



April 14, 2016

Mr. Loren De Moss, Fiscal Manager
Merced County
2222 M Street
Merced, CA 95340

Dear Mr. De Moss:

Subject: 2016-17 Annual Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the Merced County 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 April 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. 1 – Sponsoring entity loan repayment in the total outstanding amount of \$461,616 is not allowed. Pursuant to HSC section 34191.4 (b), loan agreements between the former redevelopment agency (RDA) and sponsoring entity may be placed on the ROPS if the following requirements are met: (1) the Agency has received a Finding of Completion; and (2) the Agency's Oversight Board (OB) approves the loan as an enforceable obligation by finding the loan was for legitimate redevelopment purposes.

The Agency received a Finding of Completion on December 21, 2015. OB Resolution No. 2016-1225, approving Item No. 1 - Water Meter/Backflow loan costs from the County of Merced (County) in the amount of \$494,915 as an enforceable obligation and finding the loan was for legitimate redevelopment purposes, was denied in our letter dated April 14, 2016. The Agency provided Resolution No. 2007-03 RDA and a County Budget Agenda Item dated August 21, 2007; however, these documents were not sufficient to demonstrate Agency was contractually obligated to repay the loan. Furthermore, according to the County staff, a valid loan agreement between the RDA and the County to support the loan is an enforceable obligation does not exist. Therefore, this item is not an enforceable obligation and the requested amount of \$2,888 is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

Finance notes the Agency incorrectly requested funding for this item from Administrative RPTTF. It is further noted that no Administrative RPTTF is allowed since the Agency did not receive an RPTTF distribution during fiscal year 2015-16.

- Item No. 2 – Sponsoring entity loan repayment in the total outstanding amount of \$689,851 is not allowed. Pursuant to HSC section 34191.4 (b), loan agreements between the RDA and sponsoring entity may be placed on the ROPS if the following requirements are met: (1) the Agency has received a Finding of Completion; and (2) the Agency's OB approves the loan as an enforceable obligation by finding the loan was for legitimate redevelopment purposes.

OB Resolution No. 2016-1224, approving Item No. 2 – Cost Plan Charges in the amount of \$698,663 as an enforceable obligation and finding the loan was for legitimate redevelopment purposes was denied in our letter dated April 14, 2016. The Agency provided a 2005 Cooperation Agreement between the County and RDA; however, it does not include loan terms or a repayment schedule to demonstrate a commitment to repay the loaned amount. It is our understanding that the loan balance owed represents total administrative costs incurred by the County on behalf of the RDA, to be reimbursed by the Agency. A cash exchange did not occur between the County and the RDA. Therefore, the Cooperation Agreement does not meet the definition of a valid loan agreement as defined by HSC section 34191.4 (b) (2). Therefore, this item is not an enforceable obligation and not eligible for funding on subsequent ROPS.

- The Agency did not submit its ROPS 16-17 to Finance within ten days of the submission deadline of February 1, 2016. Per HSC section 34177 (m) (2), the Agency's administrative allowance is subject to 25 percent reduction. However, as discussed above no administrative cost allowance is allowed for the ROPS 16-17 period since the Agency did not receive any RPTTF distribution during fiscal year 2015-16. Any future ROPS submitted after the submission deadlines will be subject to the reduction in administrative cost allowance.

Finance is objecting to all the items listed on your ROPS 16-17 as discussed above. 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/

On the ROPS 16-17 form, the Agency reported cash balances and activity for the period of July 1, 2015 through June 30, 2016. Finance performs a review of the Agency's self-reported cash balances on an ongoing basis. Be prepared to submit financial records and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved enforceable obligations, HSC section 34177 (l) (1) (E) requires these balances to be used prior to requesting RPTTF.

The Agency's maximum approved RPTTF distribution for the reporting period is zero as summarized in the Approved RPTTF Distribution Table on Page 4 (See Attachment).

ROPS distributions will occur twice annually, one distribution for the July 1, 2016 through December 31, 2016 (ROPS A period), and one distribution for the January 1, 2017 through June 30, 2017 (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:

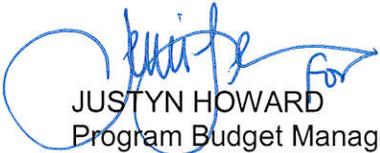
<http://www.dof.ca.gov/redevelopment/ROPS>

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. Mark J. Hendrickson, Director, Merced County
Ms. Sylvia Sanchez, Supervising Accountant, Merced County

Attachment

Approved RPTTF Distribution			
For the period of July 2016 through June 2017			
	ROPS A Period	ROPS B Period	Total
Requested RPTTF (excluding administrative obligations)	\$ 0	\$ 0	\$ 0
Requested Administrative RPTTF	2,888	0	2,888
Total RPTTF requested for obligations on ROPS 16-17	2,888	0	\$ 2,888
Total RPTTF authorized	0	0	\$ 0
Total Administrative RPTTF requested	2,888	0	2,888
<u>Denied Item</u>			
Item No. 1	(2,888)	0	(2,888)
Total Administrative RPTTF authorized	0	0	\$ 0
Total RPTTF approved for distribution	0	0	\$ 0