DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

November 14, 2014

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

Dear Ms. Davison:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Watsonville Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to the California Department of Finance (Finance) on October 1, 2014 for the period of January 1 through June 30, 2015. Finance has completed its review of your ROPS 14-15B, which may have included obtaining clarification for various items.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

> Item No. 19 – Affordable Housing Project Management Costs from Redevelopment Property Tax Trust Fund (RPTTF) funding in the amount of $13,277 and with a total outstanding obligation of $1,407,057 is not an enforceable obligation and not eligible for funding on the ROPS. 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. Since the City of Watsonville (City) assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. Therefore, Item No. 19 is not an enforceable obligation and not eligible for funding on the ROPS.

In addition, Finance notes the following:

- Item Nos. 29 and 32 – Litigation Costs totaling $124,151 ($28,151 + $96,000). These items are authorized; however, Finance notes that the approved RPTTF funding may only be used on litigation costs attributable to the Agency. Any litigation costs attributable to the City are not enforceable obligations and should be funded by City funds.

- The administrative costs claimed are within the fiscal year administrative cap pursuant to HSC section 34171 (b). However, Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the obligations listed on the ROPS. HSC section 34179 (i) requires the oversight board to exercise a fiduciary

duty to the taxing entities. Therefore, Finance encourages the oversight board to apply adequate oversight when evaluating the administrative resources required to successfully wind-down the Agency.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2014 period. The amount of RPTTF approved in the table below reflects the prior period adjustment self-reported by the Agency. HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. Proposed CAC adjustments were not received in time for inclusion in this letter; therefore, the amount of RPTTF approved in the table below only reflects the prior period adjustment self-reported by the Agency.

Except for the item denied in whole, Finance is not objecting to the remaining items listed on your ROPS 14-15B. If you disagree with the determination with respect to any items on your ROPS 14-15B, 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 $705,233 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution For the period of January through June 2015		
Total RPTTF requested for non-administrative obligations		621,703
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations on ROPS	**$**	**746,703**
Total RPTTF requested for non-administrative obligations		**621,703**
Denied Item		
Item No. 19		(13,277)
Total RPTTF authorized for non-administrative obligations	**$**	**608,426**
Total RPTTF requested for administrative obligations		**125,000**
Total RPTTF authorized for administrative obligations	**$**	**125,000**
Total RPTTF authorized for obligations	**$**	**733,426**
ROPS 13-14B prior period adjustment		(28,193)
Total RPTTF approved for distribution	**$**	**705,233**

Please refer to the ROPS 14-15B schedule that was used to calculate the approved RPTTF amount:

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

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, 2015. This determination only applies 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 section 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 the 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 agency in the RPTTF.

Pursuant to HSC section 34177 (a) (3), only those payments listed on an approved ROPS may be made by the successor agency from the funds specified in the ROPS. However, if for whatever reason the Agency needs to make payments for approved obligations from another funding source, HSC section 34177 (a) (4) requires the Agency to first obtain oversight board approval.

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
Acting Program Budget Manager

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