



November 14, 2013

Ms. Tori Hannah, Finance Director
City of Capitola
420 Capitola Avenue
Capitola, CA 95010

Dear Ms. Hannah:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Capitola Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 30, 2013 for the period of January through June 2014. Finance has completed its review of your ROPS 13-14B, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following does not qualify as an enforceable obligation for the reasons specified:

Item No. 3 – City/County Loan Repayment in the amount of \$1,675 is not allowed at this time. The Agency received a Finding of Completion on May 24, 2013. As such, the Agency may place a loan agreement between the former redevelopment agency and sponsoring entity on the ROPS, as an enforceable obligation, provided the Oversight Board (OB) makes a finding that the loan was for legitimate redevelopment purposes per HSC section 34191.4 (b) (1). However, HSC section 34191.4 (b) (2) (A) specifies loan shall not be made prior to the 2013-14 fiscal year. While ROPS 13-14B falls within fiscal year 2013-14, the repayment of this City/County loan is subject to the repayment formula outlined in HSC section 34191.4 (b) (2) (A).

HSC section 34191.4 (b) (2) (A) allows this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the 2012-13 base year. Since the formula does not allow for estimates, the Agency must wait until the ROPS residual pass-through distributions are known for fiscal year 2013-14 before requesting funding for this obligation. Therefore, this item is not eligible for funding at this time.

Finance notes that the Agency's Oversight Board (OB) Resolution No. 2013-04 approving the ROPS 13-14B also makes related findings and declarations. More specifically, Section 4 finds that the Agency is authorized and directed to enter into any agreements and amendments to agreements necessary to memorialize and implement the agreements and obligations in ROPS

13-14B. HSC section 34177 (l) (2) (A) states that a ROPS is prepared by the successor agency for the enforceable obligations of the former redevelopment agency. However, as defined within HSC section 34171 (d) (1), enforceable obligation applies to legally binding and enforceable agreements or contracts, and does not allow for contractual agreements that have not yet been entered into. Any subsequent contracts contemplated for the wind down of the Agency shFinance will continue to require the Agency to abide by HSC section 34179 (e), which states that all actions taken by the OB shall be adopted by a resolution which must be submitted to Finance for review.

Pursuant to HSC Section 34186 (a), successor agencies were required to report the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. The amount of Redevelopment Property Tax Trust Fund (RPTTF) approved in the table below includes the prior period adjustment that was self-reported by the Agency. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. Any proposed CAC adjustments were not received in time for inclusion in this letter. Therefore, the amount of RPTTF approved in the table below includes only the prior period adjustment that was self-reported by the Agency.

Except for the item denied in whole or in part as enforceable obligation, Finance is not objecting to the remaining items listed on your ROPS 13-14B. If you disagree with the determination with respect to any items on your ROPS 13-14B, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's maximum approved RPTTF distribution for the reporting period is \$597,232 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	473,907
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 598,907
Total RPTTF requested for non-administrative obligations	473,907
<u>Denied Item</u>	
Item No. 3	(1,675)
Total RPTTF approved for non-administrative obligations	472,232
Total RPTTF requested for administrative obligations	125,000
Total RPTTF approved for administrative obligations	125,000
Total RPTTF approved for obligations	597,232
ROPS III prior period adjustment	0
Total RPTTF approved for distribution	\$ 597,232

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. Beginning with the

ROPS 13-14B period, Finance required successor agencies to identify fund balances for various types of funds in its possession. During our ROPS 13-14B review, Finance requested financial records to support the fund 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 13-14B review period to properly identify the Agency's fund balances. If it is determined the Agency possesses fund balances that are available to pay approved obligations, the Agency should request the use of these fund balances prior to requesting RPTTF in ROPS 14-15A.

Please refer to the ROPS 13-14B schedule that was used to calculate the approved RPTTF amount:

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14B Forms by Successor Agency/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS%2013-14B%20Forms%20by%20Successor%20Agency/).

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2014. This determination applies only 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 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 Wendy Griffe, Supervisor or Medy Lamorena, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Lonnie Wagner, Accountant II, City of Capitola
Ms. Mary Jo Walker, Auditor-Controller, Santa Cruz County
California State Controller's Office