



April 11, 2014

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 14-15A) to the California Department of Finance (Finance) on March 24, 2014 for the period of July through December 2014. Finance has completed its review of your ROPS 14-15A, 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 No. 6 – Project Area #2 Loan Guarantee in the amount of \$30,374. The Agreement only requires funding through July 1, 2014. The Authority agreed the item will be paid in full by the end of the ROPS 13-14B period and no Redevelopment Property Tax Trust Fund (RPTTF) monies will be needed to fund this item in the ROPS 14-15A period. Therefore, this item is not eligible for RPTTF funding on the ROPS 14-15A.
- Item No. 10 – Project Area #2 Merced Center Disposition and Development Agreements (DDAs) in the amount of \$131,280. Finance understands the property is not currently owned by the Authority. Therefore, the remediation costs are not currently the responsibility of the Authority. When the property is returned to the Authority, they may be responsible for remediation costs associated with the property; however, at this time, the item is not an enforceable obligation and not eligible for Reserve Balance funding on ROPS 14-15A.
- Item Nos. 64, 87, and 93 – Gateways Debt Service Funding Agreement in the amount of \$524,740. Finance continues to deny these items because 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. 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 Community Development Block Grant (CDBG) funding.

- For Item No. 64, the Authority is requesting \$153,770, which is half of the 2014 annual debt service due per the debt service schedule. However, the Agency could not provide documents to show: (a) the residual receipts will be insufficient to make the full payment; (2) CDBG funds will be insufficient to cover any shortages; and (3) the Authority is required to pay the full amount. The City provided the Grove's accounting records for the 2012 year, but could not demonstrate the absence of residuals during the most recent 2013 year. Therefore, this item is not an enforceable obligation and is not eligible for Reserve Balance funding on this ROPS.
- For Item Nos. 87 and 93, the City continues to contend the City and the former RDA entered into a binding agreement which committed to make the City's CDBG funding whole in the event that the Grove failed to provide sufficient revenue to make the Section 108 Loan payments. Due to the Grove's failure to provide revenues, the City's CDBG entitlement funds were used by HUD to satisfy the Section 108 Loan for the 2013 calendar year in the amount of \$317,200 and \$53,770 for February 2014. However, no documents have been provided to show that the former RDA is required to replace any CDBG funds withheld by HUD. Therefore, these items are not enforceable obligations and are not eligible for Reserve Balance funding on this ROPS.
- Item No. 73 – DLA Legal Counsel in the amount of \$10,000. This item was reclassified during the ROPS 13-14A period, and Finance continues to consider this item as a general administrative cost. HSC section 34171 (b) excludes employee costs associated with work on specific project implementation activities from the administrative cost allowance; however, these costs are not Authority employee costs. Although this reclassification increased administrative costs to \$135,000, the administrative cost allowance for the fiscal year has not been exceeded.

Additionally, during the review of the Authority's ROPS, it was brought to Finance's attention that the amount of debt service requested for Item No. 11 Gateways Tax Allocation Bonds in the amount of \$110,146 should have been \$113,716. Therefore, Finance is increasing the Agency's authority for RPTTF in the amount of \$3,570 for Item No. 11 for the ROPS 14-15A period. The Authority is authorized to expend \$83,717 in RPTTF and \$30,000 in Reserve Balances for the ROPS 14-15A period.

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. 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. The amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's audit of the Authority's self-reported prior period adjustment.

Except for items denied in whole or in part as enforceable obligations, 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/](http://www.dof.ca.gov/redevelopment/meet_and_confer/)

The Authority's maximum approved RPTTF distribution for the reporting period is \$1,859,543 as summarized below:

<b>Approved RPTTF Distribution For the period of July through December 2014</b>	
Total RPTTF requested for non-administrative obligations	1,788,556
Total RPTTF requested for administrative obligations	125,000
<b>Total RPTTF requested for obligations</b>	<b>\$ 1,913,556</b>
Agency requested RPTTF adjustment to non-administrative obligations	3,570
<b>Total Agency requested RPTTF adjustments</b>	<b>\$ 3,570</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>1,792,126</b>
<u>Denied Item</u>	
Item No. 6	(30,374)
	(30,374)
<u>Reclassified Item</u>	
Item No. 73	(10,000)
	(10,000)
<b>Total RPTTF authorized for non-administrative obligations</b>	<b>\$ 1,751,752</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>125,000</b>
<u>Reclassified Item</u>	
Item No. 73	10,000
	10,000
<b>Total RPTTF authorized for administrative obligations</b>	<b>\$ 135,000</b>
<b>Total RPTTF authorized for obligations</b>	<b>\$ 1,886,752</b>
ROPS 13-14A CAC prior period adjustment	(27,209)
<b>Total RPTTF approved for distribution</b>	<b>\$ 1,859,543</b>

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. During the ROPS 14-15A review, Finance requested financial records to support the cash 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 14-15A review period to properly identify the Authority's cash balances. If it is determined the Authority possesses cash balances that are available to pay approved obligations, the Authority should request the use of these fund balances prior to requesting RPTTF in ROPS 14-15B.

Please refer to the ROPS 14-15A schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS>

Absent a Meet and Confer, 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

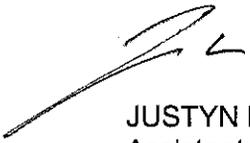
future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC section 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 Beliz Chappuie, Supervisor or Todd Vermillion, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD  
Assistant Program Budget Manager

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