



December 4, 2015

Mr. Christopher J. Jicha, Senior Consultant, Kosmont Companies
City of Merced Designated Local Authority
865 South Figueroa Street, 35th Floor
Los Angeles, CA 90017

Dear Mr. Jicha:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

The City of Merced Designated Local Authority Successor Agency (Agency) submitted an oversight board approved Low and Moderate Income Housing Fund Due Diligence Review (DDR) to the California Department of Finance (Finance) on May 15, 2015. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Since the Agency did not meet the October 15, 2012 submittal deadline pursuant to HSC section 34179.6 (c), Finance is not bound to completing its review and making a determination by the November 9, 2012 deadline pursuant to HSC section 34179.6 (d). However, Finance has completed its review of your DDR, which may have included obtaining clarification for various items.

HSC section 34179.6 (d) authorizes Finance to adjust the DDR's stated balance of Low and Moderate Income Housing Fund (LMIHF) available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

Disallowed Transfers in the amount of \$3,942,258. The California State Controller (Controller) completed the Asset Transfer Review for the Agency on July 30, 2015 and noted disallowed transfers between the former redevelopment agency and the City's Public Financing and Economic Development Authority in the amount of \$35,014,913. Of this amount, \$3,942,258 is unencumbered cash which the Controller has ordered to be remitted to the county auditor-controller (CAC) for distribution to the taxing entities. Therefore, Finance is increasing the Agency's LMIHF available balance by \$3,942,258.

If you disagree with Finance's adjusted amount of LMIHF balances available for distribution to the taxing entities, 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 LMIHF balance available for distribution to the affected taxing entities is \$4,748,908 (see table below):

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 806,650
Finance Adjustments	
Add:	
Disallowed transfers	3,942,258
Total LMIHF available to be distributed:	\$ 4,748,908

Absent a Meet and Confer request, HSC section 34179.6 (f) requires successor agencies to transmit to the CAC the amount of funds identified in the above table within five working days, plus any interest those sums accumulated while in the possession of the recipient.

If funds identified for transmission are in the possession of the successor agency, and if the successor agency is operated by the city or county that created the former redevelopment agency, then failure to transmit the identified funds may result in offsets to the city's or the county's sales and use tax allocation, as well as its property tax allocation. If funds identified for transmission are in the possession of another taxing entity, the Agency's failure to recover and remit those funds may result in offsets to its sales and use tax allocation or to its property tax allocation.

Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain loan agreements between the former redevelopment agency (RDA) and the city, county, or city and county that created the RDA to be considered enforceable obligations. These provisions also allow certain bond proceeds to be used for the purposes in which they were sold and allows for the transfer of real property and interests into the Community Redevelopment Property Trust Fund once Finance approves the Agency's long-range property management plan.

In addition to the consequences above, willful failure to return assets that were deemed an unallowable transfer or failure to remit the funds identified above could expose certain individuals to criminal penalties under existing law.

Please direct inquiries to Cindie Lor, Supervisor or Todd Vermillion, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Mr. Michael Amabile, Chair, Merced Designated Local, City of Merced Designated Local Authority
Ms. Sylvia Sanchez, Supervising Accountant, Merced County