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JIM JONES  
Director

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**INTERNAL SERVICES DEPARTMENT**

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*"To enrich lives through effective and caring service"*

December 31, 2015

TO: Supervisor Hilda L. Solis, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Dave Chittenden   
Chief Deputy Director

Joseph Kelly   
Treasurer and Tax Collector

SUBJECT: **REPORT BACK ON COUNTY RESIDENTIAL PROPERTY ASSESSED  
CLEAN ENERGY (PACE) PROGRAM**

**Background**

At the November 3, 2015, Board meeting, during testimony on item 38 regarding increasing the County's Property Assessed Clean Energy (PACE) bond authority, Internal Services Department (ISD) and Treasurer Tax Collector (TTC) offered to provide a report in response to issues raised regarding the residential PACE program. These issues primarily concerned:

- The adequacy of disclosures to consumers on all PACE related marketing materials and loan documents regarding:
  - the repayment of a PACE loan through the assessment on the homeowner's annual secured property tax bill;
  - the consequences of defaulting on a PACE loan.
- The operational mechanisms in place that afford consumers various protections in all phases of an energy retrofit or water conservation project financed through the PACE program including application, project completion, and payment of property taxes.
- The status of automating the review of PACE applications through the implementation of software.

## **Executive Summary**

In developing the County's PACE program, we focused on ensuring Program Administrator (i.e. HERO and CaliforniaFirst) and their contractors' compliance with a broad array of requirements to develop an informed consumer base, and then, should consumers decide to pursue a project through the PACE program, to afford consumers with various protections. These included:

- the integration of consumer protection measures into Program Administrator contractor network training modules, advertising policies and sales training efforts;
- an assessment of projects that fall outside normally expected price ranges;
- the establishment of a dispute resolution team to assist consumers with issues;
- a broad array of requirements to establish a pool of competent, licensed contractors who would be trained on program requirements and monitored for adherence to those requirements.

This report back on the PACE program occurs approximately six months after the County launched the program. During these six months, participation by County constituents has surpassed expectations and demand is expected to continue to grow at the same or similar rate over the next several years. In this report, we have evaluated each area discussed at the November 3, 2015 meeting and responded accordingly. Through this review, we determined that while the program design and related contractual requirements are targeted to achieve consumer-focused goals, both the County and the two Program Administrators need to continue to monitor performance and to identify and implement any enhancements that are deemed necessary.

Since Program launch, County staff have primarily been focused on managing the operational aspects of the Program which, given the constituent demand, have been material. Accordingly, we outline a plan to:

- improve the coordination with Program Administrator staff;
- automate the project review process so that staff only review cases that are flagged as not aligning with one or more criteria;
- leverage the County's PACE website for purposes of consumer disclosure and protection;
- work with the Department of Consumer and Business Affairs to expand its responsibilities in support of the Program.

### **Potential Consequences of Missed Payments**

While assessment bonds in California typically allow for judicial foreclosure following a single missed payment, the County's residential PACE program provides significantly greater protections for its participants. Judicial foreclosure can be initiated by bondholders in the County program only if:

- a participating homeowner is delinquent for seven months following the second installment due date of February 1;
- the homeowner fails to resolve this delinquency within a subsequent 60-day cure period;
- the cash reserve fund for the County's residential PACE program has been depleted;
- the Program Administrator's reserve fund "backstop" has been exhausted.

As a result of these conditions, it is unlikely that one missed PACE assessment will trigger a judicial foreclosure and threaten the participant with the loss of his or her home.

The potential risk of foreclosure was of particular importance to our departments as we designed the County's residential PACE program. The use of a Program Administrator backstop to supplement the cash reserve fund is unique to the County program and provides for greater security than exists in any other residential PACE program in California. Furthermore, the County program has provided for multiple disclosures regarding foreclosure risk throughout the application process, assessment contract, and within the insert in the annual property tax bill.

### **Review of Marketing Materials to Limit Risks of Inability to Pay**

Each Program Administrator was contractually required to develop and enforce a Marketing and Public Relations Program, which was approved by ISD. As stated at the November 3, 2015 meeting, lack of adherence to certain components of the Marketing and Public Relations Program resulted in the inappropriate approval to use the County seal on certain marketing documents, as well as language that was not consumer focused.

Our review of PACE marketing efforts allowed us to refine our procedures, and those of the Program Administrators, in the following ways:

- Processes to issue all marketing materials by the two Program Administrators and all members of their contracting network will be pre-approved by the County.

Until otherwise directed, that approval process will include management approval at each of our departments and the Chief Executive Office's Countywide Communications Office.

- Any marketing materials that include the maximum loan amount available must also include an indicator of the increase to the annual secured property tax bill associated with full utilization of the maximum loan amount. References to no payments, limited payments or deferred payments are prohibited. The inclusion of the potential increase in secured property tax payments at the very outset of the marketing process gives consumers information necessary to determine an ability to repay the debt.
- Marketing materials should not include an "apply by" date because the program is not ending.
- All marketing materials must refer to the County PACE website or URL. This website is discussed later in this report.
- Consistent with the intent of Board Policy 3.030, all marketing materials should include a Spanish language disclosure.

Collectively, these requirements serve to inform the consumer with factually correct information regarding project scope, process and loan repayment estimates and mechanisms.

### **Consumer Protections in All Phases of a PACE Project**

We reviewed the protections that each Program Administrator is contractually required to afford to consumers in each phase of an energy retrofit or water efficiency project financed through PACE. These include, but are not limited to:

- Application Phase
  - The PACE Program application and financing documents provide the disclosures required under the contract with the County.
  - Homeowners are provided a Right to Cancel, without cost, within three business days from the date they signed the Assessment Contract.
- Project Completion
  - As part of Assessment Contract review and approval, total project and individual measure costs are evaluated for compliance within cost limits.

