



March 26, 2013

Bonnie Lipscomb, Director of Economic Development  
City of Santa Cruz  
337 Locust Street  
Santa Cruz, CA 95060

Dear Ms. Lipscomb:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Santa Cruz successor agency (Agency) submitted an oversight board approved Other Funds and Accounts (OFA) Due Diligence Review (DDR) to the California Department of Finance (Finance) on January 15, 2013. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Pursuant to HSC section 34179.6 (d), Finance has completed its review of your DDR, which may have included obtaining clarification for various items.

HSC section 34179.6 (d) authorizes Finance to adjust the DDR's stated balance of OFA available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

- Total amount of assets held as of June 30, 2012 should be \$53,539,349. Our review identified the final financial statements for the Agency as of June 30, 2012 disclosed \$1,310,545 of cash and cash equivalents that were not included in the DDR's total asset balance. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by \$1,310,545.
- Balances requested to be retained totaling \$6,175,593 should be adjusted by \$1,771,475. Specifically:
  - The Agency's request to retain balances under Procedure 8 in the amount of \$2,552,247 is partially denied. The Agency requested to retain \$2,552,247 for the funding of Recognized Obligation Payment Schedules (ROPS) I obligations. Included in this amount is \$1,554,319 that has yet to be expended. Since these are ROPS I obligations that have not been spent as of the date of this letter, we are disallowing the Agency's request

to retain these amounts. Although, ROPS 1 obligations were approved, these obligations can be put on a future ROPS to be funded with Redevelopment Property Tax Trust Fund (RPTTF). Therefore, the OFA balance available for distribution to the taxing entities will be adjusted by \$1,554,319.

- The Agency's request to retain balances in the amount of \$3,623,346 for ROPS II is partially denied. Included in the amount is \$217,156 of balances that were not approved on either the ROPS II. HSC 34177 (a) (3) states that only those payments listed in the ROPS may be made by the successor agency from the funds specified. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by \$217,156.

If you disagree with Finance's adjusted amount of OFA balances available for distribution to the taxing entities, 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/](http://www.dof.ca.gov/redevelopment/meet_and_confer/)

The Agency's OFA balance available for distribution to the affected taxing entities is \$2,347,328 (see table below).

<b>OFA Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ (734,692)
Finance Adjustments	
Add:	
Adjustment to the June 30, 2012 balance:	\$ 1,310,545
Request to retain balances not supported:	1,771,475
<b>Total OFA available to be distributed:</b>	<b>\$ 2,347,328</b>

Absent a Meet and Confer request, HSC section 34179.6 (f) requires successor agencies to transmit to the county auditor-controller the amount of funds identified in the above table within five working days, plus any interest those sums accumulated while in the possession of the recipient. Upon submission of payment, it is requested you provide proof of payment to Finance within five business days.

If funds identified for transmission are in the possession of the successor agency, and if the successor agency is operated by the city or county that created the former redevelopment agency, then failure to transmit the identified funds may result in offsets to the city's or the county's sales and use tax allocation, as well as its property tax allocation. If funds identified for transmission are in the possession of another taxing entity, the successor agency is required to take diligent efforts to recover such funds. A failure to recover and remit those funds may result in offsets to the other taxing entity's sales and use tax allocation or to its property tax allocation. If funds identified for

transmission are in the possession of a private entity, HSC 34179.6 (h) (1) (B) states that any remittance related to unallowable transfers to a private party may also be subject to a 10 percent penalty if not remitted within 60 days.

Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain loan agreements between the former redevelopment agency (RDA) and the city, county, or city and county that created the RDA to be considered enforceable obligations. These provisions also allow certain bond proceeds to be used for the purposes in which they were sold and allows for the transfer of real property and interests into the Community Redevelopment Property Trust Fund once Finance approves the Agency's long-range property management plan.

In addition to the consequences above, willful failure to return assets that were deemed an unallowable transfer or failure to remit the funds identified above could expose certain individuals to criminal penalties under existing law.

Pursuant to HSC section 34167.5 and 34178.8, the California State Controller's Office (Controller) has the authority to claw back assets that were inappropriately transferred to the city, county, or any other public agency. Determinations outlined in this letter do not in any way eliminate the Controller's authority.

Please direct inquiries to Wendy Griffe, Supervisor or Derk Symons, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY  
Local Government Consultant

cc: Ms. Kathryn Mintz, Redevelopment Finance Manager, City of Santa Cruz  
Ms. Mary Jo Walker, Auditor-Controller, County of Santa Cruz  
California State Controller's Office