreement is likely an enforceable obligation as repayment owing to an LMIHF.

B. LMIHF Set-Aside Deferral

In 1976, the Legislature enacted legislation that required redevelopment agencies to set aside twenty percent of the tax increment financing provided to them for the purposes of increasing, improving, and preserving the community's supply of low-and moderate-income housing available at affordable housing cost. *See* section 33334.2(a). The set-aside amount was to be held in a separate LMIHF until used.

Section 33334.6 subsections (d) and (e) allowed redevelopment agencies to deposit less into the LMIHF than the twenty percent set-aside amount if, respectively, (1) the funds not deposited into the LMIHF were used to pay for obligations that existed prior to January 1, 1986 or to pay for an obligation that arose when proceeds of an agreement were used to refinance an agreement that existed prior to January 1, 1986, or (2) the deposit was made before July 1, 1996 and "the agency [found] that the deposit of less than [20% was] necessary in order to provide for the orderly and timely completion of public and private projects, programs, or activities approved by the agency prior to January 1, 1986" ("Permitted Deficit"). In either case, the difference between the amount deposited and the required 20 percent set-aside amount would be considered a "deficit" of the agency, and the agency was required to "adopt a plan to eliminate the deficit in subsequent years." Section 33334.6(g). Section 33334.6(f) required redevelopment agencies to adopt, "prior to September 1, 1986, by resolution, after a noticed hearing, a statement of existing obligations or existing programs, or both" (a "1986 Obligations Resolution") if they intended to take advantage of a Permitted Deficit.

This obligation is listed on the ROPS as "Housing Set Aside Deferral 1995" with the payee being identified as the LMIHF and the description calling it a "repayment for housing fund" and listing the total outstanding debt obligation at $371,458. Documents demonstrating exactly how that figure was calculated were not provided -- e.g., we do not appear to have any documents that are more recent than a 2003 letter that likely relates to this line item.

The only documentation provided to the Auditor-Controller relating to this ROPS item is a March 10, 2003 letter from Michael A. Marquez to Glen Campora (the "2003 Letter") and its attachments. Marquez attached to the 2003 Letter two letters he had previously written to Karen Crosby and Gary Collord: (1) a November 20, 2001 letter (the "November 2001 Letter") to which

are attached "Exhibits A-C"; and (2) an October 29, 2001 letter (the "October 2001 Letter") to which are attached "Attachments 1-14." In the 2003 Letter, Marquez explains to Campora how and why he had calculated the LMIHF deficit at that time to be $651,914. Marquez further indicates that with the $20,152 payment to the LMIHF, that deficit had been reduced to $631,762.

The 2003 Letter does not refer to the deficit identified at that time as a "1995 Housing Set Aside Deferral," but based on Marquez's explanation as to how he reached the $631,762 figure, statements made in Exhibit C to the November 2001 Letter ("Exhibit C"), and calculations provided in Attachment 14 to the October 2001 Letter ("Attachment 14"), one can assume the ROPS item represents the amount remaining on a Permitted Deficit at the time the ROPS was created.

Generally, an "enforceable obligation" of a redevelopment agency means any of the following: bonds, loans of moneys, federally required payments, judgments/settlements, any legally binding contract, contracts for the continued administration of the redevelopment agency, and payments owing to the LMIHF of a redevelopment agency. *See* section 34171(d)(1)(A)-(G).

The ROPS characterizes this item as a "repayment for housing fund" related to a "Housing Set Aside Deferral" that most likely occurred on or before 1995. The back-up documentation provided to date suggests this line item is for repayments under a payment plan that the Agency was required to adopt to pay off a Permitted Deficit. This characterization remains unclear due to the absence of certain documents, such as a 1986 Obligation Resolution, a resolution adopting a Permitted Deficit repayment plan, and any resolutions to defer payments to the LMIHF.

Nevertheless, section 34171(d)(1)(G) provides for repayment as follows:

> Amounts borrowed from or payments owing to the Low and Moderate Income Housing Fund of a redevelopment agency, which had been deferred as of the effective date of the act adding this part; provided, however, that the Repayment schedule is approved by the oversight board.

Other portions of the statutory scheme also reflect a legislative intent to protect housing funds. Even if the item in question is not a Permitted Deficit, a plain reading of its description on the ROPS indicates it likely represents some form of payments owing to the LMIHF.

Thus, although the "enforceability" conclusion could change depending upon further documentation, based upon a careful review of all the documentation provided at this time, this item is likely to be an enforceable obligation under section 34171(d)(1)(G), upon approval of the repayment schedule by the oversight board.

