



May 16, 2014

Ms. Bonnie Lipscomb, Executive Director
City of Santa Cruz
337 Locust Street
Santa Cruz, CA 95060

Dear Ms. Lipscomb:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 16, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of San Marcos Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on March 3, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 17, 2014. 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 May 7, 2014.

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, as further discussed below:

- Item No. 187 – Bond Expenditure Agreement from Bond Proceeds continues to be partially denied in the amount of \$82,368. The Agency requested to transfer \$2,889,454 of excess bond proceeds to the City of Santa Cruz, pursuant to a Bond Expenditure Agreement approved via Oversight Board Resolution No. OBSA – 20. Section 4.1 of the Bond Expenditure Agreement states that excess bond proceeds may be used on any project, program or activity pertaining to, among other things, Highways 1 and 9 Intersection Improvements.

Currently, the Agency has a total outstanding obligation for Item No. 11 on ROPS 14-15A – Highway 1 and 9 Improvements Phase 1 in the amount of \$82,368. During the Meet and Confer, the Agency stated that they intend to use the unspent bond proceeds to fund three other projects as budgeted in their Capital Improvement Program. We note that Item No. 11 was deemed an enforceable obligation on prior ROPS and the Agency's Bond Expenditure Agreement found this project to be consistent with bond covenants. Therefore, bond proceeds should be used on this existing enforceable obligation prior to transfer to the City for payment of other obligations. HSC section 34191.4 (c) (2) (A), requires bond proceeds in excess of amounts needed to satisfy enforceable obligations to be used in a manner consistent with the original bond covenants. Due to the outstanding enforceable obligation for Item No. 11 on ROPS 14-15A, \$82,368 of Bond

Proceeds cannot be considered excess. Therefore, Item No. 187 is partially denied for Bond Proceeds funding in the amount of \$82,368.

- During the Meet and Confer, the Agency contested the reclassification of \$462,000 of reserve funds reported on the Cash Balance Sheet. The Agency stated that these funds were revenues from the Del Mar Theater, and were needed to be used for unexpected liabilities that require immediate attention pursuant to the Del Mar Theater Lease; however, HSC 34177 (b) prohibits the creation of reserves unless specifically required by bond indentures. The Agency provided documentation to identify that various property maintenance projects totaling \$31,270, were needed and scheduled to be paid with the reserve balance; however, these items were not placed on ROPS 14-15A. Finance approves the retention of reserve balances for funding these property maintenance projects in the amount of \$31,270. Item No. 45 will be increased to \$118,270 (\$87,000 + \$31,270) for reserve expenditure this period.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting Redevelopment Property Tax Trust Fund (RPTTF) funding. Pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. Finance determined the following:

As detailed in the partial denial of Item No. 187 above, Bond Proceeds in the amount of \$82,368 cannot be considered excess, as they can be used to retire an enforceable obligation. Therefore, the funding source for the following item has been reclassified to Bond Proceeds:

Item No. 11 – Highways 1 and 9 Intersection Improvements in the amount of \$82,368. The Agency requests \$82,368 from Reserve Balances. However, Finance is reclassifying \$82,368 to Bond Proceeds. This item was determined to be an enforceable obligation for the ROPS 14-15A period. Therefore, Finance is approving Bond Proceeds funding in the amount of \$82,368.

As a result of the reclassification of Item No. 11, Reserve Balances in the amount of \$82,368 are available for expenditure. Therefore, the following item has been reclassified to Reserve Balances in the amount specified below:

Item No. 3 – 2011 Non-Housing Tax Allocation Bonds (TAB), Series B in the amount of \$82,368. The Agency requests RPTTF in the amount of \$1,514,664. However, all other funding sources must be used prior to RPTTF. Therefore, Finance is reclassifying \$82,368 to Reserve Balances.

In addition, the Agency's financial records and Cash Balance worksheet displayed net available Other Funds in the amount of \$917,882.

Therefore, the funding sources for the following items have been reclassified to Other Funds in the amounts specified below:

- Item No. 3 – 2011 Non-Housing TAB, Series B in the amount of \$259,985. The Agency requests RPTTF funding in the amount of \$1,514,664; however, \$82,368 was reclassified to Reserve Balances and Finance is reclassifying \$228,715 from RPTTF to Other Funds. This item was determined to be an enforceable obligation for the ROPS

14-15A period. However, the Agency has \$886,612 in available Other Funds. Therefore, Finance is approving RPTTF in the amount of \$1,203,581, Reserve Balances in the amount of \$82,368 and Other Funds in the amount of \$228,715, totaling \$1,514,664.

