



# Western Riverside Council of Governments Administration & Finance Committee

## AGENDA

**Wednesday, February 14, 2018  
12:00 p.m.**

**Western Riverside Council of Governments  
Citrus Tower  
3390 University Avenue, Suite 450  
Riverside, CA 92501**

In compliance with the Americans with Disabilities Act and Government Code Section 54954.2, if special assistance is needed to participate in the Administration & Finance Committee meeting, please contact WRCOG at (951) 405-6703. Notification of at least 48 hours prior to meeting time will assist staff in assuring that reasonable arrangements can be made to provide accessibility at the meeting. In compliance with Government Code Section 54957.5, agenda materials distributed within 72 hours prior to the meeting which are public records relating to an open session agenda item will be available for inspection by members of the public prior to the meeting at 3390 University Avenue, Suite 450, Riverside, CA, 92501.

The Administration & Finance Committee may take any action on any item listed on the agenda, regardless of the Requested Action.

### **1. CALL TO ORDER (Debbie Franklin, Chair)**

### **2. PUBLIC COMMENTS**

At this time members of the public can address the Administration & Finance Committee regarding any items listed on this agenda. Members of the public will have an opportunity to speak on agenda items at the time the item is called for discussion. No action may be taken on items not listed on the agenda unless authorized by law. Whenever possible, lengthy testimony should be presented to the Committee in writing and only pertinent points presented orally.

### **3. MINUTES**

#### **A. Summary Minutes from the January 10, 2018, Administration & Finance Committee Meeting are Available for Consideration.**

**P. 1**

**Requested Action:** 1. *Approve the Summary Minutes from the January 10, 2018, Administration & Finance Committee meeting.*

#### 4. CONSENT CALENDAR

All items listed under the Consent Calendar are considered to be routine and may be enacted by one motion. Prior to the motion to consider any action by the Committee, any public comments on any of the Consent Items will be heard. There will be no separate action unless members of the Committee request specific items be removed from the Consent Calendar.

- A. Finance Department Activities Update** **P. 7**
- Requested Action:** 1. *Receive and file.*
- B. 2nd Quarter Draft Budget Amendment for Fiscal Year 2017/2018** **P. 13**
- Requested Action:** 1. *Recommend that the Executive Committee approve the 2nd Quarter Draft Budget Amendment for Fiscal Year 2017/2018.*
- C. BEYOND Program Update and Project Spotlight – Cancer Treatment Task Force** **P. 39**
- Requested Action:** 1. *Receive and file.*
- D. Agency Office Move Update** **P. 71**
- Requested Action:** 1. *Receive and file.*
- E. Experience Regional Innovation Center Feasibility Analysis Update** **P. 73**
- Requested Action:** 1. *Receive and file.*
- F. Amendment to Transportation Department On-Call Engineering Professional Services Agreements** **P. 83**
- Requested Actions:** 1. *Approve the First Amendment to the Professional Services Agreement between the Western Riverside Council of Governments and Kimley Horn to provide WRCOG technical support and advisory services in an amount not to exceed \$33,541 for this Amendment and \$133,541 in total.*
2. *Approve the First Amendment to the Professional Services Agreement between the Western Riverside Council of Governments and WG Zimmerman Engineering to provide TUMF Program technical support in an amount not to exceed \$50,000 for this Amendment and \$150,000 in total.*

#### 5. REPORTS / DISCUSSION

- A. 27th Annual General Assembly & Leadership Address** **P. 99**
- Requested Action:** 1. *Discuss and provide direction.*

**B. PACE Programs Activities Update and Proposed Fee Adjustments**

**P. 101**

- Requested Actions:**
1. *Recommend that the Executive Committee approve the 1st Amendment to Master Bond Purchase Agreement between WRCOG and Renovate America.*
  2. *Recommend that the Executive Committee approve the 2nd Amendment to the Professional Services Agreement between WRCOG and David Taussig & Associates.*
  3. *Direct the WRCOG Executive Director to seek a legislative exemption from SB 2 on imposed fees for PACE real estate transactions.*

**C. Final Report on the Fiscal Year 2015/2016 Operational Analysis of Renovate America P. 117**

- Requested Action:**
1. *Receive and file.*

**D. Western Community Energy Activities Update**

**P. 263**

- Requested Action:**
1. *Receive and file.*

**6. ITEMS FOR FUTURE AGENDAS**

***Members***

Members are invited to suggest additional items to be brought forward for discussion at future Administration & Finance Committee meetings.

**7. GENERAL ANNOUNCEMENTS**

***Members***

Members are invited to announce items / activities which may be of general interest to the Administration & Finance Committee.

- 8. NEXT MEETING:** The next Administration & Finance Committee meeting is scheduled for Wednesday, March 14, 2018, at 12:00 p.m., at WRCOG's office located at 3390 University Avenue, Suite 450, Riverside.

**9. ADJOURNMENT**

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**1. CALL TO ORDER**

The meeting of the Administration & Finance Committee (Committee) was called to order at 12:00 p.m. by Chair Debbie Franklin at WRCOG's Office, Citrus Conference Room.

**Members present:**

Debbie Franklin, City of Banning (Chair)  
Eugene Montanez, City of Corona  
Laura Roughton, City of Jurupa Valley  
Brian Tisdale, City of Lake Elsinore  
Kelly Seyarto, City of Murrieta  
Ben Benoit, City of Wildomar  
Chuck Washington, County of Riverside District 3 (12:50 p.m. departure)  
Brenda Dennstedt, Western Municipal Water District (12:05 p.m. arrival)

**Staff present:**

Steve DeBaun, Legal Counsel, Best Best & Krieger  
Rick Bishop, Executive Director  
Ernie Reyna, Chief Financial Officer  
Barbara Spoonhour, Director of Community Choice Aggregation Development  
Jennifer Ward, Director of Government Relations  
Chris Gray, Director of Transportation  
Casey Dailey, Director of Energy and Environmental Programs  
Janis Leonard, Administrative Services Manager  
Andrew Ruiz, Program Manager  
Crystal Adams, Program Manager  
Michael Wasgatt, Program Manager  
Christopher Tzeng, Program Manager  
Daniel Ramirez- Cornejo, Senior Analyst  
Andrea Howard, Senior Analyst  
Cynthia Mejia, Staff Analyst  
Suzy Nelson, Administrative Assistant

**Guests present:**

Warren Diven, Best Best & Krieger  
Micheal Goodland, City of Jurupa Valley  
Maryann Edwards, City of Temecula  
Jeremy Hutman, Renew Financial  
JC Khoury, SAMAS Capital

**2. PUBLIC COMMENTS**

There were no public comments.

**3. CONSENT CALENDAR** – *(Murrieta / Lake Elsinore) 7 yes; 0 no; 0 abstention. Items 3.A, B, C, E, and F were approved by a unanimous vote of those members present. Item 3.D was pulled for discussion. The Cities of Hemet and Temecula, the County of Riverside District 5, and the Western Municipal Water District were not present.*

**A. Summary Minutes from the December 13, 2017, Administration & Finance Committee Meeting are Available for Consideration.**

**Action:** 1. *Approved the Summary Minutes from the December 13, 2017, Administration & Finance Committee meeting.*

**B. Finance Department Activities Update Including Agency Audit and Upcoming Annual TUMF Compliance Review by Agencies**

**Action:** 1. *Received and filed.*

**C. Christian Lomeli – Videography / Graphic Design Contract**

**Action:** 1. *Recommended that the Executive Committee approve the Professional Services Agreement, substantially as to form, between the Western Riverside Council of Governments and Christian Lomeli, for graphic design and videography services for the Agency in an amount not to exceed \$16,000 for Fiscal Year 2017/2018.*

**D. PFM Asset Management Contract**

This item was pulled for discussion. Committee member Brian Tisdale asked for clarification on this matter.

Ernie Reyna explained that PFM invests and monitors WRCOG funds to the tune of approximately \$35 million, and provides strategies and advice to staff on where investments should be.

**Action:** 1. *Recommended that the Executive Committee approve the Professional Services Agreement between the Western Riverside Council of Governments and PFM Asset Management, LLC, for the management of WRCOG's investment portfolio and financial advisory services for the Agency in an amount not to exceed \$100,000 for Fiscal Year 2017/2018.*

*(Lake Elsinore / Wildomar) 7 yes; 0 no; 0 abstention. Item 3.D was approved by a unanimous vote of those members present. The Cities of Hemet and Temecula, the County of Riverside District 5, and the Western Municipal Water District were not present.*

**E. Cajalco Road / I-15 Interchange Memorandum of Understanding**

**Action:** 1. *Recommended that the Executive Committee approve an MOU with the City of Corona and RCTC regarding a TUMF Improvement and Credit/Reimbursement Agreement for the Cajalco Road / I-15 Interchange.*

**F. Single Signature Authority Report**

**Action:** 1. *Received and filed.*

**4. REPORTS / DISCUSSION**

**A. 27th Annual General Assembly & Leadership Address**

Jennifer Ward reported that WRCOG has committed to holding this year's event at the Morongo Casino Resort & Spa. Ms. Ward shared a list of potential speakers. Committee members discussed the list. Ms. Ward indicated that she would share video clips of the top potentials speakers for review.

**Action:** 1. *Discussed and narrowed down the list of potential speakers.*

## **B. Transportation Uniform Mitigation Fee (TUMF) Program Ad Hoc Committee Activities Update**

Christopher Gray reported that a top to bottom review of the Program has not occurred since inception of the Program. In April 2017, a request was made to the Riverside County Transportation Commission (RCTC) to research and determine the potential of having RCTC take over administration of the TUMF Program. After discussions with its Board, RCTC determined that it would be best for WRCOG to continue administering the Program. WRCOG's TUMF Ad Hoc Committee concurred.

The TUMF Ad Hoc Committee met and discussed the potential of consolidating or eliminating the TUMF Zones. The Ad Hoc Committee determined that the Zones should remain in place.

There are many small mom and pop retail businesses which are assessed TUMF; however, over 95% of TUMF is paid for by large developments. In August 2017, the Executive Committee approved the revision on how TUMF is calculated.

The Ad Hoc Committee discussed the various types of projects TUMF does and does not pay for, and tasked the Public Works Committee (PWC) with developing specific language regarding project types, the development of a prioritization process, and the development of criteria for projects to be included in Nexus Study updates.

Committee member Laura Roughton expressed concern in expanding the types of projects, and asked if that would lead to higher TUMF in the future, or spread out the dollars.

Mr. Gray responded that there are long standing roadway projects which may never be built because right now there is no process to indicate a project is no longer feasible.

Committee member Eugene Montanez indicated that expanding the types of projects could potentially dilute active transportation projects.

Mr. Gray responded that there needs to be the ability to add various types of projects, and a much more formal process to deprioritize projects.

- Actions:**
1. *Recommended that the Executive Committee approve the TUMF Program Ad Hoc Committee's recommendation to maintain the current administration and management structure of the TUMF Program.*
  2. *Recommended that the Executive Committee approve the TUMF Program Ad Hoc Committee's recommendation to maintain the current structure of the TUMF Zone process.*
  3. *Recommended that the Executive Committee approve the TUMF Program Ad Hoc Committee's recommendation to have the Public Works Committee review the TUMF Network criteria and project type for future Nexus Study updates to address the following areas:*
    - a. *Expanding the types of projects that can be funded by TUMF, including active transportation projects.*
    - b. *Formalizing a process for each TUMF Zone to prioritize projects within the Zone.*
    - c. *Updating the criteria that is used to determine how projects are added to the Program through the Nexus Study update.*

*(Lake Elsinore / Wildomar) 7 yes; 0 no; 0 abstention. Item 4.B was approved by a unanimous vote of those members present. The Cities of Hemet and Temecula, and the County of Riverside District 5 were not present. The Water District does not vote on TUMF matters.*

## **C. PACE Programs Activities Update**

Casey Dailey reported that for commercial PACE, lender consent and acknowledgement is required for

all projects; however, not all mortgages require the lender consent and/or acknowledgement. Given that PACE is new to the commercial banking industry, it can be difficult to obtain consent. As a result, few projects get into the pipeline.

SAMAS Capital has proposed that its legal counsel, as well as WRCOG's legal counsel review all mortgage documents to determine if consent and/or acknowledgement is required. If there is no requirement, a letter will be sent to the bank informing them that the project will proceed. If there is a requirement, consent and/or acknowledgement must be obtained.

WRCOG's Consumer Protection Policy was adopted by the Executive Committee in December 2015. Since then legislation has been enacted which requires the Policy to be updated. A Policy will be presented to the Executive Committee for approval in February 2018. Some of the revisions include Right to Cancel (if a homeowner decides to cancel the PACE Assessment, the Homeowner Contract is cancelled as well); certain marketing practices will be prohibited (marketers cannot market the Program as a government program, etc.); inclusion of income-based underwriting (to ensure a property owner's ability to pay); and the prohibition of contractors being paid above the cost of a project.

The Department of Business Oversight (DBO) has been tasked with the oversight of PACE Programs statewide and is the process of preparing rules and guidelines scheduled for release by April 1, 2018.

Previously, funding providers would offer funds to contractors as an enticement to use that particular financing program. This is no longer allowed.

Committee member Ben Benoit asked about scripts that are provided to callers soliciting the Program.

Mr. Dailey responded that with the new legislation, the DBO will require PACE administrators, contractors, and sales people to obtain a license from the DBO. Ultimately it will be up to the Program administrator to ensure that the contractors and their sales people are adhering to the law. The DBO will be authorized to revoke licenses and issue hefty fines if it is found that the law is not being followed.

Many of the consumer protections that have been adopted at the state level, with the exception of the underwriting criteria, are already in WRCOG's Programs.

Chair Franklin asked how much time it will add to the process with the new underwriting criteria.

Mr. Dailey responded that contractors are looking for ways to accomplish this through automation and streamlining the process so it does not take additional time.

Representatives from WRCOG's leadership, the realty community, and PACE providers recently met to provide updates on the various Consumer Protection Policies of each provider.

**Action:**        1.        *Recommended that the Executive Committee approve the revised WRCOG Energy Efficiency and Water Conservation Administrative Guidelines and Program Report and the Statewide SAMAS Commercial Program Handbook to change the existing lender consent requirements in these documents to a modified approach that would allow WRCOG and SAMAS legal counsels to analyze the mortgage documents and associated terms, conditions and covenants to determine if lender consent is necessary and that entering into the Assessment Contract would not violate the related mortgage terms.*

*(Wildomar / Murrieta) 7 yes; 0 no; 0 abstention. Item 5.C was approved by a unanimous vote of those members present. The Cities of Hemet and Temecula, and the County of Riverside Districts 3 and 5 were not present.*

## **5. ITEMS FOR FUTURE AGENDAS**

There were no items for future agendas.

## **6. GENERAL ANNOUNCEMENTS**

Chair Franklin announced that an Ad Hoc Committee needs to be formed in order to work with Southern California Edison on the California Public Utilities Commission's Draft Resolution which may affect WRCOG's Community Choice Aggregation Program moving forward. Committee members Ben Benoit, Kelly Seyarto, and Brian Tisdale volunteered.

Christopher Gray announced that WRCOG is hosting a Transportation Summit; panels will be held in the morning, and Hasan Ikhata, Executive Director of the Southern California Association of Governments, will be providing an overview of regional transportation issues. Topics will include autonomous vehicles, car sharing, bike sharing, and electric vehicles. Staff from the Riverside County Transportation Commission will be talking about funding through SB 1 grants. Representatives from the California Air Resources Board will discuss the Volkswagen settlement and how funding might benefit projects. Vendors will be showcasing hydrogen vehicles.

Committee member Laura Roughton announced that a Randall Lewis Seminar is being held tonight.

**7. NEXT MEETING:**      **The next Administration & Finance Committee meeting is scheduled for Wednesday, February 14, 2018, at 12:00 p.m., at WRCOG's office located at 3390 University Avenue, Suite 450, Riverside.**

**8. ADJOURNMENT:**      **The meeting of the Administration & Finance Committee adjourned at 1:00 p.m.**

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# Western Riverside Council of Governments Administration & Finance Committee

## Staff Report

**Subject:** Finance Department Activities Update

**Contact:** Ernie Reyna, Chief Financial Officer, [ereyna@wrcog.us](mailto:ereyna@wrcog.us), (951) 405-6740

**Date:** February 14, 2018

*The purpose of this item is to provide an update on the Fiscal Year (FY) 2017/2018 2nd Quarter Budget Amendments, the FY 2016/2017 carryover funds allocated to reserves, and the Agency financial report summary through December 2017.*

### **Requested Action:**

1. Receive and File.

### **2nd Quarter Budget Amendment Schedule**

December 31, 2017, marked the end of the second quarter for FY 2017/2018. The 2nd Quarter Budget Amendments were presented to the Finance Directors Committee on January 25, 2018. The Administration & Finance Committee will receive the Budget Amendment report on February 14, 2018, the Technical Advisory Committee will receive the report on February 15, 2018, and the Executive Committee will receive the report on March 5, 2018.

### **FY 2016/2017 Carryover Funds Allocated to Reserves**

WRCOG realized a total of \$4 million in FY 2016/2017 carryover revenues (Agency net revenues) for the General Fund, of which \$700,000 was previously allocated by the Executive Committee to continue the Public Service Fellowship Program (which places students from the University of California, Riverside and California Baptist University, at WRCOG member agencies for long-term work opportunities), and \$500,000 was previously allocated to expand the Grant Writing Assistance Program, which provides a bench of consultants to provide members with expert assistance in seeking grant funding for projects of interest. On January 8, 2018, the Executive Committee approved allocating the remaining \$2.8 million to General Fund Agency reserves, bringing the total amount of General Fund Agency reserves to \$4.6 million. The Executive Committee also approved that \$500,000 of these Agency reserves will be specifically set aside for a PACE Program reserve.

### **Financial Report Summary through December 2017**

The Agency Financial Report summary through December 2017, a monthly overview of WRCOG's financial statements in the form of combined Agency revenues and costs, is provided as Attachment 1.

### **Prior Actions:**

- February 5, 2018: The Executive Committee received and filed.
- January 25, 2018: The Finance Directors Committee received and filed.

January 18, 2018: The Technical Advisory Committee received and filed.

**Fiscal Impact:**

This item is informational only; therefore, there is no fiscal impact.

**Attachment:**

1. Financial Report summary – December 2017.



# Item 4.A

## Finance Department Activities Update

# Attachment 1

## Financial Report summary – December 2017

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Western Riverside Council of Governments  
Monthly Budget to Actuals  
For the Month Ending December 31, 2017

|                                              | Approved<br>6/30/2018<br>Budget | Thru<br>12/31/2017<br>Actual | Remaining<br>6/30/2018<br>Budget |
|----------------------------------------------|---------------------------------|------------------------------|----------------------------------|
| <b>Revenues</b>                              |                                 |                              |                                  |
| General Assembly                             | 300,000                         | 18,800                       | 281,200                          |
| WRCOG HERO Residential Revenue               | 816,771                         | 607,061                      | 209,710                          |
| CA HERO Residential Revenue                  | 7,639,575                       | 2,440,109                    | 5,199,466                        |
| The Gas Company Partnership                  | 50,000                          | 6,521                        | 43,479                           |
| SCE WREP Revenue                             | 75,000                          | 21,302                       | 53,698                           |
| WRCOG HERO Residential Recording Revenue     | 182,775                         | 115,445                      | 67,330                           |
| CA HERO Residential Recording Revenue        | 1,508,036                       | 411,070                      | 1,096,966                        |
| CA First Residential Revenue                 | 167,000                         | 23,007                       | 143,993                          |
| CA First Residential Recording Revenue       | 86,000                          | 7,857                        | 78,143                           |
| Other Misc Revenue                           | -                               | 1,318                        | (1,318)                          |
| Solid Waste                                  | 117,100                         | 48,892                       | 68,208                           |
| Active Transportation Revenue                | 150,000                         | 80,567                       | 69,433                           |
| RIVTAM Revenue                               | 25,000                          | 25,000                       | -                                |
| Air Quality-Clean Cities                     | 137,500                         | 78,000                       | 59,500                           |
| LTF                                          | 825,000                         | 726,000                      | 99,000                           |
| Commercial/Service - Admin Portion           | 101,097                         | 41,643                       | 59,454                           |
| Retail - Admin Portion                       | 118,867                         | 83,662                       | 35,206                           |
| Industrial - Admin Portion                   | 249,133                         | 279,230                      | (30,097)                         |
| Residential/Multi/Single - Admin Portion     | 1,045,779                       | 643,680                      | 402,099                          |
| Multi-Family - Admin Portion                 | 129,787                         | 67,045                       | 62,742                           |
| Commercial/Service - Non-Admin Portion       | 2,426,945                       | 999,426                      | 1,427,518                        |
| Retail - Non-Admin Portion                   | 2,852,820                       | 2,007,880                    | 844,939                          |
| Industrial - Non-Admin Portion               | 5,979,195                       | 6,701,515                    | (722,320)                        |
| Residential/Multi/Single - Non-Admin Portion | 25,098,070                      | 15,448,312                   | 9,649,758                        |
| Multi-Family - Non-Admin Portion             | 3,114,890                       | 1,609,093                    | 1,505,796                        |
| <b>Total Revenues</b>                        | <b>63,021,435</b>               | <b>32,492,435</b>            | <b>30,529,000</b>                |
| <b>Expenditures</b>                          |                                 |                              |                                  |
| Wages & Salaries                             | 2,584,095                       | 1,126,470                    | 1,457,625                        |
| Fringe Benefits                              | 739,956                         | 578,154                      | 161,802                          |
| <b>Total Wages and Benefits</b>              | <b>3,384,051</b>                | <b>1,704,624</b>             | <b>1,679,427</b>                 |
|                                              |                                 |                              | -                                |
| Overhead Allocation                          | 2,219,371                       | 1,143,016                    | 1,076,355                        |
| General Legal Services                       | 590,233                         | 438,748                      | 151,485                          |
| Audit Fees                                   | 27,500                          | 20,200                       | 7,300                            |
| Bank Fees                                    | 29,000                          | 32,863                       | (3,863)                          |
| Commissioners Per Diem                       | 62,500                          | 25,350                       | 37,150                           |
| Office Lease                                 | 427,060                         | 147,228                      | 279,832                          |
| WRCOG Auto Fuel                              | 750                             | 290                          | 460                              |
| WRCOG Auto Maintenance                       | 100                             | 29                           | 71                               |
| Parking Validations                          | 4,775                           | 2,515                        | 2,260                            |
| Event Support                                | 112,600                         | 63,035                       | 49,565                           |
| General Supplies                             | 66,536                          | 7,040                        | 59,496                           |
| Computer Supplies                            | 12,500                          | 5,818                        | 6,682                            |
| Computer Software                            | 18,000                          | 22,050                       | (4,050)                          |
| Rent/Lease Equipment                         | 35,000                          | 15,762                       | 19,238                           |

|                                     |                   |                   |                   |
|-------------------------------------|-------------------|-------------------|-------------------|
| Membership Dues                     | 31,950            | 14,847            | 17,103            |
| Subscriptions/Publications          | 6,500             | 279               | 6,221             |
| Meeting Support/Services            | 12,100            | 5,295             | 6,805             |
| Postage                             | 8,155             | 3,481             | 4,674             |
| Storage                             | 1,000             | 6,052             | (5,052)           |
| Computer Hardware                   | 1,000             | 1,692             | (692)             |
| Misc. Office Equipment              | -                 | 688               | (688)             |
| EV Charging Equipment               | -                 | 5,975             | (5,975)           |
| Communications-Regular              | 1,000             | 7,638             | (6,638)           |
| Communications-Long Distance        | 500               | 192               | 308               |
| Communications-Cellular             | 12,677            | 6,657             | 6,020             |
| Communications-Comp Sv              | 75,000            | 30,423            | 44,577            |
| Communications-Web Site             | 5,600             | 6,865             | (1,265)           |
| Equipment Maintenance - General     | 11,000            | 5,737             | 5,263             |
| Equipment Maintenance - Computers   | 25,000            | 10,901            | 14,099            |
| Insurance - General/Business Liason | 72,950            | 66,526            | 6,424             |
| PACE Recording Fees                 | 1,862,811         | 533,928           | 1,328,883         |
| Seminars/Conferences                | 24,550            | 6,822             | 17,729            |
| General Assembly Expenditures       | 304,200           | 20,154            | 284,046           |
| Travel - Mileage Reimbursement      | 15,700            | 11,979            | 3,721             |
| Travel - Ground Transportation      | 13,100            | 2,198             | 10,902            |
| Travel - Airfare                    | 28,704            | 6,305             | 22,399            |
| Lodging                             | 17,850            | 5,942             | 11,908            |
| Meals                               | 10,419            | 2,920             | 7,499             |
| Other Incidentals                   | 13,358            | 6,330             | 7,028             |
| Training                            | 14,321            | 8,060             | 6,261             |
| Supplies/Materials                  | 35,117            | 281               | 34,836            |
| Ads                                 | 47,370            | 23,525            | 23,845            |
| Education Reimbursement             | 25,000            | 2,500             | 22,500            |
| Consulting Labor                    | 4,159,928         | 651,079           | 3,508,849         |
| Consulting Expenses                 | 72,865            | 2,243             | 70,622            |
| TUMF Project Reimbursement          | 39,000,000        | 6,926,690         | 32,073,310        |
| BEYOND Expenditures                 | 2,052,917         | 347,751           | 1,705,166         |
| Computer Equipment Purchases        | 41,204            | 14,608            | 26,596            |
| Office Furniture Purchases          | 315,000           | 265,488           | 49,512            |
| <b>Total General Operations</b>     | <b>61,741,206</b> | <b>10,935,991</b> | <b>50,805,215</b> |
| <b>Total Expenditures</b>           | <b>65,125,257</b> | <b>12,640,615</b> | <b>52,484,641</b> |



# Western Riverside Council of Governments Administration & Finance Committee

## Staff Report

**Subject:** 2nd Quarter Draft Budget Amendment for Fiscal Year 2017/2018

**Contact:** Ernie Reyna, Chief Financial Officer, [ereyna@wrcog.us](mailto:ereyna@wrcog.us), (951) 405-6740

**Date:** February 14, 2018

*The purpose of this item is to request approval of WRCOG's 2nd Quarter Draft Budget Amendment for Fiscal Year (FY) 2017/2018, as identified in Attachment 1. The staff report includes a summary of increases and/or decreases to both revenues and expenditures by department.*

### **Requested Action:**

1. Recommend that the Executive Committee approve the 2nd Quarter Draft Budget Amendment for Fiscal Year 2017/2018.

### **General Fund**

For the Administration Program, there will be no net increase in expenditures. Expenditures exceeded budgeted amount by \$8,781, primarily due to unanticipated increases in Riverside County's IT services of \$6,638. Now that WRCOG has relocated, these on-going costs have ceased and there will be future budget savings. These expenditures will be offset by a decrease in expenditures in the communications line items, including land lines and web site.

In the Government Relations' Program, there will be no net increase in expenditures. Expenditures exceeded budgeted amount by \$8,178, primarily due to legal fees associated with the BEYOND Program of \$5,453. These expenditures will be offset by a decrease in expenditures in the salaries and benefits categories.

**Net Expenditure increase to the General Fund: \$0**

### **Transportation Department**

In the Transportation Department, there will be no net increase in expenditures. Expenditures exceeded budgeted amount by \$5,749, primarily due to salaries in Active Transportation Program of \$2,863. These expenditures will be offset by a decrease in consulting labor.

**Net Expenditure increase to Transportation Department: \$0**

## **Energy Department**

In the Energy Department, there will be no net increase in expenditures. Expenditures exceeded budgeted amount by \$52,685. The Streetlights Program will increase its legal fees by \$30,832, while the Energy Admin Department had increased expenditures totaling \$5,975 related to covering the cost of installing charging stations at the County Administrative Center, and also had an increase in expenditures totaling \$4,792 related to the Western Riverside Energy Partnership (WREP) Holiday Light Exchange. The WREP Program will be reimbursed through its partnership for the additional cost of the holiday lights. These expenditures will be offset by a decrease in expenditures in other budgeted categories where there is an available budget, but mostly within the consulting labor line item.

***Net Expenditure decrease to Energy Department: \$0***

## **Environment Department**

In the Environment Department, there will be no net increase in expenditures. Expenditures exceeded budgeted amount by \$3,197, primarily due to the purchase of an iPad and its monthly service charge totaling \$1,526. The iPad was purchased for events hosted by the Environmental Department, primarily for surveys related to the Used Oil Program. These expenditures will be offset by a decrease in expenditures mostly in the marketing categories.

***Net Expenditure increase to the Environment Department: \$0***

## **Prior Action:**

January 25, 2018: The Finance Directors Committee received and filed.

## **Fiscal Impact:**

This item is informational only; therefore, there is no fiscal impact.