- Upon project completion, homeowners sign a Completion Certificate acknowledging satisfactory installation of equipment and total project costs from the home contractor.
- Homeowners are required to provide project permits indicating work was completed under local jurisdiction building requirements.
- Contractor Monitoring by the Program Administrator
  - Program Administrators implement a Participating (Home) Contractor Management Plan which includes registration, training, license verification, and maintenance of “good standing” status of home contractors.
  - Program Administrators maintain a database of project measure and financing parameters (measure type, size and cost) and associated home contractor.

Each Program Administrator has also developed, and the County has approved, Customer Complaint Protocols that require the Program Administrator conduct timely investigation of all complaints. As part of its Customer Service Plan, each Program Administrator is required to track customer service metrics on multiple service levels and maintain a toll free number operated by a live person during regular business hours.

These contractual requirements provide a framework that is consumer focused. However, we believe there are opportunities to improve compliance with various contractual requirements that serve to uphold program terms and identify and reduce product overselling, or the oversizing of projects in general.

To this end, ISD has been working to automate the application review and approval process. As part of that automation, our departments are working collaboratively to establish a set of criteria that when triggered, would invoke a second level review by the Program Administrator and ISD. An example would be a senior, age 65 or older who has requested more than fifty percent (50%) utilization of the available credit line disclosed to him or her. Another example would be any applicant, regardless of age, whose loan results in a loan-to-value in excess of 95% for the subject property. Related to the risk of product overselling or project oversizing, ISD would populate the same system with a range of acceptable price ranges (low, median, and high) for components of a project, and projects in the high range and beyond would require a second level review by the Program Administrator and ISD. This would also allow ISD to perform trend analyses over time, to identify potential ‘price-creep’ on eligible measures or potential abusive practices by certain contractors.

Finally, we will begin to review the consumer complaint process to ensure that contractors who have been found to have violated policy are suspended or removed from the Program.

### **Plan for Improved Consumer Protection**

Our departments believe the following steps, to be fully implemented over the next several months, will serve to better focus staff resources, leverage technology, and build an infrastructure to maintain consumer protections over the long term.

- Improving County efforts to ensure Program Administrator accountability. This will include monthly meetings with the Program Administrators, ISD and TTC, to review consumer complaints, identify potential remedies, and implement program enhancements.
- Automating the County's review of the application process to free staff resources to review transactions that fall outside acceptable ranges and identify trends that indicate degradation of consumer protections.
- Branding the County's PACE website, LAPACE.org, as a one-stop County-sanctioned information source on PACE. The website provides factual information on the program risks, repayment of the project costs through the annual property tax bill, and information on various consumer protection measures, including dispute resolution processes. We will require that all marketing materials include reference to this website.
- Ensuring that staff at the Department of Consumer and Business Affairs (DCBA) has the necessary program knowledge to handle PACE inquiries and complaints, and implementing a process for DCBA to pass information back to ISD related to common themes and potential Program enhancements.

### **Development of Industry Best Practices**

The County's two Program Administrators have undertaken efforts to develop Industry Best Practices related to PACE consumer protection standards, ostensibly for adoption by PACE Program Administrators statewide. This represents their effort to develop consistent standards across the PACE industry. We believe this development is positive, but we are not yet in the position to opine on the adequacy of these standards, given our more detailed review of the protections each Program Administrator is required to establish under its contract with the County.

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We briefed a draft of this report at the Operations Cluster meeting on December 17, 2015. In an effort to keep your Board informed on our progress, we will report on a quarterly basis through the calendar year 2016, on the status of the PACE program with particular emphasis on consumer protection standards.

Should you have any questions, please contact Dave Chittenden at (323) 267-2103, or via email [dchittenden@isd.lacounty.gov](mailto:dchittenden@isd.lacounty.gov). You may also contact Joseph Kelly at (213) 974-2101, or via email at [jkelly@ttc.lacounty.gov](mailto:jkelly@ttc.lacounty.gov).

c: Assessor  
Chief Executive Officer  
Acting Executive Officer, Board of Supervisors  
Auditor-Controller  
County Counsel  
Consumer and Business Affairs  
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May 12, 2016

To: Supervisor Hilda L. Solis, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: Dave Chittenden  
Chief Deputy Director

Joseph Kelly  
Treasurer and Tax Collector

**QUARTERLY REPORT ON COUNTY RESIDENTIAL PROPERTY ASSESSED CLEAN ENERGY (PACE) PROGRAM PROGRESS, CONSUMER PROTECTIONS AND PROGRAM IMPROVEMENTS**

**Background**

On December 31, 2015, the Internal Services Department (ISD) and the Treasurer & Tax Collector (TTC) issued a report to your Board in response to issues raised about the residential PACE program at the November 3, 2015 Board Meeting. In that report, ISD and TTC indicated their intent to report back quarterly throughout 2016 on the status of the program and these improvements.

It is important to note that effective January 2016, we instituted a monthly in person meeting with an executive representative of each of the two Program Administrators, Renovate America/HERO and Renew Financial/CaliforniaFIRST. In certain instances, when an issue has warranted it, we have conducted teleconferences to disposition a matter apart from the regular meeting cycle. We also conducted site visits to each of the Program Administrator's offices. Collectively, these steps have helped to increase our level of understanding of each of the Program Administrator's administrative and compliance processes, particularly related to their disposition of consumer complaints and their monitoring of their contractor networks. We have committed to continue this partnership of communication at this executive level through the remainder of this calendar year, and further if warranted. This focus on executive level dialogue and program oversight has served to complement, not replace efforts at the staff level, and it has improved the overall coordination among the ISD, the TTC and the Program Administrators.