C. January 25, 2011 Cooperation Agreement ($20,000,000)

On January 25, 2011,[3] the City and the Agency entered into a Cooperation Agreement ("Agreement") whereby the City agreed to advance money to the Agency for Project Area One, Project Area Two, and Project Area Two Amended Area (collectively referred to as Project Areas). Under the Agreement, the City agreed to assist the Agency in its efforts to carry out the redevelopment efforts for the Project Areas by providing monetary aid to the Agency for which the Agency committed certain tax increment revenues and bond proceeds to reimburse the City. Specifically, the Agreement provided for City assistance for land acquisition, parking lot acquisition and construction, corridor revitalization, and streetscape improvements. The City approved the Agreement by adopting Resolution No. 11-6930 and the Agency approved the Agreement with the adoption of Resolution No. 11-655.[4]

The Auditor-Controller identified a total outstanding obligation to the City of $20,000,000. However, the Covina ROPS indicates that no payments are presently due.

Section 34171(d)(2) specifically excludes as enforceable obligations "any agreements, contracts, or arrangements between the city, county or city and county that created the redevelopment agency. . ." *See California Redevelopment Association v. Matosantos*, at p. 26 n 12 (recognizing the Legislature's likely understanding that such agreements were not the product of arm's-length transactions given the conjoined nature of redevelopment agencies and their creator entities). There are two exceptions to this general rule: (1) written agreements entered into at the time of issuance of indebtedness obligations and solely for the purpose of securing or repaying those indebtedness

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[3] The Agreement was apparently entered into as of January 25, 2011, however, it was not executed until March 9, 2011.

[4] We were not provided with duly executed copies of the respective resolutions and for purposes of this memorandum assume they were both duly ratified.

obligations, and (2) loan agreements entered into between a redevelopment agency and city or county that created it, within two years of the date of the creation of the redevelopment agency. Section 34171(d)(2). As set forth below, neither exception should be read to apply here.

The exception related to indebtedness obligations does not apply because section 34171(e) defines "indebtedness obligations" to mean:

> bonds, notes, certificates of participation, or other evidence of indebtedness, issued or delivered by the redevelopment agency, or by a joint exercise of powers authority created by the redevelopment agency, *to third-party investors or bondholders to finance or refinance redevelopment projects undertaken by the redevelopment agency in compliance with the Community Redevelopment Law* (Part 1 (commencing with Section 33000)).

Section 34171(e) (*italics added*). This Agreement is not issued to a third-party investor or bondholder as required by subsection (e). Instead, the Agreement obligates the Agency to reimburse the City and there is no indication that it is related to a third-party investor or bondholder. Thus, this exception cannot be deemed to apply to the Agreement.

The second exception requires the loan to have been entered into within two years of the creation of the Agency. Section 34171(d)(2). The Agency was created in or around 1969, and the Agreement was entered into decades after the Agency was created. Accordingly, the second exception does not apply to the Agreement.

The Legislature excluded agreements, contracts, and arrangements between redevelopment agencies and their respective city or county creators from the list of enforceable obligations unless narrow exceptions are met. The Agreement is a formal adoption of a repayment schedule between the Agency and City to repay monies paid by the City to the Agency. The Agreement does not fall within the statutory exceptions for enforceable agreements between redevelopment agencies and cities, and is therefore not enforceable.

D. January 25, 2011 Cooperation Agreement ($7,000,000)

On January 25, 2011,[5] the City and Agency entered into a Cooperation Agreement ("Agreement") whereby the City agreed to advance money to the Agency for Project Area One, Project Area Two, and Project Area Two Amended Area (collectively referred to as Project Areas). Under the Agreement, the City agreed to assist the Agency in its efforts to carry out the redevelopment efforts for the Project Areas by providing monetary aid to the Agency for which the Agency committed certain tax increment revenues and bond proceeds to reimburse the City. The City approved the Agreement by adopting Resolution No. 11-6929 and the Agency approved the Agreement with the adoption of Resolution No. 11-654.[6]

The Auditor-Controller identified a total outstanding obligation to the City of $7,000,000. However, the Covina ROPS indicates that no payments are presently due.

Because this Cooperation Agreement is ostensibly identical to the Cooperation Agreement discussed in section C above, it is not an enforceable obligation for the reasons discussed therein.