## **Attachment:**

1. Annual Budget for the year ending June 30, 2018, with 2nd Quarter amendment.

# Item 4.B

2nd Quarter Draft Budget  
Amendment for Fiscal Year  
2017/2018

## Attachment 1

Annual Budget for the year ending  
June 30, 2018, with 2nd Quarter  
amendment

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**Western Riverside Council of Governments**  
**Annual Budget**  
**For the Year Ending June 30, 2018**

|                                 |
|---------------------------------|
| <b>Department: General Fund</b> |
|---------------------------------|

| Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|------------------------------|---------------------------------|-----------------------------------|
|------------------------------|---------------------------------|-----------------------------------|

**Expenditures**

|                                |        |        |         |
|--------------------------------|--------|--------|---------|
| Postage                        | 1,279  | 1,000  | (279)   |
| Communications - Regular Phone | 7,638  | 1,000  | (6,638) |
| Communications - Web Site      | 6,865  | 5,000  | (1,865) |
| Event Support                  | 25,168 | 75,000 | 8,781   |

|                                      |            |
|--------------------------------------|------------|
| <b>Total net (increase)/decrease</b> | <b>(0)</b> |
|--------------------------------------|------------|

**Western Riverside Council of Governments**  
**Annual Budget**  
**For the Year Ending June 30, 2018**

|                                         |
|-----------------------------------------|
| <b>Department: Government Relations</b> |
|-----------------------------------------|

|                                      | Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|--------------------------------------|------------------------------|---------------------------------|-----------------------------------|
| <b>Expenditures</b>                  |                              |                                 |                                   |
| Salaries and Wages                   | 88,833                       | 188,968                         | 7,157                             |
| Event Support                        | 1,876                        | 1,800                           | (76)                              |
| Computer Software                    | 84                           | -                               | (84)                              |
| Subscriptions/Publications           | 99                           | -                               | (99)                              |
| Postage                              | 110                          | 50                              | (60)                              |
| Communications - Cellular Phones     | 404                          | 177                             | (227)                             |
| Consulting Labor                     | 585                          | -                               | (585)                             |
| General Legal Services               | 5,453                        | -                               | (5,453)                           |
| Travel - Mileage Reimbursement       | 291                          | -                               | (291)                             |
| Supplies/Materials                   | 281                          | -                               | (281)                             |
| <b>Total net (increase)/decrease</b> |                              |                                 | <b>(0)</b>                        |

**Western Riverside Council of Governments**  
**Annual Budget**  
**For the Year Ending June 30, 2018**

|                                         |
|-----------------------------------------|
| <b>Department: Government Relations</b> |
|-----------------------------------------|

|                                      | Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|--------------------------------------|------------------------------|---------------------------------|-----------------------------------|
| <b>Expenditures</b>                  |                              |                                 |                                   |
| Salaries and Wages                   | 88,833                       | 188,968                         | 8,178                             |
| Event Support                        | 1,876                        | 1,800                           | (76)                              |
| Computer Software                    | 84                           | -                               | (84)                              |
| Subscriptions/Publications           | 99                           | -                               | (99)                              |
| Postage                              | 110                          | 50                              | (60)                              |
| Communications - Cellular Phones     | 404                          | 177                             | (227)                             |
| Consulting Labor                     | 585                          | -                               | (585)                             |
| <b>Total net (increase)/decrease</b> |                              |                                 | <b>7,046</b>                      |

**Western Riverside Council of Governments**  
**Annual Budget**  
**For the Year Ending June 30, 2018**

|                                                         |
|---------------------------------------------------------|
| <b>Department: Government Relations (BEYOND - 4800)</b> |
|---------------------------------------------------------|

|                                      | Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|--------------------------------------|------------------------------|---------------------------------|-----------------------------------|
| <hr/>                                |                              |                                 |                                   |
| <b>Expenditures</b>                  |                              |                                 |                                   |
| General Legal Service                | 5,453                        | -                               | (5,453)                           |
| Travel - Mileage Reimbursement       | <u>291</u>                   | <u>-</u>                        | <u>(291)</u>                      |
| <b>Total net (increase)/decrease</b> |                              |                                 | <b>(5,744)</b>                    |

**Western Riverside Council of Governments  
Annual Budget  
For the Year Ending June 30, 2018**

|                                                             |
|-------------------------------------------------------------|
| <b>Department: Government Relations (Experience - 4900)</b> |
|-------------------------------------------------------------|

|                                      | Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|--------------------------------------|------------------------------|---------------------------------|-----------------------------------|
| <b>Expenditures</b>                  |                              |                                 |                                   |
| Salaries and Wages                   | 1,021                        | -                               | (1,021)                           |
| Supplies/Materials                   | 281                          | -                               | (281)                             |
| <b>Total net (increase)/decrease</b> |                              |                                 | <b>(1,302)</b>                    |

**Western Riverside Council of Governments**  
**Annual Budget**  
**For the Year Ending June 30, 2018**

|                                   |
|-----------------------------------|
| <b>Department: Transportation</b> |
|-----------------------------------|

| Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|------------------------------|---------------------------------|-----------------------------------|
|------------------------------|---------------------------------|-----------------------------------|

**Expenditures**

|                                |         |           |         |
|--------------------------------|---------|-----------|---------|
| Salaries and Wages             | 22,604  | 19,741    | (2,863) |
| Meeting/Support Services       | 1,641   | 500       | (1,141) |
| Travel - Mileage Reimbursement | 2,490   | 1,500     | (990)   |
| Travel - Ground Transportation | 427     | 250       | (177)   |
| Lodging                        | 1,579   | 1,000     | (579)   |
| Consulting Labor               | 168,277 | 1,325,000 | 5,749   |

|                                      |            |
|--------------------------------------|------------|
| <b>Total net (increase)/decrease</b> | <b>(0)</b> |
|--------------------------------------|------------|

**Western Riverside Council of Governments**  
**Annual Budget**  
**For the Year Ending June 30, 2018**

|                                                 |
|-------------------------------------------------|
| <b>Department: Transportation (TUMF - 1148)</b> |
|-------------------------------------------------|

| Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|------------------------------|---------------------------------|-----------------------------------|
|------------------------------|---------------------------------|-----------------------------------|

**Expenditures**

|                                |         |           |         |
|--------------------------------|---------|-----------|---------|
| Meeting/Support Services       | 1,641   | 500       | (1,141) |
| Travel - Mileage Reimbursement | 2,490   | 1,500     | (990)   |
| Travel - Ground Transportation | 427     | 250       | (177)   |
| Lodging                        | 1,579   | 1,000     | (579)   |
| Consulting Labor               | 141,482 | 1,200,000 | 2,886   |

|                                      |          |
|--------------------------------------|----------|
| <b>Total net (increase)/decrease</b> | <b>0</b> |
|--------------------------------------|----------|

**Western Riverside Council of Governments**  
**Annual Budget**  
**For the Year Ending June 30, 2018**

|                                                |
|------------------------------------------------|
| <b>Department: Transportation (ATP - 2030)</b> |
|------------------------------------------------|

|                                      | Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|--------------------------------------|------------------------------|---------------------------------|-----------------------------------|
| <b>Expenditures</b>                  |                              |                                 |                                   |
| Salaries and Wages                   | 22,604                       | 19,741                          | (2,863)                           |
| Consulting Labor                     | 26,796                       | 125,000                         | 2,863                             |
| <b>Total net (increase)/decrease</b> |                              |                                 | (0)                               |



**Western Riverside Council of Governments  
Annual Budget  
For the Year Ending June 30, 2018**

**Department: Energy**

| <b>Expenditures</b>            | Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|--------------------------------|------------------------------|---------------------------------|-----------------------------------|
| General Legal                  | 52,065                       | 21,233                          | (30,832)                          |
| Event Support                  | 7,292                        | 4,500                           | (4,475)                           |
| General Supplies               | 127                          | 15                              | (112)                             |
| Computer Supplies              | 489                          | -                               | (489)                             |
| Computer Software              | 7,238                        | 2,000                           | (5,238)                           |
| Subscriptions/Publications     | -                            | 500                             | 500                               |
| Meeting Support Services       | 296                          | 800                             | 504                               |
| Postage                        | 1,881                        | 1,500                           | (381)                             |
| Computer/Hardware              | 1,643                        | -                               | (1,643)                           |
| Misc. Office Equipment         | 688                          | -                               | (688)                             |
| EV Charging Equipment Purch    | 5,975                        | -                               | (5,975)                           |
| Communications Computer Servic | 9                            | -                               | (9)                               |
| Equipmebt Maintenance-Computer | 600                          | -                               | (600)                             |
| Seminar/Conferences            | 55                           | 5,550                           | 3,617                             |
| Travel- Mileage Reimbursement  | 1,819                        | 750                             | (1,069)                           |
| Travel-Ground Transportation   | 534                          | 3,150                           | 944                               |
| Travel-AirFare                 | 2,530                        | 16,004                          | 6,695                             |
| Lodging                        | 594                          | 5,000                           | 1,952                             |
| Meals                          | 376                          | 3,200                           | 1,899                             |
| Training                       | -                            | 1,771                           | 1,771                             |
| Consulting Labor               | 34,000                       | 191,520                         | 30,803                            |
| Computer Equip. Purchase       | 1,173                        | -                               | (1,173)                           |
| Office Improvements            | -                            | 4,000                           | 4,000                             |

**Total net (increase)/decrease                      \$1**

**Western Riverside Council of Governments  
Annual Budget  
For the Year Ending June 30, 2018**

**Department: Energy (WRCOG HERO - 2006)**

| Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|------------------------------|---------------------------------|-----------------------------------|
|------------------------------|---------------------------------|-----------------------------------|

**Expenditures**

|                                |         |         |           |
|--------------------------------|---------|---------|-----------|
| Computer Supplies              | \$310   | \$0     | (\$310)   |
| Computer Software              | \$3,600 | \$1,500 | (\$2,100) |
| Computer/Hardware              | \$822   | \$0     | (\$822)   |
| Communications Computer Servic | \$9     | \$0     | (\$9)     |
| Seminar/Conferences            | \$55    | \$4,000 | \$3,000   |
| Travel-AirFare                 | \$936   | \$8,000 | \$4,000   |

|                                      |                |
|--------------------------------------|----------------|
| <b>Total net (increase)/decrease</b> | <b>\$3,759</b> |
|--------------------------------------|----------------|

**Western Riverside Council of Governments**  
**Annual Budget**  
**For the Year Ending June 30, 2018**

|                                                    |
|----------------------------------------------------|
| <b>Department: Energy (SCE Partnership - 2010)</b> |
|----------------------------------------------------|

| Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|------------------------------|---------------------------------|-----------------------------------|
|                              |                                 |                                   |

**Expenditures**

|                                |       |         |         |
|--------------------------------|-------|---------|---------|
| Meeting Support/Services       | \$7   | \$0     | (\$7)   |
| Seminars/Conferences           | \$0   | \$1,250 | \$317   |
| Travel - Mileage Reimbursement | \$310 | \$0     | (\$310) |

|                                      |  |  |            |
|--------------------------------------|--|--|------------|
| <b>Total net (increase)/decrease</b> |  |  | <b>\$1</b> |
|--------------------------------------|--|--|------------|

**Western Riverside Council of Governments**  
**Annual Budget**  
**For the Year Ending June 30, 2018**

|                                                        |
|--------------------------------------------------------|
| <b>Department: Energy (Gas Co. Partnership - 2020)</b> |
|--------------------------------------------------------|

|                                      | Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|--------------------------------------|------------------------------|---------------------------------|-----------------------------------|
| <b>Expenditures</b>                  |                              |                                 |                                   |
| Event Support                        | \$0                          | \$2,000                         | \$317                             |
| Meeting Support                      | \$7                          | \$0                             | (\$7)                             |
| Travel Mileage Reimbursement         | \$310                        | \$0                             | (\$310)                           |
| <b>Total net (increase)/decrease</b> |                              |                                 | <b>\$1</b>                        |

**Western Riverside Council of Governments  
Annual Budget  
For the Year Ending June 30, 2018**

|                                                 |
|-------------------------------------------------|
| <b>Department: Energy (Streetlights - 2026)</b> |
|-------------------------------------------------|

|                                      | Thru<br>12/31/2017<br><u>Actual</u> | Approved<br>6/30/2018<br><u>Budget</u> | Amendment<br>Needed<br><u>12/31/2017</u> |
|--------------------------------------|-------------------------------------|----------------------------------------|------------------------------------------|
| <b>Expenditures</b>                  |                                     |                                        |                                          |
| GENERAL LEGAL SERVICES               | \$51,976                            | \$21,173                               | (\$30,803)                               |
| Consulting Labor                     | \$34,000                            | \$191,520                              | \$30,803                                 |
| <b>Total net (increase)/decrease</b> |                                     |                                        | <b>\$0</b>                               |

**Western Riverside Council of Governments  
Annual Budget  
For the Year Ending June 30, 2018**

|                                        |
|----------------------------------------|
| <b>Department: Energy (CCA - 2040)</b> |
|----------------------------------------|

| Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|------------------------------|---------------------------------|-----------------------------------|
|------------------------------|---------------------------------|-----------------------------------|

**Expenditures**

|                              |       |         |         |
|------------------------------|-------|---------|---------|
| Program/Office Supplies      | \$91  | \$0     | (\$91)  |
| Meeting Support Services     | \$283 | \$200   | (\$83)  |
| Travel-Mileage Reimbursement | \$602 | \$500   | (\$102) |
| Travel-Ground Transportation | \$178 | \$150   | (\$28)  |
| Travel-Airfare               | \$268 | \$2,504 | \$577   |
| Lodging                      | \$208 | \$0     | (\$208) |
| Meals                        | \$265 | \$200   | (\$65)  |

|                                      |            |
|--------------------------------------|------------|
| <b>Total net (increase)/decrease</b> | <b>\$0</b> |
|--------------------------------------|------------|

**Western Riverside Council of Governments  
Annual Budget  
For the Year Ending June 30, 2018**

**Department: Energy (Administration - 2100)**

|                                      | Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|--------------------------------------|------------------------------|---------------------------------|-----------------------------------|
| <b>Expenditures</b>                  |                              |                                 |                                   |
| GENERAL LEGAL SERVICES               | \$89                         | \$60                            | (\$29)                            |
| Event Support                        | \$7,292                      | \$2,500                         | (\$4,792)                         |
| Office Supplies                      | \$36                         | \$15                            | (\$21)                            |
| Computer Equipment/Supplies          | \$179                        | \$0                             | (\$179)                           |
| Subscriptions/Publications           | \$0                          | \$500                           | \$500                             |
| Energy Dept Meeting&Support          | \$0                          | \$600                           | \$600                             |
| EV Charging Equipment Purch          | \$5,975                      | \$0                             | (\$5,975)                         |
| Seminars/Conferences                 | \$0                          | \$300                           | \$300                             |
| Travel - Mileage Reimbursement       | \$598                        | \$250                           | (\$348)                           |
| Travel-Ground Transportation         | \$28                         | \$0                             | (\$28)                            |
| Travel-Airfare                       | \$0                          | \$500                           | \$500                             |
| Meals                                | \$36                         | \$0                             | (\$36)                            |
| Training Energy                      | \$0                          | \$1,771                         | \$1,771                           |
| <b>Total net (increase)/decrease</b> |                              |                                 | <b>(\$7,737)</b>                  |

**Western Riverside Council of Governments**  
**Annual Budget**  
**For the Year Ending June 30, 2018**

|                                                 |
|-------------------------------------------------|
| <b>Department: Energy (Pace Funding - 2104)</b> |
|-------------------------------------------------|

|                                      | Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|--------------------------------------|------------------------------|---------------------------------|-----------------------------------|
| <b>Expenditures</b>                  |                              |                                 |                                   |
| Travel - Airfare                     | \$882                        | \$0                             | (\$882)                           |
| <b>Total net (increase)/decrease</b> |                              |                                 | <b>(\$882)</b>                    |



**Western Riverside Council of Governments  
Annual Budget  
For the Year Ending June 30, 2018**

**Department: Energy (California HERO - 5000)**

|                                      | Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|--------------------------------------|------------------------------|---------------------------------|-----------------------------------|
| <b>Expenditures</b>                  |                              |                                 |                                   |
| Computer Software                    | \$3,638                      | \$500                           | (\$3,138)                         |
| Postage                              | \$1,881                      | \$1,500                         | (\$381)                           |
| Computer/Hardware                    | \$822                        | \$0                             | (\$822)                           |
| Event Support                        | \$688                        | \$0                             | (\$688)                           |
| Equipment Maintenance-Computer       | \$600                        | \$0                             | (\$600)                           |
| Travel - Ground Transportation       | \$328                        | \$3,000                         | \$1,000                           |
| Travel - Airfare                     | \$444                        | \$5,000                         | \$2,500                           |
| Lodging                              | \$385                        | \$5,000                         | \$2,160                           |
| Meals                                | \$76                         | \$3,000                         | \$2,000                           |
| Computer Equip. Purchase             | \$1,173                      | \$0                             | (\$1,173)                         |
| Office Improvements                  | \$0                          | \$4,000                         | \$4,000                           |
| <b>Total net (increase)/decrease</b> |                              |                                 | <b>\$4,858</b>                    |

**Western Riverside Council of Governments**  
**Annual Budget**  
**For the Year Ending June 30, 2018**

|                                  |
|----------------------------------|
| <b>Department: Environmental</b> |
|----------------------------------|

| Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|------------------------------|---------------------------------|-----------------------------------|
|------------------------------|---------------------------------|-----------------------------------|

**Expenditures**

|                                  |       |        |       |
|----------------------------------|-------|--------|-------|
| Computer Supplies                | 693   | -      | (693) |
| Computer Software                | 38    | -      | (38)  |
| Communications - Cellular Phones | 833   | -      | (833) |
| Seminars/Conferences             | 1,720 | 1,000  | (720) |
| Travel - Mileage Reimbursement   | 709   | 600    | (109) |
| Travel - Airfare                 | 582   | 400    | (182) |
| Marketing/Brochures              | -     | 6,500  | 2,574 |
| Insurance - General Business     | 185   | -      | (185) |
| Supplies/Materials               | -     | 2,120  | 185   |
| General Legal Services           | 358   | -      | (358) |
| Parking Validations              | 175   | 95     | (80)  |
| Printing Services                | -     | 10,000 | 438   |

|                                      |          |
|--------------------------------------|----------|
| <b>Total net (increase)/decrease</b> | <b>0</b> |
|--------------------------------------|----------|

**Western Riverside Council of Governments  
Annual Budget  
For the Year Ending June 30, 2018**

**Department: Environmental (Solid Waste - 1038)**

| Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|------------------------------|---------------------------------|-----------------------------------|
|------------------------------|---------------------------------|-----------------------------------|

**Expenditures**

|                                  |       |       |       |
|----------------------------------|-------|-------|-------|
| Computer Supplies                | 693   | -     | (693) |
| Computer Software                | 38    | -     | (38)  |
| Communications - Cellular Phones | 833   | -     | (833) |
| Seminars/Conferences             | 1,720 | 1,000 | (720) |
| Travel - Mileage Reimbursement   | 709   | 600   | (109) |
| Travel - Airfare                 | 582   | 400   | (182) |
| Marketing/Brochures              | -     | 6,500 | 2,574 |

**Total net (increase)/decrease** 0

**Western Riverside Council of Governments  
Annual Budget  
For the Year Ending June 30, 2018**

|                                                        |
|--------------------------------------------------------|
| <b>Department: Environmental (Riverside UO - 2035)</b> |
|--------------------------------------------------------|

|                                      | Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|--------------------------------------|------------------------------|---------------------------------|-----------------------------------|
| <b>Expenditures</b>                  |                              |                                 |                                   |
| Insurance - General Business         | 185                          | -                               | (185)                             |
| Supplies/Materials                   | -                            | 2,120                           | 185                               |
| <b>Total net (increase)/decrease</b> |                              |                                 | -                                 |

**Western Riverside Council of Governments  
Annual Budget  
For the Year Ending June 30, 2018**

|                                                    |
|----------------------------------------------------|
| <b>Department: Environmental (State UO - 2038)</b> |
|----------------------------------------------------|

| Thru<br>12/31/2017<br>Actual | Approved<br>6/30/2018<br>Budget | Amendment<br>Needed<br>12/31/2017 |
|------------------------------|---------------------------------|-----------------------------------|
|------------------------------|---------------------------------|-----------------------------------|

**Expenditures**

|                                      |     |        |          |
|--------------------------------------|-----|--------|----------|
| General Legal Services               | 358 | -      | (358)    |
| Parking Validations                  | 175 | 95     | (80)     |
| Printing Services                    | -   | 10,000 | 438      |
| <b>Total net (increase)/decrease</b> |     |        | <b>0</b> |



# Western Riverside Council of Governments Administration & Finance Committee

## Staff Report

**Subject:** BEYOND Program Update and Project Spotlight—Cancer Treatment Task Force

**Contact:** Andrea Howard, Senior Analyst, [ahoward@wrcog.us](mailto:ahoward@wrcog.us), (951) 405-6751

**Date:** February 14, 2018

*The purpose of this item is to provide members of the Committee an update on the BEYOND Framework Fund Program and highlight the Round II funded Southwest Riverside County Regional Cancer Treatment Task Force project.*

### **Requested Action:**

1. Receive and file.

*The BEYOND Framework Fund Program is designed to enable member agencies to develop and implement plans and programs aimed at improving quality of life in Western Riverside County by addressing the goal areas outlined in WRCOG's Economic Development and Sustainability Framework.*

### **BEYOND Program Overview**

Piloted in Fiscal Year (FY) 2015/2016, the BEYOND Framework Fund supports development and implementation of local projects aligned with the six goal areas outlined in WRCOG's Economic Development and Sustainability Framework: economy, health, education, energy & environment, water & waste water, and transportation. To date, the Executive Committee has allocated a total of \$4.1 million through two rounds of funding. Round I of BEYOND is funded through FY 2015/2016 Agency carryover funds, while Round II is funded through FY 2016/2017 Agency carryover funds.

**BEYOND Round I – Status:** Round I of BEYOND provided \$1.8 million to member jurisdictions, allocated according to a population-based formula in a single funding stream. Thirty-two projects were funded under Round I and, as of this writing, twenty projects have been completed, nine projects have requested extensions, and three projects have been approved as multi-year efforts; the Water Task Force project, funded jointly by EMWD and WMWD, and one project each from the Cities of Riverside and Temecula, which are combining Round I and Round II funding for the same project. Attachment 1 includes a summary of each Round I project and notes which projects have been completed. Below is a summary of three of the recently completed Round I projects.

- Clean Energy Vehicles for Calimesa Project, partially funded the purchase of two new hybrid vehicles for the City's fleet, for a total of \$36,177.
- Canyon Lake Economic Development Project, funded the design, construction, and installation of new monuments at the City's entry points, for a total of \$36,537.
- Eastvale Safe Routes to School Project, used \$83,549 to purchase and install radar display signs along identified school walking routes.

**BEYOND Round II – Status:** Round II is operating three funding streams: 1) BEYOND Core, a central

category of funding allocating \$2.05 million to WRCOG member agencies using a population-based formula; 2) BEYOND Team, a competitive fund for collaborative projects between multiple member agencies; and 3) BEYOND Health, a competitive fund for public health promoting projects. Through these three funding streams, BEYOND Round II is funding fifty-one projects. Though Round II projects just kicked-off in early summer 2017, one project, the Regional Cancer Treatment Task Force Task Force Project, was completed in January 2018. A summary of each Round II project, noting which projects have been completed, is provided as Attachment 2.

### **Regional Cancer Treatment Task Force Project**

The Regional Cancer Treatment Task Force is a strategic effort, convened in 2016, to identify opportunities to support the region's cancer patients by reducing their need to travel outside of the area for treatment. The Task Force is comprised of staff from participating jurisdictions—the Cities of Lake Elsinore, Menifee, Murrieta, Temecula, and the County of Riverside—physicians, public health professionals, and community members. WRCOG's BEYOND Framework Fund is providing \$62,000 to support the Task Force through allocations made on behalf of the Cities of Lake Elsinore (\$10,000), Menifee (\$6,000), Murrieta (\$6,000), Temecula (\$20,000), and the County of Riverside, Third District (\$20,000).

The Task Force convened to explore the limitations to providing premier cancer treatment in the region and address these limitations through coalition building and strategic community planning. To organize the effort, the Task Force contracted with Health Assessment and Research for Communities, Inc. (HARC), a nonprofit research organization, to facilitate meetings and Task Force logistics and conduct a robust community Cancer Care Needs Assessment.

HARC surveyed 600 cancer patients / survivors and their caregivers, and healthcare providers who work in cancer prevention or treatment, and the results of this Cancer Care Needs Assessment are available at <https://temeculaca.gov/DocumentCenter/Home/View/4547>. The 107-page document includes an analysis of all information collected and concludes with a series of recommendations, which include local hospitals forming cancer care centers and seeking accreditation; bringing more clinical trial opportunities to the region; working to attract, retain, and grow our own providers; communicating available resources to the community at large; and developing a foundation to defray patient costs. Attachment 3 provides a graphic overview of the Cancer Care Needs Assessment process and findings.

Over the past year, the Task Force convened bi-monthly meetings focusing on a variety of topics, ranging from legislative issues to recruiting talent and resources, and guiding the development, implementation, and analysis of the Cancer Care Needs Assessment. The Task Force developed next steps to address five primary problems identified by the Assessment, the problems and associated steps are summarized in Attachment 4. On January 18, 2018, the Task Force convened what was scheduled to be its final meeting and elected to continue to hold regular meetings and continue working on the identified next steps. Amber Bolden, WRCOG's Public Service Fellow, served as the staff representative to the Task Force, and WRCOG staff will continue to work with the Task Force as their efforts progress, seek opportunities to provide assistance, and regularly provide updates to the WRCOG Committees.

Staff intends to invite representatives from the Task Force to an upcoming Administration & Finance Committee meeting to provide a presentation and share lessons learned.

### **Prior Action:**

December 13, 2017: The Administration & Finance Committee received and filed.

### **Fiscal Impact:**

This item is informational only; therefore there is no fiscal impact.

**Attachments:**

1. BEYOND Round I – Project Summaries.
2. BEYOND Round II – Project Summaries.
3. Cancer Care Needs Assessment Infographic.
4. Task Force Next Steps.



