



COUNTY OF SANTA CRUZ

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California Department of Finance
915 L Street
Sacramento, CA 95814

SENT VIA EMAIL

July 6, 2012

SUBJECT: EXHIBIT 12 ON THE DEPARTMENT OF FINANCE WEBSITE FOR THE COUNTY OF SANTA CRUZ

Dear Mr. Hill,

The County of Santa Cruz is working through the mandatory reporting requirements for July 9 and July 12, pursuant to AB 1484. The instructions from the Department of Finance (DOF) require us to use Exhibit 12, posted on the DOF website. The problem is that the figures listed for the January-June ROPS are grossly inaccurate, and I respectfully request that DOF correct Exhibit 12 for four of the five Successor Agencies in Santa Cruz County.

We agree with the July-December ROPS figures. However, the January-June ROPS figures are wildly inaccurate, except for Capitola with which we agree. See the chart at the end of this letter.

I believe the problem is that it wasn't clear at the time the January-June ROPS were being finalized in March exactly how to classify the money that the RDAs received from the December/January property tax distribution. The Successor Agencies in Santa Cruz County classified this money as reserves or fund balance or something similar. We distributed property taxes in December, so the cash was already in the RDA's treasury on January 1. The Successor Agencies did not classify the December tax distribution as RPTTF because the RPTTF did not exist until February 1. Your staff did not understand this distinction when they developed Exhibit 12, and consequently are mistakenly reporting that very little or nothing was approved from the December prop tax distribution, which DOF is now calling RPTTF funds.

I have communicated this problem to the Department of Finance staff through a series of emails, and have been told to use the Exhibit 12 figures, correct or not. This is not the solution for Santa Cruz County. I respectfully request that DOF correct Exhibit 12 for four of the five Successor Agencies in Santa Cruz County.

CITY OF WATSONVILLE REDEVELOPMENT AGENCY

One example is the City of Watsonville Successor Agency. DOF approved their January-June ROPS for \$1,806,591. This is entirely funded from their December prop tax distribution, which DOF is now calling RPTTF funds. Watsonville had \$1.2 million negative cash as of January 1, excluding the December tax distribution. Watsonville always borrowed from their City General

Fund until property taxes were distributed, and then would reimburse their General Fund at that time. But since AB X1 26 disallowed interagency loans, their City General Fund will not get reimbursed for that \$1.2 million “loan” to their RDA this past December. So their January-June ROPS must be funded entirely from the December RPTTF reserve because they have absolutely no other cash to fund it. Yet the DOF Exhibit 12 indicates \$0 from RPTTF reserve.

SANTA CRUZ COUNTY REDEVELOPMENT AGENCY

Exhibit 12 indicates that just \$250,000 was approved from the PRTTF reserve, just the minimum administrative allowance. It shows that \$208,333 of the administrative allowance was denied by DOF. This is not correct. The DOF did not deny any ROPS line items for this Successor Agency. More importantly, of the \$16,224,006 total approved January-June ROPS, \$11,818,170 is correctly funded from the December RPTTF reserve, with the remainder funded from bond proceeds, other revenues or true reserves from before the December tax distribution. Of the \$11,818,170 funded from the December RPTTF reserve, 97% was for bonded debt service.

CITY OF SANTA CRUZ REDEVELOPMENT AGENCY

Exhibit 12 indicates that just \$250,000 was approved from the PRTTF reserve, which is the administrative allowance. In fact, of the \$11,476,143 total approved January-June ROPS, \$4,750,759 is correctly funded from December RPTTF reserve, with the remainder funded from bond proceeds, other revenues or true reserves from before the December tax distribution. Of the \$4,750,759 funded from the December RPTTF reserve, 37% was for bonded debt service.

CITY OF SCOTTS VALLEY REDEVELOPMENT AGENCY

Exhibit 12 indicates that just \$90,000 was approved from the PRTTF reserve, which is the administrative allowance. In fact, of the \$1,005,837 requested for the January-June ROPS, the DOF denied \$150,000 and \$17,236 was funded from bond proceeds, leaving \$838,601 to be funded from December RPTTF reserve, of which 72% was for bonded debt service.

CITY OF CAPITOLA REDEVELOPMENT AGENCY

We agree with DOF’s Exhibit 12.

Please remember the DOF did not issue their ROPS format until March 15, and the direction at the time was that Successor Agencies could use whatever format they were using for the January-June ROPS, but should use the new format for the July-December ROPS. This is what our Successor Agencies did. Santa Cruz County was one of the few counties in the State which actually certified the ROPS by April 15, so we were well under way by March 15 when the DOF issued the ROPS format. In hindsight, I see this is a problem, but no one knew this until now. If we had known, I would have told the Successor Agencies to correct their ROPS.

