



December 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 17, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Merced Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on October 3, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 17, 2014. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on December 5, 2014.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of the specific items being disputed.

- During our review, which may have included obtaining financial records, Finance initially determined that the Agency possesses funds that should be used prior to requesting funding from the Redevelopment Property Tax Trust Fund (RPTTF). Pursuant to HSC section 34177 (l) (1) (E), the RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. The Agency provided financial records that displayed available Bond Funds totaling \$2,713,264.

During the Meet and Confer process, the Agency contended that the Bond Funds identified by Finance is the reserve account required to be maintained for both the 1999 and 2003 Tax Allocation Bonds (TABs). Pursuant to the definitions in Appendix A of the Official Statement for the 2003 TABs, the reserve requirement is the maximum annual debt service for the current or any future year of the bonds and all parity bonds issued and currently outstanding. To the extent the amounts in the reserve account exceed the reserve requirement as defined and funds are returned to the Agency, those funds should be requested for use prior to requesting RPTTF funding on a future ROPS. Therefore, the funding source for Item Nos. 1 and 95 will not be reclassified to Bond Funds and will be approved from the RPTTF as requested.

In addition, per Finance's letter dated November 17, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2014 period. HSC section 34186 (a) also specifies prior period adjustments (PPA) self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. Proposed CAC adjustments were not received in time for inclusion in this letter; however based on our review of the PPA, Finance noted the Authority did not record RPTTF as being available for the following items:

- Item No. 69 – DLA Office Space Lease, \$11,900
- Item No. 70 – Oversight Board Legal Counsel, \$10,000
- Item No. 73 – DLA Legal Counsel, \$7,500
- Item No. 74 – DLA Legal Counsel, \$5,000
- Item No. 77 – Project # 2/ Trustee Services on 2008 TAB Series A, \$2,500
- Item No. 78 – Gateways/Trustee Services on 2001 TAB Series A, \$2,500.

Since the Authority received its full RPTTF distribution for the January through June 2013 period, the items noted above had available funding. The adjustments above resulted in an increased the PPA from \$48,624 to \$88,024; therefore, the amount of RPTTF approved in the table below reflects the PPA self-reported by the Agency adjusted by Finance.

Except for the items denied in whole or that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15B. The Agency's maximum approved RPTTF distribution for the reporting period is \$2,059,587 as summarized in the Approved RPTTF Distribution Table below:

Approved RPTTF Distribution For the period of January through June 2015	
Total RPTTF requested for non-administrative obligations	2,022,611
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 2,147,611
Total RPTTF requested for non-administrative obligations	2,022,611
Total RPTTF authorized for non-administrative obligations	\$ 2,022,611
Total RPTTF requested for administrative obligations	125,000
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 2,147,611
Self-reported ROPS 13-14B prior period adjustment (PPA)	(48,624)
Finance adjustment to ROPS 13-14B PPA	(39,400)
Total ROPS 13-14B PPA	(88,024)
Total RPTTF approved for distribution	\$ 2,059,587

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

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

This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2015. 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.

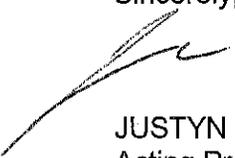
The amount available from the RPTTF is the same as the amount of property tax increment that was available prior to the enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax is limited to the amount of funding available to the agency in the RPTTF.

Pursuant to HSC section 34177 (a) (3), only those payments listed on an approved ROPS may be made by the successor agency from the funds specified in the ROPS. However, if for whatever reason the Agency needs to make payments for approved obligations from another funding source, HSC section 34177 (a) (4) requires the Agency to first obtain oversight board approval.

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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

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