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# Item 4.C

BEYOND Program Update and  
Project Spotlight – Cancer Treatment  
Task Force

## Attachment 1

BEYOND Round I – Project  
Summaries

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| City / Agency         | Project Name                                 | Funding   | Project Description                                                                                                                                                                                                                                                                 |
|-----------------------|----------------------------------------------|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| City of Banning       | Park Facilities Improvements                 | \$39,300  | The City of Banning has been approved to leverage BEYOND money as matching funds to finance an expansion and facilities update of Lions Park. If no match is available, they have proposed using the funds for smaller park facilities updates. Status: Completed ✓                 |
| City of Calimesa      | Clean Energy Vehicles for Calimesa           | \$36,177  | The City of Calimesa is utilizing BEYOND funding as a match with AQMD AB 2766 funds to replace two vehicles in the City's hybrid/electric fleet. Status: Completed ✓                                                                                                                |
| City of Canyon Lake   | Canyon Lake Water Monitoring                 | \$3,724   | The City of Canyon Lake is dedicating BEYOND funds to facilitate more frequent water testing of the Lake as necessitated by anticipated increases of run-off from El Nino storms. Status: Completed ✓                                                                               |
|                       | Economic Development                         | \$32,812  | The City of Canyon Lake is spurring economic development by posting monument signs, performing website maintenance, and completing land analysis for future development. Status: Completed ✓                                                                                        |
| City of Corona        | Corona Innovation Center                     | \$147,600 | The City of Corona is utilizing BEYOND funds to support improvements to a previously underutilized facility for use as a business development center.                                                                                                                               |
| City of Eastvale      | SRTS: Radar Display Signs                    | \$83,549  | The City of Eastvale is utilizing BEYOND funds to support its Safe Routes to School campaign through the purchase and installation of 12 radar speed display signs. Status: Completed ✓                                                                                             |
| City of Hemet         | Downtown Specific Plan                       | \$86,597  | The City of Hemet is applying BEYOND funds, in conjunction with a SCAG planning grant, to support development of the City's updated Specific Plan and related documents.                                                                                                            |
| City of Jurupa Valley | Farmer's Market                              | \$20,000  | The City of Jurupa Valley's Farmers' Market BEYOND project is utilizing funds to make requisite updates to the City's zoning code to allow for a Farmers' Market and will also support the establishment of the Farmer's Market. Status: Completed ✓                                |
|                       | Healthy Jurupa Valley Support                | \$28,842  | The City of Jurupa Valley's Healthy Jurupa Valley BEYOND project funds are supporting the initiative's five action teams which work to promote and implement healthy living initiatives in the city. Status: Completed ✓                                                            |
|                       | Pedestrian and Bicycle Mobility Improvements | \$20,000  | The City of Jurupa Valley's Pedestrian and Bicycle Mobility Improvements BEYOND project will dedicate funds to identify city arterials appropriate for walking and biking corridors. Funds will then be used to install appropriate signage and perform necessary walkway upgrades. |
|                       | Chamber of Commerce Partnership              | \$20,000  | The City of Jurupa Valley's Chamber of Commerce BEYOND project is supporting an initiative to build a partnership with the Chamber of Commerce and to develop educational programs that will promote the City's economic vitality. Status: Completed ✓                              |
|                       | TOTAL FUNDS                                  | \$88,842  | --                                                                                                                                                                                                                                                                                  |

| City / Agency         | Project Name                                        | Goal Area(s) Supported | Project Description                                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------|-----------------------------------------------------|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| City of Lake Elsinore | Rosetta Canyon Park - Artificial Turf               | \$83,238               | The City of Lake Elsinore is devoting BEYOND funds to finance a portion of the City's artificial turf installation at Rosetta Canyon Community Park which will include five softball/baseball fields, and one soccer/football field. Status: Completed ✓                                                                                                                               |
| City of Menifee       | Citywide Branding Effort - An Economic Driver       | \$87,039               | The City of Menifee is dedicating BEYOND funds to support a two-stage economic development project beginning with a comprehensive evaluation of the City's economic environment, Stakeholder attitudes and perceptions, to inform the second stage development of a citywide branding effort.                                                                                          |
| City of Moreno Valley | Community Enhancement Program                       | \$153,294              | The City of Moreno Valley is dividing funds between 12 initiatives including a water station installation, materials and supplies support for three Safe Routes to School events, the replacement of 38 computers at the employment resource center, and bike rack installations.                                                                                                      |
| City of Murrieta      | Murrieta Energy Efficiency Project                  | \$140,126              | The City of Murrieta is utilizing BEYOND funds to finance energy improvement projects identified utilizing an energy audit under the direction of the Energy Network and the Western Riverside Energy Partnership (WREP). Status: Completed ✓                                                                                                                                          |
| City of Norco         | Two-Pronged Economic Development Marketing Strategy | \$38,650               | The City of Norco is utilizing BEYOND funds to support a two-pronged branding effort highlighting Norco as a dynamic business, and friendly environment; and hospitable destination of choice focusing on equine and related attractions. Status: Completed ✓                                                                                                                          |
| City of Perris        | Gateway Enhancement Signage Program                 | \$42,640               | The City of Perris is dedicating a portion of the City's BEYOND allocation to support the Gateway Enhancement Signage program--an effort to overcome perception challenges faced by the city and to optimize economic opportunities by installing a series of entry, way finding, and branding signs throughout the City's gateway streets and places of interest. Status: Completed ✓ |
|                       | Green City Farm Program                             | \$42,640               | The City of Perris is dedicating a portion of its BEYOND allocation to fund the Green City Farm project which will develop a Community Garden Demonstration Center exhibiting best practices in water-wise gardening, and healthy living opportunities. Status: Completed ✓                                                                                                            |
|                       | TOTAL FUNDS                                         | \$85,280               | --                                                                                                                                                                                                                                                                                                                                                                                     |
| City of Riverside     | Marketplace SPOT + TOD                              | \$169,740              | The City of Riverside is using BEYOND monies to fund a SPOT+TOD project which is a community-based development plan and policy framework that will plan for a pedestrian bridge from Metrolink to downtown and development of the Metrolink area as a node of activity. Multi-Year Project                                                                                             |

| City / Agency       | Project Name                                                         | Goal Area(s) Supported | Project Description                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------------|----------------------------------------------------------------------|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| City of San Jacinto | Healthy San Jacinto                                                  | \$41,471               | The City of San Jacinto is leveraging BEYOND funding to meet a portion of its required match for its Strategic Growth Council Sustainable Communities Grant, which is funding the development of a comprehensive downtown specific plan. BEYOND funds will be specifically dedicated to the development of a Healthy San Jacinto Coalition which will mobilize community efforts around creating a healthy and sustainable community.            |
| City of Temecula    | Global Citizens Special needs Vocation Training (Teen Job Readiness) | \$15,000               | The City of Temecula is dedicating a portion of its BEYOND allocation to support the Global Citizens Teens with Special Needs program which provides jobs readiness training for adults with special needs. This project includes a comprehensive curriculum training participants for jobs in the viticulture and hospitality industries. Status: Completed  |
|                     | Sam Hick's Monument Park Sustainable Landscaping Project             | \$20,000               | The City of Temecula is dedicating a portion of its BEYOND allocation to support the Sam Hicks Monument Park Project which will replace existing landscaping with indigenous plants and permeable surfaces and install drip irrigation and interpretive signage.                                                                                                                                                                                 |
|                     | Emergency Management - Video Vignette                                | \$2,500                | The City of Temecula is requesting to dedicate a portion of its BEYOND allocation to support the production of a video vignette which will educate the public about best practices for local emergency preparedness efforts before, during, and after a catastrophic event. Status: Completed                                                                 |
|                     | TVE2 Stem and Youth Enrichment                                       | \$15,000               | The City of Temecula is dedicating a portion of its BEYOND allocation to support the TVE2 Stem and Youth Enrichment Program. BEYOND funds are being used to purchase 25 computer stations for the Junior Women's STEM Program , Future Physician Leaders , and Youth Legal Program. Status: Completed                                                         |
|                     | Grow Temecula Valley                                                 | \$15,000               | The City of Temecula is dedicating a portion of its BEYOND allocation to support the Grow Temecula Valley project's effort to promote buying local food and to highlight the region for tourists. Status: Completed                                                                                                                                           |
|                     | Sixth Street Sidewalk Improvements                                   | \$72,857               | The City of Temecula is dedicating a portion of its BEYOND allocation to support the Sixth Street Sidewalk Improvements project to regrade the sidewalks and install rolled curbs, promoting mobility for all abilities.                                                                                                                                                                                                                         |
|                     | TOTAL Funds                                                          | \$137,857              | --                                                                                                                                                                                                                                                                                                                                                                                                                                               |

| City / Agency                    | Project Name                                                                      | Goal Area(s) Supported | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|----------------------------------|-----------------------------------------------------------------------------------|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| City of Wildomar                 | Website Improvements Project                                                      | \$39,814               | The City of Wildomar is making improvements to the City website and updating its server to enhance the user interface for business owners and developers utilizing online permitting capabilities and optimized website capabilities.                                                                                                                                                                                                                                                                                    |
| RCOE                             | RCOE Foundation Scholars Program                                                  | \$35,000               | With BEYOND funds and an \$85,000 grant from SCE, the Riverside County Superintendent of Schools' RCOE Foundation anticipates awarding between 7-14 student scholarships to "opportunity youth"/ at-risk students enrolled in RCOE programs such as Alternative Education, Court and Community Schools, County Foster Youth programs, Come Back Kids Charter and Riverside County Education Academy students. Student scholarships are anticipated to range between \$2,500 and \$5,000 per student. Status: Completed ✓ |
| Riverside County                 | District Level Projects                                                           | \$136,402              | The County is splitting Round I and II funding between Districts 1, 2, 3, and 5 for a total of \$72,164.08 each. These projects will be approved on a rolling basis and will be on the Round II project schedule.                                                                                                                                                                                                                                                                                                        |
|                                  | Riverside University Health System - Public Health: Healthy Development Checklist | \$25,000               | The County has allotted \$25,000 of its allocation to the Department of Public Health to support development of a "Healthy Development Checklist" that will serve as a tool for planners to make recommendations to improve County of Riverside's residents' health through community design. Status: Completed ✓                                                                                                                                                                                                        |
|                                  | TOTAL FUNDS                                                                       | \$161,402              | --                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Eastern Municipal Water District | Diamond Valley Lake & Skinner Lake Trails                                         | \$20,000               | Eastern Municipal Water District is engaging Fehr & Peers to develop up to five project description sheets and photo simulations for Diamond Valley Lake & Lake Skinner trails or related active transportation facilities which will describe proposed active transportation routes, route segments, or intersections. Multi-year project                                                                                                                                                                               |
| Western Municipal Water District | Customer Handbook: Using Water Efficiently in the Landscape                       | \$20,000               | WMWD will dedicate funds to support the creation of a water wise Landscaping web-based handbook with engaging written content, photos, links, and embedded videos. WMWD anticipates water savings of 7,240 acre feet and greater per year. Status: Completed ✓                                                                                                                                                                                                                                                           |



| <b>City / Agency</b>                   | <b>Project Name</b>   | <b>Goal Area(s) Supported</b> | <b>Description</b>                                                                                                                                                                                                                                                                                            |
|----------------------------------------|-----------------------|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Morongo Band of Mission Indians</b> | Dial-A-Ride Expansion | \$35,000                      | The Morongo Band of Mission Indians is utilizing BEYOND funding to purchase an additional vehicle and fund a new full-time employee to operate an expanded Dial-A-Ride route to support transportation to jobs, medical services, education centers and other needs.                                          |
| <b>EMWD / WMWD</b>                     | Water Task Force      | \$30,000                      | Eastern Municipal Water District and Western Municipal Water District have each dedicated a portion of their BEYOND allocation to fund the ongoing operation of the Water Task Force which may help to cover administrative costs, guest speaker expenses, marketing and meeting expenses. Multi-year project |

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# Item 4.C

BEYOND Program Update and  
Project Spotlight – Cancer Treatment  
Task Force

## Attachment 2

BEYOND Round II – Project  
Summaries

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| <b>Jurisdiction</b> | <b>Project Name</b>                               | <b>Framework Goal(s)</b> | <b>Project Summary</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------------|---------------------------------------------------|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Banning</b>      | Lions Park Expansion                              | Health                   | The City of Banning is allocating BEYOND Round II Core funding and additional funding from BEYOND Health toward design and park improvements for Lions Park. The park is currently 9.12 acres consisting of 3 baseball fields, snack bar, and a playground. The City is working to expand the park to include an additional 7.46 acres, to be used for two multi-purpose fields. Round I funding was applied to a portion of the cost of the requisite CEQA analysis for the park. Additional funding is anticipated to come from the County EDA and the City's Park fund. |
| <b>Calimesa</b>     | Creekside Park Fitness Facilities                 | Health                   | The City of Calimesa is allocating BEYOND Core and Health funding toward transforming Creekside Park into a Fitness Park by installing park grade fitness equipment stations. The installation will require relocation of existing fencing material to expand the park area; installation of rubberized safety surface around each fitness station; replacing existing benches, trash cans, and picnic tables to accommodate and encourage increased park usage.                                                                                                           |
| <b>Canyon Lake</b>  | Railroad Canyon Road Mobility Improvement Project | Transportation, Health   | The City of Canyon Lake is allocating a portion of BEYOND funding toward the installation of pole-mounted radar speed signs. The project is in response to high auto speeds along Railroad Canyon Road, which connects to Lake Elsinore (west) and Menifee (east) where speed limits are both higher than Canyon Lake.                                                                                                                                                                                                                                                     |
|                     | Goetz Road Monument Project                       | Economic Development     | The City of Canyon Lake is allocation BEYOND funding to branding and establishing its identity as a municipality amongst its neighboring cities. The City is utilizing a portion of BEYOND funds for a city monument at the entry point along Goetz Road, adjacent to Menifee's Audie Murphy Ranch residential development project.                                                                                                                                                                                                                                        |
|                     | City Website                                      | Economic Development     | The City of Canyon Lake is allocating a portion of BEYOND funding to perform the annual website update to ensure the site continues to help inform, promote, and describe the City to website visitors.                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Corona</b>       | Corona Innovation Center                          | Economic Development     | The City of Corona is allocating BEYOND Core Round II funding to continue work on the BEYOND RI funded Corona Innovation Center. RII funds will support physical upgrades and ADA renovations to the economic development resource center.                                                                                                                                                                                                                                                                                                                                 |
|                     | Corona Health Element                             | Health                   | The City of Corona is allocating BEYOND Core funding to add a Healthy Communities Component to their General Plan document. As part of the update, the city will be evaluating existing health conditions, constraints to improving health outcomes, and identifying opportunities to improve the overall health of the community.                                                                                                                                                                                                                                         |
| <b>Eastvale</b>     | Bus Shelters & Appurtenances                      | Transportation           | The City of Eastvale is allocation BEYOND Core funding toward the installation of overhead bus shelters, benches, and/or a trash container at its more than 30 bus stops along Route 2 and Route 29.                                                                                                                                                                                                                                                                                                                                                                       |

| <b>Jurisdiction</b>  | <b>Project Name</b>        | <b>Framework Goal(s)</b>       | <b>Project Summary</b>                                                                                                                                                                                                                                                                                                                                                                    |
|----------------------|----------------------------|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Hemet</b>         | Pending                    | Pending                        | Pending                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Jurupa Valley</b> | JV Chamber of Commerce     | Economic Development           | The City of Jurupa Valley is utilizing a portion of its BEYOND Core Round II funding to continue developing its partnership with the Jurupa Valley Chamber, focusing on business retention and small business development.                                                                                                                                                                |
|                      | Farmers Market             | Energy and Environment, Health | The City of Jurupa Valley is utilizing a portion of its BEYOND Core Round II funding to support the continued operation and enhancement of the JV Farmers Market through market expansion and establishment of an ongoing marketing campaign.                                                                                                                                             |
|                      | Marketing/Branding Program | Economic Development           | The City of Jurupa Valley is utilizing a portion of its BEYOND Core funding to initiate a city-wide branding program to include development of a City brochure and other informational marketing.                                                                                                                                                                                         |
|                      | Radar Display Signs        | Transportation, Health         | The City of Jurupa Valley is utilizing a portion of its BEYOND Core funding to install up to 6 solar powered radar speed signs to enhance safety awareness of motorists when approaching school zones.                                                                                                                                                                                    |
|                      | Rubidoux Walking Corridor  | Transportation, Health         | The City of Jurupa Valley is utilizing a portion of its BEYOND Core Round II funding and additional funding through BEYOND Health, for enhancements to the Rubidoux Walking Corridor, established through BEYOND RI funds. Funding will go toward construction of informational kiosks at each end of the corridor, enhancement of the Edible Path to School, and installation of murals. |
| <b>Lake Elsinore</b> | Healthy LE Program         | Health                         | The City of Lake Elsinore is allocating a portion of its BEYOND Core funding to support the Healthy LE Program. A majority of funding will be directed to hiring a part-time Graduate Student intern to support program activities. Additional funds will go toward project materials and event programming.                                                                              |
|                      | Fit-Trails Equipment       | Health                         | The City of Lake Elsinore is allocating a portion of its BEYOND Core, plus additional BEYOND Health funding, to install fitness equipment stations at four parks throughout the city. The four parks were selected based on current activity and utilization levels, varied user types, disbursement of locations throughout the city, and existing walking path infrastructure.          |

| Jurisdiction         | Project Name                                                | Framework Goal(s)                            | Project Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|----------------------|-------------------------------------------------------------|----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Menifee</b>       | Communicating Menifee's Brand!                              | Economic Development                         | The City of Menifee is allocating a portion of its BEYOND Core Round II funding to build off of the RI Re-branding project to develop a marketing communication plan to include creating an independent economic development website and developing marketing materials.                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                      | Menifee Homeless Taskforce                                  | Economic Development, Health                 | The City of Menifee is allocating a portion of its BEYOND Core funding to the Southwest Homeless Alliance Coalition, specifically for creating and printing marketing materials associated with the Coalition.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Moreno Valley</b> | Community Enhancement Program II                            | Health, Energy & Environment, Transportation | The City of Moreno Valley is utilizing BEYOND Core and Health funding for a multi-faceted project to promote active transportation, community engagement, and enhanced quality of life through ten tasks: (1) Community Cleanup Event, (2) Cyclocross Race, (3) Ride MoVal Community Bicycle Race, (4) 5K walk / Pet Adoption Fair Events, (5) Healthy Moreno Valley student campaign, (6) Juan Batista de Anza Trail raised crossing / SB821 Bicycle and Pedestrian Facilities from Bay Avenue to Cottonwood Street, (7) Mini-Round About Demonstration, (8) existing conditions Health Impact Assessment, (9) Community Health Element to General Plan, and (10) Exercise Equipment along Juan Bautista De Anza Trail. |
| <b>Murrieta</b>      | Economic Development Site Selector Website                  | Economic Development                         | The City of Murrieta is utilizing a portion of BEYOND Core funds to develop a website in coordination with the Chamber of Commerce to provide comprehensive information to help new, expanding, and relocating businesses find the optimal location for success with the City of Murrieta. The website will utilize GIS software, real estate, demographic, workforce, and industry data to create this tool.                                                                                                                                                                                                                                                                                                            |
|                      | HVAC Replacement at Murrieta Innovation Center              | Energy and Environment                       | The City of Murrieta is utilizing a portion of BEYOND Core funds to replace 11 aging HVAC units and install new Title 24 compliant units. Round I funding had been programmed for this, but was reprogrammed for upgrades to the Police and Fire Department HVAC units.                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Norco</b>         | Ensuring Safety Through Feedback Signs<br>Status: Completed | Education, Health, Transportation            | The City of Norco is utilizing BEYOND Core funding to purchase, install, and program 12-15 permanent speed feedback signs. Status: Completed                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|                      | Party Parners                                               | Health                                       | The City of Norco is utilizing BEYOND Health funds to support the Party Parners Program which provides activities for developmentally disabled adults eighteen and over, including dancing, wii games, arts and crafts, and social events.                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

| Jurisdiction | Project Name                                            | Framework Goal(s)                       | Project Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------|---------------------------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Perris       | Well One                                                | Health                                  | With funding from BEYOND Core and Health, the City of Perris, in partnership with Loma Linda University Dental School, and Lake Perris SDA Church, are organizing a bi-monthly dental clinic to serve the community to be integrated into an existing community medical and mental health clinic. Perris residents are granted first priority for appointments, but walk-ins from all areas are welcome. Funds will buy equipment and supplies. The clinic will be largely staff by volunteers, including volunteer dental students and professors. |
|              | Perris green City Farm/HealthyCommunity50               | Health, Education, Energy & Environment | Perris was one of 50 awardees for the national HealthyCommunity50 Challenge, to compete to develop practical, evidence-based strategies to improve measurable health outcomes and promote health and wellness, equity and social interaction. Perris' strategy focuses on healthy food access and is seeking funding to expand its network of community gardens. Funds will focus on developing a goal of 31 gardens.                                                                                                                               |
| Riverside    | The Marketplace TOD & Mobility Hub Specific Plan Update | Economic Development, Transportation    | The City of Riverside is combining its Round I and Round II funding allocation for development of a Marketplace TOD & Mobility Hub Specific Plan in the area around the Downtown Metrolink Station. With BEYOND funds, the City will prepare a two phased plan to (1) develop a baseline infrastructure opportunities and constraints plan, and (2) create an implementable Mobility Hub Specific Plan. The City seeks to collaborate with RTA to plan for the area.                                                                                |
|              | Green Action Plan                                       | Energy and Environment, Health          | The City of Riverside is using BEYOND Health funding to further the City's Green Action Plan, which is a tool to strengthen the integration between healthy communities and resource conservation goals. With BEYOND funding, the City plans to strengthen cross-sectoral collaborations and integrate the plan with the Sustainability Tools for Assessing and Rating Communities (STAR) system.                                                                                                                                                   |
| San Jacinto  | San Jacinto General Plan Update 2040                    | Economic Development                    | The City of San Jacinto is using BEYOND funds to offset City costs for the update of the City's General Plan. Included are updates to the City's existing 7 elements and will add elements for Economic Development, Air Quality, and Environmental Justice. The plan will also incorporate Sustainability and Community Design into all elements.                                                                                                                                                                                                  |
| Temecula     | Temecula Youth Project Construct                        | Economic Development, Education         | The City of Temecula is utilizing a portion of its BEYOND Core funding to create the Temecula Youth Construct project which aims to bridge the gap between educational attainment and vocational skills and offer an avenue, for students who do not attend college, to gain skills that will allow them to be successful within the community.                                                                                                                                                                                                     |
|              | Emergency Management System                             | Health                                  | The City of Temecula is utilizing a portion of its BEYOND Core funding to host a one-day regional Emergency Management Summit, for the purpose of convening regional first responders, emergency managers, elected officials, businesses, and the general public to discuss emergency preparedness for the region.                                                                                                                                                                                                                                  |



| <b>Jurisdiction</b>                         | <b>Project Name</b>                                     | <b>Framework Goal(s)</b>                     | <b>Project Summary</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------------------|---------------------------------------------------------|----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                             | Intergenerational Horticulture Program                  | Education, Economic Development              | The City of Temecula is utilizing a portion of its BEYOND Core funding to support the public-private partnership between the City and Our Nicholas Foundation which offers specialized vocational skill training for teens, adults, and seniors with special needs. Modeled after the RI BEYOND Funded Global Citizens Special Needs project, the Horticulture Program would be designed to teach basic skills that encompass cultivation of plants, vegetable gardening, landscaping, irrigation, and basic business practices for all ages with special needs from several communities in Western Riverside County. |
|                                             | Bicycle Sharrows                                        | Transportation, Health, Energy & Environment | The City of Temecula is utilizing a portion of its BEYOND Core funding to install 70 sharrows (or shared lane markings) divided between five areas surrounding schools in Temecula providing critical connections between local neighborhoods and schools as identified by the Trails and Bikeways Master Plan.                                                                                                                                                                                                                                                                                                       |
|                                             | Industry Sector Promotions/Site Visits & Surveys        | Economic Development                         | The City of Temecula is utilizing a portion of its BEYOND Core funding to create marketing pieces/strategies specific to industry sectors that are growing in Temecula: craft brewing, high tech, advanced manufacturing, and specialty retail. Additionally, the City's Economic Development team will conduct in-depth site visits with existing businesses to better understand their operations and needs.                                                                                                                                                                                                        |
|                                             | Government Leadership Program for Youth (GLPY)          | Education                                    | The City of Temecula is utilizing a portion of its BEYOND Core funding to purchase equipment that will support the City's Government Leadership Program for Youth which facilitates interaction and communication between school districts, high school students and City staff in order to foster engagement.                                                                                                                                                                                                                                                                                                        |
|                                             | Sixth Street Sidewalk Improvements                      | Transportation, Health                       | The City of Temecula is utilizing a portion of its BEYOND Core funding to design and construct sidewalk improvements on the north side of Sixth Street, between Mercedes Street and the entrance to the Mary Philips Senior Center.                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>City of Wildomar</b>                     | Signage Enhancement Program                             | Economic Development                         | The City of Wildomar will use a portion of its BEYOND Core funding to place new signage along roadways to be visible at city entry points and from freeways.                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|                                             | Website Enhancement Part 2                              | Economic Development                         | The City of Wildomar will enhance the City website, funded through BEYOND Round I, by purchasing a business registration module.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>County of Riverside Round I &amp; II</b> | District 1 Homeless Intervention and Mitigation Program | Health, Economy                              | District One will enter into a partnership with Path of Life to administer a homeless intervention program, providing support services that fill traditional funding gaps in rehousing individuals, including rental deposits, utility payments, and household supplies.                                                                                                                                                                                                                                                                                                                                              |

| <b>Jurisdiction</b>                                        | <b>Project Name</b>                                           | <b>Framework Goal(s)</b>                                             | <b>Project Summary</b>                                                                                                                                                                                                                                                                                                                       |
|------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                            | District 2 TBD                                                |                                                                      | The County of Riverside will be dividing Round I and Round II BEYOND allocations, less a total of \$50,000 which has been directed to Public Health, to projects at the supervisorial district level. Each is allocated \$72,164.08. The Third District has \$52,164 remaining, after allocating \$20,000 to the Cancer Taskforce.           |
|                                                            | District 3 TBD                                                |                                                                      | The County of Riverside will be dividing Round I and Round II BEYOND allocations, less a total of \$50,000 which has been directed to Public Health, to projects at the supervisorial district level. Each is allocated \$72,164.08. The Third District has already allocated \$20,000 of BEYOND to the Regional Cancer Services Task Force. |
|                                                            | District 5 TBD                                                |                                                                      | The County of Riverside will be dividing Round I and Round II BEYOND allocations, less a total of \$50,000 which has been directed to Public Health, to projects at the supervisorial district level. Each is allocated \$72,164.08.                                                                                                         |
| <b>Riverside University Health Systems - Public Health</b> | Healthy Community Strategies                                  | Economic Development, Health                                         | RUHS-PH is using \$25,000 from the Round II County BEYOND Core allocation to expand upon and support implementation of the Bi-County Healthy Development Checklist. The County will use additional funding through the BEYOND Health set aside to support the annual Healthy Living Extravaganza.                                            |
| <b>Eastern MWD</b>                                         | EMWD Sustainability Center Feasibility Study                  | Water, Energy & Environment, Health, Economic Development, Education | EMWD is utilizing BEYOND Core funding to perform a feasibility analysis of siting a Sustainability Center near its Perris office campus.                                                                                                                                                                                                     |
| <b>Western MWD</b>                                         | Water Use Efficiency Master Plan & Conservation Outreach Plan |                                                                      | WMWD is utilizing BEYOND funds to update the Water Use Efficiency Master Plan (Plan) that will guide new customer programs and outreach over the next five years.                                                                                                                                                                            |
| <b>Superintendent of Schools</b>                           | Meta THINK                                                    | Education                                                            | The Riverside County Office of Education is utilizing BEYOND funding to partner with Meta THINK and local school districts to address chronic absenteeism by working with parents, communities, and school administrators. The Program's aim is to improve student success as chronic absence is a strong indicator of poor performance.     |
| <b>Morongo Band of Mission Indians</b>                     | Morongo Dial-A-Ride Program                                   | Transportation                                                       | The Morongo Band of Mission Indians is utilizing BEYOND Round II funding to support continued operation of the Dial-A-Ride program which was initiated with BEYOND Round I funding. The Program provides access within and from the Reservation to such destinations as employment, educational centers, and health care facilities.         |

| Jurisdiction                                                                                       | Project Name                                                 | Framework Goal(s)                                                             | Project Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|----------------------------------------------------------------------------------------------------|--------------------------------------------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Multiple:</b> Cities of Lake Elsinore, Menifee, Murrieta, Temecula, and the County              | Regional Cancer Services Task Force<br><br>Status: Completed | Education, Economic Development                                               | Several jurisdictions applied funding from their BEYOND Core allocations or applied competitively through BEYOND Health, to support development of a Regional Cancer Services Task Force. The Task Force hired a facilitator and perform a study to identify trends and regional needs in the area of Cancer services. Results of the assessment are intended to be used in planning for and attracting in-demand services to the region both to support health outcomes and economic development. BEYOND funding comes from Core and Health allocations. Status: Completed                                                                                                                                                                                                                                |
| <b>BEYOND Team:</b> City of Perris, Eastern Municipal Water District                               | Healthy Community 50/Perris Green City Farm                  | Health, Energy & Environment                                                  | The City of Perris was one of 50 awardees for the national HealthyCommunity50 Challenge, competing to develop practical, evidence-based strategies to improve measurable health outcomes and promote health, wellness, equity, and social interaction. Perris' strategy focuses on healthy food access and is seeking funding to expand its network of community gardens. Team funds would support development of 10+ new gardens; the total goal is 31 gardens.                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>BEYOND Team:</b> Cities of Lake Elsinore, Menifee, Murrieta, Wildomar, and Temecula             | Regional Homeless Alliance (Southwest Cities)                | Economic Development, Education, Health, Transportation, Energy & Environment | The goal of the Regional Homeless Alliance is to achieve functional zero homeless. BEYOND Team funds would support development of a more comprehensive regional program by building on the existing foundation with a focus on immediate needs: beds, outreach, housing options and coordination of services. Specific activities will include (1) development of a Community Asset Assessment and Roadmap to address future needs, (2) development of formal housing navigation process, and (3) development of a replicable, coordinated entry system through outreach, housing navigation and low barrier supportive services. Specific tasks include hiring a part-time homeless outreach coordinator and part-time housing navigator, management of five full-time units for rapid rehousing, and provision of emergency shelter for an average of three individuals/families per night. |
| <b>BEYOND Team:</b> Cities of Corona, Jurupa Valley and Lake Elsinore, and the County of Riverside | Western Riverside Homeless Alliance                          | Economic Development, Health, and Education                                   | Western Riverside Homeless Collaborative' s (WRHC) main objective is to stabilize homeless people through the use of shelters, permanent housing, and assistance programs to reduce homelessness in the subregion. The WRHC aims to achieve this objective by adopting a comprehensive regional approach to programming, performing asset mapping, strategic capacity building, and coordinated placement and case management. Specific tasks to be completed include: (1) hiring Homeless Facilitators, (2) creating a subregional Leadership Committee, (3) performing Asset Mapping, (4) assembling a Law Enforcement Case Conferencing Team, (5) identifying faith-based and other access points for a Coordinated Entry System, (6) Responsible Compassion and love Your Neighbor Campaign, and (7) Performance Measurement.                                                             |

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# Item 4.C

BEYOND Program Update and  
Project Spotlight – Cancer Treatment  
Task Force

## Attachment 3

Cancer Care Needs Assessment  
Infographic

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## Community Health Needs Assessment



Southwest  
Riverside County



### Background

Cancer is the second leading cause of death in the United States. Cancer screening, prevention, treatment, and recovery can be a lengthy and difficult process for both patients and their support system.

