DEPARTMENT OF FINANCE

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December 17, 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 October 28, 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 15-16B) to Finance on September 18, 2015, for the period of January 1 through June 30, 2016. Finance issued a ROPS determination letter on October 28, 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 November 9, 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 No. 20 – Estimated Project Management Costs associated with the Sunny Meadows Housing Project funded from Redevelopment Property Tax Trust Fund (RPTTF) in the amount of $2,105 and with a total outstanding obligation of $4,208. Finance continues to deny this item. The Agency contends these costs are necessary to monitor contracts related to the Manabe-Ow Business Park Owner Participation Agreement (OPA). However, the OPA does not require these costs and Finance approved the transfer of the encumbrance and receivables related to this OPA to the Housing Successor in our Housing Asset Transfer Form approval letter to the Agency dated September 5, 2012. HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain 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, this item is not an enforceable obligation and not eligible for funding on ROPS.

In addition, per Finance's letter dated October 28, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 29 –Third Agency/City Loan (Loan) funded from RPTTF in the amount of $28,151 is not approved. The Loan pertains to funds provided by the City to the Agency for litigation costs associated with an action contesting dissolution statutes or acts taken pursuant to dissolution statues.

  HSC 34171 (d) (1) (F) (ii) states a sponsoring entity may provide funds to a successor agency for payment of legal expenses related to civil actions initiated by the successor agency, including writ proceedings, contesting the validity or challenging acts taken pursuant to dissolution statutes. If the successor agency obtains a final judicial determination granting the relief requested in the action, the funds provided by the sponsoring entity for legal expenses related to successful causes of action pled by the successor agency shall be deemed an enforceable obligation for repayment under the terms set forth in subdivision (h) of HSC section 34173.

  The Agency has not obtained a final judicial determination granting the relief requested in the action related to costs for Item No. 29. Therefore, Item No. 29 is not an enforceable obligation and not eligible for RPTTF funding at this time.

The administrative costs claimed are within the fiscal year administrative cap pursuant to HSC section 34171 (b) (2). 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 use adequate discretion when evaluating the administrative resources required to successfully wind-down the Agency.

Pursuant to HSC section 34186 (a) (1), the Agency was required to report on the ROPS 15-16B form the estimated obligations versus actual payments (prior period adjustment) associated with the January through June 2015 period (ROPS 14-15B). HSC section 34186 (a) (1) also specifies the prior period adjustment self-reported by the Agency is subject to review by the county auditor-controller (CAC). Proposed CAC adjustments were not received in time for inclusion in this letter; therefore, the amount of RPTTF approved in the table on the following page only reflects the Agency's self-reported prior period adjustment.

Except for the items denied in whole, Finance is not objecting to the remaining items listed on your ROPS 15-16B. The Agency's maximum approved RPTTF distribution for the reporting period is $675,355 as summarized in the Approved RPTTF Distribution table on the following page:

Approved RPTTF Distribution For the period of January through June 2016		
Total RPTTF requested for non-administrative obligations		663,265
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations on ROPS 15-16B	**$**	**788,265**
Total RPTTF requested for non-administrative obligations		**663,265**
Denied Items		
Item No. 20		(2,105)
Item No. 29		(28,151)
		(30,256)
Total RPTTF authorized for non-administrative obligations	**$**	**633,009**
Total RPTTF requested for administrative obligations		**125,000**
Total RPTTF authorized for administrative obligations	**$**	**125,000**
Total RPTTF authorized for obligations	**$**	**758,009**
ROPS 14-15B prior period adjustment		(82,654)
Total RPTTF approved for distribution	**$**	**675,355**

On the ROPS 15-16B form, the Agency reported cash balances and activity for the period January 1 through December 31, 2015. Finance will perform a review of the Agency's self-reported cash balances on an ongoing basis. Please be prepared to submit financial records and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved obligations, HSC section 34177 (l) (1) (E) requires these balances be used prior to requesting RPTTF.

Please refer to the ROPS 15-16B schedule used to calculate the total RPTTF approved for distribution:

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

This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2016. This determination only applies to items when 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 ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if it was not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items 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 available prior to the enactment of the redevelopment dissolution statutes. 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.

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