**Program Progress Update**

The County's residential PACE program continues to show market demand and growing participation. Relevant statistics are indicated in the table below.

<b>DESCRIPTION:</b> The data within this report is compiled from the two program administrators: Renovate America/HERO and Renew Financial/California First.					
<b>PROGRAM DATA:</b> (As of 03-31-2016)					
<b>Applications Submitted</b>	<b>Applications Approved By ISD</b>	<b>Value Approved by ISD (\$)</b>	<b>Completed Projects</b>	<b>Value of Completed Projects (\$)</b>	<b>Avg. Value of Completed Projects (\$)</b>
31,879	15,300	\$364,000,000	9,801	\$217,448,192	\$22,186
<b>BY SUPERVISORIAL DISTRICT:</b>					
<b>Supervisorial District</b>	<b>Applications Approved By ISD</b>	<b>Completed Projects</b>	<b>Value of Completed Projects (\$)</b>	<b>Avg. Value of Completed Projects (\$)</b>	
<b>District 1</b>	2,807	1,596	\$33,573,00	\$21,076	
<b>District 2</b>	3,254	2,048	\$46,865,000	\$22,883	
<b>District 3</b>	2,397	1,400	\$36,008,000	\$25,720	
<b>District 4</b>	3,543	2,523	\$52,721,000	\$20,896	
<b>District 5</b>	3,574	2,234	\$48,266,000	\$21,605	

An emphasis in the December 31, 2015 report was on enhancing consumer protections and implementing improvements in the County's administrative processes. The table below indicates the total number of complaints received by the PACE Program Administrators since the program launch in June of 2015. The table also indicates the nature of the complaints and how the complaints have progressed through the complaint resolution processes.

<b>COMPLAINT TRACKING:</b> (As of 03-31-2016, due to variances in reporting, some resolution durations are estimated)						
<b>Complaint Type</b>	<b>Number of Complaints</b>	<b>Average Days Until Resolution</b>	<b>Closed in 7 or Less Days</b>	<b>Closed in 8-14 Days</b>	<b>Closed in 15+ Days</b>	<b>Still Unresolved</b>
<b>Contractor Conduct</b>	59	11	32	4	23	7
<b>Multiple Issues</b>	10	19	3	3	4	0
<b>Contracting/Financing Process</b>	107	9	70	15	22	8
<b>Terms of Financing</b>	209	11	103	34	72	36
<b>Project Workmanship</b>	323	13	153	76	94	62
<b>Grand Total</b>	708	12	---	--	---	113

The definitions used in the table above are explained here.

**Complaint:** A call received by the PACE Program Providers citing a specific issue that required escalation for resolution.

**Resolution:** The PACE Program Provider has acted on the complaint and received verification from the original caller that they are satisfied with the action.

**Unresolved:** The PACE Program Provider and the original caller are still discussing resolution.

The number of complaints expressed as a percentage of applications approved by ISD (15,300) is 4.6%, While we do not have a benchmark against which we could compare these statistics, each Program Administrator has established a reasonable consumer complaint investigation and disposition process, as required under the contract, which we reviewed on each of the site visits.

### **Consumer Protection and Program Improvements**

In the December 31, 2015 report, we proposed the following actions in our continued efforts to enhance program oversight and consumer protections:

### **Review Marketing Materials to Limit Risks of Inability to Pay**

Concerns were raised at the November 3, 2015 Board meeting regarding Program Administrator marketing materials and advertisements that used the County seal, that implied time constraints existed on applying for a PACE assessment, and that indicated the amount of financing available to a homeowner under PACE. As a result, ISD directed to both program providers that direct marketing and outreach mailings must be approved by ISD, TTC and the CEO Public Information Officer. Also, the Program Administrators were advised that they could not use the County seal in direct marketing and outreach without Board approval to do so (as recommended by County Counsel after the Board meeting). To date there have been no requests for this approval.

Additionally, we recommended a review and approval of all contractor marketing materials. However, the Program Administrators stated that they do not review all contractor marketing materials given the high volume of contractors enrolled in their programs and the rapid change in contractor marketing approaches. Rather, each Program Administrator issues contractor marketing guidelines, which are reviewed and approved by our offices. If a contractor fails to comply with the guidelines and that comes to the attention of the Program Administrator, each will review the matter and impose a corrective action which may include formal discipline of the contractor. In the few instances in which our offices became aware of such matters and referred them to one of the Program Administrators for review, the corrective action plan was developed timely and appeared reasonable.

### **Consumer Protections in All Phases of a PACE Project**

PACE program providers have implemented senior advocacy processes within their respective programs to address specific concerns about seniors being targeted or oversold on PACE projects.

Also, in anticipation of questions and other inquiries that could arise when the PACE assessments appear on the 2016-2017 Annual Secured Property Tax Bills that the Tax Collector will mail in October 2016, both Program Administrators plan to send a notice to each homeowner who will have a PACE assessment reminding the homeowner that the homeowner elected to have the project's costs repaid over time through an assessment on the Annual Secured Property Tax Bill. The Tax Collector has reviewed and approved each notice.

**Automating the County's review of the application process to free staff resources to review transactions that fall outside acceptable ranges and identify trends that indicate degradation of consumer protections.**

**Assessment Contract review:** In November 2015, ISD reported that implementation of the electronic transfer of data and the development of programs to automate the review of assessment contracts was 'imminent'. Unanticipated technical issues and the need to formalize this data transfer as a contractual agreement delayed the completion of this effort. ISD and Renovate America executed a Data Transfer Agreement in March 2015, which provides Assessment Contract information and detailed technical information about the improvement measures requested. Initial data transfers have been completed and ISD has confirmed the accuracy of the data. Programming work to automate the review of assessment contracts is expected to be completed in mid-May.

