



May 16, 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 April 11, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Merced Designated Local Authority Successor Agency (Authority) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on March 24, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 11, 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 April 30, 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.

- Item No. 10 – Project Area #2 Merced Center Disposition and Development Agreements (DDAs) in the amount of \$131,280. Finance no longer denies this item. Finance initially denied this item because the property is not currently owned by the Authority; therefore, the remediation costs are not currently the responsibility of the Authority. During the Meet and Confer process, the Agency contended that the property is subject to a clean-up plan implemented by the former Redevelopment Agency (RDA). The Agency provided letters from the Central Valley Regional Water Quality Control Board and the Merced County Division of Environmental Health indicating that the former RDA was the responsible party for the clean-up prior to June 28, 2011, and continues to be the responsible party. Therefore, this item is an enforceable obligation and is 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. Finance initially denied 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 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. Based on our review of the City and former RDA resolutions dated April 7, 2003 and the City's HUD Section 108 Loan Agreement, the principal security for the loan guarantee is a pledge by the City of its current and future CDBG funds should revenues from the Grove project be insufficient to make payments on the loan. In addition, the former RDA pledged funds from the LMIHF as additional security for the HUD Section 108 Loan Agreement between the City and HUD. The City provided the Grove project's accounting records for the 2012 and 2013 calendar years to show that there are no residual receipts to apply towards the loan payments. However, Finance continues to deny this item as the Agency has not shown that CDBG funds will be insufficient to cover the loan payment and that the Authority is required to pay the full amount. To the extent the City anticipates and can demonstrate that CDBG funds, as principal security, will be insufficient to make the repayment on the HUD Section 108 loan in any particular period, it should direct the Agency to place the shortfall amount of the loan repayment on a future ROPS. Therefore, this item is currently 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 HUD Section 108 loan payments. Due to the Grove generating insufficient revenues, the City's CDBG entitlement funds were used by HUD to satisfy the Section 108 loan for the 2013 calendar year and in February 2014 in the amounts of \$317,200 and \$53,770, respectively. However, no additional documents have been provided to show that the former RDA is required to replace any CDBG funds withheld by HUD. Furthermore, any such agreements or arrangements are no longer valid pursuant to HSC section 34171 (d) (2). The only document provided by the City showing the former RDA's commitment is a RDA resolution dated April 7, 2003. The resolution specifically states "in the event of a default on the financial obligations under the HUD 108 loan, the [former RDA] agrees to pay the obligations then due, within 60 days of receipt of a written notice from [HUD] of such a default, accompanied by a claim for payment by HUD specifying the amounts due." However, no such documents have been provided. Therefore, these items are not enforceable obligations and are not eligible for Reserve Balance funding.
- Item No. 73 – DLA Legal Counsel in the amount of \$10,000. Finance no longer reclassifies this item as an administrative cost. During the Meet and Confer process, the Agency contended that this item is for costs directly associated with projects listed on the ROPS, which are enforceable obligations approved for payment during the ROPS 14-15A period. The direct project costs associated with the projects are also enforceable. Therefore, Finance no longer reclassifies this item as an administrative cost.

In addition, per Finance's letter dated April 11, 2014, we continue to deny the following item not contested by the Agency during the Meet and Confer:

- 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.

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

Approved RPTTF Distribution For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	1,788,556
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 1,913,556
Agency requested RPTTF adjustment to non-administrative obligations	3,570
Total Agency requested RPTTF adjustments	\$ 3,570
Total RPTTF requested for non-administrative obligations	1,792,126
<u>Denied Item</u>	
Item No. 6	(30,374)
	(30,374)
Total RPTTF authorized for non-administrative obligations	\$ 1,761,752
Total RPTTF requested for administrative obligations	125,000
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 1,886,752
ROPS 13-14A CAC prior period adjustment	(27,209)
Total RPTTF approved for distribution	\$ 1,859,543

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>

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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, 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