E. Repayment to LMIHF: 147-151 E. College Street

On or about January 25, 2011, the City Council of Covina established the Covina Housing Authority ("CHA") in order to "maintain, to the extent feasible, local control over what are now [Agency] housing responsibilities and the financial resources that are related thereto" in the face of the "Governor's proposal to end redevelopment as we know it." *See* "Agenda Item Commentary," for Agenda Item No. NB1 included in the agenda packet the for the January 25, 2011 meeting of the City of Covina.[7]

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[5] The Agreement was apparently entered into as of January 25, 2011, however, it was not executed until March 9, 2011.

[6] Duly executed copies of the respective resolutions were not provided, however, for purposes of this memorandum we assume they were both duly ratified.

[7] Agenda packets and minutes which are referenced in this memorandum can be accessed at http://www.covinaca.gov/city-departments/city-clerk-a-public-records/agendas-a-minutes.

This item is listed as #45 on the ROPS approved at the March 20, 2012 regular meeting of the Covina City Council/Successor Agency to the Covina Redevelopment Agency, et al. (the "March 20, 2012 ROPS"). Item #45 is listed as "147-151 E College St" with the payee being identified as the "Housing fund," the description calling it a "Repayment to LMH," and a payment source of the "Redevelopment Property Tax Trust Fund." *Id.* The March 20, 2012 ROPS does not list any payments as owing in January 2012 through June 2012. *Id.* However, the Enforceable Obligation Payment Schedule available on the Agency's web page lists as its item #45, "147-151 E College St," which is characterized as a "repayment to LMH," with a total outstanding obligation of $715,000 and $0.00 due during the 2011-2012 fiscal year.

Neither listing indicates why the Agency was required to "repay" the LMIHF $715,000 for "147-151 E College St" nor why the "repayment" source would be the Redevelopment Property Tax Trust Fund.

Documentation related to ROPS item #45 is the Agenda Item Commentary ("Commentary") and attached exhibits ("Exhibits A-E") for joint public hearing item number 1 ("JPH1") at the March 1, 2011 meeting for the City of Covina/Covina Redevelopment Agency, et al. JPH1 was to consider and adopt various resolutions approving a Disposition and Development Agreement (the "DDA") between the Agency and Maria Mercy Moreno. The actual DDA is not attached to the Commentary. Rather, Exhibit B is a single sheet of paper that indicates the DDA "[i]s on file in the office of the Covina City Clerk." Likewise, we have not been provided a copy of the DDA and therefore rely on the summary contained in Exhibit A to ascertain how the reported obligation arose.

According to Exhibit A, the Agency acquired the property at 147-151 East College Street in Covina, California (the "Property") on May 20, 2005, and it appears that housing set-aside funds were used to pay for all or part of the Property. The Agency intended to use the Property for a housing project, but "the project did not come to fruition," and the Agency decided to sell the Property to Moreno, who would renovate the Property and "conduct a restaurant business." According to Exhibit A, because the Property "was purchased initially for a housing project . . . the funds to purchase the property [will] be repaid to the redevelopment LMIHF by funds realized from the sale approved under the DDA." Exhibit A also lists the sales price as $715,000. Presumably, the intention was to "repay" all of the sale price to the LMIHF and it is this payment to which the ROPS refers.

Based on the resolutions adopted at the March 1, 2011 meeting, it appears that with the acceptance and approval of the City Council and the CHA: (1) the Agency resolved to execute the DDA and to assign the agreement to the

CHA in the event that the Property was ever transferred to the CHA with a finding that the sale of the Property to Moreno "assists in the implementation of blighting conditions and facilitates revitalization of commercial areas," Agency Res. 11-659 Section 5, and (2) the Agency resolved to transfer the Property to the CHA with findings that the transfer of the property would assist the City, CHA, and the Agency "in providing and preserving needed affordable housing," Agency Res. 11-661 Section 2.

Based on the foregoing, it appears that the Agency agreed to sell the Property to Moreno for $715,000. At the same time, it transferred the Property to the CHA, which would in turn transfer it to Moreno. It is unclear whether either Agency or CHA ultimately received the sale proceeds, what happened to those proceeds, and why the Agency transferred the Property to CHA with findings about the housing benefits when it sold the Property to a developer.

It is possible that ROPS item #45 is an enforceable obligation under section 34171(d)(1)(G), but sufficient information to support such a determination was not provided. Further, it is unclear how the amount is "owing to" the LMIHF when the documents provided indicate that the sale proceeds were themselves to be "repaid" to the LMIHF -- i.e., we lack documentation that indicates if and why this amount is still "owing to" the LMIHF, and why it should be paid from monies from the Redevelopment Property Tax Trust Fund.

