DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
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October 23, 2013

Mr. Stephen Ando, Executive Director
City of Scotts Valley
1 Civic Center Drive
Scotts Valley, CA 95066

Dear Mr. Ando:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Scotts Valley Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 12, 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 Nos. 2 and 22 – 2009 Lease Revenue Bonds Series A in the amount of $150,014 are reported incorrectly on the ROPS. Specifically:
    - Item No. 2 – The Agency requested $150,014 of Redevelopment Property Tax Trust Fund (RPTTF) funding; however, Finance is reclassifying this item to be funded by Other Funds. This item pertains to 2009 Lease Revenues Bonds for the construction of a library. The Agency agreed to lease the library to the City of Scotts Valley (City) through a Lease Agreement. The lease payments received from the City are used to make the bond debt payments. In addition, the Agency and the City entered into a Reimbursement Agreement dated December 1, 2009 wherein the Agency reimburses the City for all base rental payments. This is reported by the Agency as Item No. 7 funded by RPTTF. Since the Reimbursement Agreement was entered into at the time of issuance of the 2009 bonds and solely for the purpose of securing or repaying the indebtedness obligation, the Reimbursement Agreement is eligible for RPTTF. However, the bonds are an enforceable obligation of the Agency pledged by lease revenues; therefore, payable from Other Funds instead of RPTTF. The Agency should report Item No. 2 as funded by Other Funds in subsequent ROPS.
    - Item No. 22 – The Agency reported a negative amount of $150,014 in RPTTF funding and Finance has denied this item to zero it out. It is our understanding that Item No. 22 is an offset to Item No. 2 in order to demonstrate that the

obligations are not reported and claimed twice on the ROPS. This entry is no longer necessary in subsequent ROPS.

- Item No. 5 – 1997 Note Payable totaling $174,700 is not an obligation of the Agency. It is our understanding this agreement entered into on June 4, 1997 is between the City and Scotts Valley Water District, and the former redevelopment agency (RDA) is not a party to the contract. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding on this ROPS.

- Item Nos. 10, 11, and 12 – Supplemental Educational Revenue Augmentation Fund Loans repayments totaling $1,367,868 are not allowed at this time. HSC section 34176 (e) (6) (B) specifies loan or deferral repayments to the LMIHF shall not be made prior to the 2013-14 fiscal year. While ROPS 13-14B technically falls within fiscal year 2013-14, the repayment of these loan amounts are subject to the repayment formula outlined in HSC section 34176 (e) (6) (B).

  HSC section 34176 (e) (6) (B) allows these repayments 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 these obligations. Therefore, the Agency may be able to request funding for the repayment of LMIHF loans beginning with ROPS 14-15A.

- Claimed administrative costs exceed the allowance by $25,000. 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 County Auditor-Controller's Office distributed $150,000 of administrative costs for the July through December 2013 period, thus leaving a balance of $100,000 available for the January through June 2014 period. Although $125,000 is claimed for administrative cost, only $100,000 is available pursuant to the cap. Therefore, $25,000 of excess administrative cost is not allowed.

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 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 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 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 $717,171 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014		
Total RPTTF requested for non-administrative obligations		901,833
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations	**$**	**1,026,833**
Total RPTTF requested for non-administrative obligations		**901,833**
Denied Items		
Item No. 5		(11,900)
Item No. 10		(35,000)
Item No. 11		(93,500)
Item No. 12		(144,262)
Item No. 22		150,014
		(134,648)
Reclassified Items		
Item No. 2		(150,014)
		(150,014)
Total RPTTF approved for non-administrative obligations		**617,171**
Total RPTTF requested for administrative obligations		**125,000**
Denied Items		
Item No. 20		(25,000)
		(25,000)
Total RPTTF for administrative obligations		**100,000**
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)		**100,000**
Total RPTTF approved for obligations		**717,171**
ROPS III prior period adjustment		0
Total RPTTF approved for distribution	**$**	**717,171**
Administrative Cost Cap Calculation		
Total RPTTF for 13-14A (July through December 2013)		738,701
Total RPTTF for 13-14B (January through June 2014)		617,171
Less approved unfunded obligations from prior periods		-
Total RPTTF for fiscal year 2013-14		**1,355,872**
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or $250,000)		250,000
Administrative allowance for 13-14A (July through December 2013)		150,000
Allowable RPTTF distribution for administrative cost for ROPS 13-14B		**100,000**

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: Mr. Corrie Kates, Community Development Director/Deputy City Manager, City of Scotts Valley
Ms. Mary Jo Walker, Auditor-Controller, Santa Cruz County
California State Controller's Office