



County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
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WILLIAM T FUJIOKA
Chief Executive Officer

July 3, 2012

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

Dear Supervisors:

CAPITAL PROJECT BOND ASSISTANCE PROGRAM APPROVE DEVELOPMENT OF PILOT PROGRAM (ALL DISTRICTS) (3 VOTES)

SUBJECT

The recommended actions will authorize the establishment of a Bond Assistance Program, on a pilot basis, to enhance the participation of small contractors in the delivery and implementation of the County's Capital Project Program.

IT IS RECOMMENDED THAT THE BOARD:

1. Approve the establishment of the proposed Bond Assistance Program and its integration, on a pilot basis, into the County's Capital Project Program with maximum program size of \$5,000,000 and a maximum collateral guarantee equal to the lesser of \$500,000, or 40 percent per individual bond.
2. Direct the Chief Executive Officer and Director of Public Works to prepare final program recommendations, including program administration requirements, roles and responsibilities of County staff, and contract terms for a third-party administrator and return to the Board for approval, execution, and/or award of any required documents by December 31, 2012.
3. Direct the Treasurer and Tax Collector to negotiate a Standby Letter of Credit in the amount of \$5,000,000 to secure the bonds to be underwritten by the proposed Bond Assistance Program and return to the Board for approval and execution of any required documents by December 31, 2012.

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PURPOSE/JUSTIFICATION OF RECOMMENDED ACTIONS:

The purpose of the proposed Bond Assistance Program (BAP) is to increase the participation of small businesses and firms in County contracts related to the refurbishment and construction of County facilities and facilitate the growth of such firms by providing the ability to bond or augmenting their capacity to compete for higher-value contracts.

Background

The Board previously directed the Chief Executive Office (CEO) and other appropriate departments to study the feasibility of a bond assistance program that would provide County-supported bond guarantees to local small, minority, and woman-owned contractors.

Many small firms are unable to obtain required bonds for construction contracts because they lack the required collateral. As such, they are precluded from bidding for, or subcontracting on, construction contracts that exceed the bonding capacity established by their surety company. The proposed BAP will provide a County guarantee of collateral up to a certain amount. The County guarantee supplements the contractor's existing bonding capacity, which is based on prior performance history and credit score.

Bonding assistance programs are offered by many states. The extent and the type of assistance program vary from one state to the next. For example, the New York State Program provides credit support for up to 30 percent of the total contract amount. The Dallas Community College District Program provides only technical assistance for obtaining bonds. Most of the states and agencies do provide some type of credit support to enable small contracting firms to better compete. The following table summarizes the program sizes and guarantee limits of several local agency programs.

Bond Assistance Programs

Agency	Program Size	Guarantee Amount (Lesser of)
Los Angeles Unified School District	\$20 billion	40% of bond or \$200,000
City of Los Angeles (Public Works, POLA, LAWA)	\$ 4 million*	40% of bond or \$250,000
Los Angeles Community College District	\$ 7 billion	40% of bond or \$750,000

*Initial program size

Proposed Bond Assistance Program

Under the proposed BAP, the County would guarantee collateral for performance bonds in an amount equal to the lesser of 40 percent of the bond value or \$500,000. The maximum aggregate value for the overall program would not exceed \$5.0 million. The collateral guarantee would be secured by a \$5.0 million Standby Letter of Credit (LOC), against which the County would need to budget a reserve equal to 20 percent, or \$1.0 million. The level of the required reserve would be reviewed and adjusted each year based on the amounts that are actually drawn from the letter of credit during the prior fiscal year.

Participation in program would be limited to Certified Local Small Business Enterprises that are approved by the County's Office of Small Business in the Internal Services Department.

To ensure employees, subcontractors, and material suppliers are paid and accounted for in a timely and appropriate manner and that pre-claim resolution procedures that minimize or negate the need draw on the LOC are maintained and implemented, each of the other jurisdictions referenced in this letter that have established bond assistance programs, has employed a consultant as a third-party administrator. In this role, such consultants have also been tasked with:

- Providing participating contractors with assistance in the preparation of annual financial statements, including balance sheets, revenue and expenditure statements, cash flow projections, etc., that will be necessary to procure LOC's in the future;
- Assisting in program and community/contractor outreach activities to promote program participation; and
- Conducting bonding and financial management workshops.

For the proposed BAP, a third-party administrator would be selected through a competitive Request for Proposals process administered by the Department of Public Works (Public Works). The CEO and Public Works will return to the Board with final recommendations regarding program policies, procedures, and the selection of a third-party administrator by December 31, 2012.

The CEO and Treasurer and Tax Collector will also return to the Board with recommendations regarding the LOC, including terms, fees, and budgeted reserves by December 31, 2012.

Implementation of Strategic Plan Goals

The recommended actions will support the Board-approved County Strategic Plan Goals of Integrated Services Delivery (Goal 3) by improving community outcomes and leveraging resources through to enhancing competition in the delivery of County capital projects.

FISCAL IMPACT/FINANCING

Annual costs to implement and administer the proposed BAP, based on an overall program size of \$5,000,000 and maximum bond guarantees of \$500,000, are preliminarily estimated at \$1,196,500 as detailed below:

Standby Letter of Credit Commitment Fee (@ 1.25%)	\$ 62,500
Third-Party Administrator (1.0%)	50,000
Financial Statement Preparation (subsidy)	64,000
Community/Contractor Outreach & Training	20,000
LOC Budgeted Reserve (@ 20.0%)	<u>1,000,000</u>
Program administration	
Total	\$1,196,500

Final cost projections will be provided by the CEO, Public Works, and Treasurer and Tax Collector by December 31, 2012. The CEO will also present funding recommendations at that time.

ENVIRONMENTAL DOCUMENTATION

The proposed BAP is not a project under the California Environmental Quality Act (CEQA) because it is an activity that is excluded from the definition of a project by Section 15378(b) of the State CEQA Guidelines. The proposed actions are administrative activities of government that will not result in direct or indirect physical changes to the environment.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

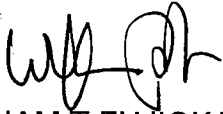
The recommended actions will not have an adverse impact on County services or projects.

The Honorable Board of Supervisors
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CONCLUSION

Please return one adopted copy of this Board letter to the Chief Executive Office, Capital Projects Division, the Department of Public Works, and the Treasurer and Tax Collector.

Respectfully submitted,



WILLIAM T FUJIOKA
Chief Executive Officer

WTF:RLR
DJT:zu

c: Executive Office, Board of Supervisors
County Counsel
Auditor-Controller
Public Works
Treasurer and Tax Collector