Although documentation is incomplete, ROPS item #45 likely is unenforceable. While resolutions approving the sale of the Property and its transfer to the CHA were provided, nothing indicates that an agreement was signed or a resolution was passed that explicitly requires the $715,000 to be deposited into the LMIHF. Instead, the payment of funds appears to be an assignment of a sales contract and sales proceeds to the newly-created CHA.

That leaves the issue of whether ROPS item #45 qualifies as an enforceable obligation under section 34171(d)(1)(G), which deems enforceable "amounts borrowed from, or payments owing to, the Low and Moderate Income Housing Fund of a redevelopment agency, which had been deferred as of the effective date of the act adding this part; provided, however, that the repayment schedule is approved by the oversight board." Although further documentation could alter the analysis, at present nothing suggests that this exception applies.

Due to the insufficient information provided, this item cannot be classified as an enforceable obligation at this time.

JWW:SC:vcv

Attachment F

DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

April 19, 2012

Robert Neiuber, Deputy Executive Director
City of Covina
125 E. College Street
Covina, CA 91723

Dear Mr. Neiuber:

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the Covina Successor Agency submitted a Recognized Obligation Payment Schedule (ROPS) to the California Department of Finance (Finance) on April 5, 2012, for the periods January through June 2012 and July through December 2012. Finance staff contacted you for clarification of items listed in the ROPS.

HSC section 34171 (d) lists enforceable obligation (EO) characteristics. Based on a sample of line items reviewed and application of the law, the following do not qualify as EOs:

January through June 2012 Period

- Item No. 12 on page 1 in the amount of $754,711 for a contract between the City of Covina and MG Enterprises. This item is a contract with the City and not the former RDA. Therefore, the item is not an EO.

- Item No. 22 and 23 on page 1 in the amount of $113,532 for cooperative agreements between the City of Covina and the Covina RDA. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency and the former redevelopment agency are not enforceable obligations. Therefore, these items are not EOs.

- Item No. 26 and 28 on page 1 in the amount of $48,478 are for projects without signed contracts. Therefore, these items are not EOs.

- Item No. 1 on page 3 in the amount of $44,000 is for Housing Set Aside Deferral. The requirement to set aside 20 percent of RDA tax increment for low and moderate income housing purposes ended with the passing of the redevelopment dissolution legislation. HSC section 34177 (d) requires that all unencumbered balances in the Low and Moderate Income Housing Fund be remitted to the county auditor controller for distribution to the taxing entities. Therefore, this item is not an EO.

- An administrative expense in the amount of $28,370 is not an EO. Item No. 25 on page 1 in the amount of $148,370 for administrative costs was used in place of the $142,000 provided in the Successor Agency Administrative Budget. HSC section 34171 (b) limits administrative expenses to five percent of property tax allocated to the successor agency or $250,000, whichever is greater. Five percent of the property tax allocated is $80,789. Therefore, the administrative cost allowance will be $250,000.

July through December 2012 Period

- Item No. 1 on page 2 in the amount of $44,000 for Housing Set Aside Deferral. The requirement to set aside 20 percent of RDA tax increment for low and moderate income housing purposes ended with the passing of the redevelopment dissolution legislation. HSC section 34177 (d) requires that all unencumbered balances in the Low and Moderate Income Housing Fund be remitted to the county auditor controller for distribution to the taxing entities.

- Administrative expense of $22,000 is not an EO. HSC section 34171 (b) limits administrative expenses to five percent of property tax allocated to the successor agency or $250,000, whichever is greater. Five percent of the property tax allocated is $176,183. Therefore, the administrative cost allowance will be $250,000.

As authorized by HSC section 34179 (h), Finance is returning your ROPS for your reconsideration. This action will cause the specific ROPS items noted above to be ineffective until Finance approval. Furthermore, items listed on future ROPS will be subject to review and may be denied as EOs.

If you believe we have reached this conclusion in error, please provide further evidence that the items questioned above meet the definition of an EO.

Please direct inquiries to Robert Scott, Supervisor or Michael Barr, Lead Analyst at (916) 322-2985.

