



December 18, 2012

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

Dear Ms. Davison:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 4, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Watsonville Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 20, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 4, 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 13, 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 8 – Advance from the City of Watsonville (City) Water Enterprise Fund totaling \$720,253. Finance continues to deny this item at this time. Finance previously denied this item per HSC section 34171 (d) (2) which states "enforceable obligation" does not include any agreements, contracts, or arrangements between the city that created the redevelopment agency and the former redevelopment agency. However, written agreements entered into at the time of issuance of indebtedness obligations and solely for the purpose of securing or repaying those indebtedness obligations or loan agreements entered into between the redevelopment agency and the city that created it, within two years of the date of creation of the redevelopment agency, may be deemed to be enforceable obligations. None of these exceptions apply. The loan was neither issued within the first two years of the creation of the former RDA, nor was it entered into at the time of issuance of the indebtedness solely for the purposes of securing or repaying indebtedness; therefore, this item is not an enforceable obligation at this time. Per HSC section 34191.5 (b), upon obtaining a Finding of Completion from Finance, loan agreements entered into between the redevelopment agency and the city, county, or city and county that created the redevelopment agency shall be deemed to be enforceable obligations provided the oversight board makes a finding the loan was for legitimate redevelopment purposes.

- Item 26 – City Loan for “2012 ROPS” totaling \$1.1 million. Finance no longer objects to this item. Finance previously denied this item per HSC section 34171 (d) (2) which states "enforceable obligation" does not include any agreements, contracts, or arrangements between the city that created the redevelopment agency and the former redevelopment agency. However, the Agency provided additional documentation during the Meet and Confer process demonstrating a shortage of funds received from the county auditor-controller’s June 1, 2012 distribution of Redevelopment Property Tax Trust Fund (RPTTF) to pay enforceable obligations and the use of RPTTF received from the auditor-controller. Due to this shortage, per HSC section 34173 (h), which states the creator of the former redevelopment agency may loan funds to a successor agency for approved enforceable obligations, the City loaned the Agency funds to pay for Finance approved enforceable obligations. The Agency provided documentation of the City loan, oversight board approval of the loan, and receipt use of the loan; therefore, this item is an enforceable obligation eligible for RPTTF.

In addition, per Finance’s ROPS letter dated October 4, 2012, the following item was denied and not contested by the Agency:

- Item 12 – Loans between the City and the redevelopment agency totaling \$825,872. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the redevelopment agency (RDA) and the former RDA are not enforceable. This shall remain the case until a finding of completion is issued by Finance and the oversight board makes a finding that the loan was for legitimate redevelopment purposes according to HSC section 34191.4 (b). Therefore, these items are not enforceable obligation and not eligible for funding at this time.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: \$1,600,929 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 1,641,570
Less: Six-month total for items denied or reclassified as administrative cost	
Item 8	60,022
Item 12	105,619
Total approved RPTTF for enforceable obligations	<u>\$ 1,475,929</u>
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	125,000
Total RPTTF approved:	\$ 1,600,929

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: Mr. Ezequiel Vega, Administrative Service Director, City of Watsonville
Ms. Mary Jo Walker, Auditor-Controller, Santa Cruz County
Ms. Marianne Ellis, Property Tax Accounting Manager, Santa Cruz County
California State Controller's Office