WILLIAM T FUJIOKA
Chief Executive Officer

County of Los Angeles
CHIEF EXECUTIVE OFFICE
OPERATIONS CLUSTER

DATE: July 24, 2014
TIME: 1:00 p.m.
LOCATION: Kenneth Hahn Hall of Administration, **Room 864**

AGENDA

Members of the Public may address the Operations Cluster on any agenda item by submitting a written request prior to the meeting.
Three (3) minutes are allowed for each item.

1. Call to order – Santos H. Kreimann

A) **Board Letter – APPROVE AMENDMENT NO. SIX TO AGREEMENT NO. 74666 WITH SYSCON JUSTICE SYSTEMS CANADA LIMITED AND SYSCON JUSTICE SYSTEMS, INC. TO CONTINUE MAINTENANCE OF THE JAIL INFORMATION MANAGEMENT SYSTEM**
Sheriff/CIO – John L. Scott and Richard Sanchez or designee(s)

B) **Board Letter – RESIDENTIAL PROPERTY ASSESSED CLEAN ENERGY PROGRAM**
TTC/ISD – Mark Saladino and Jim Jones or designee(s)

2. Public Comment

3. Adjournment

August 5, 2014

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
Los Angeles, California 90012

Dear Supervisors:

APPROVE AMENDMENT NUMBER SIX TO AGREEMENT NUMBER 74666 WITH SYSCON JUSTICE SYSTEMS CANADA LIMITED AND SYSCON JUSTICE SYSTEMS, INCORPORATED TO CONTINUE MAINTENANCE OF THE JAIL INFORMATION MANAGEMENT SYSTEM (ALL DISTRICTS) (3 VOTES)

CIO RECOMMENDATION: APPROVE ( ) APPROVE WITH MODIFICATION ( ) DISAPPROVE ( )

SUBJECT

The Los Angeles County Sheriff's Department (Department) is seeking the Board's approval and execution of Amendment Number Six (Amendment) to Agreement Number 74666 (Agreement) with Syscon Justice Systems Canada Limited (Syscon Canada) and Syscon Justice Systems, Incorporated (Syscon US). The Amendment will extend the Agreement for a period of two years plus three one-year option periods thereafter, to allow for continued maintenance and support (Services) of the Jail Information Management System (JIMS), and to make associated changes to certain exhibits and schedules. There will be no change to the maximum contract sum under the Agreement.

IT IS RECOMMENDED THAT THE BOARD:

1. Approve and instruct the Chairman of the Board to sign the attached Amendment to the Agreement with Syscon Canada and Syscon US (the Contractor) to continue providing Services for JIMS. The Amendment will (1) extend the term of the

Agreement for two years, from August 18, 2014, through August 17, 2016, with the option thereafter to extend for up to three additional one-year periods; (2) add the Los Angeles County (County) mandated language regarding Contractor Alert Reporting Database (CARD) and Time Off for Voting; and (3) make associated changes to certain exhibits and schedules to the Agreement.

2. Delegate authority to the Sheriff or his designee to execute the extension options if it is in the best interest of the County and/or to add or update standard Los Angeles County (County) contract provisions adopted by the Board during the term of the Agreement, in each case, subject to review by the Chief Information Officer (CIO) and approval as to form by County Counsel.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Approval of the first recommended action will allow the Contractor to continue maintaining and supporting JIMS. Phase 2, Stage 1 of the Agreement was implemented on July 3, 2013. At this time the Department has decided to reassess continuing with any future stages to Phase 2 to ensure that no new technology in the industry has emerged.

As further detailed in the Fiscal Impact/Financing section of this letter, the Department is reallocating money already included in the Agreement to pay for Services to be performed during the Amendment Term of the Agreement including all optional extension periods, by reallocating unused amounts through, among other things, elimination of certain tasks that were to be performed during Phase 2/Stage 1. Approval of the first recommended action will therefore make changes to exhibits and schedules to the Agreement to reflect this reallocation.

Approval of the second recommended action will allow the Department to execute further amendments to the Agreement to execute the remaining three optional one-year extension periods, and/or to add or update standard County contract provisions adopted by the Board during the term of the Agreement, in each case, subject to review by the CIO and approval as to form by County Counsel.

