



November 14, 2013

Ms. Bonnie Lipscomb, Executive Director
City of Santa Cruz
337 Locust Street
Santa Cruz, CA 95060

Dear Ms. Lipscomb:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Santa Cruz 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 do not qualify as enforceable obligations for the reasons specified:

- Item No. 16 – Monterey Bay Unified Air Pollution Control District (MBUAD) Trolley Grant Agreement from other funds in the amount of \$7,600. The Grant Agreement between the former redevelopment agency (RDA) of the City of Santa Cruz (City) and MBUAD is dated December 2, 2011. HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. Therefore, this item is not an enforceable obligation and not eligible for funding on ROPS.
- Item Nos. 21, 22, 25, and 26 – Tannery Digital Media Center (TDMC) Space 110 Improvements and Professional Services from reserve balances totaling \$447,104. The Agency contends that such improvement and service costs are required to satisfy the requirements of an Economic Development Administration grant and the grant funds cannot be used as a funding source for the costs. The Agency did not provide sufficient documentation to substantiate the Agency's enforceable obligation. Therefore, these items are not enforceable obligations and are not eligible for funding on ROPS.
- Item No. 30 – TDMC Landscaping from other funds in the amount of \$75,000. The Agency provided an excerpt from a 2012 Lease Agreement to substantiate the Agency's obligation. HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. Therefore, this item is not an enforceable obligation and not eligible for funding on ROPS.

- Item No. 34 – TDMC Common Area Maintenance Costs in the amount of \$7,500. The Agency provided an excerpt from a 2012 Lease Agreement to substantiate the Agency's obligation. HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. Therefore, this item is not an enforceable obligation and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on ROPS.
- Item No. 45 – Del Mar Property Management and Maintenance is partially denied in the amount of \$80,000. The Agency requests RPTTF funding in the amount of \$7,000 and \$80,000 from reserve balances. Finance is approving RPTTF in the amount of \$7,000 in order to fund routine property management and maintenance costs for the Agency's property prior to disposition. However, non-routine costs totaling \$80,000, including fencing and parking lot resurfacing, are not allowed at this time. The Agency has yet to submit a Long Range Property Management Plan to Finance and did not provide documentation supporting the requirement for these non-routine costs. Therefore, this item is partially denied for reserve balances in the amount of \$80,000.
- Item No. 67 – Trolley Repairs from reserve balances in the amount of \$6,321. The former RDA entered into a Lease Agreement with Santa Cruz Trolley Consortium, Inc. on June 13, 2011. The Agency states that they have an obligation to pay for repairs as specified in the Lease Agreement. However, Section 6.01 of the Lease Agreement states that the Agency shall warrant the working condition of the trolley for the first year in an amount not to exceed \$20,000. Consequently, the Agency's obligation to pay for repairs on City owned trolleys is expired. Therefore, this item is not an enforceable obligation and not eligible for funding on ROPS.
- Housing Entity Maintenance and Administrative Costs totaling \$54,000 are not enforceable obligations of the Agency. Including:
 - Item No. 133 – LMIH Project Management and Delivery from other funds in the amount of \$24,000.
 - Item No. 155 – 110 Lindberg Street Affordable Housing (Project Management Costs) from reserve balances in the amount of \$30,000.

The City elected to retain the authority to perform housing functions previously performed by the former RDA. HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a redevelopment agency, all rights, powers, duties obligations and housing assets shall be transferred to the city, county or city and county. The transfer of "duties and obligations" includes the transfer of any on-going maintenance and administrative costs. Therefore, these items are not enforceable obligations and are not eligible for funding on the ROPS.

- Item No. 174 – Emergency Rent Program from reserve balances in the amount of \$36,210. The Agency provided the 19th Amendment to the Agreement to Provide Funding for the Emergency Rent/Mortgage Assistance Program. Section 3 of the amendment states that the Agency Grant (Agency's obligation) shall only be available through June 30, 2012. Therefore, this item is no longer an enforceable obligation and is not eligible for funding on ROPS.

