DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

May 15, 2015

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

Dear Ms. Davison:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 08, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Watsonville Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to Finance on February 26, 2015,for the period of July through December 2015. Finance issued a ROPS determination letter on April 08, 2015. Subsequently, the Agency requested a Meet and Confer session on one or more of the determinations made by Finance. The Meet and Confer session was held on April 23, 2015.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of the specific determinations being disputed.

- Item Nos. 29 and 32 – City of Watsonville (City), Third City/Agency Loan and Fourth City/Agency Loan, in the respective amounts of $55,500 and $58,000 of Redevelopment Property Tax Trust Fund (RPTTF) funding. Finance no longer denies these items. During the Meet and Confer process the Agency provided additional information that supports these items are enforceable obligations of the Agency. As such, these items are approved for $55,500 and $58,000, respectively, in RPTTF.

In addition, per Finance's letter dated April 08, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- It is our understanding the Agency requested the incorrect amount for the U.S. Bank Trustee Fees, identified as Item No. 3. Per discussion with Agency staff and review of documentation provided, the $5,775 requested for the six month period should be $6,300. As a result, the total ROPS 15-16A RPTTF funding requested for this enforceable obligation has been increased by $525.

- 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 15-16A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2014 period. 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 approved in the table on the following page only reflects the prior period adjustment self-reported by the Agency.

Except for the items denied in whole or in part, Finance is not objecting to the remaining items listed on your ROPS 15-16A.

The Agency's maximum approved RPTTF distribution for the reporting period is $2,638,327 as summarized in the Approved RPTTF Distribution table on the following page:

Approved RPTTF Distribution For the period of July through December 2015		
Total RPTTF requested for non-administrative obligations		2,532,105
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations on ROPS	**$**	**2,657,105**
RPTTF adjustment to non-administrative obligations		525
Total RPTTF adjustments	**$**	**525**
Total RPTTF requested for non-administrative obligations		**2,532,630**
Total RPTTF authorized for non-administrative obligations	**$**	**2,532,630**
Total RPTTF requested for administrative obligations		**125,000**
Total RPTTF authorized for administrative obligations	**$**	**125,000**
Total RPTTF authorized for obligations	**$**	**2,657,630**
ROPS 14-15A prior period adjustment		(19,303)
Total RPTTF approved for distribution	**$**	**2,638,327**

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. During the ROPS 15-16A review Finance requested financial records to support the cash balances reported by the Agency; however, the Agency was unable to support the amounts reported. The reported beginning balances for RPTTF could not be supported by the Agency's accounting records. As a result, Finance will continue to work with the Agency after the ROPS 15-16A review period to properly identify the Agency's cash balances. If it is determined the Agency possesses cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 15-16B.

Please refer to the ROPS 15-16A schedule that was used to calculate the approved RPTTF amount:

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

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 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 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 Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-3274.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

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

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jan.davison@cityofwatsonville.org
ezequiel.vega@cityofwatsonville.org
aud002@co.santa-cruz.ca.us
RDA-SDSupport@sco.ca.gov