In an effort to reduce the burden on people suffering from cancer, communities in Southwest Riverside County joined together to form a Regional Cancer Treatment Task force to address the issue.

HARC, Inc., a nonprofit research organization, was hired in 2017 to assist with this work.

This infographic summarizes the results of a community health needs assessment that HARC conducted in summer/fall of 2017. The needs assessment targeted cancer patients, survivors, caregivers, and healthcare providers in Southwest Riverside County.

### Mission

- Identify and promote existing cancer care resources within the region
- Identify and address any barriers to accessing those existing resources
- Identify and address any gaps in resources, including: the pipeline of care facilities and providers, prevention, diagnosis, treatment, and post-treatment.
- Create a plan to promote, foster, and maintain desired cancer care resources within the region

### Funders



City of Lake  
Elsinore



City of  
Menifee



City of  
Murrieta



City of  
Temecula



County of  
Riverside



IEHP



# Method

HARC worked with the task force to develop two surveys:

## *Survey for cancer patients/survivors and their caregivers*

## *Survey for healthcare professionals*



Articles about the Task Force and the study were featured in Valley News. Newspaper advertisements recruiting participants were featured in the Riverside Press Enterprise and in the Valley News.



Task Force members helped to recruit participants by sending the online survey to their clients/patients, and by providing paper copies on location.



HARC also recruited participants via social media, including a Facebook ad campaign and many Twitter posts.



# Participants

These sampling techniques resulted in 689 participants for the community survey and 93 for the provider survey. Those who were ineligible were removed. This resulted in 533 valid participants for the community survey and 44 participants for the provider survey.

385

*cancer  
patients/survivors*



148

*caregivers*



44

*healthcare  
providers*

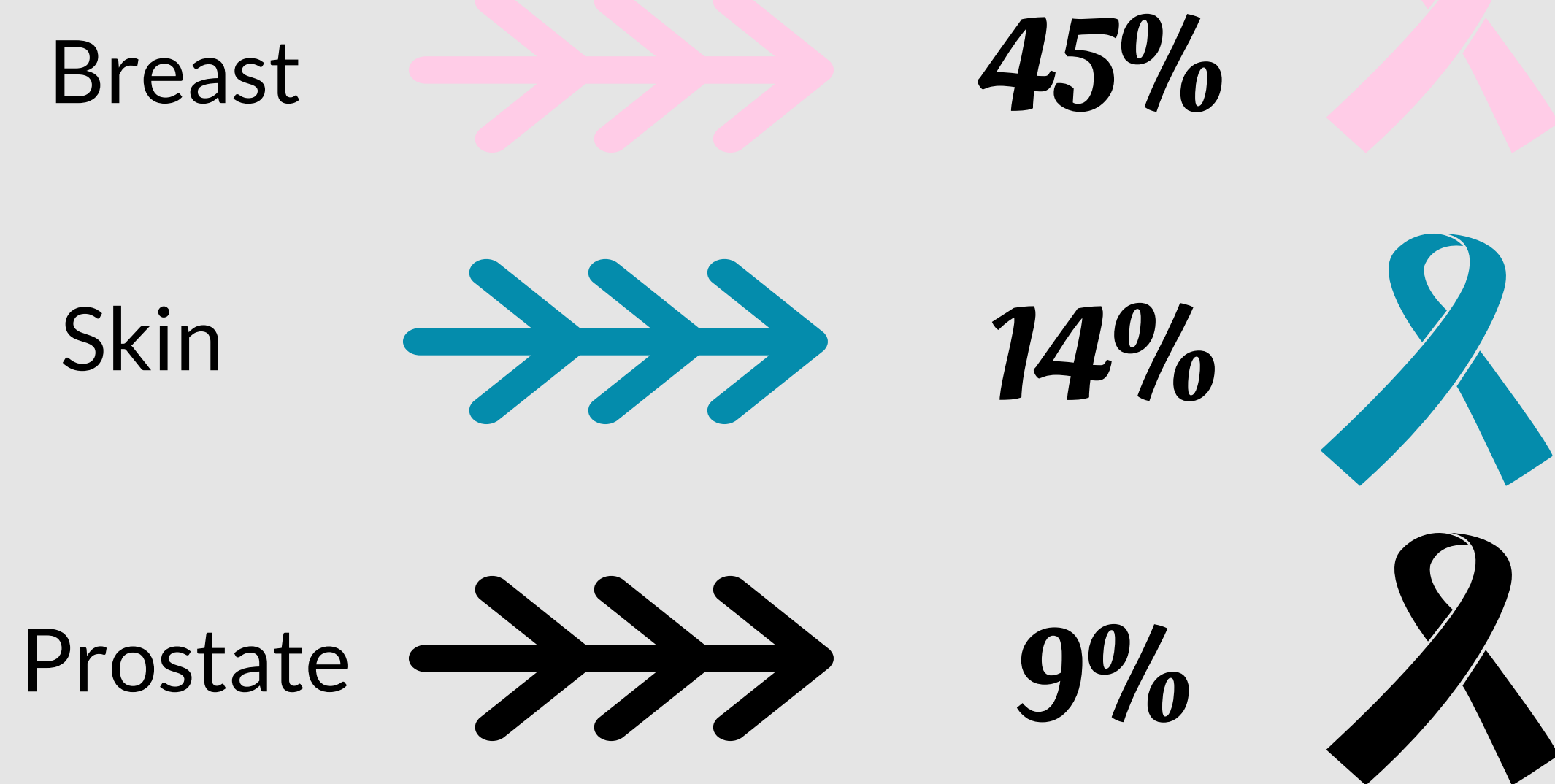




# Results

## Cancer Patients/Survivors

The most common cancer diagnoses were...



A quarter of patients/survivors were misdiagnosed at first

**25%**



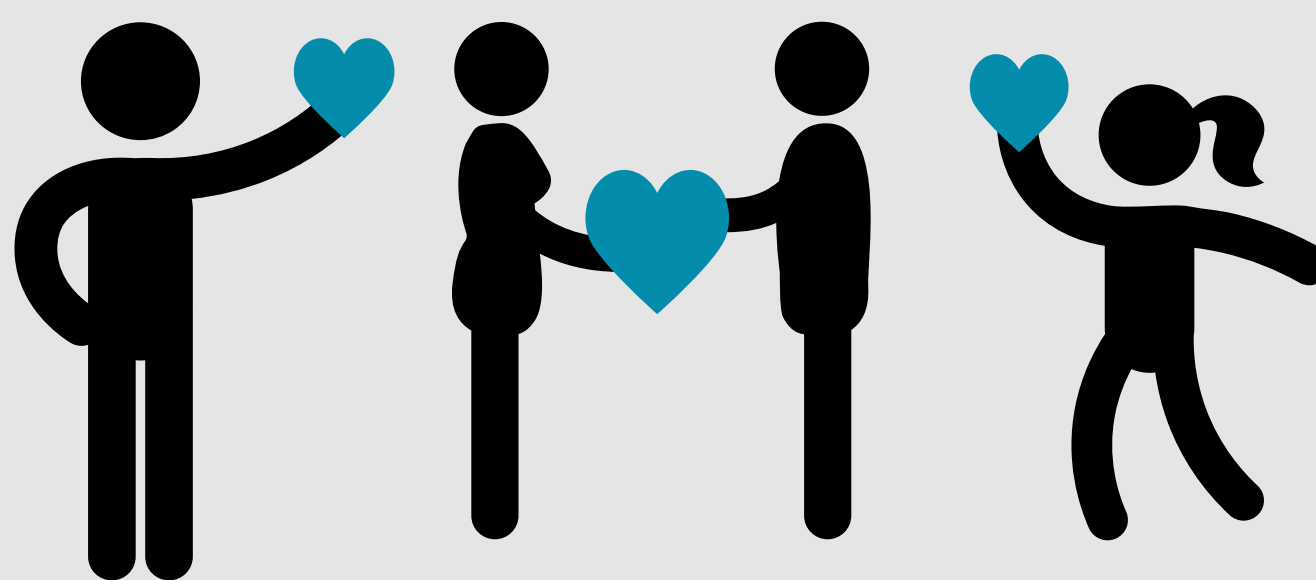
Over a third of patients/survivors delayed seeking care

**36%**



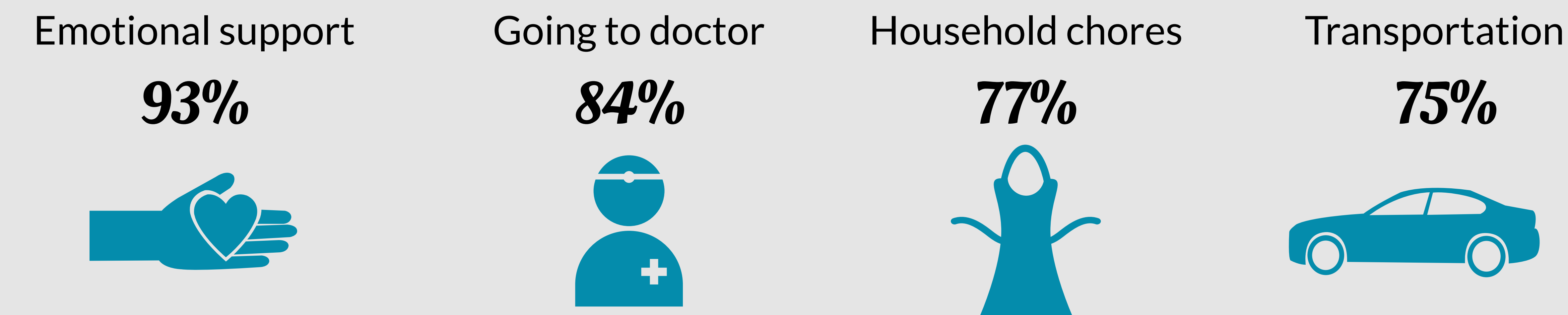
## Caregivers

Most participating caregivers were either the only caregiver for the patient (24%) or the main caregiver (35%).



Most caregivers cared for a significant other (35%) or their parent (33%)

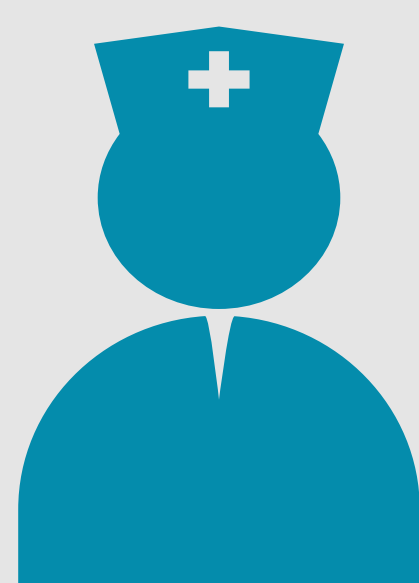
The most common type of responsibilities for caregivers included...



## Healthcare Professionals

Half of providers were nurses

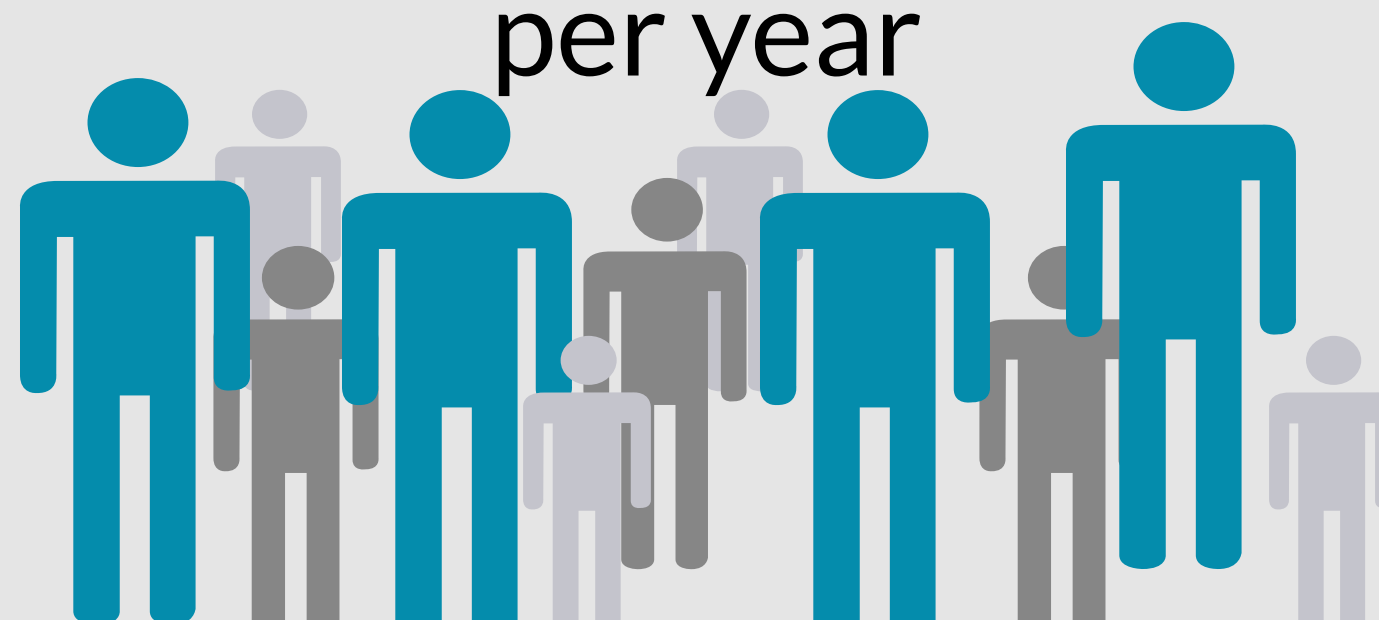
**50%**



On average, providers see

**587**

cancer patients per year



On the continuum of care, providers are engaged in...

34% screening

55% diagnosis

68% treatment

59% post-cancer care

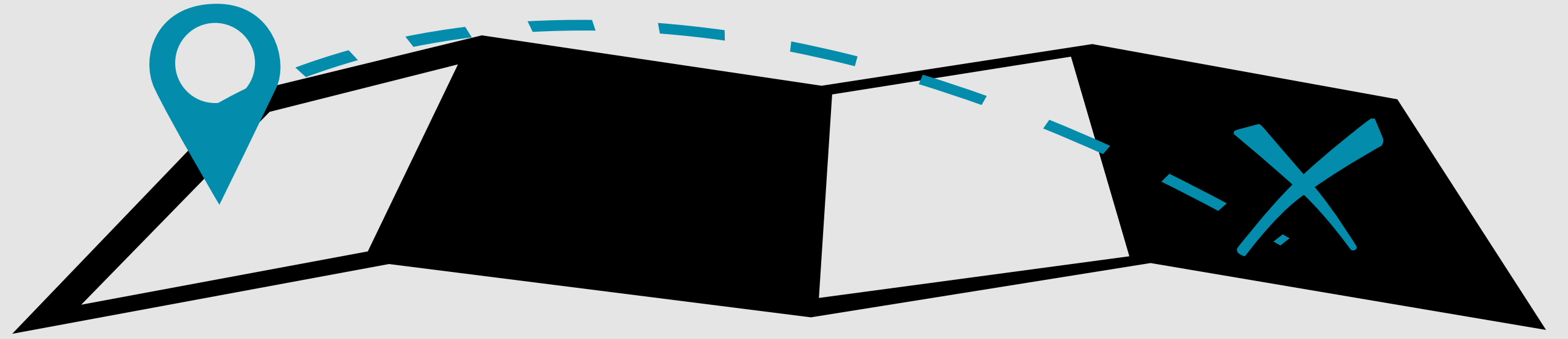


# Key Findings

About a quarter of cancer patients/survivors

**26%**

traveled 50 miles or more to get their treatment



*Both patient/survivors and caregivers believe that the most critical cancer care issues in the region are lack of accredited cancer centers and a lack of specialized care.*

Cancer patients/survivors

**42%**

**33%**

Lack of accredited cancer centers

Lack of specialized care

Caregivers

**54%**

**52%**

Lack of accredited cancer centers

Lack of specialized care

*Cancer patients/survivors w*

**1** Finding community resources

**32%**



**2** Paying for treatment

**24%**



**3** Applying for benefits

**24%**



**87%** of providers refer patients outside of the area, usually due to...

Availability of clinical trials

**69%**

Rare type of cancer

**47%**

More therapeutic options available

**47%**



# Item 4.C

BEYOND Program Update and  
Project Spotlight – Cancer Treatment  
Task Force

## Attachment 4

Task Force Next Steps

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**Problem 1: People are unaware of the existing resources**

**Solution 1: Raise awareness of local cancer resources**

- Create a local resource guide and host on ACS website
- Create a resource map and host on ACS website
- Publish an annual magazine-style comprehensive cancer guide



**Problem 2: There are not enough "prestigious" cancer care facilities in the region**

**Solution 2: Change perceptions**

- Utilize the annual magazine-style comprehensive cancer guide to feature local providers' qualifications and the high-quality care available locally
- Hospitals pursue accreditation by the Commission on Cancer



**Problem 3: There are not enough healthcare providers**

**Solution 3: Attract new providers**

- Ensure local pay and benefits are competitive with competing regions
- Join Riverside County Medical Association (RCMA) and attend socials
- Hospitals pursue creating residency programs to "grow our own"
- Create an ad campaign (featuring billboards and/or short videos) to attract providers to the region by emphasizing high quality of life



**Problem 4: Low-income patients require financial assistance**

**Solution 4: Create a funding program**

- Design a treatment assistance program (TAP) to provide financial assistance for low-income cancer patients
- Fundraise the \$50,000 needed to launch the program
- Hire and train new staff, administer the program, and refer clients
- Serve on TAP Advisory Board and solicit funds to support TAP



**Problem 5: There are environmental factors that increase the risk of cancer**

**Solution 5: Reduce environmental risks**

- Be an active member of Riverside County's Healthy Cities Network
- Adopt a Health Element in General Plan; adopt a H.E.A.L. Resolution
- Encourage active transportation
- Create a skin cancer awareness campaign

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# Western Riverside Council of Governments Administration & Finance Committee

## Staff Report

**Subject:** Agency Office Move Update

**Contact:** Ernie Reyna, Chief Financial Officer, [ereyna@wrcog.us](mailto:ereyna@wrcog.us), (951) 405-6740

**Date:** February 14, 2018

*The purpose of this item is to provide the Committee with an update on costs associated with the Agency office move into the Citrus Tower building located at 3390 University Avenue.*

### **Requested Action:**

1. Receive and file.

*On December 18, 2017, WRCOG took occupancy of its new offices located at 3390 University Avenue, Riverside. The new offices provided much needed space, which included gaining 7,146 total square feet from the prior location. In addition, WRCOG gained approximately 1,300 square feet of conference space, three additional offices, and over \$1 million in included tenant improvements.*

### **Office Move Financial Summary**

The Fiscal Year 2017/2018 Agency Budget included an approved, budgeted line item for the office move of \$315,000. This amount incorporated categories such as furniture, network, and various infrastructure line items needed for the move.

As of this writing, WRCOG has expensed the following amount related to the Agency move:

|                                   |                  |
|-----------------------------------|------------------|
| Furniture, Fixture, and Equipment | \$179,493        |
| Digital                           | 27,568           |
| Network / Server                  | 20,225           |
| Office Security                   | 1,616            |
| Low Voltage                       | 36,589           |
| <b>Total</b>                      | <b>\$265,490</b> |

**Budgeted** **\$315,000**

**Under / <Over>** **\$49,510**

Description of Line Items: Furniture items included tables and chairs for the conference rooms, as well as desks and storage for each office and workstation. Digital items included monitors for the conference rooms and offices, and a new internet-based telephone operation system. Network/Server items are the costs associated with having WRCOG's IT consultant establish new servers and racks, as well as the necessary IT infrastructure needed to conduct day-to-day business. Office security included key cards to enter WRCOG's suite and access to the bathrooms. Finally, not included in the tenant improvements was the low voltage electricity, which tenants are typically responsible for installing. This included running drop lines for each electrical port throughout the office suite for internet access and electricity.

Currently, expenditures are \$49,510 less than budgeted, with a few invoices remaining to be paid. When all expenses are finalized, WRCOG expects to remain under budget.

**Prior Action:**

None.

**Fiscal Impact:**

The Agency's Fiscal Year 2017/2018 Budget included \$315,000 for the office move, of which, \$265,490 has been expended, leaving \$49,510 remaining.

**Attachment:**

None.





# Western Riverside Council of Governments Administration & Finance Committee

## Staff Report

**Subject:** Experience Regional Innovation Center Feasibility Analysis Update

**Contact:** Andrea Howard, Senior Analyst, [ahoward@wrcog.us](mailto:ahoward@wrcog.us), (951) 405-6751

**Date:** February 14, 2018

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*The purpose of this item is to provide an update on the Feasibility Analysis of a potential innovation center, Experience, which would provide a host of community resources, promote sustainable practices and showcase the assets and capabilities of the subregion.*

### **Requested Action:**

1. Receive and file.
- 

### **Background**

Western Riverside County is one of the fastest growing subregions in the State of California and the United States. During past WRCOG visioning efforts, subregional leaders identified six interrelated components critically important to achieving a premier quality of life in Western Riverside County and incorporated these into the WRCOG Economic Development & Sustainability Framework (the Framework), which serves as a guide to grow strategically and achieve a vibrant and livable community. The six Framework goal areas pertain to: 1) Economic Development, 2) Water and Wastewater, 3) Education, 4) Health, 5) Transportation, and 6) Energy and the Environment.

In 2016, staff introduced the concept of Experience, envisioned as a vibrant regional center with a variety of visitor attractions that could also serve as a sustainability demonstration center, innovation hub, business incubator, and more. The aim of Experience is to showcase the assets and capabilities of inland southern California while serving community needs and advancing the Framework goal areas. Experience would be designed to draw audiences for a variety of purposes by including such elements as an education center, community farm, water efficient garden, walking loop, amphitheater, farm-to-fork café, and other public assets. Once at Experience, visitors would be exposed to best practices in water and energy, emerging technology, employment prospects, and more. Experience would borrow inspiration from similar concepts from across the globe including, but not limited to:

- Los Angeles Cleantech Incubator (LACI) – Los Angeles, CA
- The Frontier Project – Rancho Cucamonga, CA
- Southern California Edison Energy Education Center – Irwindale, CA
- Alegria Farms – Irvine, CA

### **Feasibility Analysis**

On October 2, 2017, the Executive Committee authorized staff to enter into a contract not to exceed \$249,823 with PlaceWorks consultants to perform a comprehensive Feasibility Analysis of the Experience concept. The Analysis will include thorough research of relevant models, a demand analysis for the center and program

elements, analysis of up-to four potential sites, analysis of governance options and partnership opportunities, financial analysis, and final feasibility analysis and recommendation(s). Additionally, the Analysis would review potential funding partners and mechanisms to ensure a viable implementation plan for Experience, should it be feasible.

Staff and consultants held an Analysis kick-off meeting on October 16, 2017, to discuss the goals and vision, and potential sites to include in the Analysis, and the formation of an advisory Steering Committee. The Steering Committee is scheduled to convene six times during the course of the Analysis to weigh in on the process and findings through July 2018, when the Analysis is scheduled to conclude. The Steering Committee is composed of members from the Executive Committee, who volunteered to serve in this role, in response to an email solicitation to all members. Additionally, staff invited a variety of stakeholders, including member agency staff, utilities representatives, and university representatives, to participate on the Steering Committee.

### **Steering Committee Meeting #1**

On Monday, January 22, 2018, the Steering Committee convened its first meeting. The meeting began with an introduction to the Experience concept and review of some of the relevant models for an idea of the variety of programming features others have instituted in the areas of education, community services, research, and economic development. Attendees then engaged in a discussion of the goals for Experience, building from the list staff and consultants drafted at the kick-off meeting. Meeting notes are included as Attachment 1 to this report.

**Steering Committee Meeting Schedule:** The Steering Committee will convene next on February 26 for a question and answer session with staff from some of the relevant model sites: the Lyle Center, The Frontier Project, and Los Angeles Cleantech Incubator. Following the meeting, there will be an optional tour of the Frontier Project in Rancho Cucamonga. The list below summarizes the topics and provides dates for each of the remaining Steering Committee meetings.

|                    |                                                                                                                  |
|--------------------|------------------------------------------------------------------------------------------------------------------|
| February 26, 2018: | Meeting #2, Q&A with other Facilities: Lyle Center, Frontier Project, and Los Angeles Cleantech Incubator (LACI) |
| March 19, 2018:    | Meeting #3, Selection of Program Elements for Analysis                                                           |
| May 21, 2018:      | Meeting #4, Site assessment and demand analysis                                                                  |
| June 18, 2018:     | Meeting #5, Alternative governance, operations, and partnerships                                                 |
| July 23, 2018:     | Meeting #6, Final recommendations                                                                                |

Staff will provide regular updates to WRCOG Committees for the duration of the Analysis.

### **Prior Actions:**

**October 2, 2017:** The Executive Committee authorized and directed the Executive Director to enter into a contract agreement with PlaceWorks to perform the Experience Feasibility Study in an amount not to exceed \$249,823.

**September 13, 2017:** The Administration & Finance Committee recommended that the Executive Committee authorize and direct the Executive Director to enter into a contract agreement with PlaceWorks to perform the Experience Feasibility Study in an amount not to exceed \$249,823.

### **Fiscal Impact:**

This item is informational only; therefore, there is no fiscal impact.

### **Attachment:**

1. Steering Committee Meeting #1 notes.

# Item 4.E

Experience Regional Innovation  
Center Feasibility Analysis Update

## Attachment 1

Steering Committee Meeting #1  
notes

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# Feasibility Study for EXPERIENCE - A Regional Innovation Center

Steering Committee Meeting #1 Summary  
January 22, 2018 | 11:00 AM - 1:00 PM

**Project Contact:** Andrea Howard, Senior Analyst, [ahoward@wrcog.us](mailto:ahoward@wrcog.us), (951) 405-6751

## **Steering Committee:**

Executive Committee Members: Debbie Franklin, City of Banning; Adam Rush, City of Eastvale; Laura Roughton, City of Jurupa Valley; Kelly Seyarto, City of Murrieta; Rusty Bailey, City of Riverside; Kevin Bash, City of Norco; Dr. White, Riverside County Superintendent of Schools

**Member Agency Staff:** Grace Williams, City of Perris; Lea Deesing, City of Riverside; Sherry Shimoshock, City of Riverside; Matt Peters, City of Temecula; Jolene Walsh, Eastern Municipal Water District (EMWD); Danielle Coates, EMWD; Melanie EMWD

Regional Stakeholders: Joanna Chang, Southern California Edison; Jeff Lawler, Southern California Gas Company (SoCalGas); Ana Aceves, SoCalGas; Alexandra Orozco, University of California, Riverside (UCR); Nicole Davis, UCR

**Staff and Consultants:** Rick Bishop, WRCOG; Jennifer Ward, WRCOG; Tyler Masters, WRCOG; Andrea Howard, WRCOG; Cynthia Mejia, WRCOG; Amber Bolden, WRCOG; Huyen Bui, WRCOG; Alexa Washburn, National CORE; Karen Gulley, PlaceWorks; Scott Ashlock, PlaceWorks; Eric Carbonnier, HMC Architects

## **Experience - Origin and Current Ideas:**

In 2010, WRCOG adopted the Sustainability Framework, which recognized six interrelated goal areas for achieving a high quality of life and regional economic growth: transportation, water and waste water, energy and environment, economic development, health, and education. The concept of Experience is a physical manifestation of the Framework that would contain various elements that advance the Framework Goals.

To achieve this goal, WRCOG envisions that Experience would draw audiences for a variety of purposes by including such elements as an education center, community farm, water efficient garden, walking loop, amphitheater, farm-to-fork café, and other public assets. Once at Experience, visitors would be exposed to best practices in water and energy, emerging technology, employment prospects, and more.



### **Purpose of this Study - Future Path for EXPERIENCE:**

On October 2, 2017, WRCOG's Executive Committee approved a contract with PlaceWorks consultants to perform a Feasibility Analysis (the Analysis). The Analysis will explore the viability of bringing Experience to Western Riverside County. The analysis will begin with a review of relevant models to identify the program elements that would be desired for Experience. PlaceWorks will perform an opportunity and constraints analysis of the potential host sites and develop a demand analysis for the center and develop a set of options for the potential governance structure. Finally, the analysis components will be assessed together to determine overall feasibility.

### **Role of the Steering Committee:**

The Steering Committee will provide valuable insights and feedback at each step of the Analysis. The meetings have been strategically scheduled to coincide with major milestones, and participants will be encouraged to provide valuable information to shape the direction and conclusion of the Analysis.

### **Timeline:**

The Analysis will span ten months, beginning in October 2017 and concluding in July 2018. The full timeline is listed in the Meeting 1 Presentation slides.