- Item No. 4 – 2011 Non-Housing TAB, Series C in the amount of \$525,436. The Agency requests RPTTF funding in the amount of \$525,436. This item was determined to be an enforceable obligation for the ROPS 14-15A period. However, Finance is reclassifying the funding source from RPTTF to Other Funds in the amount \$525,436. The Agency has \$657,897 (\$917,882 - \$259,985) in available Other Funds; therefore, Finance is approving the use of Other Funds in the amount of \$525,436.
- Item No. 5 – Bond Expenses in the amount of \$2,247. The Agency requests RPTTF funding in the amount of \$2,247. This item was determined to be an enforceable obligation for the ROPS 14-15A period. However, Finance is reclassifying the funding source from RPTTF to Other Funds in the amount \$2,247. The Agency has \$132,461 (\$917,882 - \$259,985 - \$525,436) in available Other Funds; therefore, Finance is approving the use of Other Funds in the amount of \$2,247.
- Item No. 7 – 1280 Shaffer Owner Participation Agreement (OPA) in the amount of \$65,084. The Agency requests funding from Reserve Balances in the amount of \$63,874 and RPTTF funding in the amount of \$65,084. This item was determined to be an enforceable obligation for the ROPS 14-15A period. However, Finance is reclassifying the funding source from RPTTF to Other Funds in the amount \$65,084. The Agency has \$130,214 (\$917,882 - \$259,985 - \$525,436 - \$2,247) in available Other Funds; therefore, Finance is approving the use of Other Funds in the amount of \$65,084.
- Item No. 8 – Chestnut OPA in the amount of \$58,130. The Agency requests RPTTF funding in the amount of \$58,130. This item was determined to be an enforceable obligation for the ROPS 14-15A period. However, Finance is reclassifying the funding source from RPTTF to Other Funds in the amount \$58,130. The Agency has \$65,130 (\$917,882 - \$259,985 - \$525,436 - \$2,247 - \$65,084) in available Other Funds; therefore, Finance is approving the use of Other Funds in the amount of \$58,130.
- Item No. 45 – Del Mar Property Management in the amount of \$7,000. The Agency requests funding from Reserve Balances in the amount of \$80,000 and RPTTF funding in the amount of \$7,000. This item was determined to be an enforceable obligation for the ROPS 14-15A period. However, Finance is reclassifying the funding source from RPTTF to Other Funds in the amount of \$7,000. The Agency has \$7,000 (\$917,882 - \$259,985 - \$525,436 - \$2,247 - \$65,084 - \$58,130) in available Other Funds; therefore, Finance is approving the use of Other Funds in the amount of \$7,000.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2013 period. The amount of RPTTF approved in the table below includes the prior period adjustment self-reported by the Agency. 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. Any proposed CAC adjustments were not received in time for inclusion in this letter. Therefore, the amount of RPTTF approved in the table below only includes the prior period adjustment

self-reported by the Agency.

Except for item denied in whole or in part as an enforceable obligation or for the items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15A. If you disagree with the determination with respect to any items on your ROPS 14-15A, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

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

The Agency's maximum approved RPTTF distribution for the reporting period is \$2,212,724 as summarized below:

Approved RPTTF Distribution For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	3,117,381
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 3,242,381
Total RPTTF requested for non-administrative obligations	3,117,381
<u>Cash Balances - Items reclassified to Other Funds</u>	
Item No. 3	(228,715)
Item No. 4	(525,436)
Item No. 5	(2,247)
Item No. 7	(65,084)
Item No. 8	(58,130)
Item No. 45	(7,000)
	(886,612)
<u>Item reclassified to Reserve Balances</u>	
Item No. 3	(82,368)
Total RPTTF authorized for non-administrative obligations	\$ 2,148,401
Total RPTTF requested for administrative obligations	125,000
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 2,273,401
ROPS 13-14A prior period adjustment	(60,677)
Total RPTTF approved for distribution	\$ 2,212,724

Please refer to the ROPS 14-15A 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, 2014. 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 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 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) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Kim Wigley, Senior Accountant, City of Santa Cruz
Ms. Mary Jo Walker, Auditor-Controller, Santa Cruz County
California State Controller's Office