The Assessment Contract information described above omits other, key datasets about homeowners, property underwriting evaluations, and other information gathered and archived under different data systems. This was because the initial request was to only automate the assessment contract review process and to allow analyses of contractor behaviors and home improvement pricing trends.

ISD has requested each Program Administrator to consider a transfer of all the data collected with the exception of personally identifiable information (PII) or Sensitive Personal Information (SPI). This will allow ISD to establish a set of criteria that, when triggered during the assessment contract process, would invoke further analysis of the application by the Program Administrator or ISD. This could include the examples quoted in the December report, such as a senior, age 65 or older who has requested more than 50% utilization of the available credit line disclosed to him or her. Pending delivery of the complete data set, ISD continues to work with the Program Administrators on interim delivery of reports to meet its ad-hoc needs.

**Branding the County's PACE website, LAPACE.org, as a County-sanctioned information one-stop on PACE.**

The LAPACE.org website has been modified and is being referenced and offered to the public as a County-sanctioned source for PACE information on program risks, repayment of the project costs through the annual property tax bill, and information on various consumer protection measures, including dispute resolution processes. We have requested that each Program Administrator reference the website on all their marketing materials that are specific to Los Angeles County, and that they revise the marketing guidelines for their contractor networks to require the same.

**Establishing and funding a position in Consumer and Business Affairs focused on handling PACE inquiries and complaints, and passing information to ISD related to Program enhancements for review and possible implementation.**

ISD has established a positive dialogue with the Department of Consumer and Business Affairs (DCBA) about certain program matters. However, initial efforts by ISD focused on establishing a County-maintained PACE consumer hot-line (877-785-2237) and meeting with the Program Administrators to understand their processes related to reviewing and dispositioning consumer complaints on the various issues listed in the table above. Because of the low number of complaints and the high percentage of complaints resolved, ISD has not pursued a more formal role for the DCBA in this area. ISD will continue to monitor this on an ongoing basis.

### **Development of Industry Best Practices**

The County's two Program Administrators have undertaken efforts to develop Industry Best Practices related to PACE consumer protection standards, ostensibly for adoption by PACE Program Administrators statewide. This represents their effort to develop high, consistent standards across the PACE industry. On March 22, 2016 your Board directed ISD to determine and report back in 60 days how the County could implement Industry Best Practices throughout the County for all residential PACE providers, including those that are offering residential PACE programs to cities within the County, operating under other PACE administrative contracts; i.e. programs where the County has no control over program administration, implementation, and consumer protections.

While ISD will respond to this motion timely, ISD is also reviewing its existing Agreement with the two PACE providers to implement elements of the Industry Best Practices into those agreements.

The existing PACE provider Agreements will be amended to include additional program requirements especially around PACE provider marketing and outreach, contractor marketing and outreach management, provision of PACE project data, and enhanced consumer protections actions and reporting. ISD expects to implement these changes into the existing PACE provider Agreements by June 1, 2016.

### **ISD Staffing Adjustments for Improved Administration of the PACE Program**

As the program has grown, it became apparent that staffing changes were needed to separate ongoing operational duties from financial and administrative management responsibilities. To that end, ISD is realigning financial processes from the County Officer of Sustainability (COS) to ISD's Administration and Finance Service (AFS) and is requesting additional staffing to handle increased workload in FY 2016-17 budget.

Also, effective May 9, 2016 ISD is allocating an internal resource to provide needed contract compliance monitoring. We are also adding a resource to provide overall PACE

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Program Management for ISD. None of these changes will incur any cost to the County as they will be funded from the administrative fees collected from the Program Administrators.

### **Bond Authority**

It is noteworthy that the total dollar value of financed projects plus projects that have already been approved is approaching the program's current bond authority limit of \$500 million. A request to increase this limit will be brought to your board in the near future. However; as mutually agreed upon by ISD and TTC, the amount of this increase may be limited until the program enhancements discussed in this report are implemented and, if program quality and protection concerns are not ensured to the Board's, ISD's or TTC's satisfaction, the County residential PACE program may be slowed over the short term.

### **Conclusion**

Consumer protection and contractor compliance are this program's highest priorities. The steps taken since program inception, and the additional steps being implemented and considered have contributed to the program's relatively successful accomplishments to date. However, we will continue to focus on ensuring long-term program quality and a positive consumer experience, all within a consumer's ability to repay the project's costs through the Annual Secured Property Tax Bill.

We will continue to report to your Board on a quarterly basis through the calendar year 2016 on the status of the PACE program.

Should you have any questions, please contact Dave Chittenden at (323) 267-2103, or via email [dchittenden@isd.lacounty.gov](mailto:dchittenden@isd.lacounty.gov). You may also contact Joseph Kelly at (213) 974-2101, or via email at [jkelly@ttc.lacounty.gov](mailto:jkelly@ttc.lacounty.gov).

DC:JK:HC:sg

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ISD Board Deputies  
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## County of Los Angeles INTERNAL SERVICES DEPARTMENT

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*"To enrich lives through effective and caring service"*

August 4, 2016

To: Supervisor Hilda L. Solis, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: Dave Chittenden  
Chief Deputy Director

Joseph Kelly  
Treasurer and Tax Collector

### **BOARD MOTION NOVEMBER 3, 2015, ITEM NO. 38 - QUARTERLY STATUS REPORT ON THE COUNTY OF LOS ANGELES RESIDENTIAL PROPERTY ASSESSED CLEAN ENERGY (PACE) PROGRAM**

#### **Background**

On December 31, 2015, the Internal Services Department (ISD) and the Treasurer and Tax Collector (TTC) issued a report to your Board in response to issues raised about the residential PACE ("PACE") program at the November 3, 2015 Board Meeting. Therein, ISD and the TTC indicated that we would report back to your Board on the status of the PACE program quarterly through 2016. We issued our last status report on May 12, 2016.

