



April 15, 2016

Mr. Christopher J. Jicha, Senior Consultant, Kosmont Companies  
City of Merced Designated Local Authority  
1230 Rosecrans Avenue, Suite 300  
Manhattan Beach, CA 90266

Dear Mr. Jicha:

Subject: 2016-17 Annual Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the City of Merced Designated Local Authority Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period July 1, 2016 through June 30, 2017 (ROPS 16-17) to the California Department of Finance (Finance) on February 8, 2016. Finance has completed its review of the ROPS 16-17.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item No. 32 – Project Area #2 Highway 59 Multi-Family Housing Project with an outstanding amount of \$2,300,000 is not allowed. During the Low and Moderate Income Housing Due Diligence Review (DDR), documentation was provided to demonstrate City of Merced (City) disbursed the Agency funds without Finance's authorization on a ROPS. Therefore, the amount was disallowed and required to be returned from the City for inclusion in the Agency's DDR payment to the County Auditor-Controller. The Agency contends funding is required to reimburse the City for the amount disallowed on the DDR. Reimbursement to the City is not necessary because the City disbursed Agency funds, not City funds.

Furthermore, the September 9, 2011 loan agreement was between the City of Merced Public Financing and Economic Development Authority (Authority) and the developer. Therefore, if the Agency contends payment is due to the City, such repayment should be satisfied through collection of the loan repayments received from the developer in accordance with the Authority's loan agreement. This item is not an enforceable obligation of the Agency and the requested amount of \$2,300,000 in Redevelopment Property Tax Trust Fund (RPTTF) funding is not allowed.

- Item No. 76 – R Street Remediation in the amount of \$148,000 RPTTF funding. The Agency provided documentation supporting that \$293,142 in Reserve Balances funding is available from a previous ROPS to fund site closure activities in the upcoming 2016-17 fiscal year. As a result, Finance has increased the Reserve Balances

funding from zero to \$293,142 for the ROPS 16-17 period. Additionally, as noted below, the \$148,000 RPTTF funding is being reclassified to Other Funds.

- Item No. 100 – Gateways Tax Allocation Refunding Bonds 2015 Series A in the amount of \$701,069 is partially allowed. According to discussion with Agency staff and review of documentation provided, total debt service due for the July 1, 2016 through December 31, 2016 period (ROPS A period) is \$955,663. It is our understanding the Agency received bond reserves for debt service in the prior ROPS period and has \$405,162 in Reserve Balances available to fund the amount due. Therefore, Finance is increasing requested Reserve Balance from zero to \$405,162. As a result, the Agency only needs \$550,501 (\$955,663 - \$405,162) from the requested \$701,069 in RPTTF. Finance is approving \$550,501 RPTTF and the excess \$150,568 (\$701,069 - \$550,501) is not eligible for RPTTF for the ROPS A period.

Furthermore, the amount of \$295,069 requested for the January 1, 2017 through June 30, 2017 period (ROPS B period) should be \$279,288. As a result, \$15,781 in RPTTF is not eligible for the ROPS B period.

- On the ROPS 16-17 form, the Agency reported cash balances and activity for the period of July 1, 2015 through June 30, 2016. 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 our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting RPTTF. Therefore, the funding source for the following items have been reclassified to Other Funds in the amounts specified below:
  - Item No. 10 – Project Area #2 Merced Center DDAs in the amount of \$152,000. The Agency requested \$152,000 in RPTTF; however, Finance is reclassifying the \$152,000 to Other Funds. This item is an enforceable obligation for the ROPS 16-17 period. However, the obligation does not require payment from property tax revenues and the Agency has Other Funds available. Therefore, Finance is approving Other Funds in the amount of \$152,000 for the for the ROPS 16-17 period.
  - Item No. 76 – R Street Remediation in the amount of \$148,000. The Agency requested \$148,000 in RPTTF; however, Finance is reclassifying the \$148,000 to Other Funds. This item is an enforceable obligation for the ROPS 16-17 period. However, the obligation does not require payment from property tax revenues and the Agency has Other Funds available. Therefore, Finance is approving Other Funds in the amount of \$148,000 for the ROPS 16-17 period.

Except for the items denied in whole or in part and the item that has been adjusted, Finance is not objecting to the remaining items listed on your ROPS 16-17. If you disagree with Finance's determination with respect to any items on your ROPS 16-17, except for those items which are the subject of litigation disputing Finance's previous or related determinations, 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 maximum approved RPTTF distribution for the reporting period is \$3,217,289 as summarized in the Approved RPTTF Distribution Table on Page 4 (See Attachment).

ROPS distributions will occur twice annually, one distribution for the ROPS A period, and one distribution for the ROPS B period based on Finance's approved amounts. Since Finance's determination is for the entire ROPS 16-17 period, the Agency is authorized to receive up to the maximum approved RPTTF through the combined ROPS A and B period distributions.

On the ROPS 16-17 form, the Agency was not required to report the estimated obligations versus actual payments (prior period adjustment) associated with the July 1, 2015 through December 31, 2015 period (ROPS 15-16A). The Agency will report actual payments for ROPS 15-16A and ROPS 15-16B on the ROPS 18-19 form pursuant to HSC section 34186 (a) (1). A prior period adjustment will be applied to the Agency's future RPTTF distribution. Therefore, the Agency should retain any difference in unexpended RPTTF.

Please refer to the ROPS 16-17 schedule used to calculate the total RPTTF approved for distribution:

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

Absent a Meet and Confer, this is Finance's determination related to the enforceable obligations reported on your ROPS for the period July 1, 2016 through June 30, 2017. This determination only applies to items when funding was requested for the 12-month period. Finance's determination is effective for this time period only and should not be conclusively relied upon for future ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if it was not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items 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 available prior to the enactment of the redevelopment dissolution statutes. 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.

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, City of Merced Designated Local Authority  
Ms. Sylvia Sanchez, Supervising Accountant, Merced County

**Attachment**

<b>Approved RPTTF Distribution</b>			
<b>For the period of July 2016 through June 2017</b>			
	<b>ROPS A Period</b>	<b>ROPS B Period</b>	<b>Total</b>
Requested RPTTF (excluding administrative obligations)	\$ 2,312,819	\$ 3,420,819	\$ 5,733,638
Requested Administrative RPTTF	125,000	125,000	250,000
<b>Total RPTTF requested for obligations on ROPS 16-17</b>	<b>2,437,819</b>	<b>3,545,819</b>	<b>\$ 5,983,638</b>
<b>Total RPTTF requested</b>	<b>2,312,819</b>	<b>3,420,819</b>	<b>5,733,638</b>
<u>Denied Items</u>			
Item No. 32	(400,000)	(1,900,000)	(2,300,000)
Item No. 100	(150,568)	(15,781)	(166,349)
	(550,568)	(1,915,781)	(2,466,349)
<u>Reclassified Item</u>			
Item No. 10	(76,000)	(76,000)	(152,000)
Item No. 76	(74,000)	(74,000)	(148,000)
	(150,000)	(150,000)	(300,000)
<b>Total RPTTF authorized</b>	<b>1,612,251</b>	<b>1,355,038</b>	<b>\$ 2,967,289</b>
<b>Total Administrative RPTTF authorized</b>	<b>125,000</b>	<b>125,000</b>	<b>\$ 250,000</b>
<b>Total RPTTF approved for distribution</b>	<b>1,737,251</b>	<b>1,480,038</b>	<b>\$ 3,217,289</b>