### **Background on Other Relevant Models:**

PlaceWorks presented several relevant models, providing a spectrum of ideas for potential elements to include in the Experience analysis, from examples across the County. These relevant models are listed in the Table of Relevant Models. Three of the models were also featured in a short compilation video played during the meeting, which can be viewed [here](#).

### **Goal Setting by the Committee:**

Initial working goals for Experience were shared with the Committee as a starting point for discussion. Over the course of an hour, members provided a variety of ideas and desires for what EXPERIENCE could be and how it could function. Below are the Initial Working Goals with comments incorporated, followed by a summary of the additional goals born from the discussion.

### **Initial Working Goals: EXPERIENCE should...**

1. Benefit all WRCOG organizations and the communities served
2. Be tied to WRCOG's mission
3. Support WRCOG's Economic Development and Sustainability Framework
4. Not resemble a monument, but a place that engages, educates and motivates people
5. Be relevant to what's important to the region – a sustained public benefit
6. Be financially feasible from construction to operations and maintenance overtime
7. Have a high-level of performance for program elements and the facilities, which should be tracked and evaluated
8. Provide multiple reasons to visit through a wide variety of cohesive activities that result in returning visitors
9. Be innovative, cutting-edge, and provide a rotation of forward-thinking displays, events, and activities
10. Incorporate best practices for water and energy efficiency, sustainable building design, and business strategy
11. Empower the community to adopt techniques/take action

12. Provide visitors with a unique experience that encapsulates the region
13. Be embraced by both the public and private sector – encouraging partnerships and collaboration

**Committee Discussion: EXPERIENCE should...**

1. Provide economic development opportunities for individuals and businesses
  - Prepare people for jobs in the subregion
  - Be attractive to businesses (to locate there or partner with)
  - Be a central place to access information/resources (for companies considering moving to Riverside or for start-up companies)
2. Not be a Monument
  - It should not just showcase what WRCOG has done
  - It must be relevant over time
  - The building design should reflect the energy/resource conserving technologies and tell a story (function over form)
3. Be accessible by all modes of transportation (e.g., car, bus, train, pedestrians, cyclists) and all segments of the population (low income, rural/urban, non-English speaking, multiple ages, etc.)
4. Tell the story of Western Riverside County by showcasing the region's current assets/successes. This should also include promoting the vision for Western Riverside County through visual simulations or other techniques.
  - Showcase uniqueness of region (what it has to offer) and tap into international opportunities to showcase (sister-cities)
  - Include futuristic "look" at trends Riverside County will likely experience, how these trends may change the region, and how we can prepare
  - Incorporate museum features w/revolving exhibits – see Catalina Island
  - Include space for each jurisdiction/partner to have exhibit
  - Promote region – every nook should tell a story
  - Showcase best practices that the region wants to see happen w/ new development
  - Paint the story of sustainability in Riverside County – for new businesses
  - Have a way to bring in new partners
  - Share success stories – WRCOG and others, showcase start-ups
  - Riverside County is a series of PLACES – tie them together with the EXPERIENCE concept
5. Compliment UC Riverside and Cal Poly Pomona sustainability and regenerative studies research (agricultural living labs, solar/micro grids)
6. Be accessible to everyone in the community – be affordable and open to the public
7. Accommodate large and small audiences
8. Provide interactive educational opportunities for all ages
  - Tactile
  - Education for children
  - SoCalGas – see demo in Downey: education on kitchen technology
  - "Inspiration center" – youth (tech playground), improve on Discovery Science Center model
  - Experience Water, Experience Health, Experience Education, etc. – based on Framework plan, could be located throughout

- See Discovery Cube – Sylmar
- 9. Serve as a centralized resource and information center for the region
  - Central place for accessing information – utility rebates, info on WRCOG partners, non-profit groups, community health, start-up companies, resource center
  - Include liaison services – permitting, accounting, legal

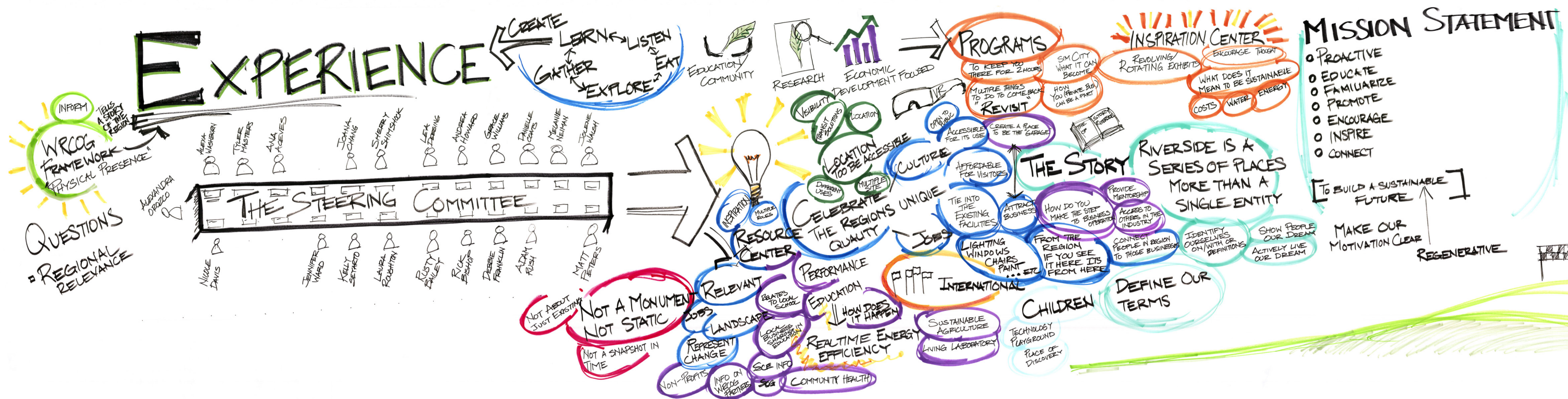
**Committee Input on the Mission for EXPERIENCE:**

Following a thorough discussion of goals, attendees were introduced to four mission statements from relevant models to initiate a first discussion on establishing a mission for Experience. Below is a summary of the discussion.

1. To build a regenerative future, EXPERIENCE must:
  - Be Proactive
  - Educate
  - Familiarize
  - Promote
  - Encourage
  - Inspire
  - Connect
2. Make our motivation clear



Graphic Meeting Recording



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# Western Riverside Council of Governments Administration & Finance Committee

## Staff Report

**Subject:** Amendments to Transportation Department On-Call Engineering Professional Services Agreements

**Contact:** Christopher Gray, Director of Transportation, [cgray@wrcog.us](mailto:cgray@wrcog.us), (951) 405-6710

**Date:** February 14, 2018

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*The purpose of this item is to request approval of Amendments to the existing Professional Services Agreements for On-Call Engineering Services with Kimley Horn and WG Zimmerman Engineering.*

### **Requested Actions:**

1. Approve the First Amendment to the Professional Services Agreement between the Western Riverside Council of Governments and Kimley Horn to provide WRCOG technical support and advisory services in an amount not to exceed \$33,541 for this Amendment and \$133,541 in total.
2. Approve the First Amendment to the Professional Services Agreement between the Western Riverside Council of Governments and WG Zimmerman Engineering to provide TUMF Program technical support in an amount not to exceed \$50,000 for this Amendment and \$150,000 in total.

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WRCOG's Transportation Department is comprised of the Transportation Uniform Mitigation Fee (TUMF) Program, the Active Transportation Plan, and the Western Riverside County Clean Cities Coalition. The TUMF Program is a regional fee program designed to provide transportation and transit infrastructure that mitigates the impact of new growth in Western Riverside County. As administrator of the TUMF Program, WRCOG allocates TUMF to the Riverside County Transportation Commission (RCTC), groupings of jurisdictions – referred to as TUMF Zones – based on the amounts of fees collected in these groups, and the Riverside Transit Agency (RTA). WRCOG Transportation staff efforts are supported by a variety of consultants who provide both planning and engineering services. As such, WRCOG recently undertook an effort to identify additional engineering consultants to support the departments various activities over the next few years.

### **On-Call Engineering Professional Services – Amendment to the Agreement with Kimley Horn**

WRCOG entered into an Agreement for On-Call Professional Services with Kimley Horn in October 2016. This Agreement incorporated an "Other Duties as Assigned" task, which included assistance with technical support for the TUMF Program. Since December 2017, WRCOG and Kimley Horn have been working with the City of Wildomar in the development of an Implementation Plan for the Bundy Canyon Road widening project. Key aspects of this task include reviewing the cost elements of the project to quantify the funding shortfalls and ultimately assist the City with the delivery of the project. Kimley Horn has identified potential cost saving measures for the project, which are currently under review by the City. This effort will ultimately provide the City with a Plan to deliver the project within the timing and funding constraints.

As WRCOG provides further assistance to the City of Wildomar, WRCOG seeks to amend the Professional Services Agreement so that Kimley Horn can continue with the task to finalize the Implementation Plan in a timely manner.

## **On-Call Engineering Professional Services – Amendment to the Agreement with WG Zimmerman Engineering**

WRCOG entered into an Agreement for On-Call Professional Services with WG Zimmerman Engineering in October 2016. This Agreement incorporated a “TUMF Invoice Review” task, which included reviewing invoices submitted by member agencies for TUMF reimbursement and project funding reconciliations. WG Zimmerman Engineering continued to assist WRCOG with reviewing invoices submitted for TUMF reimbursement as well as reviewing project funding sources at the request of member agencies. WG Zimmerman Engineering assisted WRCOG with project reconciliations for the Cities of Moreno Valley and Murrieta. As part of this Agreement, WG Zimmerman Engineering also provided assistance with a potential Alternative Compliance Program (Water Quality Framework).

As WRCOG provides further assistance through the timely review of TUMF invoices, WRCOG seeks to amend the Professional Services Agreement with WG Zimmerman Engineering.

The Agreement Amendments for both Kimley Horn and WG Zimmerman extend through the end of Fiscal Year (FY) 2017/2018. WRCOG anticipates releasing a Request for Proposals in the coming months for on-call engineering services for FY 2018/2019 through FY 2020/2021.

### **Prior Action:**

None.

### **Fiscal Impact:**

Transportation Department activities are included in the Agency's adopted Fiscal Year 2017/2018 Budget under the Transportation Department.

### **Attachments:**

1. First Amendment to the Professional Services Agreement between the Western Riverside Council of Governments and Kimley Horn.
2. First Amendment to the Professional Services Agreement between the Western Riverside Council of Governments and WG Zimmerman Engineering.

# Item 4.F

Amendments to Transportation  
Department On-Call Engineering  
Professional Services Agreements

## Attachment 1

First Amendment to the Professional  
Services Agreement between the  
Western Riverside Council of  
Governments and Kimley Horn

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**FIRST AMENDMENT TO  
PROFESSIONAL SERVICES AGREEMENT  
BETWEEN  
WESTERN RIVERSIDE COUNCIL OF GOVERNMENTS  
AND  
KIMLEY-HORN and ASSOCIATES, INC.**

**1. PARTIES AND DATE.**

This First Amendment is made and entered into this \_\_\_\_ day of March, 2018, by and between the Western Riverside Council of Governments, a public agency with its principal place of business at Citrus Tower, 3390 University Avenue, Suite 450, Riverside, California 92501-3679 ("WRCOG") and Kimley-Horn and Associates, Inc., a North Carolina corporation ("Consultant"). WRCOG and Consultant are sometimes individually referred to as "Party" and collectively as "Parties."

**2. RECITALS.**

**2.1 Master Agreement.**

WRCOG and Consultant have entered into that certain Professional Services Agreement dated October 3, 2016 ("Master Agreement").

**2.2 First Amendment.**

WRCOG and Consultant desire to enter into this First Amendment for the purpose of providing additional compensation for an implementation plan for a project in the City of Wildomar ("Services").

**3. TERMS.**

**3.1 Additional Compensation.**

The maximum compensation for Services performed under this First Amendment shall not exceed Thirty Three Thousand, Five Hundred Forty One Dollars (\$33,541) without written approval of WRCOG's Executive Director. Work shall be performed in manner that is consistent with the Scope of Services and Compensation set forth in Exhibits "A" and "B", respectively, to the Master Agreement.

The total not-exceed-value of the Master Agreement, and this First Amendment shall be increased from One Hundred Thousand Dollars (\$100,000) to One Hundred Thirty Three Thousand, Five Hundred Forty-One Dollars (\$133,541).

**3.2 Continuation of Existing Provisions.**

Except as amended by this First Amendment, all provisions of the Master Agreement, including without limitation the indemnity and insurance provisions, shall remain in full force and effect and shall govern the actions of the Parties under this First Amendment.

### **3.3 Counterparts.**

This First Amendment may be executed in duplicate originals, each of which is deemed to be an original, but when taken together shall constitute one instrument.

**[Signatures on the following page]**



**SIGNATURE PAGE TO**  
**FIRST AMENDMENT TO**  
**PROFESSIONAL SERVICES AGREEMENT**  
**BETWEEN**  
**WESTERN RIVERSIDE COUNCIL OF GOVERNMENTS**  
**AND**  
**KIMLEY-HORN AND ASSOCIATES, INC.**

IN WITNESS WHEREOF, the Parties hereto have made and executed this First Amendment as of the date first written above.

**WRCOG**

WESTERN RIVERSIDE COUNCIL  
OF GOVERNMENTS

By: \_\_\_\_\_  
Rick Bishop  
Executive Director

**CONSULTANT**

KIMLEY-HORN AND ASSOCIATES, INC.,  
a North Carolina corporation

By: \_\_\_\_\_  
Darren Adrian  
Vice President

Approved to Form:

By: \_\_\_\_\_  
Steven C. DeBaun  
General Counsel

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# Item 4.F

Amendments to Transportation  
Department On-Call Engineering  
Professional Services Agreements

## Attachment 2

First Amendment to the Professional  
Services Agreement between the  
Western Riverside Council of  
Governments and WG Zimmerman  
Engineering

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**FIRST AMENDMENT TO  
PROFESSIONAL SERVICES AGREEMENT  
BETWEEN  
WESTERN RIVERSIDE COUNCIL OF GOVERNMENTS  
AND  
WG ZIMMERMAN ENGINEERING, INC.**

**1. PARTIES AND DATE.**

This First Amendment is made and entered into this \_\_\_\_ day of March, 2018, by and between the Western Riverside Council of Governments, a public agency with its principal place of business at Citrus Tower, 3390 University Avenue, Suite 450, Riverside, California 92501-3679 ("WRCOG") and WG Zimmerman Engineering, Inc. a California corporation ("Consultant"). WRCOG and Consultant are sometimes individually referred to as "Party" and collectively as "Parties."

**2. RECITALS.**

**2.1 Master Agreement.**

WRCOG and Consultant have entered into that certain Professional Services Agreement dated October 3, 2016 ("Master Agreement").

**2.2 First Amendment.**

WRCOG and Consultant desire to enter into this First Amendment for the purpose of providing additional compensation for project reconciliations for the cities of Moreno Valley and Murrieta ("Services").

**3. TERMS.**

**3.1 Additional Compensation.**

The maximum compensation for Services performed under this First Amendment shall not exceed Fifty Thousand Dollars (\$50,000) without written approval of WRCOG's Executive Director. Work shall be performed in a manner that is consistent with the Scope of Services and Compensation set forth in Exhibits "A" and "B", respectively, to the Master Agreement.

The total not-to-exceed value of the Master Agreement, and this First Amendment shall be increased from One Hundred Thousand Dollars (\$100,000) to One Hundred Fifty Thousand Dollars (\$150,000).

**3.4 Continuation of Existing Provisions.**

Except as amended by this First Amendment, all provisions of the Master Agreement, including without limitation the indemnity and insurance provisions, shall remain in full force and effect and shall govern the actions of the Parties under this First Amendment.

**3.5 Counterparts.**

This First Amendment may be executed in duplicate originals, each of which is deemed to be an original, but when taken together shall constitute one instrument.

**[Signatures on the following page]**

**SIGNATURE PAGE TO**  
**FIRST AMENDMENT TO**  
**PROFESSIONAL SERVICES AGREEMENT**  
**BETWEEN**  
**WESTERN RIVERSIDE COUNCIL OF GOVERNMENTS**  
**AND**  
**WG ZIMMERMAN ENGINEERING, INC.**

IN WITNESS WHEREOF, the Parties hereto have made and executed this First Amendment as of the date first written above.

**WRCOG**

WESTERN RIVERSIDE COUNCIL  
OF GOVERNMENTS

By: \_\_\_\_\_  
Rick Bishop  
Executive Director

**CONSULTANT**

WG ZIMMERMAN ENGINEERING, INC.,  
a California corporation

By: \_\_\_\_\_  
William Zimmerman  
President

Approved to Form:

By: \_\_\_\_\_  
Steven C. DeBaun  
General Counsel

## **EXHIBIT "A"**

### **GENERAL SCOPE OF SERVICES**

#### **On-Call and As-Needed Engineering Services**

Such engineering services may include, but are not limited to, the following work activities:

##### **Task 1-Review of One Simple TUMF Invoice**

The Consultant will be asked to review TUMF project invoices submitted by member jurisdictions for reimbursement. The invoice should contain all necessary support documentation and the Consultant shall review each invoice to ensure that the work invoiced against is for the identified project. As part of the review of invoices and support documentation, the Consultant will prepare a memo to WRCOG staff authorizing payment for eligible expenses under the Program. Exhibit A provides a sample of a typical invoice submitted to WRCOG for review.

##### **Task 2-Review of One Complex TUMF Invoice**

On occasions, member jurisdictions submit invoices and do not receive full reimbursement due to issues that arise during the review process. Issues that typically occur include, but are not limited to the following: expenses for work ineligible under the Program, expenses for work outside the scope of the project, local match contribution rate is not applied, amount invoice exceeds amount programmed on the Zone Transportation Improvement Program. With situations in which invoice issues are found, a meeting between WRCOG, the Consultant, and member jurisdiction staff is convened to discuss the issues pertaining to the invoice. Exhibit B provides a sample of an invoice that contains some of the issues previously described.

##### **Task 3- Preparation of TUMF Reimbursement Manual**

WRCOG currently administers the TUMF Program using a variety of documents including the Administrative Plan, the Nexus Study, and individual ordinances adopted by member jurisdictions. WRCOG has also developed an internal document related to preparation and review of TUMF invoices. The purpose of this Task is to develop an updated and comprehensive document that member agencies, consultants, and other parties can use to facilitate the reimbursement process.

Key elements of this document should include but not be limited to the following:

- A sample invoice packet
- A listing of expense items which are eligible for reimbursement
- A listing of expense items which are not eligible for reimbursement
- A policy regarding project change orders and how WRCOG Staff will review change orders for reimbursement purposes

As part of developing this manual, the Consultant will be asked to review documents from other agencies who administer reimbursement programs of comparable size and scale. Additionally, the Consultant will be asked to make at least two presentations to the WRCOG Public Works Committee (PWC) to obtain input and present the draft document for review.

A key element of this effort is also working with local agencies to obtain their feedback on the



TUMF reimbursement process. Consultants will be asked to meet with at least five (5) of WRCOG's member jurisdictions to discuss any questions or concerns about this process.

#### Task 4- Review of Active Transportation Plan Cost Estimates

The Consultant will be asked to perform a peer review of any cost estimates prepared for the Regional Active Transportation Plan (ATP) that WRCOG is currently updating. As part of the Regional ATP, WRCOG's Consultant Team will be identifying key regional corridors to provide additional bicycle and pedestrian connectivity between member agencies. The Consultant will be asked to provide input on the unit costs and the total project costs for each identified corridor.

#### Task 5- Meeting Attendance

WRCOG anticipates that Consultants could be asked to attend meetings on WRCOG's behalf related to a variety of issues involving the Transportation Department. For purposes of cost estimating, please assume that each meeting requires one hour traveling to the meeting site, 4 hours of meeting attendance, and one hour to prepare a summary of each meeting.

#### Task 6- Other Duties as Assigned

WRCOG anticipates that Consultants could be asked to perform other duties as they related to the Transportation Department. Such duties can include but are not limited to the review/reconciliation of TUMF Improvement and Credit Agreements, reviewing bid packets to advise WRCOG whether specific items are eligible expenses under the TUMF Program, and assistance with the Water Quality Framework – Alternative Compliance Program.

**EXHIBIT "B"**  
**COMPENSATION**

| <b>Classification</b>                                                                                 | <b>Rate</b>  |
|-------------------------------------------------------------------------------------------------------|--------------|
| Principal                                                                                             | \$ 215.00/Hr |
| Registered Traffic Engineer                                                                           | \$ 215.00/Hr |
| Senior Project Manager (Registered)                                                                   | \$ 210.00/Hr |
| Project Manager (Registered)                                                                          | \$ 190.00/Hr |
| Senior Project Engineer (Registered)                                                                  | \$ 180.00/Hr |
| Project Engineer                                                                                      | \$ 145.00/Hr |
| Senior Associate Engineer                                                                             | \$ 125.00/Hr |
| Associate Engineer                                                                                    | \$ 115.00/Hr |
| CAD Manager/Senior Designer                                                                           | \$ 102.00/Hr |
| Microstation CAD/Technician                                                                           | \$ 110.00/Hr |
| AutoCAD/Technician                                                                                    | \$ 95.00/Hr  |
| Administration/Office Support                                                                         | \$ 75.00/Hr  |
| Non-Labor Expenses                                                                                    |              |
| Mileage (local) Federal Rate¢ per Mile                                                                |              |
| Printing Cost plus 5%                                                                                 |              |
| Reproduction (Blue lines) Cost plus 5%                                                                |              |
| Other Expenses (such as sub-consultants, outside services<br>or special equipment needs) Cost plus 5% |              |



# Western Riverside Council of Governments Administration & Finance Committee

## Staff Report

**Subject:** 27th Annual General Assembly & Leadership Address

**Contact:** Jennifer Ward, Director of Government Relations, [jward@wrcog.us](mailto:jward@wrcog.us), (951) 405-6750

**Date:** February 14, 2018

*The purpose of this item is to begin discussions with the Committee regarding planning for the 27th Annual General Assembly & Leadership Address.*

### **Requested Action:**

1. Discuss and provide direction.

WRCOG's 27th Annual General Assembly & Leadership Address is currently scheduled for Thursday, June 21, 2018, at the Morongo Casino, Resort & Spa.

Staff will provide a verbal update and conduct a discussion with Committee members regarding planning for the event, including potential keynote speaker options.

### **Prior Action:**

January 10, 2018: The Administration & Finance Committee discussed and narrowed down the list of potential speakers.

### **Fiscal Impact:**

This item is informational only; therefore there is no fiscal impact.

### **Attachment:**

None.

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# Western Riverside Council of Governments Administration & Finance Committee

## Staff Report

**Subject:** PACE Programs Activities Update and Proposed Fee Adjustments

**Contact:** Casey Dailey, Director of Energy & Environmental Programs, [cdailey@wrcoq.us](mailto:cdailey@wrcoq.us), (951) 405-6720

**Date:** February 14, 2018

---

*The purpose of this item is to discuss and receive direction from the Committee on proposed WRCOG PACE origination fees adjustments via an updated Master Bond Purchase Agreement and the amendment to the Professional Service Agreement with David Taussig & Associates.*

### **Requested Actions:**

1. Recommend that the Executive Committee approve the 1st Amendment to Master Bond Purchase Agreement between WRCOG and Renovate America.
2. Recommend that the Executive Committee approve the 2nd Amendment to the Professional Services Agreement between WRCOG and David Taussig & Associates.
3. Direct the WRCOG Executive Director to seek a legislative exemption from SB 2 on imposed fees for PACE real estate transactions.

---

*WRCOG's PACE Programs provide financing to property owners to implement energy saving, renewable energy, and water conserving improvements to their homes and businesses. Improvements must be permanently fixed to the property and must meet certain criteria to be eligible for financing. Financing is paid back through a lien placed on the property tax bill. The HERO Program was initiated in December 2011 and has been expanded (an effort called "California HERO") to allow for jurisdictions throughout the state to join WRCOG's Program and allow property owners in these jurisdictions to participate. WRCOG now offers CaliforniaFIRST, Greenworks, Spruce PACE, and PACE Funding as additional PACE Programs under the WRCOG PACE umbrella.*

### **Bond Reserve Fund and Master Bond Purchase Agreement**

The Master Bond Purchase Agreement (Attachment 1) between WRCOG and Renovate America establishes the parameters around the purchasing of bonds by Renovate America or its designee. Currently, the HERO Program receives revenue from a one-time assessment administrative fee on each project (similar to closing costs) of 4.99%. The one-time administrative fee supports Program administration and is split amongst the HERO Team, which includes Best Best & Krieger (BB&K), David Taussig & Associates (DTA), Public Financial Management (PFM) Renovate America, WRCOG, and the reserve for bond holders. This fee is what is utilized by WRCOG to staff the Programs, with any remaining net revenues allocated by the Executive Committee to Agency reserves, to members for various projects, the Fellowship Program, and for other regional project development (such as the Streetlight Program and Community Choice Aggregation feasibility and implementation).

The bond reserve is held by the Deutsche Bank, the Program Trustee, and is used to cover any shortfalls to the bond holder that results from a property owner not paying their annual assessment. Due to the total volume of HERO assessments put onto the tax roll on an annual basis, it has been determined by PFM,

WRCOG's Financial Advisor, that the current bond reserve allocation (0.075%) is not adequate to cover a large amount of delinquencies, and that the bond reserves allocation needs to be increased to 0.25%. This change would increase the 4.99% one-time administrative fee to 5.17%. For comparison, other PACE Provider fees range from 4.99% to 6.4%. PFM conducts regular review of the bond reserve and, throughout the life of the Program, the bond reserve allocation has been adjusted to provide sufficient coverage for the bond holders. Previously, any changes in the bond reserve or the administrative fee was covered by Renovate America. Due to the decrease in new assessments, Renovate America is no longer in a position to absorb an increase of 0.175%. In other terms, the increase in the administrative fee equates to an increase of \$36.00 to a homeowner with an average assessment of \$20,000.

Staff is requesting the Administration & Finance Committee recommend that the Executive Committee approve the 1st Amendment to the Master Bond Purchase Agreement to increase the bond reserve allocation of the one-time administrative fee to 0.25% to ensure that the bond holders would remain whole in case of any high delinquency amounts and that WRCOG would not need to cover those potential amounts.

### **Annual Administrative Fees**

An Annual Assessment Administrative Fee of \$25 is collected with each PACE assessment payment and covers the costs for placing the assessment onto the tax roll each year by DTA, Deutsche Bank, and the various Counties. Currently, the Annual Assessment Administrative Fee is split between DTA, Deutsche Bank and the Counties. During PFM's regular review of Program costs, it has been determined that an increase of \$15 is needed as follows. \$10 is needed to cover actual costs for DTA. \$5 is proposed to be used to increase the Program Reserve in order to prepare the annual assessment levy for HERO assessments (a 25-year obligation for some assessments) in a worst-case scenario where the HERO Program dissolved. Increasing the Program Reserve by \$5 would provide sufficient funds to ensure that BB&K, DTA and the Counties would be adequately covered.

Staff is requesting the Administration & Finance Committee recommend the Executive Committee approve the 2nd amendment to DTA agreement (Attachment 2) and to add an additional \$5 to the annual Administrative Fee to fund a Program Reserve that would ensure the HERO Team has the ability to adequately service the assessments over the next 25-years. This increase would bring the total Annual Assessment Administrative Fee to \$40.

### **SB 2 Impacts**

On September 29, 2017, Senate Bill 2 (SB 2) was chaptered into law, creating a permanent source of funding for affordable housing by imposing fees of up to \$225 on certain real-estate transactions. When SB 2 was originally proposed, it was thought that PACE recordings would not be subject to the increased fees. However, as the law is currently being interpreted and applied by the County Recorder Offices, PACE assessments are subject to the fees.

When a property owner enters into an assessment with WRCOG, the property owner pays the recording costs (as outlined in their financing documents). WRCOG is currently collecting \$75 to record the Notice of Assessment and Payment of Contractual Assessment Required, which is required by the Streets and Highway Code, and is now seeing the impacts of SB 2, which has increased the recording costs by 100%. The PACE Program will be increasing the recording costs from \$75 to \$150 per transaction (i.e., recording of the original assessment, prepayments, and release of liens). Staff estimates the recording costs increase will be complete by March 1, 2018.

WRCOG staff and the HERO Team do not believe the PACE assessment should be included as a real-estate transaction, and believe there needs to be a legislative remedy that would exempt PACE assessments from the provisions of SB 2. WRCOG staff is requesting the Administration & Finance Committee recommend to the Executive Committee that WRCOG work with PACE program interests and partners to pursue legislation that would exempt PACE-related real estate transactions from the provisions of SB 2.