Implementation of Strategic Plan Goals

The Services provided under the proposed Amendment support the County’s Strategic Plan, Goal 1, Operational Effectiveness, by ensuring that service delivery systems are efficient, effective and goal-oriented, by enabling the Department to accurately, efficiently and effectively track and process inmates through the jails, and foster collaboration between the County and other law enforcement and justice-related agencies.

FISCAL IMPACT/FINANCING

The Amendment will not require an increase in the maximum contract sum under the Agreement, as the Department is reallocating funds already included in the Agreement to pay for all work to be performed during the Amendment Term including all optional periods, if executed.

Pool dollars will be used to fund $210,743~~211,193~~ of the cost of the Amendment. The remaining cost will be offset by a reallocation of funds originally earmarked for the following software modules which are no longer required:

1) Title 15 Application Software module in the amount of $224,643;
2) Visits Management Application Software in the amount of $363,175;
3) Trial Courts Information System interface in the amount of $255,750;
4) Property and Case Jacket Application Software in the amount of $68,850; and
5) Case Management Application Software Application Management in the amount of $28,275.

The total amount of $940,693 will be reallocated to the cost of the Amendment.

The maintenance and support cost for the Term of the Amendment totals $1,151,436~~1,151,886~~.
The Department has identified funding within the Inmate Welfare Fund for the duration of the Agreement as extended through the proposed Amendment.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The Agreement was entered into by and between the County and Syscon Justice Systems Limited (predecessor to Syscon Canada) effective December 2, 2003, as a Sole Source Agreement. Also, that same date, the Department advised the Board that the Department developed a three-phased implementation plan for JIMS to enhance and integrate various Custody legacy stand-alone systems. The Agreement, as originally approved by the Board, provided for implementation of Phase 1 of JIMS. The County accepted all modules included in Phase 1 of JIMS on May 23, 2008, except for modules the parties agreed would be moved to later phases. Phase 1 of this project has been successfully implemented.

On February 3, 2009, the Board approved Amendment Number One to the Agreement, which reflected the internal reorganization of Syscon Justice Systems Limited into Syscon Canada, elected the option to extend the term of the Agreement to provide for continued Services of JIMS, and increased the maximum contract sum under the Agreement to include funds for the continued Services. At that time, the Department also advised the Board that Phase 2 and Phase 3 of JIMS would be consolidated into a single Phase 2 implementation with multiple stages.

On August 18, 2009, the Board approved Amendment Number Two to the Agreement, which moved the implementation of certain work from Phase 1 of JIMS to later phases; to acquire additional software and services for Phase2/Stage1 of JIMS; and to extend the term.

Following approval of Amendment Number Two, the Department conducted an analysis of the current legislation to collect compensation for certain sentenced inmates for their jail stay, it was determined that individual inmate financial capacity to pay has to be determined and a court order obtained on a case-by-case basis and cannot be accomplished in a cost-effective manner. Therefore, the Department determined to remove the Pay-for-Stay module from the JIMS project. The Amendment will reallocate amounts previously allocated to implementation of the Pay-for-Stay module, to work to be performed during the first optional extension period.

Additionally, early in the implementation process for Phase 2/Stage 1 software, the Department determined it did not need the functionality provided by the Community Service and Community Events components of the Case Management module. The Department therefore decided to eliminate those licenses from the JIMS project. The Amendment will additionally reallocate amounts previously allocated to implementation of these licenses, to work to be performed during the first optional extension period.

On August 16, 2011, the Board approved delegated authority to the Sheriff to execute Amendment Number Three to the Agreement, which executed the first optional one-year extension period and allowed for the completion of the implementation of Phase 2/Stage 1, continued Services to JIMS, made changes to certain exhibits and schedules to the Agreement, and delegated authority to the Sheriff to execute remaining optional extension periods.

On August 18, 2012, the Sheriff executed Amendment Number 4 to execute the second optional one-year extension period and allowed for the completion of the implementation of Phase 2/Stage 1, continued Services to JIMS, made changes to certain exhibits and schedules to the Agreement and increased the maximum contract sum by $287,599, for a total maximum contract sum of $5,887,584.

On August 18, 2013, the Sheriff executed Amendment Number 5 to execute the third and final optional one-year extension period and allowed for the continued Services to JIMS, made changes to certain exhibits and schedules to the Agreement and increased the maximum contract sum by $198,456, for a total maximum contract sum of $6,086,040.