- Item Nos. 175, 176, and 177 – Kron House (Various Professional Services) totaling \$21,131. All the service agreements provided by the Agency were executed after June 27, 2011. HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. Therefore, these items are not enforceable obligations and not eligible for RPTTF funding on ROPS.
- Item No. 186 - Soquel/Park Way Improvements in the amount of \$214,515. The Agency provided two cooperation agreements between the former RDA and the City. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the City that created the RDA and the former RDA are not enforceable. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding on ROPS.

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 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. Finance determined that the Agency has available funds totaling \$407,661 which include reserve balances totaling \$308,661 and other funds totaling \$99,000.

Therefore, the funding source for the following items are being reclassified to the respective funding sources and in the amounts specified below:

- Item No. 6 – 1010 Pacific Owner Participation Agreement (OPA) in the amount of \$75,593. The Agency requests \$81,531 of RPTTF; however, Finance is reclassifying \$75,593 to other funds. This item was determined to be an enforceable obligation for the ROPS 13-14B period. Finance is approving RPTTF in the amount of \$5,938 and reclassifying \$75,593 to other funds.
- Item No. 7 – 1280 Shaffer OPA in the amount \$126,430. The Agency requests \$126,430 of RPTTF; however, Finance is reclassifying \$103,023 to reserve balances and \$23,407 to other funds. This item was determined to be an enforceable obligation for the ROPS 13-14B period. Therefore, Finance is approving the use of reserve balances in the amount of \$103,023 and other funds in the amount of \$23,407, totaling \$126,430 for Item No. 7.
- Item No. 8 – Chestnut LLC OPA in the amount of \$58,131. The Agency requests \$58,131 of RPTTF; however, Finance is reclassifying \$58,131 to reserve balances. This item was determined to be an enforceable obligation for the ROPS 13-14B period. Therefore, Finance is approving the use of reserve balances in the amount of \$58,131.
- Item Nos. 135, 136, 139, 141, 142, and 143 – Administrative Costs totaling \$125,000. The Agency requests RPTTF totaling \$125,000; however, Finance is reclassifying \$125,000 to reserve balances. These items were determined to be enforceable obligations for the ROPS 13-14B period. Therefore, Finance is approving the use of reserve balances totaling \$125,000 for Item Nos. 135, 136, 139, 141, 142, and 143.
- Item Nos. 182, 183, and 184 – Façade Improvements totaling \$22,507. The Agency requests RPTTF totaling \$22,507; however, Finance is reclassifying \$22,507 to reserve balances. These items were determined to be enforceable obligations for the

ROPS 13-14B period. Therefore, Finance is approving the use of reserve balances totaling \$22,507 for Item Nos. 182, 183, and 184.

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 county auditor-controller (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 the items denied in whole or in part as enforceable obligations or for the 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 \$1,091,704 as summarized on the next page:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	1,624,088
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 1,749,088
Total RPTTF requested for non-administrative obligations	1,624,088
Denied Items	
Item No. 34	(7,500)
Item No. 175	(4,575)
Item No. 176	(16,073)
Item No. 177	(483)
Item No. 186	(214,515)
Total RPTTF approved for non-administrative obligations	1,380,942
Total RPTTF requested for administrative obligations	125,000
Total RPTTF approved for administrative obligations	125,000
Total RPTTF approved for obligations	\$ 1,505,942
ROPS III prior period adjustment	(6,577)
Items reclassified to other and reserve funding sources	
Item No. 6	(75,593)
Item No. 7	(126,430)
Item No. 8	(58,131)
Item No. 135	(87,400)
Item No. 136	(7,900)
Item No. 139	(9,500)
Item No. 141	(200)
Item No. 142	(15,000)
Item No. 143	(5,000)
Item No. 182	(20,000)
Item No. 183	(2,307)
Item No. 184	(200)
Total RPTTF approved for distribution	\$ 1,091,704

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/>.

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. Kim Wigley, Senior Accountant, City of Santa Cruz
Ms. Mary Jo Walker, Auditor-Controller, Santa Cruz County
California State Controller's Office