



November 6, 2013

Ms. Kim Namba, Administrative Services Manager
Santa Cruz County
701 Ocean Street, Room 520
Santa Cruz, CA 95060

Dear Ms. Namba:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the Santa Cruz County Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 23, 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 do not qualify as enforceable obligations for the reasons specified:

Claimed Administrative Costs exceed the allowance by \$3,608. HSC section 34171 (b) limits the fiscal year 2014 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. The Santa Cruz Auditor-Controller's (CAC) Office distributed \$235,366 of administrative costs for the July through December 2013 period, thus leaving a balance of \$348,688 available for the January through June 2014 period. Although \$352,296 is claimed for administrative cost, only \$348,688 is available pursuant to the cap. Therefore, \$3,608 of excess administrative costs is not allowed.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that are required to be used prior to requesting Redevelopment Property Tax Trust Fund (RPTTF). Pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. The Agency provided financial records that displayed available reserve balances totaling \$501,631, composed of Other Funds and Non-Admin RPTTF in the amounts of \$202,835 and \$298,796 respectively.

Therefore, the funding source for the following items are being reclassified to reserve balances totaling \$501,631 and in the amounts specified below:

- Item No. 20 – 2005 Tax Allocation Bonds Series A in the amount of \$127,943. The Agency requests \$145,124 of RPTTF as reserves necessary to cover uneven payment for ROPS 14-15A period; however, Finance is reclassifying \$127,943 to reserve balances. This item was determined to be an enforceable obligation for the ROPS 13-14B period. However, the obligation does not require payment from property tax revenues and the Agency has reserve funds. Therefore, Finance is approving RPTTF in the amount of \$17,181 and the use of reserve balances in the amount of \$127,943, totaling \$145,124 for Item No. 20.
- Item Nos. 29, 30, and 32 – Various bond fees totaling \$25,000. The Agency requests \$25,000 of RPTTF; however, Finance is reclassifying \$25,000 to Reserve Funding. These items were determined to be enforceable obligations for the ROPS 13-14B period. However, the obligations do not require payments from property tax revenues and the Agency has reserve funds. Therefore, Finance is approving the use of reserve balances totaling \$25,000 for Item Nos. 29, 30, and 32.
- Item No. 45 – Administrative cost in the amount of \$348,688. The Agency requests \$352,296 of RPTTF; however, Finance is reclassifying \$348,688 to reserve balances. This item was determined to be an enforceable obligation for the ROPS 13-14B period. However, the obligation does not require payment from property tax revenues and the Agency has reserve funds. Therefore, Finance is approving the use of reserves in the amount of \$352,296 for Item No. 45.

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the CAC and the State Controller. The amount of RPTTF approved in the below table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for items denied in whole or in part as enforceable obligations or items that have been reclassified, 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 \$11,672,024 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	11,977,922
Total RPTTF requested for administrative obligations	352,296
Total RPTTF requested for obligations	\$ 12,330,218
Total RPTTF requested for non-administrative obligations	11,977,922
Total RPTTF approved for non-administrative obligations	11,977,922
Total RPTTF requested for administrative obligations	352,296
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)	348,688
Total RPTTF approved for obligations	12,326,610
ROPS III prior period adjustment	(152,955)
Items reclassified due to funds that should be used prior to requesting RPTTF	
Item No. 20	(127,943)
Item No. 29	(14,000)
Item No. 30	(5,000)
Item No. 32	(6,000)
Item No. 45	(348,688)
Total RPTTF approved for distribution	\$ 11,672,024
Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	7,490,559
Total RPTTF for 13-14B (January through June 2014)	11,977,922
Total RPTTF for fiscal year 2013-14	19,468,481
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or \$250,000)	584,054
Administrative allowance for 13-14A (July through December 2013)	235,366
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	348,688

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/.

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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. Carol Kelly, Assistant CAO, Santa Cruz County
Ms. Mary Jo Walker, Auditor-Controller, Santa Cruz County
California State Controller's Office