CONTRACTING PROCESS

During Fiscal Year 2001-02, the Department sought commercial off-the-shelf software solutions, through the County's Internal Services Department (ISD), to replace the Department's inmate management system. The Department and County's ISD conducted a detailed evaluation of the five vendors that responded, their products, and associated costs. Syscon Justice Systems Limited was the only vendor that offered a web-based product as well as meeting other technical and functional requirements.

The Agreement was entered into on a sole source basis to make additional modifications implementing Phase 1, as well as Phase 2/Stage 1.

County Counsel has reviewed and approved Amendment Number Six as to form.

The CIO recommends approval of this action (CIO Analysis attached).

IMPACT ON CURRENT SERVICES (OR PROJECTS)

Approval of these actions will ensure the continued operation of JIMS to enable Custody to perform legally mandated responsibilities more efficiently, accurately, and expeditiously.

CONCLUSION

Upon approval by the Board, please return two adopted copies of this Board letter and two original executed copies of the Amendment to the Department's Contracts Unit.

Sincerely,	Reviewed by:
JOHN L. SCOTT SHERIFF	RICHARD SANCHEZ CHIEF INFORMATION OFFICER

JLS:IS:is
(Fiscal Administration-Contracts Unit)

Attachments

c: Board of Supervisors, Justice Deputies
Sachi A. Hamai, Executive Officer, Board of Supervisors
William T Fujioka, Chief Executive Officer
Brence Culp, Chief Deputy Chief Executive Officer
Georgia Mattera, Senior Assistant Chief Executive Officer
Sheila Williams, Manager, Chief Executive Office (CEO)
Jocelyn Ventilacion, Lead Analyst, CEO
Albert Kim, Analyst, CEO
Brian Lew, Public Affairs Office
John F. Krattli, County Counsel
Michele Jackson, Senior Deputy County Counsel
Elizabeth D. Miller, Chief Legal Advisor, Legal Advisory Unit
Neal B. Tyler, Executive Officer
Richard J. Barrantes, Assistant Sheriff
Terri McDonald, Assistant Sheriff
Todd S. Rogers, Assistant Sheriff
Michael J. Rothans, Assistant Sheriff
Glen Dragovich, Division Director, Administrative and Training Division (ATD)
Eric G. Parra, Chief, Custody Division – Specialized Programs
Dean M. Gialamas, Division Director, Technical Services Division (TSD)
Conrad Meredith, Assistant Division Director, ATD
Earl M. Shields, Commander, TSD
Scott D. Edson, Commander, TSD
Paul E. Drake, Captain, Data Systems Bureau (DSB)
Glen Joe, Director, Fiscal Administration
Susie Cousins, Assistant Director, Fiscal Administration
Angelo Faiella, Manager, Contracts Unit
Scott Goodwin, Information Technology Manager III, Custody Division/DSB
Donald Jeanson, Sergeant, Custody Division – Specialized Programs
Derek S. Sabatini, Sergeant, ATD
Erick F. Martinez, Deputy, ATD
Irma Santana, Contracts Analyst, Contracts Unit
Chrono File

County of Los Angeles
INTERNAL SERVICES DEPARTMENT
1100 North Eastern Avenue
Los Angeles, California 90063

JIM JONES
Director

Telephone: (323) 267-2101
FAX: (323) 264-7135

"To enrich lives through effective and caring service"

August 12, 2014

The Honorable Board of Supervisors
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

RESIDENTIAL PROPERTY ASSESSED CLEAN ENERGY (PACE) PROGRAM
(ALL DISTRICTS - 3 VOTES)

SUBJECT

As instructed by your Board on May 20, 2014, the Internal Services Department (ISD) and Treasurer and Tax Collector (TTC) are reporting back to your Board regarding the formation of a residential Property Assessed Clean Energy (PACE) program. Having consulted with County Counsel, the Auditor-Controller and the Chief Executive Office, we are requesting authorization to initiate judicial validation proceedings for residential PACE and to release a Request for Proposals (RFP) for a new program administrator to manage the program.

