



December 18, 2012

Ms. Tori Hannah, Finance Director
City of Capitola
420 Capitola Avenue
Capitola, CA 95010

Dear Ms. Hannah:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 15, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Capitola Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 31, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 15, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on November 15, 2012.

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 item being disputed.

- Item Nos. 2 and 3 – Loan and Cooperative Agreements with the City totaling \$2.4 million. Finance continues to deny the items at this time. HSC section 34171 (d) (2) states that loans between the city that created the redevelopment agency (RDA) and the former RDA are not enforceable unless the loan agreements were entered into within the first two years of the date of the creation of the RDA. The pro-rated share of interest payments for the seven months representing July 1, 2011 to January 31, 2012 are not an enforceable obligation and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding since ABX 1 26 took effect on June 28, 2011. Upon receiving a Finding of Completion from Finance, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods.

In addition, per Finance's determination letter dated October 15, 2012, the following reclassification is not being disputed by the Agency:

- Although enforceable, Item No. 10 – Administrative Allowance in the amount of \$125,000 has been reclassified.

The Agency's maximum approved RPTTF distribution for the reporting period is: \$711,030 as summarized below:

Approved RPTTF Distribution Amount	
For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 800,000
Less: Six-month total for item(s) denied or reclassified as administrative cost	
Item 2	61,031
Item 3	27,939
Item 10*	125,000
Total approved RPTTF for enforceable obligations	\$ 586,030
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	125,000
Total RPTTF approved:	\$ 711,030

* Reclassified as administrative cost

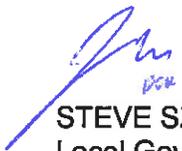
Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

The amount available from the RPTTF is the same as the 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.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS III. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2013. 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 questioned on this ROPS or a preceding ROPS.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Lonnie Wagner, Accountant II, City of Capitola
Ms. Mary Jo Walker, Auditor-Controller, County of Santa Cruz
Ms. Marianne Ellis, Property Tax Accounting Manager, County of Santa Cruz
California State Controller's Office