



November 15, 2013

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: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Merced Designated Local Authority (Authority) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on October 01, 2013 for the period of January through June 2014. Finance has completed its review of your ROPS 13-14B, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations for the reasons specified:

- Item Nos. 6 and 65 – Loan Guarantee payments totaling \$224,525 in other funding. These items were denied in the prior ROPS due to lack of supporting documentation. During this ROPS review, the Authority provided supporting documentation. The Authority is requesting \$150,000 and \$74,525 respectively for these obligations. Pursuant to HSC Section 34177 (l) (3) the ROPS shall be forward looking to the next six months. Therefore, Finance is denying the following excess amounts requested:
 - Item No. 6 – The Authority is obligated to pay a monthly payment of \$5,062 through July 2014. Therefore, of the \$150,000 requested, Finance will approve \$30,372 in other funding for the next 6-months period. The excess amount of \$119,628 is not eligible for other funding on this ROPS.
 - Item No. 65 – The Authority is obligated to pay a monthly payment of \$6,210 through June 2016. Therefore, of the \$74,525 requested, Finance will approve \$37,260 in other funding for the next 6-months period. The excess amount of \$37,265 is not eligible for other funding on this ROPS.
- Item Nos. 64 and 87 – Debt service funding agreement payments totaling \$470,970. The former Redevelopment Agency (RDA) pledged Low and Moderate Income Housing Funds (LMIHF) as security for a U.S. Department of Housing and Urban Development (HUD) Section 108 loan agreement between the City of Merced (City) and HUD in addition to the City's pledged Community Development Block Grant (CDBG) funding being used as security. The requirement to set aside 20 percent of RDA tax increment for low and moderate income housing purposes ended with the passing of the

redevelopment dissolution legislation. Because those taxes are no longer allocated to the Agency, there is no payment obligation. Therefore, these items are not eligible for RPTTF funding.

- Item Nos. 85 and 89 – RPTTF shortfall amounts of \$400,762 for the ROPS 13-14A period and \$229,686 for the ROPS III period. Although the Merced County Auditor-Controller (CAC) reported the Authority received a RPTTF distribution amount less than the RPTTF amount Finance approved during these ROPS periods, the Authority was unable to demonstrate a shortfall or need to fund the requested amounts of \$400,762 and \$229,686. The Authority did not provide Finance with a listing of the specific ROPS items and amounts that remained unfunded to support the amounts requested for each ROPS period. At this time, and as far as Finance can ascertain, the obligations did not need to be funded during those periods and these amounts arguably should have been captured in the prior period adjustment. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding.
- Item No. 86 – Project Area #2 1999 Tax Allocation Bonds replenishment of bond reserves in the amount of \$166,374. No documentation was provided to support the requested funding amount. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.
- Item No. 90 – Costco property and remediation activities in the amount of \$24,000. According to the Authority, the requested amount is based on current costs incurred. However, no documentation was provided to support how the estimated amount was determined. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.
- Item Nos. 45 and 46 – Annual Audit Fees totaling \$15,000. These items are considered general administrative costs and have been reclassified. Furthermore, the Agency could not provide documents to support otherwise.

Pursuant to HSC Section 34186 (a), successor agencies were required to report the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. The amount of RPTTF approved in the table below includes the prior period adjustment that was self-reported by the Authority. 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. Any proposed CAC adjustments were not received in time for inclusion in this letter. Therefore, the amount of RPTTF approved in the table below includes only the prior period adjustment that was self-reported by the Authority.

Except for items denied in whole or in part as enforceable obligations or for the items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 13-14B. If you disagree with the determination with respect to any items on your ROPS 13-14B, 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 Authority's maximum approved RPTTF distribution for the reporting period is \$1,199,962 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	3,107,944
Total RPTTF requested for administrative obligations	120,500
Total RPTTF requested for obligations	\$ 3,228,444
Total RPTTF requested for non-administrative obligations	3,107,944
<u>Denied Items</u>	
Item No. 64	(153,770)
Item No. 85	(400,762)
Item No. 86	(166,374)
Item No. 87	(317,200)
Item No. 89	(229,686)
Item No. 90	(24,000)
	<u>(1,291,792)</u>
<u>Reclassified Items</u>	
Item No. 45	(7,500)
Item No. 46	(7,500)
	<u>(15,000)</u>
Total RPTTF approved for non-administrative obligations	1,801,152
Total RPTTF requested for administrative obligations	120,500
<u>Reclassified Items</u>	
Item No. 45	7,500
Item No. 46	7,500
	<u>15,000</u>
Total RPTTF for administrative obligations	135,500
Total RPTTF approved for obligations	1,936,652
ROPS III prior period adjustment	(736,690)
Total RPTTF approved for distribution	\$ 1,199,962

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. Beginning with the ROPS 13-14B period, Finance required successor agencies to identify fund balances for various types of funds in its possession. During our ROPS 13-14B review, Finance requested financial records to support the fund balances reported by the Authority; however, Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Authority after the ROPS 13-14B review period to properly identify the Authority's fund balances. If it is determined the Authority possesses fund balances that are available to pay approved obligations, the Authority should request the use of these fund balances prior to requesting RPTTF in ROPS 14-15A.

Please refer to the ROPS 13-14B schedule that was used to calculate the approved RPTTF amount:

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14B Forms by Successor Agency/.](http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14B Forms by Successor Agency/)

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2014. This determination applies only 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 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 Beliz Chappuie, Supervisor or Todd Vermillion, Lead Analyst at (916) 445-1546.

Sincerely,



Justyn Howard
Assistant Program Budget Manager

cc: Mr. Michael Amabile, Chair, City of Merced Designated Local Authority
Ms. Sylvia Sanchez, Supervising Accountant, Merced County
California State Controller's Office