It is the objective of our Departments to establish a countywide program that provides residents with the appropriate consumer protections to pursue their energy efficiency goals. ISD and TTC seek to conclude both judicial validation and the program administrator RFP by early 2015 and to launch a residential PACE program shortly thereafter.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve revised PACE financing documents, including a bond indenture, assessment contract and purchase contract, in relation to residential PACE and instruct County Counsel to initiate judicial validation proceedings;

2. Authorize ISD to release a new RFP for one or more residential PACE program administrators;

3. Authorize ISD and TTC, in coordination with the Chief Executive Office and County Counsel, to develop a residential PACE program consistent with the terms presented in this letter to your Board.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

As part of a larger action, on May 20, 2014, your Board instructed ISD and TTC, in coordination with the Acting Auditor-Controller and County Counsel, to take all necessary steps to initiate the judicial validation for the PACE program and return to the Board within 60 days in writing with:

a. Revised PACE program documents to be considered for judicial validation; and

b. A discussion on both the risks associated with the ongoing objections by the Federal Housing Finance Agency to the PACE program and what measures can be taken to address those concerns, as well as recommendations as to whether the Board should initiate a new solicitation process to select one or more qualified administrator(s) to facilitate, at no cost to the County, the PACE program based on an analysis that includes an administrative model that is most likely to encourage lower interest rates and fees, and avoid market confusion; and

In addition, your Board instructed the Chief Executive Officer, ISD, and TTC to return to the Board to seek approval of a recommendation regarding residential PACE and report on all potential risk factors, including any developments related to Federal Housing Financing Authority regulatory engagement in PACE developments.

This letter provides a discussion of the PACE judicial validation process, PACE program risks and mitigations, and a discussion of proposed next steps, including the initiation of a solicitation process to select a PACE program administrator.

Background

On April 6, 2010, your Board adopted a Resolution of Intention to initiate the formation of a voluntary contractual assessment program in accordance with the provisions of Assembly Bill 811 (AB 811). On May 25, 2010, a public hearing was held in which your Board approved the formation and implementation of the Los Angeles County Energy Program (LACEP) and authorized the issuance of PACE bonds to finance private energy improvements. As approved in 2010, LACEP was established for both residential and commercial properties within the County. In July 2010, however, the residential PACE program was placed on hold due to FHFA statements that PACE programs present safety and soundness concerns to the mortgage portfolios held by Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal Home Loan Banks (collectively, the "Federal Mortgage Agencies"). As a result of these statements, the County focused primarily on commercial PACE and began initiating loans for these non-residential properties in 2013.

The concerns that caused the County to halt residential PACE in 2010 were related exclusively to FHFA directives and the priority lien status of PACE assessments relative to federal mortgage contracts. Issues such as a bondholder's right to foreclose and the interest rate associated with PACE assessments were unchanged following the initial FHFA statement and not factor in the decision to discontinue residential PACE. It was the possibility that FHFA would take future adverse actions against PACE jurisdictions that caused the County and other California municipalities to reconsider their residential PACE programs.

Following the initial FHFA statement in July 2010, there have been numerous efforts by PACE stakeholders to seek a reversal of the FHFA position regarding residential PACE. These efforts have been unsuccessful as was most recently demonstrated by a May 1, 2014 letter from the FHFA Director to Governor Brown in which the FHFA largely reiterated its objections from July 2010. Yet in spite of these ongoing objections from the FHFA, residential PACE programs continue to operate in California and have been successful in attracting property owners to their respective financing programs. In Los Angeles County, this has been evidenced by 41 cities that have elected to join a residential PACE program managed by the Western Riverside Council of Governments (WRCOG).

Risk Mitigation

County Counsel, TTC, and ISD have worked jointly to identify and review the issues and risks associated with residential PACE programs. As discussed herein, these issues and risks may be mitigated via enhanced program requirements and disclosures.

Direct administration of a County PACE program will provide additional tools to address the risks of residential PACE programs, while protecting the interests of property owners and minimizing payment defaults to both PACE bondholders and the Federal Mortgage Agencies. The formation of a countywide program would give cities the ability to forego their previous commitments to the WRCOG and participate in a program that is unique to Los Angeles County. Specifically, ISD and TTC seek to establish a residential PACE program that provides lower fees, expanded disclosure, reduced risk of foreclosure, and the potential for lower interest rates going forward.

As noted above, the FHFA continues to express objections to PACE programs with first lien assessments, contending that such programs violate the standardized mortgage contract used by lenders. To date, the FHFA has not taken action against existing PACE programs, but it remains an open question whether FHFA will initiate such action in the future. To ensure that potential PACE program participants are aware of the potential risk, any County PACE program will require full disclosure of this issue. The proposed countywide program would also provide flexibility to make programmatic adjustments should the FHFA take any formal action to alter future underwriting practices of the Federal Mortgage Agencies. These issues are discussed in detail later in this document.