#### **Environmental Benefits and Job Growth**

Every completed PACE project leads to measurable environmental benefits, such as reducing greenhouse gas emissions, electricity demand, and water usage. The table below estimates the cumulative, lifetime environmental benefits associated with PACE projects completed.

<b>Environmental Benefits</b>	<b>Estimated Lifetime Project Savings</b>
Energy Savings (kWh)	1,540,300,000
Water Savings (gallons)	1,317,000,000
Emissions Reduced (tons)	459,000

Collectively, the two County Program Administrators have reported that residential PACE has created an estimated 3,475 jobs in the County of Los Angeles, since program inception.

### **Automating the Assessment Contract Review Process**

In November 2015, ISD reported that implementation of the electronic transfer of data from the PACE Program Administrators (“PAs”) and the automation of the review of assessment contracts was nearing completion. Unanticipated technical issues and the need to formalize this data transfer as a contractual agreement delayed the completion of this effort. ISD and Renovate America subsequently executed a Data Transfer Agreement, which facilitates the County’s receipt of such data, in March 2016. ISD is presently in discussions with Renew Financial regarding a contractual agreement for ISD to receive similar data by December 2016.

Utilizing this data, ISD has devised, tested, and implemented a software program to review Renovate America’s assessment contracts in an automated manner, thereby focusing staff’s review on exception transactions such as incomplete assessment contracts or product pricing that falls outside of an acceptable range. Directing staff’s efforts towards these types of exception transactions benefits the homeowners because staff can review and further confirm with the PA the appropriateness of the project before the project is approved to proceed. ISD will also use this data to monitor contractor behavior and home improvement pricing trends. An example would be trend analysis of contractor upselling (disproportionate price increases through contract amendments compared to the original quote of the project). Access to and interpretation of such data improves operational efficiency and offers the potential to conduct detailed programmatic trend analyses as ISD further refines this tool.

### **Bond Authorization Increase**

On June 21, 2016, your Board approved our request to increase the bond authorization limit for the County’s PACE Program from \$500 million to \$750 million, which should be sufficient to manage the PACE Program through the end of December 2016.

### **Expansion of the PACE Program to Include Seismic**

At the July 21, 2016 and July 28, 2016 Operations Cluster Meetings, we briefed your deputies on our planned response to your March 22, 2016 motion to recommend expanding the County PACE program by adding other statutorily allowable measures (i.e. seismic retrofits, electric vehicle charging stations and leasehold or possessory interests in public property) and devising a process to include additional program administrators. If your Board approves these recommendations, our departments will take all necessary administrative actions to implement them, including submitting a request to increase the

programmatic bond authorization limit with an amount sufficient to manage the PACE Program through this fiscal year. We finalized and submitted our report responding to your motion on August 3, 2016.

### **Contract Compliance Reviews**

On June 23, 2016, ISD notified both PAs that the County will begin conducting contractually-mandated compliance reviews, which will cover the PACE program period of March 3, 2015 to June 30, 2016. This review will initially focus on compliance with consumer protections, including measures geared towards seniors and non-English speakers.

### **Contractor Marketing Guidelines (June 21, 2016 Board Agenda Item 42)**

During the June 21, 2016 Board Meeting, your Board instructed us to address contractor marketing guidelines in this quarterly report. More specifically, you impressed upon us the need for PAs, contractors, and any other related vendors to clearly convey to the public, particularly senior recipients, that property upgrades financed through the PACE program constitutes borrowed money that is paid back through an assessment on the Annual Secured Property Tax bill, and that such upgrades are not free. Accordingly, we have ensured that both PA's direct and contractor marketing guidelines:

- Prohibit language implying that a PACE loan results in no payment, limited payment or deferred payment.
- Require language clearly stating the homeowners will pay back the financed amount through an assessment on the Annual Secured Property Tax bill.

While we have carefully reviewed all direct and contractor marketing guidelines, we will continue our oversight to ensure that such guidelines are exceedingly transparent and do not misrepresent the PACE program to the public. The PAs periodically review contractor marketing material to ensure contractors are in compliance with their contractor marketing guidelines and have corrective and disciplinary measures in place to handle non-compliant contractors. Both PAs have reaffirmed their commitment to revising these materials on an ongoing basis as needed. Any necessary revisions that originate from the County's ongoing review process will be formally communicated to contractors through the PAs.

### **County PACE Website**

We have updated the [pace.lacounty.gov](http://pace.lacounty.gov) website (formally LAPACE.org), to be a one-stop County-sanctioned information source on PACE. The updated website provides information on program risks, repayment of the project costs through the annual property tax bill, and

various consumer protections, including dispute resolution processes. The PAs have agreed to reference the website on all their marketing materials that are specific to Los Angeles County.

### **Expanding the County PACE Program (March 22, 2016 Board Agenda Item 13)**

At the July 21, 2016 and July 28, 2016 Operations Cluster Meetings, we briefed our report responding to the March 22, 2016 Board Agenda Item 13. In the report and during these meetings, we recommended a process to include other program administrators in the County PACE program, provided they agree to: 1) the County's terms and conditions, 2) not engage in separate programs with individual cities, and 3) adopt the County's AB 811 legal framework for the issuance of assessment bonds. We also provided a status update on our outreach to cities to convey the importance of developing a coordinated Countywide PACE program with consistent and comprehensive standards for consumer protections. In addition, we compared the national PACE industry standards to those implemented by the two PAs and confirmed that the PAs' standards meet or exceed the national standards. Lastly, we discussed our plan to encourage the use of existing energy efficiency incentives in conjunction with the PACE program. We finalized and issued our report responding to your motion on August 3, 2016.

