



May 17, 2013

Mr. Stephen Conway, Director of Finance  
City of Los Gatos  
110 E. Main Street  
Los Gatos, CA 95030

Dear Mr. Conway:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated March 27, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Los Gatos Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14A) to Finance on February 15, 2013 for the period of July through December 2013. 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 April 9, 2013.

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 items being disputed.

- Item No. 8 – RDA Reserve for COP payments in the amount of \$135,757. The Agency claims it needs to build reserves over the next several years to ensure debt service payments can be made once the funding cap is reached for the project area. The Agency believes the funding cap may be reached by fiscal year 2026-27. HSC 34171 (d) (1) (A) states that reserves may be held when required by the bond indenture or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following half calendar year. Since the Agency's request to build a reserve for these payments on stated limitations in the former redevelopment agency's plan is not an enforceable obligation per HSC section 34171, Finance cannot authorize the request. Further, it is Finance's expectation that ABx1 26/AB 1484 allows enforceable obligations to be listed on the Recognized Obligation Payment Schedules and payable out of available RPTTF until such obligation has been satisfied. Therefore, a reserve fund for these future payments is not necessary.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS 13-14A. 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 July through December 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.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: \$1,583,039 as summarized below:

<b>Approved RPTTF Distribution Amount</b>	
<b>For the period of July through December 2013</b>	
Total RPTTF funding requested for obligations	\$ 1,593,796
Minus: Six-month total for items denied Item 8	\$ 135,757
Total approved RPTTF for enforceable obligations	\$ 1,458,039
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	125,000
Minus: ROPS II prior period adjustment	-
<b>Total RPTTF approved for distribution:</b>	<b>\$ 1,583,039</b>

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2012 period. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. The amount of RPTTF approved in the above table includes the prior period adjustment that was self-reported by the Agency and the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment. Please refer to the worksheet used by the CAC to determine the audited prior period adjustment for the Agency:

<http://www.dof.ca.gov/redevelopment/ROPS/view.php>

Please refer to the ROPS III schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS/ROPS III Forms by Successor Agency/>.

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.

To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to 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.

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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. Jennifer Callaway, Finance and Budget Manager  
Ms. Irene Lui, Controller-Treasurer, Santa Clara County  
California State Controller's Office