The key attributes of a County-administered residential PACE program being recommended by our Departments are as follows:

<u>Issuer Fees Remain in Los Angeles County</u>
The two residential PACE programs most likely to compete for business with cities in Los Angeles County are the HERO Program with WRCOG as the bond issuer and the California First program with California Statewide Communities Development Authority (CSCDA) as the bond issuer. In each of these programs, the issuer of the assessment bonds is an entity that operates outside the boundaries of Los Angeles County. As a result, any fees paid to the issuer may be used for purposes that benefit neither the County nor its residents. Furthermore, it is an outside entity that would enter into the PACE assessment contracts and have responsibility for providing the Auditor-Controller with information regarding the levies to be placed on the tax roll. In a County-administered program, all issuer fees would be used for the exclusive benefit of the residential PACE program and the County itself would be the party entering into the assessment contracts.

<u>Control of Underwriting Criteria</u>
The development of proper underwriting criteria is critical to residential PACE as this will determine both eligibility standards and the overall credit quality of PACE bonds. The latter is especially important in that it is expected to translate to lower interest rates for participants and a reduced delinquency rate for the program. It is the view of ISD and TTC that the maximum loan-to-value ratio for any property should not exceed 90% and the maximum amount of PACE financing for a residence should not exceed 10% of property value. It should be noted that a maximum loan-to-value ratio in excess of 80% could exceed federal underwriting guidelines, thereby inviting a challenge by the FHFA. In such event the County would likely seek to reduce the maximum loan-to-value ratio. To the extent that these underwriting criteria require tightening at a later date, a County-administered program would give your Board the opportunity to direct such changes.

<u>Management of Foreclosure Risk</u>
In connection with the issuance of PACE bonds, the County will be required to provide a judicial foreclosure covenant that applies to all delinquent assessments. The ability for bondholders to initiate foreclosure proceedings has been an integral credit feature for assessment district and community facilities district (Mello-Roos) financings in California for more than three decades. Our ability to sell PACE bonds without a specific foreclosure covenant is highly uncertain, and even if feasible, would result in much higher borrowing costs for the program. It is therefore recommended that the County retain the right, but not necessarily the obligation, to pursue judicial foreclosure as soon as a property owner becomes delinquent on an annual assessment associated with residential PACE.

Given the foreclosure requirements of assessment district financings, ISD and TTC will require that judicial foreclosure can only be initiated when the reserve fund established for the program is reduced to a level below its initial funding requirement. The incorporation of a reserve fund test represents a significant departure from existing residential PACE programs and should materially reduce the number of foreclosure proceedings. The reserve fund established by the County will typically be maintained at levels in excess of its initial requirement due to interest earnings that have accumulated during the tax year. These interest earnings can be used to offset any reduction in assessment revenue that might result in a draw on the reserve fund. In addition, the County will have the ability to supplement the reserve fund from other funding sources should this be necessary in order to avoid a foreclosure judgment. For example, the County could choose to defer certain administrative costs and use these monies as an additional means of meeting the minimum reserve requirement.

It is the expectation of ISD and TTC that foreclosures will be significantly less common for residential PACE than has been the case with prior assessment districts. Unlike other assessment district financings, residential PACE is completely voluntary and individual property owners will have to meet minimum credit requirements before being approved for participation. Furthermore, the County will have the discretion to pursue the larger delinquencies first and not to foreclose on every delinquency that contributes to a draw on the reserve fund. The County will also limit bondholders to collecting on those amounts associated with delinquent PACE assessments and will not allow for the acceleration of future assessment amounts.

Bond Securitization Oversight

The most important means to reduce interest rates for a residential PACE program is the ability to package large numbers of assessments into a single security and sell it in the capital markets. This securitization process would enable the program to achieve economies of scale and would provide investors with a liquid security instrument that can be bought and sold in the secondary bond market. It is expected that a securitization of PACE assessments could be sold in today's market for as much as 300 basis points (3.0%) less than the interest rates being charged on typical PACE assessments in California. In a County-administered program, TTC would provide direct oversight of all bond securitizations and would operate with a mandate to maximize savings for future participants in the program. It will be a requirement of the County program that the "spread" between interest rates on the securitization and the PACE assessments be shared equitably among the program administrator, financing intermediary, and County residents participating in residential PACE.