**Prior Action:**

February 5, 2018: The Executive Committee 1) received WRCOG PACE Program Summary; 2) conducted a Public Hearing regarding the inclusion of the City of Petaluma for purposes of considering the modification of the Program Report for the California HERO Program to increase the Program Area to include such additional jurisdictions and to hear all interested persons that may appear to support or object to, or inquire about the Program; 3) adopted WRCOG Resolution Number 46-17; A Resolution of the Executive Committee of the Western Riverside Council of Governments confirming modification of the California HERO Program Report so as to expand the Program area within which contractual assessments may be offered; 4) authorized the Executive Director to continue utilizing Baker Tilly to conduct future operational analyses / audits of its residential PACE Programs; 5) authorized the Executive Director to execute a Professional Service Contract with Baker Tilly for operational analysis / audit of Renovate America, in an amount not to exceed \$140,000 for the Fiscal Year 2016/2017.

**Fiscal Impact:**

The SB 2 and administrative fee increases are both pass-thru items to offset costs; however the one-time administrative fee increase from 4.99% to 5.17% is to increase the amount allocated to the PACE bond reserve.

**Attachments:**

1. First Amendment to the WRCOG / Renovate America Master Bond Purchase Agreement.
2. Second Amendment to Professional Services Agreement Between Western Riverside Council of Governments and David Taussig & Associates.

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# Item 5.B

PACE Programs Activities Update  
and Proposed Fee Adjustments

## Attachment 1

First Amendment to the WRCOG /  
Renovate America Master Bond  
Purchase Agreement

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# **WRCOG HERO PROGRAM AND CALIFORNIA HERO PROGRAM**

## **FIRST AMENDMENT TO MASTER BOND PURCHASE AGREEMENT**

### **1. PARTIES AND DATE**

THIS FIRST AMENDMENT TO MASTER BOND PURCHASE AGREEMENT, dated as of March 3, 2018, (the “First Amendment”), is entered into by and between the WESTERN RIVERSIDE COUNCIL OF GOVERNMENTS, a California public agency (“WRCOG”) and RENOVATE AMERICA, INC., a Delaware corporation (“Renovate America”). WRCOG and Contractor are sometimes individually referred to as "Party" and collectively as "Parties."

### **2. RECITALS.**

#### **2.1 Master BPA.**

WRCOG and Renovate America have entered into the Master Bond Purchase Agreement, dated as of February 10, 2015 (the “Master BPA”) by and between WRCOG and Renovate America. All capitalized terms used in this First Amendment and not defined herein shall have the meanings given such terms in the Master BPA.

#### **2.2 First Amendment.**

The Parties desire to enter into this First Amendment to amend (a) Section 9.1 of the Master BPA related to the expenses incidental to the performance of WRCOG’s obligations under the Master BPA and (b) Section 10(b) to update the provisions related to the delivery of notices by or to the Parties.

### **3. TERMS.**

#### **3.1 Amendment of Section 9.1 of the Master BPA.**

Section 9.1 of the Master BPA is hereby amended in its entirety to read as follows:

“9.1 The Renovate America shall be under no obligation to pay, and WRCOG shall pay or cause to be paid (out of the proceeds of each Bond or Series of Bonds or otherwise all expenses incidental to the performance of WRCOG’s obligations hereunder in the following amounts or percentages of the Improvement Costs as such term is defined in the related Master Indenture for each Assessment Contract securing each such Bond):

9.1.1 1.463% payable to WRCOG as issuer of the Bonds;

9.1.2 0.52% payable to the Assessment Administrator;

9.1.3 2.202% payable to Renovate America, in payment for the

provision by Renovate America, Inc. of its Program Administrative Services as defined in and payable pursuant to the Administration Agreement; and in payment for the purchase of the Bonds by Renovate America;

9.1.4 0.25% payable to Trustee for deposit to fund Reserve Fund;

9.1.5 fees payable to Bond Counsel pursuant to the Retainer Agreement by and between WRCOG and Best Best & Krieger LLP not to exceed 0.73% of the principal amount of such Improvement Costs; and

9.1.6 Any such other amounts that may be mutually agreed upon in writing by the Parties to be paid in accordance with such agreement.”

### **3.2 Amendment of Section 10(b) of the Master BPA.**

Section 10(b) of the Master BPA is hereby amended in its entirety to read as follows:

“(b) Delivery of Notices. All notices permitted or required under this Master BPA shall be given to the respective Parties at the following address, or at such other address as the respective parties may provide in writing for this purpose:

|                      |                                                                                                                                               |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| To Renovate America: | Renovate America, Inc.<br>15073 Avenue of Science, Suite 200<br>San Diego, CA 92128<br>Attn: Scott D. McKinlay, Executive Vice President      |
| To WRCOG:            | Western Riverside Council of Governments<br>3390 University Avenue, Suite 450<br>Riverside, CA 92501<br>Attn: Rick Bishop, Executive Director |
| With a copy to:      | Best Best & Krieger LLP<br>655 West Broadway, 15th Floor<br>San Diego, CA 92101<br>Attn: Warren Diven                                         |

Such notice shall be deemed made when (i) personally delivered (ii) when delivered by electronic mail that attaches an executed copy of the notice, provided that within 72 hours following electronic delivery the addressee receive a physical copy of such notice, or (iii) when mailed, forty-eight (48) hours after deposit in the U.S. Mail, first class postage prepaid and addressed to the Party at its applicable address. Actual notice shall be deemed adequate notice on the date actual notice occurred, regardless of the method of service.”

**3.3 Continuation of Existing Provisions.**

Except as amended by this First Amendment, all provisions of the Master BPA shall remain in full force and effect and shall govern the actions of the Parties under this First Amendment.

**3.4 Effective Date.**

This First Amendment shall become effective and binding upon the respective parties hereto on March \_\_, 2018 upon the execution of the acceptance hereof by the Parties and shall be valid and enforceable as of the time of such acceptance.

**3.5 Counterparts.**

This First Amendment may be executed in duplicate originals, each of which is deemed to be an original, but when taken together shall constitute one instrument.

[signatures on the following page]

**WRCOG HERO PROGRAM AND CALIFORNIA HERO PROGRAM**

**SIGNATURE PAGE TO FIRST AMENDMENT TO  
MASTER BOND PURCHASE AGREEMENT**

**IN WITNESS WHEREOF**, the Parties hereto have made and entered into this First Amendment effective as of the date first written above

RIVERSIDE ASSOCIATED  
GOVERNMENTS

RENOVATE AMERICA, INC.

By: \_\_\_\_\_  
Name: Rick Bishop  
Title: Executive Director

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

APPROVED AS TO FORM:

By: \_\_\_\_\_  
Best Best & Krieger LLP

# Item 5.B

PACE Programs Activities Update  
and Proposed Fee Adjustments

## Attachment 2

Second Amendment to Professional  
Services Agreement Between  
Western Riverside Council of  
Governments and David Taussig &  
Associates

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**SECOND AMENDMENT TO**  
**PROFESSIONAL SERVICES AGREEMENT**  
**BETWEEN**  
**WESTERN RIVERSIDE COUNCIL OF GOVERNMENTS**  
**AND**  
**DAVID TAUSSIG AND ASSOCIATES, INC.**

**1. PARTIES AND DATE.**

This Second Amendment is made and entered into effective as of March 1, 2016, by and between the Western Riverside Council of Governments, a California public agency ("WRCOG") and David Taussig and Associates, Inc. ("Contractor"). WRCOG and Contractor are sometimes individually referred to as "Party" and collectively as "Parties."

**2. RECITALS.**

**2.1 Master Agreement.**

WRCOG and Contractor have entered into that certain Professional Services Agreement dated August 1, 2013 ("Master Agreement"), as amended by the First Amendment thereto made and entered into effective as of March 1, 2016 (the "First Amendment"). All capitalized terms used in this Second Amendment and not defined herein shall have the meanings given such terms in the Master Agreement as amended by the First Amendment.

**2.2 Second Amendment.**

WRCOG and Contractor desire to enter into this First Amendment for the purpose of amending the compensation terms set forth in the Master Agreement.

**3. TERMS.**

**3.1 Compensation.**

Contractor shall receive compensation, including authorized reimbursements, for all Services rendered during the First Extended Term and any Additional Extended Terms at the rates set forth in Exhibit "A" attached to this Second Amendment and incorporated herein by reference.

**3.5 Continuation of Existing Provisions.**

Except as amended by this Second Amendment, all provisions of the Master Agreement including without limitation the indemnity and insurance provisions, shall remain in full force and effect and shall govern the actions of the Parties under this Second Amendment.

### **3.6 Counterparts.**

This Second Amendment may be executed in duplicate originals, each of which is deemed to be an original, but when taken together shall constitute one instrument.

[signatures on following page]

**SIGNATURE PAGE TO SECOND AMENDMENT TO  
PROFESSIONAL SERVICES AGREEMENT  
BETWEEN  
WESTERN RIVERSIDE COUNCIL OF GOVERNMENTS  
AND  
DAVID TAUSSIG AND ASSOCIATES, INC.**

**IN WITNESS WHEREOF**, the Parties hereto have made and entered into this First Amendment effective as of the date first written above.

WESTERN RIVERSIDE COUNCIL  
OF GOVERNMENTS

DAVID TAUSSIG AND ASSOCIATES,  
INC.

By: \_\_\_\_\_  
Rick Bishop  
Executive Director

By: \_\_\_\_\_  
David Taussig

APPROVED AS TO FORM:

By: \_\_\_\_\_  
General Counsel  
Best Best & Krieger LLP

## **EXHIBIT "A"**

### **FEE SCHEDULE**

#### **Phase I: Formation and Bond Sale**

DTA's total fee for Phase I of the Scope of Work is equal to 0.52% of the amount deposited in the applicable program fund for each series of bonds and is due and payable at the time of each bond closing.

#### **Phase II: Annual Administration**

DTA's total compensation (including expenses) for completion of the tasks under Phase II of the Scope of Work is shown in the table below:

| <b>Tasks</b>                                                                                                              | <b>Fee per County</b>                                        |
|---------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|
| Basic Tasks for Residential Program                                                                                       | Fixed fee of \$1,750 plus \$20.00 per parcel per Fiscal Year |
| Additional Delinquency/Foreclosure Work following the removal of the delinquent assessment installments from the tax roll | Time and materials*                                          |
| * To be paid by delinquent property owner through the foreclosure process.                                                |                                                              |

Payments will be made by WRCOG upon presentation of an invoice by DTA twice a year after annual assessments are received by the County.



# Western Riverside Council of Governments Administration & Finance Committee

## Staff Report

**Subject:** Final Report on the Fiscal Year 2015/2016 Operational Analysis of Renovate America

**Contact:** Barbara Spoonhour, Director of CCA Development, [bspoonhour@wrcog.us](mailto:bspoonhour@wrcog.us), (951) 405-6760

**Date:** February 14, 2018

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*The purpose of this item is to provide the Committee with the Final Report on the Fiscal Year 2015/2016 Operational Analysis of Renovate America.*

### **Requested Action:**

1. Receive and file.
- 

### **Background**

Undertaking an operational analysis of WRCOG's PACE providers is part of WRCOG's PACE Consumer Protections. With direction from the Executive Committee, staff commenced its first analysis of Renovate America in October 2016 to cover the Fiscal Year 2015/2016. In June 2016, staff initiated a Request for Proposals (RFP) process and in August 2016, the Executive Committee selected Baker Tilly to undertake the analysis. This was the first PACE Operational Analysis WRCOG conducted since the start of the HERO Programs in December 2011, or of any PACE provider in general.

The Final Operational Analysis report is included as Attachment 1 to this Staff Report. The Report is organized with the following sections:

1. Background and current practices
2. Observations and recommendations
3. Testing and results

### **Results**

There were a total of 114 testing requirements outlined in the Scope of Work, of which 61 were sample-based transaction testing and 53 were based on an evaluation of Renovate America's processes compared to the applicable Consumer Protection Policy. To demonstrate a thorough analysis, 5,274 individual transaction tests were performed across the 61 requirements. The results show that 99%, or 5,223 testing points met the requirements of the applicable Consumer Protection Policy.

### **Observations**

Baker Tilly made 7 observations in the transaction testing and 4 observations in the Program Process. WRCOG staff considers these to be minor in nature. It should be noted that during the reporting period, Renovate America made a number of enhancements which included additional scrutiny on contractor participation, enhanced confirmed terms calls with property owners, and ensuring the automated system

developed to approve projects is accurate. Due to the changes, many of the observations have been addressed.

These include:

1. There was an observance that there is a difference between WRCOG's Program Report Eligible Product which shows that an eligibility specification for central air conditioners that are installed must replace existing units. This is not listed on Renovate America's online version of the Eligible Product requirements. WRCOG and Renovate America are in the process of syncing the Eligible Products lists.
2. There was an observance in the difference between the financing term and useful life of one eligible product. This observation showed a turf project being financed for 15 years instead of 10 years, the term assigned in WRCOG's Program Report. WRCOG and Renovate are working to sync up the eligible products list to ensure the financing terms match and that any warranties that show a longer useful life is updated.
3. There was an observance on information not being covered during the confirmed terms calls that Renovate America had with property owners. The calls in the observance were from the early iterations of the calls taking place. The Consumer Protection Policy listed out key points of information that is currently being covered during the calls. Renovate America was the first PACE Provider to undertake confirmed terms calls, and there have been several iterations of the script from those early versions to ensure that information is being conveyed to the customer.
4. There was an observance on the Financing Documents that used the term, "paid with your property taxes." This language has been changed to "paid alongside your property taxes."
5. There was an observation on who can sign the Contractor's Terms and Conditions. The Consumer Protection Policy lists the individuals that can sign the Terms and Conditions, however, Baker Tilly observed a Terms and Condition where the signature was from a person at the Company but not in the "category" listed in the Policy. This observance is in correlation to very large contracting companies that have multiple nationwide locations. The Consumer Protection Policy has been updated to reflect this change.
6. There was an observance on who can sign in the Contractor's section of the Completion Certificate. There were instances of once the Property Owner signed that the project was complete, that an office staff for the Contractor signed in the Contractor's place. Since the Completion Certificate was signed by the homeowner, the projects were funded. The Consumer Protection Policy has been updated to reflect this change to allow for employees of the Contracting Company to sign the completion certificate for the Contractor. The Property Owner is still required to sign before funds will be released to the contractor.
7. During the examination period, there were 16 compliance cases that were not closed. However, Renovate America had changed computer systems during the reporting period and these closed cases had not transferred over. The 16 cases have been closed and the system has been updated.
8. There was an observance of where Renovate America's algorithm did not accurately calculate the maximum amount a property owner was eligible for (differences were minor, representing only a few dollars above). There **were no instances** of where a property owner was able to fund more than they qualified for.
9. There were two observances that a few Eligible Products did not have an assigned Maximum Finance Amount assigned. This observance has been addressed.
10. There was an observance that 1<sup>st</sup> and 2<sup>nd</sup> Quarterly Reports were not provided to WRCOG. Renovate America provides monthly reports to WRCOG and the Quarterly Reports were not identified as such until the middle of the review period.

## **Future Analyses**

For future operational analyses conducted by WRCOG, Baker Tilly suggests that a risk-based approach be used and that the areas tested be rotated, if there were no observations in the previous review period. A risk-based approach focuses on the inherent risk involved in the activities or system and provides assurance that risk is being managed by the management within the defined threshold. This approach, in Baker Tilly's opinion, would speed up the analysis and achieve more cost efficiencies.

## **Prior Action:**

February 5, 2018: The Executive Committee 1) received WRCOG PACE Program Summary; 2) conducted a Public Hearing regarding the inclusion of the City of Petaluma for purposes of considering the modification of the Program Report for the California HERO Program to increase the Program Area to include such additional jurisdictions and to hear all interested persons that may appear to support or object to, or inquire about the Program; 3) adopted WRCOG Resolution Number 46-17; A Resolution of the Executive Committee of the Western Riverside Council of Governments confirming modification of the California HERO Program Report so as to expand the Program area within which contractual assessments may be offered; 4) authorized the Executive Director to continue utilizing Baker Tilly to conduct future operational analyses / audits of its residential PACE Programs; 5) authorized the Executive Director to execute a Professional Service Contract with Baker Tilly for operational analysis / audit of Renovate America, in an amount not to exceed \$140,000 for the Fiscal Year 2016/2017.

## **Fiscal Impact:**

This item is informational only; therefore, there is no fiscal impact.

## **Attachment:**

1. Fiscal Year 2015/2016 Operational Analysis of Renovate America.

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# Item 5.C

Final Report on the Fiscal Year  
2015/2016 Operational Analysis of  
Renovate America

## Attachment 1

Fiscal Year 2015/2016 Operational  
Analysis of Renovate America

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# Western Riverside Council of Governments

## PACE Program Operational Analysis

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February 5, 2018



Candor. Insight. Results.

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## 0.0 – EXECUTIVE SUMMARY

### 0.1 – Background

The Western Riverside Council of Governments (“WRCOG”) engaged Baker Tilly (“Baker Tilly”, “we”) to conduct an operational analysis of Renovate America’s (“RA”) compliance with ***WRCOG’s Energy Efficiency and Water Conservation Administrative Guidelines and Program Report and the Residential Property Assessed Clean Energy (PACE) Consumer Protections Policies Version 1.0*** (herein referred to as “PCPP” or “Consumer Protection Policies”) for the period of ***July 1, 2015 through June 30, 2016***.

We would like to thank WRCOG’s personnel and management for the assistance they provided to us during this project. Their assistance was invaluable and without their help and cooperation the completion of this project would not have been possible.

### 0.2 – Operational Analysis Scope

The scope of this operational analysis was detailed in the request for proposal from WRCOG dated June 30, 2016. The scope of the operational analysis<sup>1</sup> included the following tasks:

**Task 1:** Determine the appropriate sample size of Home Energy Renovation Opportunity (HERO) assessments from July 1, 2015 through June 30, 2016. This sampling included a cross section of:

- > Energy efficiency assessments
- > Water conservation assessments
- > Renewable energy assessments

**Task 2:** Using the data gathered from Task 1, perform an operational analysis on RA’s adherence to the policies and practices included in WRCOG’s Energy Efficiency and Water Conservation Administrative Guidelines and Program Report, including specific requirements for the following sections:

- > Program parameters
- > Disclosures and documentation
- > Funding process
- > Operational process
- > Post-funding homeowner support

<sup>1</sup> **Note:** Any use of the word “audit” in this report does not refer to an audit under Generally Accepted Auditing Standards (GAAS) or *Government Auditing Standards* (GAS). The services provided were based on reviewing documentation and business processes to determine compliance under the PCPP. These are not audit services under GAAS or GAS.



- > Data security and privacy procedures
- > Marketing and communications
- > Protected classes
- > Contractor requirements
- > Maximum financing amount
- > Reporting
- > Closing and funding

**Task 3:** Issue a report of observations and recommendations.

### **0.3 – Operational Analysis Approach & Methodology**

During the course of the operational analysis, Baker Tilly submitted eight (8) formal data requests to WRCOG and RA. Baker Tilly also conducted interviews with WRCOG and RA managers and employees who had specific knowledge of operations and policies related to the PACE program. A list of interviews conducted with RA and WRCOG personnel is shown in Appendix A.

### **0.4 – Organization of this Report**

This report is organized as follows for each of the following sections:

1. Background and current process
2. Observations and recommendations
3. Testing and Results

The report concludes by providing process and administration opportunities for improvement that Baker Tilly identified through the course of the project. Opportunities for improvement are provided for areas in which through the course interviews and analysis of information provided, Baker Tilly found RA to be compliant with the PCPP but identified ways in which program improvements could be made by RA and/or WRCOG.

This report is designed to be viewed using Bookmarks in Adobe. Bookmarks and headers are set to more easily move from section to section of the report in the navigation pane.

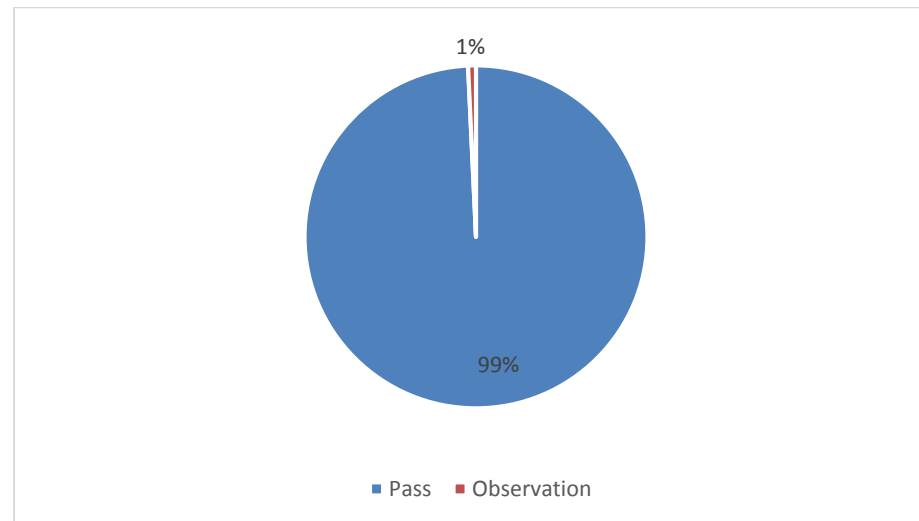
## 0.5 – Summary of Testing Results

There were a total of 114 HERO Program testing requirements derived from questions contained within the scope of work of WRCOG's RFP for this engagement, which were derived from both WRCOG's Energy Efficiency and Water Conservation Administrative Guidelines and Program Report and the residential PACE Consumer Protections Policies Version 1.0. Of the 114 program requirements tested, 61 were based off of sample-based transaction testing and a percentage can be derived for testing compliance with the specific program requirement; the remaining 53 requirements were based off an evaluation of RA's processes compared to the applicable PCPP requirements.

### Sample Based Transaction Testing

Of the 114 program requirements, 61 were subject to transaction testing to evaluate RA's compliance with the PCPP requirements. Across these 61 requirements, there were 5,274 individual transaction tests performed. For any given HERO Loan ID tested, there were multiple testing points based on the many PCPP requirements required of each HERO Loan ID/assessment. Based on Baker Tilly's testing of the sample assessments, 5,235 out of 5,274 met the applicable PCPP requirements (99%), also shown in the following figure:

Figure 1 – Transaction Testing Results



A summary of each of the 61 program requirement testing results along with the relevant Observation number is shown in the following table:

**Table 1 – Results of Program Requirement Transaction Testing**

| #  | Workplan Step | Requirement Tested per WRCOG RFP Question                                                                                                                                                                                                                                                                                      | # Samples Tested | # Passed | Pass % | Observation Number | Addressed since June 30, 2016 per RA <sup>2</sup> | RA process / Program observation / Opportunity for improvement |
|----|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------|--------|--------------------|---------------------------------------------------|----------------------------------------------------------------|
| 1  | 1.a.          | Financing used to finance the installation of distributed generation renewable energy sources or energy efficiency improvements that are permanently fixed to residential, commercial, industrial, or other real property.                                                                                                     | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 2  | 1.a.          | Financing was not provided for any parcels that were undergoing development.                                                                                                                                                                                                                                                   | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 3  | 1.a.          | The sampled financed purchases were permanently fixed to the parcels.                                                                                                                                                                                                                                                          | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 4  | 1.a.          | Homeowners signed every assessment agreeing to the financing terms indicating their “free and willing consent”.                                                                                                                                                                                                                | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 5  | 1.c.          | No commercial properties (including residential properties comprising four (4) or more units).                                                                                                                                                                                                                                 | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 6  | 1.c.          | No New properties under construction.                                                                                                                                                                                                                                                                                          | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 7  | 1.c.          | No tax exempt properties (properties not subject to levy), such as tribal, nonprofit or state-owned residential properties?                                                                                                                                                                                                    | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 8  | 1.d.          | Property owner(s) must be the property owner(s) of record.                                                                                                                                                                                                                                                                     | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 9  | 1.d.          | Property owner(s) must be current on their property taxes and the property owner(s) certify(ies) that such owner(s) have not had a late payment on their property taxes more than once during the prior three (3) years (or since the purchase of the property, if owned by such property owner(s) less than three (3) years). | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 10 | 1.d.          | Property owners must be current on all property debt of the subject property at the time of application and cannot have had more than one 30- day mortgage late payment over the prior 12 months.                                                                                                                              | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |

<sup>2</sup> A “Yes” in this column means that RA has stated that this issue has been addressed by new controls or compliance programs put in place since June 30, 2016. An operational review of new controls or programs implemented since June 30, 2016 was outside of the scope of this engagement and Baker Tilly has not tested them and cannot comment on their effectiveness.

| #  | Workplan Step | Requirement Tested per WRCOG RFP Question                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | # Samples Tested | # Passed | Pass % | Observation Number | Addressed since June 30, 2016 per RA <sup>2</sup> | RA process / Program observation / Opportunity for improvement |
|----|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------|--------|--------------------|---------------------------------------------------|----------------------------------------------------------------|
| 11 | 1.d.          | Property owner(s) have not been involved in a bankruptcy proceeding during the past seven (7) years and the property may not currently be an asset in a bankruptcy proceeding; provided, however, that if the bankruptcy is more than two years old, and if the property owner has no additional late payments more than 60 days past due in the last 24 months, the property owner may be approved.                                                                                                                                                                                                                                                                                                    | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 12 | 1.d.          | Property must not have any liens other than lender debt or liens recorded by community facilities districts or similar financing districts.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 13 | 1.d.          | All mortgage-related debt on the Property may not exceed 90% of the Property's fair market value ("FMV"), or assessed value if market value data is unavailable or unreliable, at the time of initial approval.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 14 | 1.d.          | The Fair Market Value ("FMV") model is reliable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 15 | 1.d.          | The financing may not exceed (i) fifteen percent (15%) of the FMV of the Property, up to the first seven hundred thousand dollars (\$700,000) of the Property's FMV, and (ii) ten percent (10%) of the remaining value of the Property above seven hundred thousand dollars (\$700,000).                                                                                                                                                                                                                                                                                                                                                                                                                | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 16 | 1.d.          | Mortgage-related debt on the property must not exceed 90% of the value of the property.<br>For projects funding on or after January 1, 2015, the maximum assessment amount shall not exceed the lesser of (a) than 15% on the first \$700,0000 value of the property and, if applicable, less than 10% of any value of the property thereafter or (b) a combined mortgage and Assessment Contract amount of 100% of the value of the property. For projects funding prior to January, 2015, the maximum assessment amount shall not exceed the lesser of (a) less than 10% of the value of the property or (b) a combined mortgage and Assessment Contract amount of 100% of the value of the property. | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 17 | 1.d.          | The total annual property tax and assessments, including the contractual assessment, of the property will not exceed 5% of the property's market value, as determined at the time of approval of the contractual assessment.                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 18 | 1.e.          | The Applicants are the owners of record.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |

| #  | Workplan Step | Requirement Tested per WRCOG RFP Question                                                                                                                                                                                                                                                                                                                            | # Samples Tested | # Passed | Pass % | Observation Number | Addressed since June 30, 2016 per RA <sup>2</sup> | RA process / Program observation / Opportunity for improvement |
|----|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------|--------|--------------------|---------------------------------------------------|----------------------------------------------------------------|
| 19 | 1.e.          | "Property tax payments for the assessed Property are current. Additionally, the homeowner must certify that there is no more than one late payment for the shorter of (i) the previous three years, or (ii) since the present homeowner acquired the property".                                                                                                      | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 20 | 1.e.          | Homeowner(s) are current on all mortgage debt, and have been late on such payments no more than once (30 days maximum) during the 12-month period preceding funding.                                                                                                                                                                                                 | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 21 | 1.e           | No homeowner applicant has had any active bankruptcies within the last 7 years; provided, however, that this criterion can be met if a homeowner's bankruptcy was discharged between two and seven years before the application date and the homeowner have had no payments (mortgage and non-mortgage) past due for more than 60 days in the most recent 24 months. | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 22 | 1.e.          | Homeowner(s) have no involuntary lien(s) recorded against the Property in excess of \$1,000.                                                                                                                                                                                                                                                                         | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 23 | 1.h.          | The Improvements being approved by the Provider and installed by the Registered Contractor meeting the criteria listed in Exhibit C.                                                                                                                                                                                                                                 | 96               | 96       | 100%   | 1.2.1              | In progress                                       | Program observation                                            |
| 24 | 1.j.          | For Solar Power Purchase Agreements, is the Provider adhering to Streets and Highway Code 5899.2.                                                                                                                                                                                                                                                                    | 10               | 10       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 25 | 2.a.          | The Provider is verifying that a homeowner has submitted an application.                                                                                                                                                                                                                                                                                             | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 26 | 2.a.          | The Provider is verifying that a homeowner has received approval of the Improvements from the Partner.                                                                                                                                                                                                                                                               | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 27 | 2.a.          | The Provider is verifying that a homeowner has executed documentation covering the terms described in section 2.0 of the PCPP (Disclosures and Documentation).                                                                                                                                                                                                       | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 28 | 2.b.          | The Provider is verifying that a homeowner executed an acknowledgement that the installation of the Improvements has been completed satisfactorily.                                                                                                                                                                                                                  | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 29 | 2.b.          | The Provider is verifying that a homeowner received a final summary of costs and payments.                                                                                                                                                                                                                                                                           | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 30 | 2.c.          | The Provider is verifying that the amount financed, fees and capitalized interest included is reflected in the provider's documents.                                                                                                                                                                                                                                 | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 31 | 2.c.          | The Provider is verifying that the repayment process and schedule is reflected in the Provider's documents.                                                                                                                                                                                                                                                          | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |

| #  | Workplan Step | Requirement Tested per WRCOG RFP Question                                                                                                        | # Samples Tested | # Passed | Pass % | Observation Number | Addressed since June 30, 2016 per RA <sup>2</sup> | RA process / Program observation / Opportunity for improvement |
|----|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------|--------|--------------------|---------------------------------------------------|----------------------------------------------------------------|
| 32 | 2.c.          | The Provider is verifying that the payment amounts is reflected in the Provider's documents.                                                     | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 33 | 2.c.          | The Provider is verifying that a term that does not exceed the useful life of the improvements is reflected in the Provider's documents.         | 96               | 91       | 95%    | 2.2.1              | In progress                                       | Program observation                                            |
| 34 | 2.c.          | The Provider is verifying that the rate of interest charged is reflected in the Provider's documents.                                            | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 35 | 2.c.          | The Provider is verifying that a rate of interest that is fixed (not variable) is reflected in the Provider's documents.                         | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 36 | 2.c.          | The Provider is verifying that a payment schedule that fully amortizes the amount financed is reflected in the Provider's documents.             | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 37 | 2.c.          | The Provider is verifying that the nature of the lien created upon recordation is reflected in the Provider's documents.                         | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 38 | 2.c.          | The Provider is verifying that the specific improvements to be installed is reflected in the Provider's documents.                               | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 39 | 2.c.          | The Provider is verifying that the 3-day right to cancel the financing is reflected in the Provider's documents.                                 | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 40 | 2.c.          | The Provider is verifying that the right to withhold approval of payment until the project is complete is reflected in the Provider's documents. | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 41 | 2.c.          | The Provider is verifying that Section 5899.2 rights for solar lease improvements is reflected in the Provider's documents.                      | 10               | 10       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 42 | 2.d.          | During the confirmation of terms call, the Provider confirms the reason for the specific improvement(s) being obtained by such homeowner.        | 22               | 22       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 43 | 2.f.          | During the confirmation of terms call, the Provider confirms his or her total estimated annual payment.                                          | 22               | 22       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 44 | 2.f.          | During the confirmation of terms call, the Provider confirms the date his or her first tax payment will be due.                                  | 22               | 22       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 45 | 2.f.          | During the confirmation of terms call, the Provider confirms the term of the Program financing.                                                  | 22               | 22       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 46 | 2.f.          | During the confirmation of terms call, the Provider confirms any additional fees (including recording fees) that will be charged to him or her.  | 22               | 16       | 73%    | 2.2.2              | Yes                                               | RA process                                                     |
| 47 | 2.f.          | During the confirmation of terms call, the Provider confirms the reason for the specific improvement(s) being obtained by such homeowner.        | 22               | 22       | 100%   | No Observations    | N/A                                               | N/A                                                            |

| #  | Workplan Step | Requirement Tested per WRCOG RFP Question                                                                                                                                                                                                                                                                                                                                                                                                           | # Samples Tested | # Passed | Pass % | Observation Number | Addressed since June 30, 2016 per RA <sup>2</sup> | RA process / Program observation / Opportunity for improvement |
|----|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------|--------|--------------------|---------------------------------------------------|----------------------------------------------------------------|
| 48 | 2.f.          | During the confirmation of terms call, the Provider confirms that he or she may make payments on the Program financing either directly to the county assessor's office or through his or her mortgage impound account.                                                                                                                                                                                                                              | 22               | 17       | 77%    | 2.2.2              | Yes                                               | RA process                                                     |
| 49 | 3.a.          | The Provider offers fixed simple interest rates, and payments are fully amortized.                                                                                                                                                                                                                                                                                                                                                                  | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 50 | 3.e.          | Does the Provider charge fees to contractors?                                                                                                                                                                                                                                                                                                                                                                                                       | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 51 | 5.e.          | Verify that the Provider tracking, resolving, reporting and otherwise properly managing all inquiries and complaints, etc., from homeowners.                                                                                                                                                                                                                                                                                                        | 100              | 100      | 100%   | No Observations    | N/A                                               | Opportunity for improvement                                    |
| 52 | 8.b.          | The Provider developed and is implementing a program that validates elder homeowner (i.e., homeowners over 64 years old) understanding of the eligible improvement project for which they are seeking Program financing, including the terms of such financing.                                                                                                                                                                                     | 100              | 100      | 100%   | No Observations    | N/A                                               | Opportunity for improvement                                    |
| 53 | 9.a.          | All contractors maintain an active license, and are in good standing, with the California Contractor State License Board ("CSLB"), including compliance with the CSLB (or equivalent agency or program) insurance and bonding requirements.                                                                                                                                                                                                         | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 54 | 9.a.          | "Execution of the Program's Contractor Participation Agreement only by a person who is listed as an Responsible Managing Owner ("RMO"), Responsible Managing Employee ("RME"), Responsible Managing Manager ("RMG"), Responsible Managing Member ("RMM"), sole owner or qualifying partner with the CSLB and who is authorized to act on behalf of, and who is responsible for the actions of, a Registered Contractor (a "Qualifying Individual"). | 96               | 87       | 91%    | 9.2.1              | Yes                                               | RA process                                                     |
| 55 | 9.a.          | All contractors are meeting all other state and local licensing, training and permitting requirements.                                                                                                                                                                                                                                                                                                                                              | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 56 | 9.a.          | The Program ensures all Affiliated Individuals register with the Program.                                                                                                                                                                                                                                                                                                                                                                           | 96               | 83       | 86%    | 9.2.2              | Yes                                               | Program observation                                            |
| 57 | 9.f.          | The Provider does not accept Program applications processed by suspended or terminated contractors and/or associated representatives.                                                                                                                                                                                                                                                                                                               | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 58 | 10.e.         | Provider does not fund any improvements for an amount that is greater than the MFA for such product.                                                                                                                                                                                                                                                                                                                                                | 96               | 95       | 99%    | 10.2.3             | Yes                                               | RA process                                                     |

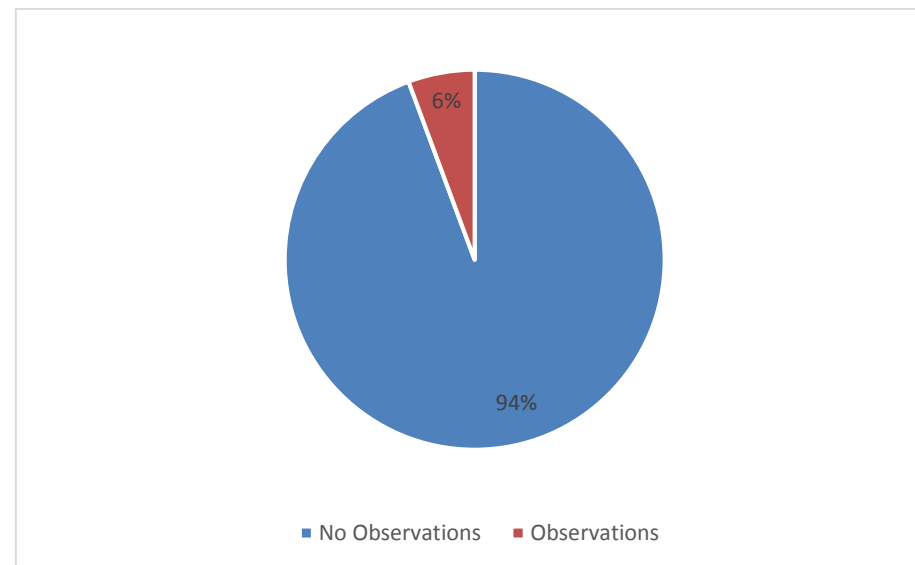
| #  | Workplan Step | Requirement Tested per WRCOG RFP Question                                                                                                                                                                                                                                                                                                                                                                           | # Samples Tested | # Passed | Pass % | Observation Number | Addressed since June 30, 2016 per RA <sup>2</sup> | RA process / Program observation / Opportunity for improvement |
|----|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------|--------|--------------------|---------------------------------------------------|----------------------------------------------------------------|
| 59 | 12.a.         | The Provider is confirming, before funding, that the Eligible Improvements financed are installed, operational and in a condition that is acceptable to the homeowner and the contractor, and requiring that the homeowner and the contractor attest to such by signing a document stating that all Improvements have been installed to the homeowner's satisfaction and in accordance with product specifications. | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 60 | 12.b.         | The Provider confirms that the homeowners obtains required permits for the installation of Improvements and provide verification thereof upon request.                                                                                                                                                                                                                                                              | 96               | 96       | 100%   | No Observations    | N/A                                               | N/A                                                            |
| 61 | 12.c.         | Provider is only disbursing funds for completed projects.                                                                                                                                                                                                                                                                                                                                                           | 196              | 196      | 100%   | No Observations    | N/A                                               | N/A                                                            |



### Process Review

Of the 114 program requirements, 53 were process-related and could not be directly tested through transaction testing. Instead, these program requirements were based off an evaluation of RA's processes compared to the applicable PCPP requirements. Of the 53 process-related PCPP requirements, Baker Tilly had observations with respect to 3 PCPP requirements, or 6% of all process-related PCPP requirements.

Figure 2 – Process Review Results



A summary of the 53 program requirements reviewed along with the relevant Observation number is shown in the following table:

**Table 2 – Results of Program Requirement Process Review**

| # | Workplan Step | WRCOG RFP Question                                                                                                                                                                                                                                                                                                                                                                   | Observation Number | Addressed since June 30, 2016 per RA <sup>3</sup> | RA process / Program observation / Opportunity for improvement |
|---|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------|----------------------------------------------------------------|
| 1 | 1.f.          | Has the Provider established procedures confirming that the homeowner applying for Program financing intends to install Eligible Improvements, and that at the time of funding such improvements have been installed. If so, what are those procedures and how is this verified?                                                                                                     | No Observations    | N/A                                               | N/A                                                            |
| 2 | 1.g.          | Has the Provider established processes and controls to ensure that personal identifiable information of a homeowner is obtained directly from such homeowner (or his verifiable legal representative or attorney in fact) and not from a contractor or other third party? If so, what are they?                                                                                      | No Observations    | N/A                                               | N/A                                                            |
| 3 | 1.i.          | Established and maintains an Eligible Improvements database and/or list, documenting the associated eligibility specifications for each product that conform to the requirements outlined in Attachment C hereto.                                                                                                                                                                    | No Observations    | N/A                                               | N/A                                                            |
| 4 | 1.i.          | Defines a process for adding or modifying the eligible product database.                                                                                                                                                                                                                                                                                                             | No Observations    | N/A                                               | N/A                                                            |
| 5 | 1.i.          | Ensures that eligible product energy efficiency/water efficiency/energy generation (as applicable) performance standards are calibrated and verified using performance criteria that the U.S. Department of Energy, U.S. Environmental Protection Agency, the California Energy Commission and/or other federal and state agencies or other reputable third parties has established. | No Observations    | N/A                                               | N/A                                                            |
| 6 | 1.i.          | Uses credible third party sources to determine the useful life of the product, which will be used to set the maximum term for the Program's financing.                                                                                                                                                                                                                               | No Observations    | N/A                                               | N/A                                                            |
| 7 | 1.i.          | Requires that the product is permanently affixed to the Property.                                                                                                                                                                                                                                                                                                                    | No Observations    | N/A                                               | N/A                                                            |
| 8 | 3.b.          | Does the Provider have a source of capital for funding PACE financed projects separate from WRCOG's general fund or budget and have access to capital markets to ensure funding of qualified projects is available on a consistent basis? If so, what is that source of capital?                                                                                                     | No Observations    | N/A                                               | N/A                                                            |
| 9 | 3.c.          | Can the Provider demonstrate the capacity to fund assessments that over a six (6) month period immediately following WRCOG's review of the Provider's financial statements? If so, what is that amount and how is it calculated?                                                                                                                                                     | No Observations    | N/A                                               | N/A                                                            |

<sup>3</sup> A "Yes" in this column means that RA has stated that this issue has been addressed by new controls or compliance programs put in place since June 30, 2016. An operational review of new controls or programs implemented since June 30, 2016 was outside of the scope of this engagement and Baker Tilly has not tested them and cannot comment on their effectiveness.

| #  | Workplan Step | WRCOG RFP Question                                                                                                                                                                                                                                                                                                                                                                                 | Observation Number | Addressed since June 30, 2016 per RA <sup>3</sup> | RA process / Program observation / Opportunity for improvement |
|----|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------|----------------------------------------------------------------|
| 10 | 3.d.          | Does the Provider offer the capability to accommodate homebuyers and homeowners by offering subordination of certain rights of its PACE assessment lien to the lien of a mortgage or deed of trust. If so, how many have been executed? How successful are the processes for sales and refinances, and are there any unanticipated issues that needs to be addressed?                              | No Observations    | N/A                                               | N/A                                                            |
| 11 | 4.a.          | Does the Provider have adequate personnel, processes, expertise, tools and technology necessary to support WRCOG's Program Report and residential Consumer Protection Policies? If so, how is this determined?                                                                                                                                                                                     | No Observations    | N/A                                               | N/A                                                            |
| 12 | 5.a           | Is the Provider proactively monitoring and testing the consumer protections available to homeowners, and requesting feedback from homeowners and contractors to identify areas in need of improvement? If so, how?                                                                                                                                                                                 | No Observations    | N/A                                               | N/A                                                            |
| 13 | 5.b.          | Is the Provider implementing a post-installation onboarding procedure to reinforce key characteristics of the Program, such as those highlighted in the Program disclosures? If so, how is this implemented?                                                                                                                                                                                       | No Observations    | N/A                                               | N/A                                                            |
| 14 | 5.c.          | Are disclosures and resources in place to resolve homeowner questions regarding matters such as impound account catch-up payments, payment timing inquires and payment amount reconciliation? If so, what are they?                                                                                                                                                                                | No Observations    | N/A                                               | N/A                                                            |
| 15 | 5.d.          | Are there procedures for responding to requests for partial or full prepayment of their PACE property tax assessment in a timely and complete manner? If so, what are those procedures?                                                                                                                                                                                                            | No Observations    | N/A                                               | N/A                                                            |
| 16 | 5.f.          | Is the Provider proactively working to resolve inquiries and complaints in a reasonable and timely manner and in accordance with the Program guidelines, and making communication for homeowners available during regular business hours by phone, email and facsimile communication? If so, how is this verified?                                                                                 | No Observations    | N/A                                               | N/A                                                            |
| 17 | 5.g.          | Does the Provider have the capabilities to assist homeowners who are refinancing or selling their Properties? If so, how is this determined and verified?                                                                                                                                                                                                                                          | No Observations    | N/A                                               | N/A                                                            |
| 18 | 6.a.          | Is the Provider complying with secure and tested processes to protect the personal identifiable information of the homeowner? If so, what are the processes?<br>Such secure and tested processes should, at a minimum, include:                                                                                                                                                                    | No Observations    | N/A                                               | N/A                                                            |
| 19 | 6.a.          | A cyber-security policy and protocol that, at a minimum, requires data encryption "during transmission" and "at rest," and compliance with sturdy cyber-security standards.                                                                                                                                                                                                                        | No Observations    | N/A                                               | N/A                                                            |
| 20 | 6.a.          | The Provider is responsible for controlling access to information, based upon, job function and need-to-know criteria.                                                                                                                                                                                                                                                                             | No Observations    | N/A                                               | N/A                                                            |
| 21 | 6.a.          | The Provider is responsible for taking security measures that protect the security and confidentiality of consumer records and information in proportion to the sensitivity of the information, including, without limitation, requiring all computers and other devices containing any confidential consumer information to have all drives encrypted with industry standard encryption software. | No Observations    | N/A                                               | N/A                                                            |
| 22 | 6.a.          | The Provider is responsible for monitoring and logging all remote access to its systems, whether through VPN or other means.                                                                                                                                                                                                                                                                       | No Observations    | N/A                                               | N/A                                                            |

| #  | Workplan Step | WRCOG RFP Question                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Observation Number | Addressed since June 30, 2016 per RA <sup>3</sup> | RA process / Program observation / Opportunity for improvement |
|----|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------|----------------------------------------------------------------|
| 23 | 6.a.          | Data security policies are subject to auditing and penetration testing conducted by an independent auditor hired by the Authority at least annually and any time a change is made that may have any potential impact on the servers, security policies or user rights.                                                                                                                                                                                                                                                                                                               | No Observations    | N/A                                               | Opportunity for improvement                                    |
| 24 | 6.b.          | Does the Provider have the minimum viable configurations in place on all servers? All firewalls should have continuous logging enabled and access control lists and audited server configurations should be used to ensure that data security is maintained. Please describe the Providers efforts.                                                                                                                                                                                                                                                                                  | No Observations    | N/A                                               | N/A                                                            |
| 25 | 6.c.          | Is the Provider informing and enforcing the compliance with the Program's data privacy and security policies on the part of every employee, contractor, vendor, agent, service provider, representative, and associate who is exposed to personal identifiable information of homeowners? If so, how?                                                                                                                                                                                                                                                                                | No Observations    | N/A                                               | N/A                                                            |
| 26 | 6.d.          | Is the Provider implementing protections and controls to prevent unauthorized copying, disclosure, or other misuse of sensitive consumer protection information? If so, what are they?                                                                                                                                                                                                                                                                                                                                                                                               | No Observations    | N/A                                               | N/A                                                            |
| 27 | 6.e.          | Has the Provider developed and is delivering to homeowners who apply for the Program or who otherwise provide personal identifiable information (e.g., full name, home address, social security numbers, date of birth,) a privacy policy that complies with state and federal law (e.g., the Gramm-Leach-Bliley Act) and, in particular, prohibiting sharing with third parties personal identifying information of homeowners without the homeowners' express authorization except where expressly permitted by state and federal law? If so, how is the privacy policy delivered? | No Observations    | N/A                                               | N/A                                                            |
| 28 | 6.f.          | Is the Provider delivering any updates to such privacy policies to the homeowners? If so, how are these updates delivered?                                                                                                                                                                                                                                                                                                                                                                                                                                                           | No Observations    | N/A                                               | N/A                                                            |
| 29 | 7.a.          | Is the Provider using any methods that are or could appear to be unfair, deceptive, abusive, and/or misleading, that violate laws or regulations, that provide tax advice, that are inappropriate, incomplete or are inconsistent with the Program's purpose (e.g., use of check facsimiles to dramatize the amount of PACE Program financing available or presented as if a negotiable instrument), or are otherwise potentially confusing to property owners? If so, what are they?                                                                                                | 7.2.1              | Yes                                               | RA process                                                     |
| 30 | 7.b.          | Are there any marketing practices likely to add unnecessary expense to a homeowner (e.g., paying consumers for applications)? If so, what are they?                                                                                                                                                                                                                                                                                                                                                                                                                                  | No Observations    | N/A                                               | N/A                                                            |
| 31 | 7.c.          | Does the Provider have a plan for developing, delivering to and enforcing marketing guidelines for the Program's Registered Contractors? If so, what is the plan?                                                                                                                                                                                                                                                                                                                                                                                                                    | No Observations    | N/A                                               | N/A                                                            |
| 32 | 7.d.          | Are any marketing materials that fall outside of marketing guidelines established being approved by the Provider to ensure that they are not unfair, deceptive, abusive and/or misleading? If so, what are they?                                                                                                                                                                                                                                                                                                                                                                     | No Observations    | N/A                                               | N/A                                                            |
| 33 | 7.e.          | Is the Provider, contractor or third party (who is not a tax expert) providing tax advice to consumers regarding their Program financing which includes making affirmative statements or claims as to the tax deductibility of the payments? If so, why?                                                                                                                                                                                                                                                                                                                             | No Observations    | N/A                                               | N/A                                                            |
| 34 | 7.f.          | Is the Provider, contractor or Affiliated Individual providing a direct cash payment or other thing of value to a homeowner explicitly in exchange for such homeowner's selecting Program financing? If so, why?                                                                                                                                                                                                                                                                                                                                                                     | No Observations    | N/A                                               | N/A                                                            |
| 35 | 8.a           | Does the Provider have controls designed and is implementing to monitor and test compliance with all state and federal laws covering homeowners in protected classes? If so, what are they?                                                                                                                                                                                                                                                                                                                                                                                          | No Observations    | N/A                                               | N/A                                                            |

| #   | Workplan Step | WRCOG RFP Question                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Observation Number | Addressed since June 30, 2016 per RA <sup>3</sup> | RA process / Program observation / Opportunity for improvement |
|-----|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------|----------------------------------------------------------------|
| 36  | 8.c.          | Is the Provider providing legally unbiased access to, and the decision of, requests for Program participation? If so, how?                                                                                                                                                                                                                                                                                                                                                                                                                | No Observations    | N/A                                               | N/A                                                            |
| N/A | 9.a.          | Does the Provider confirm that all contractors who sell, install, or manage subcontractors who install, Eligible Improvements have executed and that all such contractors and all employees, entities, owners, partners, principals, independent contractors, third party agents or other person who perform any services for the contractor in connection with a Program financing (collectively, the "Affiliated Individuals") meet the requirements of the Program's Contractor Participation Agreement (Attachment C), which include: | Not Applicable     | N/A                                               | N/A                                                            |
| 37  | 9.a.          | Compliance with the current Registered Contractor code of conduct, a sample of which is attached hereto as Attachment B or other code of conduct that embodies the principles outlined in Attachment B.                                                                                                                                                                                                                                                                                                                                   | No Observations    | N/A                                               | N/A                                                            |
| 38  | 9.a.          | Oversight and management of employees, independent contractors and subcontractors who provide services to Registered Contractors accessing the Program.                                                                                                                                                                                                                                                                                                                                                                                   | No Observations    | N/A                                               | N/A                                                            |
| 39  | 9.a.          | Compliance with the Program's marketing policies.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | No Observations    | N/A                                               | N/A                                                            |
| 40  | 9.b.          | Does the Provider confirm the following for all new Registered Contractors? If not, why?                                                                                                                                                                                                                                                                                                                                                                                                                                                  | No Observations    | N/A                                               | N/A                                                            |
| 41  | 9.b.          | Has a specified probationary period been identified (i.e., place the new Registered Contractors on a watch list until the new Registered Contractors have completed the required number of Improvements)? If so, what is the period of time?                                                                                                                                                                                                                                                                                              | No Observations    | N/A                                               | N/A                                                            |
| 42  | 9.b.          | Has a procedure in place, during the Registered Contractor probationary period, to provide additional quality assurance steps for Improvements completed by the Registered Contractors on the watch list? If so, what are the additional assurance steps?                                                                                                                                                                                                                                                                                 | No Observations    | N/A                                               | N/A                                                            |
| 43  | 9.b.          | Has a procedure in place to review Registered Contractor's work to confirm satisfactory completion of projects conducted during the probationary period for which Program financing is used? If yes, what is that process?                                                                                                                                                                                                                                                                                                                | No Observations    | N/A                                               | N/A                                                            |
| 44  | 9.c.          | Has the Provider implemented a contractor management system and has procedures that manage and track contractor training and compliance violations on an individual and company basis. If so, what are they?                                                                                                                                                                                                                                                                                                                              | No Observations    | N/A                                               | N/A                                                            |
| 45  | 9.c.          | Does the Provider make available contractor training regarding, at a minimum, the following: (i) the applicable contractor code of conduct terms as required by the Program, (ii) protected classes, including, without limitation, elder protection, and (iii) other consumer protection measures as required by the Program. If so, how are they made available?                                                                                                                                                                        | No Observations    | N/A                                               | N/A                                                            |
| 46  | 9.e.          | Does the Provider warn, suspend or terminate a Registered Contractor and/or Affiliated Individual from the Program based on violations of the Contractor Participation Agreement? If so, how is this being determined?                                                                                                                                                                                                                                                                                                                    | No Observations    | N/A                                               | N/A                                                            |

| #  | Workplan Step | WRCOG RFP Question                                                                                                                                                                                                                                                                                                                                                                                                                      | Observation Number | Addressed since June 30, 2016 per RA <sup>3</sup> | RA process / Program observation / Opportunity for improvement |
|----|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------|----------------------------------------------------------------|
| 47 | 10.a.         | How is the Provider determining maximum financing amounts (MFA)?                                                                                                                                                                                                                                                                                                                                                                        | No Observations    | N/A                                               | N/A                                                            |
| 48 | 10.b.         | Has the Provider established a MFA for each product type (e.g. for central air conditioners, solar PV systems, solar thermal systems, and artificial turf)?                                                                                                                                                                                                                                                                             | 10.2.1 and 10.2.2  | Yes<br>Yes                                        | RA process<br>RA process                                       |
| 49 | 10.c.         | Has the Provider established product/project attribute related pricing rules that dictate what pricing within such low to high MFA range is justified? If so, what are they?                                                                                                                                                                                                                                                            | No Observations    | N/A                                               | N/A                                                            |
| 50 | 10.d.         | Has the Provider established processes and systems for purposes of enforcing the MFA rules for every project? If so, what are those processes?                                                                                                                                                                                                                                                                                          | No Observations    | N/A                                               | N/A                                                            |
| 51 | 11.a.         | Is the Provider providing statistics reporting and estimated impact metrics in the following categories on a quarterly basis: (i) number of projects funded, (ii) project amount funded, (iii) estimated amount of energy savings, (iv) estimated amount of renewable energy produced, (v) estimated amount of water savings, (vi) estimated amount of greenhouse gas emissions reductions, and (vii) estimated number of jobs created. | 11.2.1             | Yes                                               | Program observation                                            |
| 52 | 11.b.         | Is the Provider reports developed and collected using standardized, third party verified methodologies? If so, by which third party?                                                                                                                                                                                                                                                                                                    | No Observations    | N/A                                               | N/A                                                            |
| 53 | 12.e.         | Has the Provider developed and implemented a randomized onsite inspection protocol? If so, what is that protocol?                                                                                                                                                                                                                                                                                                                       | No Observations    | N/A                                               | N/A                                                            |

## 0.6 – Recent RA compliance programs implemented

The operational analysis in this report covered the defined period of July 1, 2015 – June 30, 2016. On June 7, 2017 the RA Compliance Team made a presentation to the Baker Tilly team to present additional information in which it felt would be both helpful in providing background and additional context beyond information that was requested as part of the HERO Program operational analysis. The session focused mainly on continuous enhancements made (e.g., compliance programs) both during the operational analysis time-frame and since the end of the operational analysis time-frame (i.e., after June 30, 2016).

Significant compliance programs that RA has implemented since June 30, 2016 (the end date of the operational analysis reported in this report) per their presentation are as follows<sup>4</sup>:

**Table 3 – RA’s Compliance Programs Implemented since June 30, 2016**

| Date implemented | Compliance Program                              | Specific Program Enhancements                                             |
|------------------|-------------------------------------------------|---------------------------------------------------------------------------|
| July 2016        | Confirmed Terms Development                     | Confirmation of Terms Calls Implemented on all Files                      |
| July 2016        | Proactive Implementation of Consumer Safeguards | Launched Contractor Due Diligence in RSAM                                 |
| July 2016        | Proactive Implementation of Consumer Safeguards | Implemented Spanish HERO Document Delivery to all Homeowners              |
| July 2016        | Proactive Implementation of Consumer Safeguards | Launched Online Opt-in/ Opt-out Portal for Homeowners                     |
| July 2016        | Maximum Financing Amount Development            | Fully Automated MFA of All Products                                       |
| August 2016      | Proactive Implementation of Consumer Safeguards | Re-trained all Channel Account Managers                                   |
| August 2016      | Proactive Implementation of Consumer Safeguards | Established Compliance Immediate Response Team for Issuers & Social Media |
| September 2016   | Proactive Implementation of Consumer Safeguards | Enhanced Contractor “Due Process”                                         |

<sup>4</sup> Baker Tilly has not tested these program changes as they are outside of the time period scope of this project, which is July 1, 2015 – June 30, 2016.

| Date implemented | Compliance Program                                                         | Specific Program Enhancements                                                                                                    |
|------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| September 2016   | Proactive Implementation of Consumer Safeguards                            | CA Assembly Bill 2683 – Requires Know-Before-You-Owe Disclosure; Know Before You Owe / Financing Summary Disclosures Implemented |
| October 2016     | Proactive Implementation of Consumer Safeguards                            | Implemented Contractor Compliance Review Process                                                                                 |
| November 2016    | Proactive Implementation of Consumer Safeguards                            | Launched Contractor Quality Rating                                                                                               |
| November 2016    | Proactive Implementation of Consumer Safeguards; Confirm Terms Development | Confirmation of Terms required on All Assessment Contract Addendums                                                              |
| December 2016    | Proactive Implementation of Consumer Safeguards                            | Launched Salesforce Inquiry, Complaint, Priority Complaint Tracking Solution (v3)                                                |
| January 2017     | Proactive Implementation of Consumer Safeguards                            | Mandatory Contractor Training for Every User Upon Registration; Yearly Refresher Training                                        |
| January 2017     | Proactive Implementation of Consumer Safeguards                            | Compliance Driven Incentives                                                                                                     |
| January 2017     | Proactive Implementation of Consumer Safeguards                            | Legal Department Reviews all Training Material                                                                                   |
| January 2017     | Proactive Implementation of Consumer Safeguards                            | Enhanced RSAM Due Diligence Module (v2): Restrictions to Companies as they pertain to Contractor Compliance Review               |
| April 2017       | Proactive Implementation of Consumer Safeguards                            | Aligned Contractor Quality Rating with Contractor Incentives                                                                     |
| April 2017       | Proactive Implementation of Consumer Safeguards                            | 100% Quality Control Review of Compliance Cases                                                                                  |
| June 2017        | Confirm Terms Development; Elder Protection Development                    | Enhanced All Confirmed Terms and Elder Check Scripts                                                                             |

We understand that the implementation and content of these programs has been shared with WRCOG at regular meetings. We commend RA with their evolution of compliance programs to meet the PACE program requirements. These new programs should be tested as part of future operational analysis projects.