Sincerely,

/s/ Mark Hill

MARK HILL
Program Budget Manager

cc: Ms. Kristina Burns, Program Specialist III, Los Angeles County

DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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May 27, 2012

Robert Neiuber, Deputy Executive Director
City of Covina
125 E. College Street
Covina, CA 91723

Dear Mr. Neiuber:

Subject: Recognized Obligation Payment Schedule Approval Letter

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the City of Covina Successor Agency submitted Recognized Obligation Payment Schedules (ROPS) to the California Department of Finance (Finance) on April 5, 2012 for the periods January to June 2012 and July to December 2012. Finance is assuming appropriate oversight board approval. Finance has completed its review of your ROPS, which may have included obtaining clarification for various items.

Except for items disallowed in whole or in part as enforceable obligations noted in Finance's letter dated April 19, 2012, Finance is approving the remaining items listed in your ROPS for both periods. This is our determination with respect to any items funded from the Redevelopment Property Tax Trust Fund (RPTTF) for the June 1, 2012 property tax allocations. If your oversight board disagrees with our determination with respect to any items not funded with property tax, any future resolution of the disputed issue may be accommodated by amending the ROPS for the appropriate time period. Items not questioned during this review are subject to a subsequent review, if they are included on a future ROPS. If an item included on a future ROPS is not an enforceable obligation, Finance reserves the right to remove that item from the future ROPS, even if it was not removed from the preceding ROPS.

Please refer to Exhibit 12 at http://www.dof.ca.gov/assembly_bills_26-27/view.php for the amount of RPTTF that was approved by Finance based on the schedule submitted.

As you are aware the amount of available RPTTF is the same as the property tax increment that was available prior to ABx1 26. 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 in the RPTTF.

Please direct inquiries to Evelyn Suess, Supervisor or Michael Barr, Lead Analyst at (916) 322-2985.

Sincerely,

MARK HILL
Program Budget Manager

cc: Ms. Kristina Burns, Program Specialist III, Los Angeles County

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August 28, 2012

Susan Linschoten, Special Projects
Department of Auditor-Controller
County of Los Angeles
500 West Temple, Room 525
Los Angeles, CA 90012

Via Email only

Re: Agreed Upon Audit Procedures Report for former Redevelopment Agency of the City of Covina

Dear Ms. Linschoten,

Thank you for your August 20, 2012 email providing the Successor Agency to the Redevelopment Agency of the City of Covina (SA) the draft Agreed-Upon Procedures (AUP) Report and related attachments. Staff to the SA has the reviewed the report and has some clarifications and comments. First, and most importantly, it appears that the AUP Report was based upon a draft of the ROPS and not the final ROPS approved by the SA, the Oversight Board or forwarded to the Department of Finance. Consequently, some of the statements and findings within the AUP Report are inaccurate.

Exhibit 1, Page 1 identifies those items Department of Finance (DOF) has determined were not enforceable obligations under AB 1X 26. Specifically,

- Heritage Plaza – MG Enterprises, $754,712. A revised contract was sent to the DOF on 6/29/12, which clearly shows the contract being between the Covina Redevelopment Agency (CRA) and the Contractor. There was an actual amount of $285,621 spent which has been placed on the ROPS III for payment from bond proceeds.
- Neighborhood Preservation Services, $33,457. There was an actual amount of $14,589 spent in January, 2012, which was identified on the Enforceable Obligation Payment Schedule (EOPS) that was forwarded to DOF. DOF did not object to the expenditure and the funds were expended consistent with California Redevelopment law in January 2012 prior to the dissolution of the CRA. The CRA exchanged emails with Mr. Richard Faust of the DOF on June 15 where Mr. Faust confirmed that although this item was objected to it was a valid expense to be paid in January 2012.
- Redevelopment Programs, $48,478. There was an actual amount of $16,137 spent in January, 2012 pursuant to the EOPS. DOF did not object to the expenditure and the funds were expended consistent with California Redevelopment law in January 2012 prior to the dissolution of the CRA. The CRA exchanged emails with Mr. Richard Faust of the

DOF on June 15 where Mr. Faust confirmed that although this item was objected to it was a valid expense to be paid in January 2012.

- Administrative Costs, $28,370. DOF objected to this amount but it is unclear how this number was arrived at. The CRA requested clarification as to this objection but never received a response from DOF. CRA retains its rights to object to this determination until such time as the CRA is provided an explanation of how this amount was determined and the basis for the objection.
- Low-Mod Housing Program, $80,075. There was an actual amount of $159,740 spent in January, 2012 pursuant to the EOPS. DOF did not object to the expenditure and the funds were expended consistent with California Redevelopment law in January 2012 prior to the dissolution of the CRA. The CRA exchanged emails with Mr. Richard Faust of the DOF on June 15 where Mr. Faust confirmed that although this item was objected to it was a valid expense to be paid in January 2012.
- Administrative Costs, $22,000. It is unclear where this amount was derived from, and DOF did not respond to a request to clarify. CRA retains its rights to object to this determination until such time as the CRA is provided an explanation of how this amount was determined and the basis for the objection.