Lower Interest Rates

It is a legal requirement that all PACE bonds be issued on a taxable basis and not as tax-exempt securities. As a result, the interest rates on PACE assessments will be substantially higher than what could be achieved by the County in the tax-exempt municipal market. It is TTC's expectation that borrowing costs for residential PACE participants will also be materially higher than comparable rates on both home equity lines of credit and home equity loans. With the experience of the WRCOG program in Riverside County as a guide, a typical $20,000 PACE assessment would currently carry an all-in borrowing cost of approximately [10%-11%][1]. If a 20-year repayment period is assumed for such borrowings, the impact on the average household in Los Angeles County would be as follows:

[1] Borrowing cost of a PACE assessment does not take into account the ability of certain property owners to deduct the interest component of these assessments on their income tax returns. Individuals participating in a residential PACE program should consult with a tax professional regarding the permissibility of such deductions.

Median Home Price	Property Tax @ 1.25%	PACE Assessment	Total Annual Property Tax Bill
$425,000	$5,312.50	$2,000.00	$7,312.50

The objective of a County-administered program will be to reduce interest rates as much as possible and to offer a lower borrowing cost than could be achieved in a PACE program not managed by the County. This goal can be accomplished through TTC's involvement in the bond securitization process and the County's authority to manage administrative costs for the program.

FHFA Risk Management

In a County-administered program, there will be an emphasis on providing full disclosure on all risks associated with the FHFA objections to residential PACE. While such disclosures are also an important element of the current HERO and California First programs, the County would better be able to control the form and content of the disclosure with its own program. More importantly, a Countywide program would give your Board the flexibility to immediately halt all residential PACE activity should the Federal Mortgage Agencies take action to change underwriting standards or seek acceleration of mortgage payments as a result of PACE assessments. The ability to make adjustments to a residential PACE program does not alleviate all risk associated with the FHFA objections, but it does provide an added level of protection for County residents.

Implementation of Strategic Plan Goals

This action supports the County's Strategic Plan Goal #2: Community Support and Responsiveness. The residential PACE program will provide an economic benefit to County residents and property owners, and supports the County's strategic initiative related to environmentally sustainable practices, which include energy and water conservation and the reduction of greenhouse gas emissions.

FISCAL IMPACT/FINANCING

The fiscal impact of a residential PACE program is expected to be minimal as program administrator services are to be provided at no cost to the County and any legal and financial costs of issuance will be reimbursed through the PACE assessments. The only net County cost that may be associated with a County program is in relation to staff time in certain County Departments. While much of the infrastructure already exists within the County to manage a residential PACE program, there is the possibility of new staffing requirements for ISD, TTC and potentially one or more other Departments. The specific staffing needs will not be known until after a program administrator has been selected for residential PACE and a scope of work has been developed for these services. It is the current expectation that only two new budgeted positions would be required Countywide and that these positions would not be necessary prior to the 2015-16 Fiscal Year. A specific recommendation regarding additional staffing will be presented to your Board following the conclusion of the program administrator RFP.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

In its July 2010 letter regarding residential PACE programs, the FHFA asserted that PACE assessments violated the terms of the uniform security instrument utilized in mortgage contracts purchased by the Federal Mortgage Agencies. This assertion has been reviewed by County Counsel and found to be accurate with respect to the uniform security instrument used in the majority of mortgage contracts within California. It is estimated that upwards of 80% of all new mortgages in California are "conforming loans" eligible for purchase by the Federal Mortgage Agencies and include terms and conditions specifically aligned with the uniform security instrument referenced by the FHFA.

The three principal actions that FHFA indicated could result from a municipality entering into a residential PACE program are as follows:

1. Require that PACE assessments be paid in full at the time of sale or refinancing;
2. Tighten underwriting criteria in jurisdictions that allow for residential PACE;
3. Require that the Federal Mortgage Agencies cease purchasing mortgages in residential PACE jurisdictions.

With respect to the requirement that no PACE assessments remain outstanding at the time of sale or refinancing, ISD and TTC would manage this risk through clear and overt disclosure language in every PACE application and assessment contract. Given the experience of the WRCOG program in Riverside County, it is not expected that this restriction on new mortgage contracts would have a significant impact on participation in a County program. In terms of the second and third actions referenced above, there has been no evidence to date that either FHFA or the Federal Mortgage Agencies would initiate such measures. If, however, this practice were to change and either of these two policies were pursued by FHFA, it would be the recommendation of both ISD and TTC that residential PACE be discontinued immediately within the County. A residential PACE program would not be viable if there were a negative impact on those property owners who have no involvement with PACE except to live in an area that allows for such financings.

