

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: Other Funds and Accounts Due Diligence Review

The City of Merced Designated Local Authority Successor Agency (Agency) submitted an oversight board approved Other Funds and Accounts (OFA) Due Diligence Review (DDR) to the California Department of Finance (Finance) on January 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 January 15, 2013 submittal deadline pursuant to HSC section 34179.6 (c), Finance is not bound to completing its review and making a determination by the April 1, 2013 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 OFA available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

- Asset transfers to the City of Merced totaling \$31,072,655. 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 (RDA) and the City's Public Financing and Economic Development Authority in the amount of \$35,014,913. Of this amount, \$3,942,258 is cash from the former RDA's Low to Moderate Income Housing Fund (LMIHF) and are accounted for in Finance's review of the LMIHF DDR. The remaining disallowed amount of \$31,072,655 consists of \$7,235,258 in OFA cash and \$23,837,397 in non-cash and cash equivalents.

In accordance with the Controller's order, Finance is increasing OFA balances available for distribution to the taxing entities by \$7,235,258.

Since the remaining assets of \$23,837,937 are not considered cash or cash-equivalent assets, Finance has made no adjustment to the available balance to the affecting taxing entities. However, the Agency is required to reverse the improper transfers and recover the assets from the City.

- Assets legally restricted in the amount of \$598,333. Documentation was provided by the Merced County Auditor-Controller (CAC) office that indicates assets originally included in the former RDA funds remitted to the CAC on July 12, 2012 included \$598,333 of the Merced Gateways Redevelopment Project 2009 Tax Allocation Bonds, Series A. Since these funds are bond proceeds and are not available for distribution to the affected taxing entities, Finance is reducing the OFA balance available by \$598,333.
- Balances retained for the funding of enforceable obligations in the amount of \$2,359,027 are not permitted for the reasons described below:
  - The Agency requested to retain \$589,580 in reserve balance to fund remediation obligations authorized during the July through December 2014 Recognized Obligations Payment Schedule (ROPS) period. However on the July through December 2015 ROPS Report of Prior Period Adjustments (PPA), the Agency reports expending \$126,190 of the \$589,580 authorized. Of the \$589,580 requested to be retained, the Agency is permitted to retain \$126,190 of its June 30, 2012 balance to fund this obligation. Therefore Finance is increasing the OFA balance available for distribution to the taxing entities by \$463,390 (\$589,580 - \$126,190).
  - The Agency requested to retain \$1,608,770 for the January through June 2012 ROPS (ROPS I) period. The CAC provided Finance with a list of payments made after June 30, 2012 for the ROPS I period. The payments for ROPS I total \$193,217. Furthermore, the CAC documentation supports the Agency did not fund most its Series 2001 and 2009 debt service payments during the ROPS I and July through December 2012 (ROPS II) period. Therefore the Agency is permitted to retain an additional \$674,517 in June 30, 2012 reserve funds as reported on ROPS 15-16A to fund this payment. Of the \$1,608,770 requested to be retained, the Agency may retain \$867,735 to fund ROPS I and II obligations. This adjustment results in an increase of \$741,035 (\$1,608,770 - \$867,735) to the OFA available balance.
  - Additionally, the Agency requested to retain an additional \$1,339,718 to fund later ROPS shortfalls. CAC documentation supports that the Agency paid \$133,062 for the 1999 Series Bond, instead of the \$1,033,725 reported on the July through December 2013 (ROPS 13-14A) PPA. Furthermore the CAC documentation supports the Agency paid \$1,936,225 for its 1999 Series Bond debt service during the July through December 2013 ROPS period. The 1999 Series Bond debt service schedule confirms \$2,069,287 (\$133,062 + \$1,936,225) actually paid was sufficient to fund the 2013 bond year debt service. Since the Agency did not expend more than due on the bond, the Agency is not permitted to retain the excess amount of \$900,663 (\$1,033,725 - \$133,062).

The Agency was approved funding for \$3,294,109 in obligations, but the CAC and PPA report for the ROPS 13-14A period report paying \$3,040,170 for these obligations. Therefore the Agency is not permitted to retain the excess amount of \$253,939 (\$3,294,109 - \$3,040,170).

Finance is adjusting a total of \$1,154,602 (\$900,663 + \$253,939) to the OFA available balance and permitting the Agency to retain \$185,116 (\$1,339,718 - \$1,154,602).

Based on the total of the adjustments described above, Finance is increasing the OFA available balance for distribution to the affected taxing entities by \$2,359,027 (\$463,390 + \$741,035 + \$1,154,602).

- Balances needed to satisfy ROPS 2012-13 obligations in the amount of \$229,696. The amount requested for retention represents a claimed shortfall of distributed Redevelopment Property Tax Trust Fund for the January through June 2013 ROPS period. The Agency requested repayment for the claimed shortfall as Item No. 89 on the January through June 2014 ROPS period; however, funding was denied by Finance. Therefore, the Agency is not allowed to retain this amount and the OFA available balance will be increased by \$229,696.
- Balance retained for payment of the July True-Up to the CAC in the amount of \$1,876,827. On July, 12, 2012, the Agency remitted \$5,634,827 in unencumbered cash to the CAC. Of this amount, \$4,152,315 was the cumulative ROPS I property tax distributed to the former RDA and is also the amount of the July True-Up. Since ROPS I was not approved until October 11, 2012, the Agency had not expended any ROPS I funds, and 100 percent of the property tax distributed for ROPS I was available, thus subject to the True-Up. However, since the approval of ROPS I took place after the July True-Up, the CAC reduced the amount from \$4,152,315 to \$1,876,827 to account for pass through payments, county admin fees, and ROPS I approved enforceable obligations. Therefore, Finance is reducing the OFA available balance by \$1,876,827 to allow the Agency to make the required July True-Up payment to the CAC for distribution to the affected taxing entities.

If you disagree with Finance's adjusted amount of OFA 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/](http://www.dof.ca.gov/redevelopment/meet_and_confer/)

The Agency's OFA balance available for distribution to the affected taxing entities is \$8,409,233 (see table below).

<b>OFA Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ 1,060,412
Finance Adjustments	
Add:	
Disallowed Cash Transfers	\$ 7,235,258
Retained Balances for funding enforceable obligations	\$ 2,359,027
Balances for ROPS 2012-13 Obligations	\$ 229,696
Less:	
Assets Legally Restricted	\$ (598,333)
Amount required for the July True-Up	\$ (1,876,827)
<b>Total OFA available to be distributed:</b>	<b>\$ 8,409,233</b>

Absent a Meet and Confer request, HSC section 34179.6 (f) requires successor agencies to transmit to the county auditor-controller the amount of funds identified in the above table within

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Date

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five working days, plus any interest those sums accumulated while in the possession of the recipient. Upon submission of payment, please provide proof of payment to Finance within five business days.

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 successor agency is required to take diligent efforts to recover such funds. A failure to recover and remit those funds may result in offsets to the other taxing entity's sales and use tax allocation or to its property tax allocation. If funds identified for transmission are in the possession of a private entity,

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 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