Exhibit 1, Page 2 – Items listed as questionable obligations:

- Badillo Heights, $15,000. There was an actual amount of $15,000 spent in January, 2012 which was identified on the EOPS that was forwarded to DOF. DOF did not object to the expenditure and the funds were expended consistent with California Redevelopment law in January 2012 prior to the dissolution of the CRA. The CRA exchanged emails with Mr. Richard Faust of the DOF on June 15 where Mr. Faust confirmed that although this item was objected to it was a valid expense to be paid in January 2012.

Attachment A, - Items listed as question obligations:

- A1.a lists a series of expenses that were paid while the CRA was still in existence and as listed on the EOPS. Those debts identified on the EOPS were not objected to by DOF and the funds were expended consistent with California Redevelopment law in January 2012 prior to the dissolution of the CRA. The CRA exchanged emails with Mr. Richard Faust of the DOF on June 15 where Mr. Faust confirmed that although this item was objected to it was a valid expense to be paid in January 2012.
- A1.b questions the settlement payment in the Badillo Heights litigation. AB 1X 26 clearly allowed the SA to protect the assets of the former CRA and the settlement of litigation is consistent with that duty.

Attachment E, Page 2

- #5 – Finding that Repayment to the Low and Moderate Income Housing Fund ("LMIHF") related to 147-151 E. College Street is not an enforceable obligation. This references an item that appeared on the draft ROPS in error and was not listed on the

ROPS approved by the Oversight Board and forwarded to the DOF. This property was transferred to the Covina Housing Authority on March 10, 2012 and is an asset of the Housing Authority.

Item A4.b

- Item A4.b notes that Resolution 12-7045 dated January 30, 2012, authorizes the housing activities to be transferred to Covina Housing Authority. This is partially correct. Resolution 12-7045 authorizes that all housing assets and functions be transferred to the Covina Housing Authority in accordance with AB 1X 26. Due to requirements of AB 1X 26, the housing funds were transferred to the Successor Agency account, as noted in item A4.a.

Item A4.a

- This item states that the housing assets were transferred to the Covina Successor Agency. As described above, this is incorrect. Housing assets and functions were transferred to the Covina Housing Authority. Due to requirements of AB 1X 26, the housing funds were transferred to the Successor Agency account.

Attachment B, page 9 - Items listed as questionable obligations for contract entered into after June 29, 2011:

- Heritage Plaza, $30,000 – There was an actual amount of $29,998 spent in June. This "special inspection" was required to be performed as part of the Heritage Plaza project in order to meet California Building Code requirements.
- Badillo Heights, $15,000. There was an actual amount of $15,000 spent in January, 2012 which was identified on the EOPS that was forwarded to DOF. DOF did not object to the expenditure and the funds were expended consistent with California Redevelopment law in January 2012 prior to the dissolution of the CRA. The CRA exchanged emails with Mr. Richard Faust of the DOF on June 15 where Mr. Faust confirmed that although this item was objected to it was a valid expense to be paid in January 2012.

Attachment B, page 10 - Items listed as questionable obligations for legal documentation not being received supporting the payee, project name, etc:

- Consulting and legal, $40,000 for each month of February, March, April, May and June – It has never been the practice of the former Covina Redevelopment Agency to enter into a separate contract for attorney costs. The contract is between the City and the legal firm with a scope of work to address redevelopment related issues.
- Maintenance of Agency owned property, $9,300 for April and $10,000 for June – The Agency owns several properties which must be kept clear of weeds and debris. The Agency did not contract with one particular vendor, rather called for estimates when the work was needed and chose the lowest bidder for the job.

- Rental covenants, $6,500 in June – this amount was placed on the ROPS in order to accommodate the requirement of "recertifying" the current stock of low-income housing.

Thank you the opportunity to review the draft AUP Report. If you need further clarification on any of these items you may contact Debbie Pacheco at dpacheco@covinaca.gov or by phone at (626) 384-5443.

Sincerely,

Elizabeth Wagner Hull
of BEST BEST & KRIEGER LLP

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