In seeking to identify other potential consequences associated with a violation of the standard mortgage contract, County Counsel determined that the Federal Mortgage Agencies would likely have authority to declare an event of default under the uniform security instrument as a result of PACE assessments. To the extent that the Federal Mortgage Agencies sought to remedy this default, they would then have the ability to accelerate the mortgage and require payment of the entire loan balance outstanding. If the property owner were neither able to cure the default through full payment of the PACE assessment or the mortgage contract, the Federal Mortgage Agency could initiate foreclosure proceedings under the terms of the uniform security instrument. The possibility of FHFA recommending such actions on the part of the Federal Mortgage Agencies is considered extremely remote and has never been put forth as a potential response to residential PACE programs.

The potential conflict with FHFA over the terms of the federal uniform security instrument is a risk inherent in any new residential PACE program. It is the view of ISD and TTC that such risk can be fully eliminated only through court action, federal legislation or a change in the terms and conditions of the uniform security instrument utilized in California. By initiating a residential PACE program, the County is making a determination that the risk associated with current FHFA statements is manageable and should not threaten property owners within Los Angeles County. ISD, TTC and County Counsel will continue to monitor the actions of both FHFA and the Federal Mortgage Agencies, and will keep your Board apprised of any new developments. To the extent there is an opportunity to address these risks through discussions with FHFA, our Departments will work with the Chief Executive Office to pursue such options.

Judicial Validation
In accordance with Section 5989.30 of the California Streets and Highways Code, as amended by AB811, the levy and collection of assessments pursuant to residential PACE are valid under existing law and provide for the priority status of the assessment lien. Under the direction of County Counsel, the County will further confirm these facts by initiating a judicial validation proceeding with respect to the financing documents attached to this Board Letter. A final, non-appealable judgment by the Los Angeles County Superior Court regarding the validity of PACE assessments, and the priority status of the ensuing liens, is of great importance to potential investors and will assist with the pricing of future PACE bonds. It is important to note that the bond indenture, assessment contract and purchase contract to be included with the judicial validation have each been modified from the form originally submitted to your Board in May 2010. They are now largely comparable to the documents utilized in the HERO and California First programs, which have each had successful outcomes to their judicial validations. It is anticipated that the County's validation proceedings will take approximately 90-120 days to complete.

Program Administrator RFP
The daily oversight of a residential PACE program will be the responsibility of a program administrator to be selected by ISD following the completion of an RFP process. It is expected that the RFP will be released immediately following your Board's approval of the recommendations contained in this Board Letter. While the RFP will allow for the selection of one or more program administrators to manage residential PACE within the County, there are several advantages to selecting just a single administrator. Among these advantages are a simplified marketing effort, reduced administrative burden and staffing needs, and a more streamlined process for bond securitization. Regarding the latter point, it is TTC's view that the bond securitization process will be more efficient with a single program administrator that can aggregate PACE assessments into a standardized security instrument that remains uniform throughout the County. Due to the limited number of qualified firms, it is expected that the RFP process can be completed in less than 180 days. As part of the minimum requirement for the

RFP, all proposers will be required to provide their services at no cost to the County as well as provide various indemnifications regarding the risks associated with FHFA and the Federal Mortgage Agencies.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

Not applicable.

CONCLUSION

Upon approval by your Board, we will proceed with the following actions:

- Working with TTC and ISD, County Counsel will initiate a judicial validation process, which is expected to take 90 to 180 days, depending on whether the validation proceeding is contested.

- ISD and TTC will initiate a competitive solicitation process to select one or more third-party administrators to manage a Los Angeles County PACE program. The process is expected to take between 90 and 180 days.

We will return to your Board at the conclusion of these actions to seek approval to proceed with establishing a County residential PACE program.

It is requested that the Executive Officer-Clerk of the Board of Supervisors return one stamped copy of the approved Board Letter to the Director of ISD and to the Treasurer and Tax Collector.

Respectfully submitted,

JIM JONES Director	MARK J. SALADINO Treasurer and Tax Collector

Attachments

c: Executive Officer, Board of Supervisors
Chief Executive Officer
County Counsel
Auditor-Controller