### **Federal Housing Administration (FHA) Guidance on Residential PACE**

On July 19, 2016, the FHA announced clear guidance that expands homeowner access to PACE projects nationwide. The FHA will now approve purchase and refinance mortgage applications in states, such as California, which treat PACE obligations as special assessments similar to property taxes. Lenders will be responsible for escrowing PACE payments as they would for property taxes. In addition, purchasers of homes with existing PACE obligations will be responsible for any unpaid balance of the obligation since PACE assessments remain with the property.

Although this is a positive development for PACE, the FHA announcement does not apply to the Federal Housing Finance Agency (FHFA), which oversees mortgages financed by Fannie Mae and Freddie Mac. FHFA has not changed its policy guidelines with respect to PACE.

### **ISD PACE Program Staffing Adjustments**

Effective May 23, 2016, Ms. Elizabeth Ginsberg assumed responsibility as the interim Program Manager for the County's PACE program, on loan to ISD from the TTC.

Effective July 1, 2016, staffing changes went into effect to separate and transfer PACE operational duties from financial responsibilities. ISD has reassigned financial duties from

its County Office of Sustainability (COS) to its Administration and Finance Service (AFS), along with additional staffing, to handle the increased workload.

These changes will not incur any cost to the County, as they will be funded from the administrative fees collected from the homeowners through the PAs. Collectively, these changes provide the staffing necessary to manage the PACE program, as well as ensure appropriate separation of duties is achieved through organizational reporting structures.

**Notices to Homeowners**

In anticipation of questions that could arise when PACE assessments appear on the 2016-2017 Annual Secured Property Tax Bills that the Tax Collector will mail in October 2016, both PAs agreed to mail payment reminder notices to property owners with PACE assessment contracts. Renovate America began mailing the notices in July 2016, and Renew Financial expects to mail their payment notices toward the end of August.

**Program Complaints**

The table below provides a summary of complaint statistics from both County PACE PAs since the program launched on May 28, 2015.

<b>COMPLAINT TRACKING: (As of June 30, 2016)</b>				
<b>Complaint Type</b>	<b>Complaints Received Since Inception (05/28/2015)</b>	<b>Resolved Complaints</b>	<b>Average Days Until Resolution</b>	<b>Unresolved Complaints</b>
<b>Contractor Conduct</b>	106	90	10	16
<b>Multiple Issues</b>	8	8	18	0
<b>Contracting/Financing Process</b>	124	117	8	7
<b>Terms of Financing</b>	279	241	12	38
<b>Project Workmanship</b>	460	387	14	73
<b>Grand Total</b>	<b>977</b>	<b>843</b>	<b>14</b>	<b>134</b>

Complaint: A call received by the PACE PA citing a specific issue that required escalation for resolution.

Resolution: The PACE PA has taken some affirmative steps towards rectifying the problem and received verification from the original caller that he or she is satisfied with the action.

Unresolved: The PACE PA and the original caller are still discussing resolution.

The cumulative number of complaints expressed as a percentage of applications approved by ISD (19,393) is 5%.

**Program Progress**

The County's PACE program continues to demonstrate market demand and growing participation. The table below provides relevant statistics since the program launched on May 28, 2015.

<b>DESCRIPTION:</b> The below data is compiled from the two PAs: Renovate America/HERO and Renew Financial/California First.					
<b>PROGRAM DATA:</b> (As of 06-30-2016)					
Financing Applications Submitted	Financing Projects Approved by ISD	Value Approved by ISD (\$)	Completed Projects	Bond Financing Provided (\$)	Average Financing Per Projects (\$)
42,961	19,393	519,224,000	14,146	338,995,000	23,964
	<b>Fully or Partially Paid-off Assessments</b>		<b>Value of Paid-off Assessments (\$)</b>		
	550		11,268,000		
<b>BY SUPERVISORIAL DISTRICT:</b>					
Supervisorial District	Financing Projects Approved By ISD	Completed Projects	Value of Completed Projects (\$)	Average Value of Completed Projects (\$)	
District 1	3,526	2,445	55,395,233	22,656	
District 2	4,243	3,122	78,134,175	25,026	
District 3	2,808	2,031	53,079,435	26,134	
District 4	4,429	3,387	78,256,505	23,104	
District 5	4,387	3,161	72,130,542	22,818	

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## **Conclusion**

Since January 2016, our departments continue to hold monthly in-person meetings with an executive representative of each of the PAs to discuss their respective PACE programs. Apart from the regularly scheduled meetings, we have conducted several ad hoc teleconferences to address matters as they arise. Collectively, these meetings and conversations have established an executive-level engagement that has complemented staff efforts and improved the overall coordination among the ISD, the TTC, and the PAs. We will continue to focus on ensuring long-term program quality and a positive consumer experience, all within a consumer's ability to repay the project's costs through the Annual Secured Property Tax Bill.

Should you have any questions, please contact Dave Chittenden at (323) 267-2103, via email at [dchittenden@isd.lacounty.gov](mailto:dchittenden@isd.lacounty.gov). You may also contact Joseph Kelly at (213) 974-2101, via email at [jkelly@ttc.lacounty.gov](mailto:jkelly@ttc.lacounty.gov).