Furthermore, the taxes were not RPTTF until February 1, so the taxes that were distributed in December were not RPTTF at the time. This was a source of great confusion throughout the state. DOF is now calling that December money RPTTF, and I understand why for simplicity sake, but in the January-March timeframe when the Successor Agencies were preparing their ROPS, no one was referring to the December tax distribution as RPTTF funds.

Some counties actually discouraged the use of "RPTTF" as a funding source on the January-June ROPS because it indicated that the Successor Agency needed more money than what was already distributed in December. So the funding source of RPTTF was definitely suspicious at that time.

Finally, the new "due diligence review" required by H&S Code §34179.5 requires County Auditor-Controllers to distribute the beginning unencumbered cash to the taxing entities very soon. The message that has been reinforced repeatedly since January is that Auditor-Controllers would not be required to distribute beginning unencumbered cash until the Agreed Upon Procedures report is done. H&S Code §34179.5 really buttons down that process and will result in solid figures. But DOF's requirement to use wildly incorrect RPTTF figures from Exhibit 12 would force us to distribute beginning unencumbered cash instead, before we even have a handle on the amounts.

I cannot use the Exhibit 12 figures. This process is seriously flawed for Santa Cruz County. And I have received communications from no less than eleven (mostly large) counties who have been communicating with your office about of similar problems with Exhibit 12.

I must use the figures that we reported on line 34 of the January-June RPTTF worksheet that we submitted to the DOF on June 11. It ties to the chart below. I have attached the January-June RPTTF worksheet that we submitted to DOF on June 11. I have also attached another Excel file in which we analyze in great detail each Successor Agency's ROPS, beginning on row 127. It would be greatly appreciated if DOF would correct our Exhibit 12 so we can be in compliance with your instructions. Nevertheless, I still have to use our June 11 figures. I am confident they are correct.

My office and all the Successor Agencies in Santa Cruz County have been good partners with the DOF. Our County has complied with all legislative deadlines including establishing and holding Oversight Boards meetings on a timely basis, approving and certifying the ROPS by April 15, conducting the Agreed Upon Procedures audit by July 1, and making passthroughs and all residual distributions related to both the January-June ROPS and the July-December ROPS by June 1. My office intends to work with our Successor Agencies to facilitate compliance with the new H&S Code §34179.5. The obvious downside of complying with ABX12 26 by the deadlines, with all of its flaws and ambiguities, is that we did not have the benefit of waiting for greater clarity, or learning from others mistakes. DOF's instructions to Successor Agencies regarding the January-June ROPS were late and unclear, and the Successor Agencies in Santa Cruz County should not be punished for it. Once again, the solution that has been offered, which is to use the wildly inaccurate Exhibit 12, will result in ridiculous and completely unrealistic outcomes for our Successor Agencies. The solution I offer is to correct Exhibit 12.

Regards,



MARY JO WALKER
Auditor-Controller

Attachments

cc: Ana Matosantos, Director, and Chris Hill, Program Analyst, California Department of Finance

Successor Agencies for County of Santa Cruz, and Cities of Santa Cruz, Watsonville and Scotts Valley

AS REPORTED ON DOF EXHIBIT 12	January to June 2012		
Successor Agency	Total Obligations Requested to be Paid for with RPTTF per 6-Month Period (Includes Pass-Through Payments listed in ROPS)	Total RPTTF Obligations Questioned by Finance per 6 Month Period	Maximum RPTTF Obligations Approved by Finance per 6-Month Period
Redevelopment Agency of the City of Capitola	307,477	104,625	202,852
Redevelopment Agency of the City of Santa Cruz	250,000	-	250,000
Redevelopment Agency of the City of Watsonville	-	-	-
Santa Cruz County Redevelopment Agency	458,333	208,333	250,000
Scotts Valley Redevelopment Agency	90,000	-	90,000

CORRECTED EXHIBIT 12:

Redevelopment Agency of the City of Capitola	307,477	104,625	202,852
Redevelopment Agency of the City of Santa Cruz	4,750,759	-	4,750,759
Redevelopment Agency of the City of Watsonville	1,806,591		1,806,591
Santa Cruz County Redevelopment Agency	11,818,170	-	11,818,170
Scotts Valley Redevelopment Agency	988,601	150,000	838,601