



October 11, 2012

Mr. Michael Amabile, Chair  
Merced City Designated Local Authority  
1521 S. 6th Street  
Los Banos, CA 93635

Dear Mr. Amabile:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the Merced Designated Local Authority (Authority) submitted a Recognized Obligation Payment Schedules (ROPS III) to the California Department of Finance (Finance) on August 27, 2012 for the period January through June 2013. Finance has completed its review of your ROPS 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:

- Item No. 7 – City of Merced Loan in the amount of \$1.3 million of Redevelopment Property Trust Fund (RPTTF) funding. HSC section 34191.4 (b) (2) (A) states that until Finance has issued a finding of completion for the Authority, loan repayments shall not be made prior to the 2013-14 fiscal year.
- HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011. The following items do not qualify as enforceable obligations:
  - Item No. 10 – Merced Center Disposition and Development Agreement in the amount of \$4 million of RPTTF funding. The project is still in the environmental assessment phase and no construction contract was provided to establish this item as an enforceable obligation.
  - Item No. 59 – Merced Theater Renovation in the amount of \$2.1 million of other funding. No contract was provided to establish this item as an enforceable obligation.
- Item No. 57 – Merced Theater Tax Credit Guarantee in the amount of \$14.8 million of other funding. According to a Completion and Repayment Guaranty Agreement between the lender, borrower, and RDA, the Merced Theatre Landlord (borrower) guaranteed to perform the loan obligations including construction of specified improvements on the real property. The RDA is the guarantor and is to perform the borrower's obligations if the borrower failed to do so. No explanation was provided to show why the RDA is currently obligated to make the loan repayment instead of the borrower.

- Item No. 58 – Debt Service Funding Agreement in the amount of \$2.6 million of other funding. According to the Authority, obligation has been paid in full and the item should be removed from the ROPS.
- Item No. 64 – Gateways/Debt Service Funding Agreement in the amount of \$26,000 of Low and Moderate Income Housing Fund (LMIHF). According to the agreement, total payment for the 6-months should be \$37,260 (\$6,210\*6) but the payment requested for ROPS III is \$63,260. Therefore, the over claimed amount of \$26,000 is not an enforceable obligation. Furthermore, the total remaining obligation amount of \$3.9 million is not supported with documentation provided.
- Item No. 68 – Highway 59 Multi-Family Housing Project in the amount of \$4.4 million of bond funding. Item appears to be a duplicate of Item No.32. No explanation was provided by the Authority to show how these two items were different. Therefore, item is not an enforceable obligation.
- Several items in the amount of \$612,606 of RPTTF and \$444,692 of other funds were listed on previous ROPS schedules for the periods January through June 2012 (ROPS I) and July through December 2012 (ROPS II) for the same amounts. The obligations belong to ROPS I or ROPS II\* periods and should not appear as a continuing obligations on subsequent ROPS periods. The following items are not enforceable obligations and should be removed from ROPS III since the obligation would have been fully paid after the ROPS I period:

Line	Project Name / Debt Obligation	Fund Source	Total Obligation
6	Project Area #2/Loan Guarantee	RPTTF	30,374
15	Gateways/Reimbursement Agreement for PFEDA	RPTTF	533,488
28	Project Area #2/Land Acquisition	RPTTF	168
33*	Gateways/Highway 59 Signalization Project	RPTTF	32,438
40*	Gateways/Demolition of blighted residences	RPTTF	1,138
41	Gateways/Engineering for 18th & I Street DDA	RPTTF	5,000
42	Gateways/Lot entitlements for 18th & I Street DDA	RPTTF	10,000
47	Project Area #2/Rehabilitation of 951 W. 7th Street	OTHER	30,900
48	Project Area #2/Merced County Arts Council Lease	OTHER	12,425
49	Project Area #2/Merced County Environmental Health	OTHER	7,011
50	Project Area #2/Castle Analytical Lab	OTHER	184
51	Project Area #2/Advanced Chemical Transport	OTHER	2,550
52	Project Area #2/Provost & Pritchard Testing	OTHER	6,110
53	Project Area #2/Downey Brand LLP	OTHER	20,171
54	Project Area #2/Security Monitoring for Environmental	OTHER	270
55	Project Area #2/Provost & Pritchard Testing	OTHER	51,629
56	Project Area #2/Provost & Pritchard Testing	OTHER	78,434
60	Project Area #2/Merced Theatre Renovation	OTHER	45,000
61	Project Area #2/Merced Theatre Renovation	OTHER	40,000
62	Project Area #2/Merced Theatre Renovation	OTHER	125,008
63	Project Area #2/Merced Theatre Renovation	OTHER	25,000

\*Obligation paid off after ROPS II period, July through December 2012.

- Administrative cost claimed exceeded the allowance by \$69,850. HSC section 34171 (b) limits the 2012-13 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater.

Amount administrative costs for fiscal year 2012-13	\$250,000
Administrative costs claimed for July through December 2012	157,100
Administrative costs claimed for January through June 2013	162,750
Overage	\$69,850

Except for items denied in whole or in part as enforceable obligations as noted above, Finance is approving the remaining items listed in your ROPS III. If you disagree with the determination with respect to any items on your ROPS III, 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 Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$2,539,545 as summarized below:

<b>Approved RPTTF Distribution Amount</b>	
<b>For the period of January through June 2013</b>	
Total RPTTF funding requested for obligations	\$ 4,500,628
Less: Six-month total for items denied or reclassified as administrative cost	
Item 5*	\$ 162,750
Item 6	30,374
Item 7	1,278,627
Item 15	533,488
Item 28	168
Item 33	32,438
Item 40	1,138
Item 41	5,000
Item 42	10,000
Total approved RPTTF for enforceable obligations	\$ 2,446,645
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	92,900
<b>Total RPTTF approved:</b>	<b>\$ 2,539,545</b>

\*Reclassified as administrative cost

<b>Administrative Cost Calculation</b>	
Total RPTTF for the period July through December 2012	\$ 1,770,394
Total RPTTF for the period January through June 2013	2,446,645
<b>Total RPTTF for fiscal year 2012-13:</b>	<b>\$ 4,217,039</b>
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or \$250,000)	250,000
Administrative allowance for the period of July through December 2012	157,100
<b>Allowable RPTTF distribution for administrative cost for ROPS III:</b>	<b>\$ 92,900</b>

Pursuant to HSC section 34186 (a), the amount of RPTTF approved in the above tables will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

Please refer to the ROPS III schedule that was used to calculate the approved RPTTF amount:

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS III Forms by Successor Agency/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS%20III%20Forms%20by%20Successor%20Agency/).

All items listed on a future ROPS are subject to a subsequent review. An item included on a future ROPS may be denied even if it was not questioned from the preceding ROPS.

The amount available from the RPTTF is the same as the 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.

Please direct inquiries to Beliz Chappuie, Supervisor or Cindie Lor, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY  
Local Government Consultant

cc: Mr. Mark Persico, Senior Consultant, Kosmont Company  
Ms. Sylvia Sanchez, Supervising Accountant, Merced County