DC:JK:EBG

c: Assessor  
Auditor-Controller  
ISD Board Deputies  
Chief Executive Officer  
Chief Operating Officer  
County Counsel  
Executive Officer, Board of Supervisors  
Consumer and Business Affairs  
Public Information Officer



**DAVE CHITTENDEN**  
Chief Deputy Director

**County of Los Angeles  
INTERNAL SERVICES DEPARTMENT**

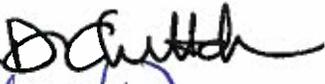
1100 North Eastern Avenue  
Los Angeles, California 90063

Telephone: (323) 267-2103  
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*"To enrich lives through effective and caring service"*

October 12, 2016

To: Supervisor Hilda L. Solis, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: Dave Chittenden  
Chief Deputy Director   
  
Joseph Kelly   
Treasurer and Tax Collector

**BOARD MOTION NOVEMBER 3, 2015, ITEM NO. 38 - QUARTERLY STATUS REPORT ON THE COUNTY OF LOS ANGELES RESIDENTIAL PROPERTY ASSESSED CLEAN ENERGY (PACE) PROGRAM**

**Background**

On December 31, 2015, the Internal Services Department (ISD) and the Treasurer and Tax Collector (TTC) indicated that we would report back quarterly to your Board on the status of the PACE program through Fiscal Year 2016. This constitutes the report for the third quarter.

**Environmental Benefits and Job Growth**

Since the PACE program launched on May 28, 2015, it has reduced materially greenhouse gas emissions, electricity demand, and water usage, while creating new jobs. The County PACE Program Administrators (PAs) report the following estimated cumulative, lifetime environmental benefits associated with all PACE projects completed since program inception.

<b>Environmental Benefits</b>	<b>Estimated Lifetime Project Savings (As of August 31, 2016)</b>
Energy Savings (kWh)	1,856,669,000
Water Savings (gallons)	1,662,695,000
Emissions Reduced (tons)	556,570

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The two PAs report that property owners financing eligible improvements through the County PACE program has helped to create an estimated 4,293 jobs in the County of Los Angeles since the program launched.

### **Annual Property Tax Bills and Upcoming Tax Season**

In anticipation of questions that could arise when the PACE program assessments appear on homeowners' 2016-2017 Annual Secured Property Tax bills, both PAs have mailed payment reminder notices to residents with PACE assessment contracts.

In September, TTC and ISD provided PACE training to staff from the departments of the Assessor, Assessment Appeals Board, Auditor-Controller, Consumer and Business Affairs, and the TTC to prepare them for potential calls from residents regarding PACE entries on their tax bills.

In October, TTC will mail the 2016-2017 Annual Secured Property Tax bills, and the TTC will include in that mailing a multi-page insert which includes important information on PACE.

In December 2015, ISD informed your Board that we established our County Office of Sustainability Energy Upgrade California customer service number (877) 785-2237 as the customer service number to answer calls from the public regarding the County PACE program. Customer service staff have been notified of the upcoming tax season and are prepared to assist the public. Customer service staff are knowledgeable about the County's PACE Program and are equipped to answer general questions, refer the public to the County's PACE PAs, or to the appropriate County staff. The hours of operation are from 8:30 a.m. to 5:30 p.m. Monday through Friday.

### **Assembly Bill 2693, the PACE Preservation and Consumer Protections Act**

The Governor signed AB 2693 into law last month. AB 2693 promotes standardized PACE disclosures and protections for consumers. More specifically, it requires PACE providers to submit a financing estimate and standard consumer disclosures to homeowners before they sign PACE assessments. The intent of AB 2693 is to inform consumers about the manner in which PACE assessments impact home refinances and sales.

### **Automated Assessment Contract Review Process**

ISD developed and utilizes a software application which uses data received from Renovate America. The application is a tool used during the processing of assessment contracts that organizes and presents data for evaluation and review by ISD staff. As the software application organizes and presents the assessment contract data, the application assesses key metrics in the decision making process before the County enters into the assessment contract with the property owner. Some of the key metrics evaluated include the combined product and installation cost of the project, the project cost versus the maximum assessment financing amount for which the parcel qualifies, and whether all property owners on title are considered 'elders' (sixty-five and over). If County staff determines that, an assessment contract warrants further review, staff will confirm with the PA that it has contacted the homeowner, that the homeowner is fully cognizant of the project, and that the project does not raise any additional red flags before County staff approves the project.

In addition to the daily processing of assessment contracts, ISD is utilizing the data received from Renovate America to identify, evaluate, and monitor home improvement contractor behavior. More specifically, ISD is monitoring:

- The use of addendums to the original contract by high volume contractors (i.e. contractors with 60 or more projects) offering PACE financing. To date, we have identified 67 contractors that have 60 or more projects. ISD's monitoring has not identified any contractors using addendums for substantial increases to the price and/or scope of the original contract.
- That the use of addendums is limited to 'trueing up' the final project price or materials installed.

ISD is in discussions with Renew Financial to enter into a data transfer agreement to receive assessment contract data electronically by December 2016. In addition to using this data in the processing and evaluation of assessment contracts, ISD will continue developing monitoring metrics and practices similar to the evaluation methods described above.

### **Bond Authorization Increase**

On June 21, 2016, your Board approved our request to increase the bond authorization limit for the PACE program to \$750 million. PACE commitments through October

approximated \$690 million. We are monitoring the bond authorization limit, and will return to your Board with any recommended actions within the next several months.

### **Contract Compliance Reviews**

In June 2016, ISD began contractually-mandated compliance monitoring of both of the PAs performance from March 2015 (contract inception) to June 30, 2016. The monitoring process is a comprehensive review of the PA's policies, procedures, and contractual obligations. ISD is currently administering the review of Renew Financial contractual obligations, as well as ensuring all authorizations for operational changes, and approvals for policies, procedures, marketing, and training were properly obtained. ISD estimates to complete compliance review for Renew Financial in October 2016. Preliminary review of Renovate America administered by Department personnel is underway. However, ISD will seek external services for the remaining portion of Renovate America's compliance.

