DEPARTMENT OF FINANCE

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March 26, 2013

Ms. Jan Davison, Redevelopment and Housing Director
City of Watsonville
250 Main Street
Watsonville, CA 95076

Dear Ms. Davison:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Watsonville 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 14, 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 $3,779,920. The balance listed on the DDR did not include the June 1 distribution. In addition, the general ledger provided by the Agency listed the available asset balance as of June 30, 2012 to be $3,779,920. Therefore, Finance is adjusting the June 30, 2012 balance by $1,724,127.

- Assets transferred to the City of Watsonville (City) between January 2011 and June 2012 in the amount of $4,466,870. HSC section 34179.5 (c) (2) only allows asset transfers within this period that are required by enforceable obligation. HSC section 34179.5 (b) (2) defines an enforceable obligation, which excludes agreements between the City and the former redevelopment agency (RDA). The amounts transferred to the City were pursuant to agreements between the City and the former RDA. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by $4,466,870.

  Upon receiving a Finding of Completion, some of these agreements may become enforceable and eligible for funding on subsequent Recognized Obligation Payment Schedules (ROPS).

- Balances needed to be retained for enforceable obligations to be paid in the fiscal year 2012-13 in the amount of $1,279,204 will be added. These obligations were not listed

on the DDR; however, Finance adjusted the beginning balance for the July through December 2012 period. The Agency stated the difference between the 2011-12 CAFR and the DDR was for the ROPS II distribution amount of $1,279,204 which was RPTTF funds that were not part of the reviewed transaction period. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by $1,279,204.

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/

The Agency's OFA balance available for distribution to the affected taxing entities is $4,810,553 (see table below).

| OFA Balances Available For Distribution To Taxing Entities | | |
|---|---|---|
| Available Balance per DDR: | $ | (101,240) |
| Finance Adjustments | | |
| Add: | | |
| Adjustment to the June 30, 2012 balance: | $ | 1,724,127 |
| Disallowed transfers: | | 4,466,870 |
| ROPS II retention: | | (1,279,204) |
| **Total OFA available to be distributed:** | $ | 4,810,553 |

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 Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Mr. Ezequiel Vega, Administrative Service Director, City of Watsonville
Ms. Mary Jo Walker, Auditor-Controller, Santa Cruz County
Ms. Marianne Ellis, Property Tax Accounting Manager, Santa Cruz County
California State Controller's Office