### **Expansion of the County PACE Program to Include Additional Improvements**

On August 3, 2016, our departments issued a report responding to your March 22, 2016, Board Agenda Item 13. In the report, we identified the steps necessary to broaden the County PACE program. These include adding all improvements eligible for PACE financing (i.e. seismic retrofits, electric vehicle charging stations and leasehold or possessory interests in public property), for both residential and commercial projects, consistent with California State Law, and increasing the number of PACE PAs through the development of a Request for Statement of Qualifications (RFSQ) process, which will constitute a Master Agreement of PACE PAs.

Some cities within the County are participating in the County PACE Program, but are also in contractual relationships with PACE program administrators outside of the County PACE Program. After meeting with the City of Los Angeles (City) to explore what caused it to make this decision, we learned that its primary motive for entering into non-County PACE program contractual relationships was to access seismic retrofits, an eligible improvement that the County's Program does not currently provide. As a result of our outreach meeting with the City, on September 9, 2016, the City passed a motion, Council File Number 14-0812-S1, to have the City review the County's PACE program, its program components and consumer protection standards, and determine if the County PACE program maximizes residential and commercial section participation. We will continue our outreach to the City to identify options through which it would participate under the County PACE program to offer seismic improvements.

On October 11, 2016, your Board passed a motion, Board Agenda Item 6, directing us, in coordination with County Counsel, to expand the County PACE program by 1) adding all improvements eligible for PACE financing, for both residential and commercial projects, consistent with California State Law; and 2) ISD to develop an RFSQ process in order to qualify eligible PACE program administrators under an ongoing Master Agreement within 180 days. We will conduct the necessary administrative steps to expand County PACE Program over the next several months.

**Program Complaints**

The table below indicates the total number of complaints received by both County PACE program PAs since the program launched on May 28, 2015, as well as the nature of these complaints.

<b>COMPLAINT TRACKING: (As of August 31, 2016)</b>				
<b>Complaint Type</b>	<b>Complaints Received Since Inception (05/28/15)</b>	<b>Resolved Complaints</b>	<b>Average Days Until Resolution</b>	<b>Unresolved Complaints</b>
<b>Contractor Conduct</b>	146	126	12	20
<b>Multiple Issues</b>	8	8	18	0
<b>Contracting/ Financing Process</b>	198	155	9	43
<b>Terms of Financing</b>	371	315	13	56
<b>Project Workmanship</b>	621	493	17	128
<b>Grand Total</b>	<b>1,344</b>	<b>1,097</b>	<b>14</b>	<b>247</b>

**Complaint:** A call received by the PA citing a specific issue that required escalation for resolution.

**Resolution:** When the PACE PA has taken some affirmative steps towards rectifying the problem and received verification from the original caller that he or she is satisfied with the action.

**Unresolved:** The PACE PA and the original caller are still discussing resolution. The cumulative number of complaints expressed as a percentage of applications approved by ISD is 5.8%.

**Program Statistics**

Based on the data received from both PAs, the table below provides relevant statistics since the program launched on May 28, 2015.

<b>PROGRAM DATA: (As of August 31, 2016)</b>					
<b>Financing Applications Submitted</b>	<b>Financing Applications Approved by ISD</b>	<b>Assessment Value Approved by ISD</b>	<b>Completed Projects</b>	<b>Bond Financing Provided</b>	<b>Average Value of Assessment Per Project</b>
50,685	22,942	\$620,230,927	16,362	\$425,519,600	\$26,007
<b>Fully or Partially Paid-Off Assessments</b>		1,044	<b>Value of Paid-Off Assessments</b>		\$21,747,962

<b>By Supervisorial District</b>				
<b>Supervisorial District</b>	<b>Financing Applications Approved By ISD</b>	<b>Completed Projects</b>	<b>Assessment Value of Completed Projects</b>	<b>Average Value of Assessment Per Projects</b>
District 1	4,159	2,816	\$69,972,037	\$24,848
District 2	5,037	3,550	\$95,047,794	\$26,774
District 3	3,468	2,438	\$70,078,600	\$28,744
District 4	5,124	3,778	\$95,869,755	\$25,375
District 5	5,154	3,780	\$94,551,414	\$25,013
<b>TOTAL</b>	<b>22,942</b>	<b>16,362</b>	<b>\$425,519,600</b>	<b>\$26,007</b>

**Site Visit**

On August 22, 2016, County staff participated in a site visit at Renew Financial's Oakland headquarters. Elizabeth Ginsberg, ISD PACE Program Manager, attended to review thoroughly Renew Financial's administrative and compliance processes, disposition of consumer complaints, and monitoring of their contractor networks.

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### **Conclusion**

Since January 2016, our departments continue to hold monthly in-person meetings with executive representatives from both PAs to discuss their respective programs. Apart from the regularly scheduled meetings, we have conducted several ad hoc teleconferences and site visits to address matters as they arise. Collectively, these meetings and conversations have established an executive-level engagement that has complemented staff efforts and improved the overall coordination among the ISD, the TTC, and the PAs. We will continue to focus on ensuring long-term program quality and consumer protections.

If you have any questions, please contact Dave Chittenden at (323) 267-2103, via email at [dchittenden@isd.lacounty.gov](mailto:dchittenden@isd.lacounty.gov) or you may also contact Joseph Kelly at (213) 974-2101, via email at [jkelly@ttc.lacounty.gov](mailto:jkelly@ttc.lacounty.gov).

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c: Assessor  
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ISD Board Deputies  
Chief Executive Officer  
Chief Operating Officer  
County Counsel  
Executive Officer, Board of Supervisors  
Consumer and Business Affairs  
Public Information Officer