### **0.7 – Future Operational Analysis of RA's HERO Program**

This initial operational analysis of RA's HERO Program compliance was very comprehensive. An ongoing operational analysis program is needed to provide transparency and accountability for the PACE Program and to provide recommendations for providers to improve their processes.

Some key areas provided the bulk of observations and/or recommendations for improvement. While it is important that RA comply with all aspect of the PCPP, we would recommend that future operational analysis projects use a risk-based approach and a rotation of areas tested if there were no observations in previous reviews. This will speed the operational analysis process and result in cost effectiveness for WRCOG.

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## 1.0 – PROGRAM PARAMETERS

### 1.1 – Background and Current Process

(A) Testing of Eligible Improvements' consistency with the objectives of Assembly Bill 811 was completed by selecting 32 samples of energy efficiency loans, 32 water conservation and 32 renewable energy samples for a total of 96 samples. Each of the samples was tested for consistency with the Assembly Bill 811 Section 1 (a-e) objectives through testing of the HERO Program policies and practices. Section 1 a-e states:

- a) *It is the intent of the Legislature that this chapter should be used to finance public improvements to lots or parcels which are developed and where the costs and time delays involved in creating an assessment district pursuant to other provisions of this division or any other law would be prohibitively large relative to the cost of the public improvements to be financed.*
- b) *It is also the intent of the Legislature that this chapter should be used to finance the installation of distributed generation renewable energy sources or energy efficiency improvements that are permanently fixed to residential, commercial, industrial, or other real property.*
- c) *This chapter shall not be used to finance facilities for parcels which are undergoing development.*
- d) *This chapter shall not be used to finance the purchase or installation of appliances that are not permanently fixed to residential, commercial, industrial, or other real property.*
- e) *Assessments may be levied pursuant to this chapter only with the free and willing consent of the owner of each lot or parcel on which an assessment is levied at the time the assessment is levied.*

The WRCOG Administrative Guidelines and Program Report (i.e., version last amended December 1, 2014), PACE Consumer Protection Policies v1.0 (adopted by WRCOG on December 7, 2015), and the HERO Eligible Products List, last updated April 17, 2015 (as included in the WRCOG's Administrative Guidelines), were referenced to determine eligible improvements. Supporting documentation for each of the 96 samples was requested from RA and viewed by Baker Tilly to validate that WRCOG Administrative Guidelines and Program Report were followed for the samples selected. Program Requirements fall within the following categories:

- > Eligible Property Owners and Eligible Property
- > Eligible Equipment
- > Eligible Costs
- > Administrative Costs and Fees

(B) To apply for HERO financing, property owners submit applications through the Program's online application portal or call into the Program's call center. When a property owner submits an application to the Program's system, the system then verifies the applicant's information against the third party financial services vendor. The third party vendor is a financial services company that provides financial, property and consumer information. The Program's system is updated daily with the third party vendor's data. Using the third party vendor's data, algorithms in the system are set to confirm program financing eligibility as detailed in the Administrative Guidelines and Program Report.

If the system is unable to verify a financing eligibility requirement, the application is automatically entered into a queue to be manually reviewed by an underwriter. The underwriter then researches and reviews additional third party data to approve or reject the application based on the Administrative Guidelines and Program Report finance eligibility requirements.

(C) When the Program Administrator approves an application, a call center representative then calls the property owner to verify the property owner's identification. RA uses publicly available data to run through a series of questions to confirm the applicant's identity. Call center representatives are provided a call script to reference when they confirm the financing terms, in which it directs the call center representative to confirm that he/she is speaking with the property owner. Further, the script directs the call center representative to complete an ID verification, through answering questions to verify the publicly available data, prior to discussing financing terms and conditions.

(D) Homeowners can request product approval with their application or add the products after application approval. Often property owners add products directly after application approval during the confirmed terms call with the call center representative. If products are added at this time, the property owner or contractor tells the call center representative the products being added at which time the call center representative adds the products to the application. Alternately, a property owner or contractor can add the products after the confirmed terms call. In all options aforementioned, when products are added to the application, the system checks against the eligible product list. If an added product is not eligible, a call center representative follows up with the homeowner or contractor.

Property owners sign the assessment contract to verify that they intend to install the eligible product for which they were approved. Prior to program funding of the assessment, property owners and contractors are required to sign a completion certificate to attest that the eligible products listed on the completion certificate were installed on the property. RA performs an asset verification on 5% of all products installed. The 5% asset verification is an average over the full year.

(E) RA has an eligible product list available on their website and internally the list with product attributes is entered into the system. During our interview with RA's Product Management team on February 15, 2017, RA had developed an Eligible Products Database based on a cross-section of different energy efficiency equipment and product websites. Per Exhibit C, all product specifications and installation quality must meet or exceed applicable, state, and/or federal permitting, codes, and standards. Further, Project stakeholders are fully and solely responsible for ensuring product compliance with applicable sections of the current California Building Energy Efficiency Standards (Title 24, Part 6, Subchapters 1, 2, 7, and 9).

The eligibility specifications are dependent on the product type and product category. For example, a building envelop attic insulation product requires a R-value  $\geq 38$  and installed per the California Energy Commission (CEC) Quality Insulation Installation (QII) Standards; whereas a high-efficiency lighting indoor lighting fixture product requires that the product be ENERGY STAR® Certified and meet Title 24, Part 6 requirements, be permanently installed, and installed per the lighting manufacturer specs.

A Product Review Council reviews all products proposed to be added to the eligibility list. The Council will research if the product fits within the eligible product guidelines and are in line with the Program objectives. If the Council chooses to move the product forward for approval, the product is reviewed by an RA executive, who may then present the product for approval to WRCOG.

Product useful life guidelines follow the Internal Association of Home Inspectors (InterNACHI) guidelines. If the product is not listed with InterNACHI, the National Association of Home Builders' (NAHB) useful life guidelines are used.

RA implemented a formal HERO Product Review Verification Process Policy on August 23, 2016. Per this policy and our interviews, RA relies on several product standard providers and product directories, such as:

- > American National Standards Institute (ANSI)
- > ASTM International
- > Air Conditioning Heating and Refrigeration Institute (AHRI)
- > Building Performance Institute (BPI)
- > California Energy Commission (CEC)
- > California Self Generation Incentive Program (SGIP)
- > California Solar Initiative (CSI)
- > California Title 24, Section 6 Building Efficiency Standards
- > Cool Roof Rating Council (CRRC)
- > Home Ventilating Institute (HVI)
- > International Association of Plumbing and Mechanical Officials (IAPMO)
- > National Fenestration Rating Council (NFRC)
- > Underwriters Laboratory (UL)
- > U.S. Department of Energy (DOE) Appliance Certification Database
- > U.S. Department of Energy (DOE) ENERGY STAR® Product Directory
- > U.S. Environmental Protection Agency (EPA) WaterSense Product Directory
- > SoCal Water Smart Program
- > Solar Rating and Certification Corporation

(F) In September 2010, the California Legislature approved Assembly Bill 44 (AB 44) amending Chapter 29 of the Improvement Act of 1911 to define the terms of “permanently affixed” pertaining to the financing and installation of distributed generation renewable energy sources. Section 5899.2 of the California Streets and Highway Code (Streets and Highway Code 5899.2), contained within AB 44 text, states the following:

*For the purpose of financing the installation of distributed generation renewable energy resources pursuant to this chapter, “permanently fixed” includes, but is not limited to, systems attached to a residential, commercial, industrial, agricultural, or other real property pursuant to a power purchase agreement or lease between the owner of the system and the owner of the assessed property, if the power purchase agreement or lease (PPA/L) contains all of the following provisions:*

- a) *The attached system is an eligible renewable energy resource pursuant to the California Renewable Portfolio Standard Program (Article 16 (commencing with Section 399.11) of Chapter 2.3 of Part 1 of Division 1 of the Public Utilities Code)*
- b) *The term of the power purchase agreement or lease is at least as long as the term of the related assessment contract*
- c) *The owner of the attached system agrees to install, maintain and monitor the system for the entire term of the PPA/L*
- d) *The owner of the is not permitted to remove the system prior to completion of the term of the contractual assessment lien*
- e) *After installation, the PPA/L is paid in full using the funds from the contractual assessment program*
- f) *The right to receive the electricity from the system, through a PPA/L or the right to the system itself, is tied to the ownership of the assessed real property and is required to be automatically transferred with the title to the real property whether the title is transferred by voluntary sale, judicial or non-judicial foreclosure, or by any other means*
- g) *The PPA/L identifies the public agency (WRCOG) that is a party to the assessment contract on the real property as a third-party beneficiary of the power purchase agreement or lease until the assessment lien on the property has been fully paid and, only until that time, prohibits amendments to the power purchase agreement or lease without the consent of the public agency.*
- h) *In order to ensure that the property owner is guaranteed the electric power from the system for the length of the lien, the system shall not be removed if the owner of the attached system is not performing its obligations under the contract, and of the following is true:*
  - 1. *The owner of the attached system does both of the following:*
    - A. *Covenants in its contract with the property owner that neither the owner of the attached system nor any successor in interest will remove or permanently decommission the attached system during the term of the contract.*
    - B. *Warrants in the contract with the property owner that no assignee, creditor, partner, or owner of the attached system’s owner has, as of the date of the contract or during the remaining term of the contract, the right to remove or permanently decommission the attached system*
  - 2. *The owner of the attached system must be a bankruptcy remote special purpose entity that is bankruptcy remote and meets all of the following conditions:*
    - A. *The Owner does not engage in any business other than owning the attached systems and entering into electricity contracts with the homeowner.*
    - B. *It has no material debt*
    - C. *Its contracts are either entered into with unrelated third parties or have negotiated terms at arm’s length*

Pursuant to WRCOG's adoption of the PACE Consumer Protection Policies in December 2015, it is the responsibility of the Partner (RA) to prepare, deliver and arrange for execution of disclosures that reflect the Section 5899.2 rights for solar lease improvements.

## 1.2 – Observations and Recommendations

Baker Tilly makes the following observations and recommendations regarding RA's compliance with Program Parameter requirements.

**Table 4 – Observations and Recommendations regarding RA's compliance with Program Parameter Requirements**

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Addressed since June 30, 2016 per RA <sup>5</sup> | Recommendation                                                                                                                                                                                                                                                                                                                                |
|---------------|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.2.1         | Program observation              | PACE Residential Eligible Product Guidelines and the Administrative Guidelines and Program Report state as an eligibility specification for Central Air Conditioners that the installed product must replace an existing product. This eligibility specification is not listed within the HERO Eligible Products List and RA stated that it was not required to verify the specification and is no longer on the most-updated eligible product specification list (which is dated December 1, 2016 and thus not concurrent with the operational analysis time-frame). The date by which RA implemented this verification specification change (sometime between April 17, 2015 and December 1, 2016) was not provided. | In progress                                       | WRCOG and RA should create a more streamlined process to ensure eligible products are updated concurrently. A potential option to reduce redundancy is to remove the eligible products list from the Administrative Guidelines and Program Report and solely maintain the Eligible Product list within the PACE Consumer Protection Policies. |

<sup>5</sup> A "Yes" in this column means that RA has stated that this issue has been addressed by new controls or compliance programs put in place since June 30, 2016. An operational review of new controls or programs implemented since June 30, 2016 was outside of the scope of this engagement and Baker Tilly has not tested them and cannot comment on their effectiveness.



| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                   | Addressed since June 30, 2016 per RA <sup>5</sup> | Recommendation                                                                                                                                                               |
|---------------|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               | <u>RA's Response:</u>            | Under its administration agreement with WRCOG, Renovate America is required to update the HERO Eligible Product List, which it does accordingly from time to time. The HERO Eligible Product List is publicly available on the HERO Program's website. Renovate America does not have the ability to modify the list of eligible products contained within the Program Report. | In progress                                       | Renovate America welcomes the opportunity to work with WRCOG to create a more streamlined process to verify that applicable eligible product lists are updated concurrently. |

### 1.3 – Testing and Results

The table below shows WRCOG’s questions per the RFP in the Program Parameters area. Baker Tilly describes the testing performed and the result of the testing for each WRCOG question.

**Table 5 – Review of RA’s compliance with the Program Parameter Requirements**

| Workplan Step | WRCOG Question per RFP                                                                                                                         | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.a.          | Are the Eligible Improvements being financed consistent with the objectives of the PACE enabling legislation (Assembly Bill 811)? If not, why? | <p>Baker Tilly requested documentation support from 96 sample assessments in order to test that the eligible improvements were being financed with the objectives of AB 811, Sec 1(a-e). Specifically, for the 96 samples tested, we found that the program met the following objectives:</p> <ul style="list-style-type: none"> <li>&gt; Financing was provided and used for installation of distributed generation renewable energy sources or energy efficiency improvements for residential property</li> <li>&gt; Financing was not provided for any parcels that were undergoing development</li> </ul> <p>Furthermore, for the 96 samples tested, we found no indication that:</p> <ul style="list-style-type: none"> <li>&gt; The sampled financed purchases were not permanently fixed to the parcels</li> </ul> <p>For the 96 samples tested,</p> <ul style="list-style-type: none"> <li>&gt; Homeowners signed every assessment agreeing to the financing terms indicating their “free and willing consent”</li> <li>&gt; For one assessment, HERO ID RSD57980N, it was unclear if the home owner fully understood the terms and amount to which he was committing. See Opportunity #3 in Section 13 for further detail.</li> </ul> <p>See section (A) of the Program Parameters Background and Current Process regarding details on the objectives of Assembly 811 as it pertains to the operational analysis.</p> |

| Workplan Step | WRCOG Question per RFP                                                                                                                 | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.b.          | Is the Provider adhering to all aspects of WRCOG's Administrative Guidelines and Program Report? If not, why?                          | <p>See section (A) of the Program Parameters Background and Current Process regarding details on the aspects of WRCOG's Administrative Guidelines and Program Report as it pertains to the operational analysis.</p> <p>The Observations and Recommendations tables throughout the report provide specific instances in which assessments may not have been financed in accordance with all aspects of WRCOG's Administrative Guidelines and Program Report.</p> |
| 1.c.          | Is the Provider approving financing properties that are not eligible:                                                                  | In order to test RA's adherence to this specific requirement, Baker Tilly selected 32 samples of energy efficiency loans, 32 water conservation and 32 renewable energy samples for a total of 96 samples. Each of the samples were tested for consistency with the eligible property types as listed in the PACE Consumer Protection Policies.                                                                                                                  |
|               | > Commercial properties (including residential properties comprising four (4) or more units)                                           | Of the 96 samples tested, no loans financed commercial properties.                                                                                                                                                                                                                                                                                                                                                                                               |
|               | > New properties under construction                                                                                                    | Of the 96 samples tested, no loans financed new properties.                                                                                                                                                                                                                                                                                                                                                                                                      |
|               | > Tax exempt properties (properties not subject to levy), such as tribal, nonprofit or state-owned residential properties? If so, why? | Of the 96 samples tested, no loans financed tax exempt properties.                                                                                                                                                                                                                                                                                                                                                                                               |
| 1.d.          | Are the properties being approved by the Provider meeting WRCOG's Program eligibility criteria? If not, why?                           | <p>Baker Tilly selected a sample of 96 assessments and tested to determine if RA fulfilled its requirements under the PACE Consumer Protection Policies.</p> <p>The following rows provide summaries for specific sample assessment testing that relates to WRCOG's Program eligibility criteria.</p>                                                                                                                                                            |
|               | > Property owner(s) must be the property owner(s) of record.                                                                           | The property owner(s) for all 96 sample assessments viewed were the property owner(s) of record.                                                                                                                                                                                                                                                                                                                                                                 |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                                                                                                                               | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| >             | Property owner(s) must be current on their property taxes and the property owner(s) certify(ies) that such owner(s) have not had a late payment on their property taxes more than once during the prior three (3) years (or since the purchase of the property, if owned by such property owner(s) less than three (3) years).                                                                       | For the 96 sample assessments viewed, Baker Tilly viewed the third party financial services vendor's property information to confirm that property owners were current on their property taxes. Baker Tilly also viewed the property owner's signature(s) of the 96 program applications. The application requires the property owner to certify that (s)he is current on all property taxes.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| >             | Property owners must be current on all property debt of the subject property at the time of application and cannot have had more than one 30-day mortgage late payment over the prior 12 months.                                                                                                                                                                                                     | Baker Tilly viewed credit reports generated by the third party financial services vendor for each of the 96 sample assessments to assess that property owners were current on all property debt.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| >             | Property must not have any liens other than lender debt or liens recorded by community facilities districts or similar financing districts.                                                                                                                                                                                                                                                          | Baker Tilly viewed property reports generated by the third party financial services vendor to assess that property owners were current on all property debt. No liens other than lender debt or liens recorded by community facilities districts or similar financing districts were observed for the 96 assessments viewed.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| >             | Property owner(s) have not been involved in a bankruptcy proceeding during the past seven (7) years and the property may not currently be an asset in a bankruptcy proceeding; provided, however, that if the bankruptcy is more than two years old, and if the property owner has no additional late payments more than 60 days past due in the last 24 months, the property owner may be approved. | <p>Baker Tilly viewed credit reports generated by the third party financial services vendor to assess that property owners had not been involved in a bankruptcy proceeding the prior seven (7) years.</p> <p>Baker Tilly identified one (1) instance in which the bankruptcy financing provision could not be confirmed by Baker Tilly from the credit report alone due to lack of data provided by the third party providers (Loan ID: 195816). RA stated that servicers do not consistently provide monthly updates to third party providers when delinquencies do not occur. RA collected 12 months of past mortgage payment data within which no delinquencies were reported and referred to consumer credit reports for the 12 months prior. Given that no delinquencies were reported for the 24 month period, RA determined the applicant to be eligible for financing. WRCOG has indicated that the information RA utilized is adequate.</p> |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| >             | <p>Mortgage-related debt on the property must not exceed 90% of the value of the property. For projects funding on or after January 1, 2015, the maximum assessment amount shall not exceed the lesser of (a) than 15% on the first \$700,0000 value of the property and, if applicable, less than 10% of any value of the property thereafter or (b) a combined mortgage and Assessment Contract amount of 100% of the value of the property. For projects funding prior to January, 2015, the maximum assessment amount shall not exceed the lesser of (a) less than 10% of the value of the property or (b) a combined mortgage and Assessment Contract amount of 100% of the value of the property.</p> | <p>Baker Tilly viewed property reports and credit reports generated by the third party financial services vendor to assess the mortgage related debt.</p> <p>Baker Tilly tested to determine if RA fulfilled its requirements under the Consumer Protection Policies:</p> <p><i>1.2.1 All mortgage-related debt on the Property may not exceed 90% of the Property's fair market value (FMV), or assessed value if market value data is unavailable or unreliable, at the time of initial approval</i></p> <p>For all 96 samples, the calculated mortgage-related debt on the property did not exceed 90% of the value of the property.</p> <p>Baker Tilly also tested to determine if RA fulfilled its requirements under the Consumer Protection Policies:</p> <p><i>1.2.3. The financing may not exceed (i) fifteen percent (15%) of the FMV of the Property, up to the first seven hundred thousand dollars (\$700,000) of the Property's FMV, and (ii) ten percent (10%) of the remaining value of the Property above seven hundred thousand dollars (\$700,000);</i></p> <p>For all 96 samples, the financing did not exceed 15% of the FMV of the property up to \$700,000 nor 10% of the remaining value of the property above \$700,000.</p> <p>Baker Tilly also tested to determine if RA fulfilled its requirements under the Consumer Protection Policies:</p> |

| Workplan Step                                                                 | WRCOG Question per RFP | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------------------------------------------------------------------------|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                               |                        | <p>1.2.4. <i>The total mortgage-related debt on the underlying Property plus Program financing may not exceed the FMV of the Property</i></p> <p>For eight (8) assessments, the combined mortgage and maximum assessment contract amount exceeded 100% of the value of the property. However, no loans were financed to the maximum assessment contract amount and therefore the combined funding and mortgage value did not exceed property values.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <p>&gt; Is the Fair Market Value (“FMV”) model reliable? Please describe.</p> |                        | <p>During the scoped operational analysis period, RA used two different automated valuation model (AVM) sources, referred to as “AVM Source 1” and “AVM Source 2”, as the market value of the home. During an interview, RA described the order of market values it used during the scoped period. A procedures document of the market value hierarchy pertaining to the operational analysis time-frame of July 1, 2015 – June 30, 2016 was requested, but was not provided.</p> <p>Per the interview, the system tested the parameters detailed in question 1.d. against market values in the following order:</p> <ul style="list-style-type: none"><li>&gt; AVM Source 1 “median” property value estimate</li><li>&gt; AVM Source 2 “median” property value estimate</li><li>&gt; AVM Source 1 “high” property value estimate</li><li>&gt; AVM Source 2 “high” property value estimate</li></ul> <p>Of the 96 samples tested, the model consistently followed this hierarchy for assigning market values to properties and this market value was consistently used in the 96 samples in the calculations for maximum assessment amounts.</p> <p>Since the operational analysis period, RA has updated how it calculates the market value in the HERO Underwriting Practices</p> |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                              | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                                                                                                                                                                                                                                                                     | <p>Manual (dated August 3, 2016). Per this manual, the AUS automatically calculates the market value and will utilize the first qualifying value in the following order based on this value hierarchy:</p> <ul style="list-style-type: none"> <li>&gt; Median “high” value from AVM Source 1, AVM Source 2 and a third AVM Source (“AVM Source 3”)</li> <li>&gt; Average of the 2 highest “high” values from AVM Source 1, AVM Source 2, and AVM Source 3</li> <li>&gt; Highest of the “high” values from AVM Source 1, AVM Source 2, and AVM Source 3</li> <li>&gt; Other Value Source</li> <li>&gt; Appraisal (can potentially supersede the values listed above – only enter if using to increase the approval)</li> <li>&gt; Tax Value</li> </ul> |
|               | <ul style="list-style-type: none"> <li>&gt; The total annual property tax and assessments, including the contractual assessment, on the property will not exceed 5% of the property’s market value, as determined at the time of approval of the contractual assessment.</li> </ul> | <p>Baker Tilly viewed property reports and credit reports generated by the third party financial services vendor to assess the mortgage related debt for the 96 sample assessments.</p> <p>For the 96 assessments viewed, Baker Tilly re-calculated the annual property tax plus assessments and determined they did not exceed 5% of the property market value.</p>                                                                                                                                                                                                                                                                                                                                                                                  |
| 1.e.          | Is the Provider verifying that at the time of application, the homeowners are eligible for Program financing under the following conditions? If so, how is this verified? If not, why?                                                                                              | The following rows provide summaries for specific sample assessment testing that relates to program financing eligibility requirements.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|               | <ul style="list-style-type: none"> <li>&gt; The Applicants are the owners of record.</li> </ul>                                                                                                                                                                                     | <p>To validate that the applicants are the owners of the record, RA utilizes the third-party vendor’s property reports, which provides up-to-date property details, property valuations, and transaction histories.</p> <p>See responses to Workplan Step 1.d for sample assessment testing results of the verification.</p>                                                                                                                                                                                                                                                                                                                                                                                                                          |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                                                                                                                                                      | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               | <ul style="list-style-type: none"> <li>&gt; Property tax payments for the assessed Property are current. Additionally, the homeowner must certify that there is no more than one late payment for the shorter of (i) the previous three years, or (ii) since the present homeowner acquired the Property.</li> </ul>                                                                                                        | <p>To validate that the applicants are current with property taxes, RA utilizes property reports and the third party financial services vendor's credit reports, which accesses and consolidates data from all three-credit repositories (i.e., Equifax, Experian, and TransUnion).</p> <p>See responses to Workplan Step 1.d for sample assessment testing results of the verification.</p>                                             |
|               | <ul style="list-style-type: none"> <li>&gt; Homeowner(s) are current on all mortgage debt, and have been late on such payments no more than once (30 days maximum) during the 12-month period preceding funding.</li> </ul>                                                                                                                                                                                                 | <p>To validate that the applicants are current on all mortgage debt, RA utilizes property reports and credit reports, which accesses and consolidates data from all three credit repositories.</p> <p>See responses to Workplan Step 1.d for sample assessment testing results of the verification.</p>                                                                                                                                  |
|               | <ul style="list-style-type: none"> <li>&gt; No homeowner applicant has had any active bankruptcies within the last 7 years; provided, however, that this criterion can be met if a homeowner's bankruptcy was discharged between two and seven years before the application date and the homeowner have had no payments (mortgage and non-mortgage) past due for more than 60 days in the most recent 24 months.</li> </ul> | <p>To validate that the applicants have not any active bankruptcies in the past 7 years, RA utilizes credit reports, which accesses and consolidates data from all three-credit repositories.</p> <p>See responses to Workplan Step 1.d for sample assessment testing results of the verification.</p>                                                                                                                                   |
|               | <ul style="list-style-type: none"> <li>&gt; Homeowner(s) have no involuntary lien(s) recorded against the Property in excess of \$1,000.</li> </ul>                                                                                                                                                                                                                                                                         | <p>To validate that the applicants have no involuntary lien(s) recorded against the property in excess of \$1,000, RA utilizes credit reports, which accesses and consolidates data from all three credit repositories.</p> <p>See responses to Workplan Step 1.d for sample assessment testing results of the verification.</p>                                                                                                         |
| 1.f.          | Has the Provider established procedures confirming that the homeowner applying for Program financing intends to install Eligible Improvements, and that at the time of funding such improvements have been installed. If so, what are those procedures and how is this verified?                                                                                                                                            | RA has established procedures to confirm that the homeowners applying for HERO Program financing intend to install Eligible Improvements through a system check of the proposed products called in; at the time of funding such improvements have been installed, RA requires a signed completion certificate by the homeowner to attest that the eligible products listed on the completion certificate were installed on the property. |



| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                          | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                                                                                                                                                                                                                                                                                 | See section (D) of the Program Parameters background and current process for specific details on the product confirmation procedures.                                                                                                                                                                                                                                                                                                                                      |
| 1.g.          | Has the Provider established processes and controls to ensure that personal identifiable information of a homeowner is obtained directly from such homeowner (or his verifiable legal representative or attorney in fact) and not from a contractor or other third party? If so, what are they? | <p>The Provider relies on call center scripts with questions to conduct an ID verification, and hence the applicant's data prior to the discussing of financing terms and conditions.</p> <p>For all confirmed terms calls viewed pertaining to the sample assessments, personal identifiable information was obtained directly from the property owners.</p> <p>See section (C) of the Program Parameters background and current process for details on this process.</p> |
| 1.h.          | Are the Improvements being approved by the Provider and installed by the Registered Contractor meeting the criteria listed in Exhibit C? If not, why?                                                                                                                                           | Through review of the 96 sample assessments, Baker Tilly identified discrepancies between the Exhibit C provided in the Administrative Guidelines and Program Report, PACE Consumer Protection Policies v1.0 and the HERO Eligible products list.                                                                                                                                                                                                                          |
| 1.i.          | Has the Provider established the following? If so, how?                                                                                                                                                                                                                                         | The following rows provide summaries for specific sample assessment testing that relates to establishment of eligible product requirements.                                                                                                                                                                                                                                                                                                                                |
|               | > Established and maintains an Eligible Improvements database and/or list, documenting the associated eligibility specifications for each product that conform to the requirements outlined in Attachment C hereto.                                                                             | <p>RA has established and maintains an eligible product list with eligibility specifications as outlined in Attachment C of WRCOG's Administrative Guidelines; the eligible products lists are also posted and updated to the HERO website.</p> <p>See section (E) of the Program Parameters background and current process.</p>                                                                                                                                           |
|               | > Defines a process for adding or modifying the eligible product database.                                                                                                                                                                                                                      | RA has a Product Review Council, who reviews all products proposed to be added to the eligibility list. The Council will research if the product fits within the eligible product guidelines and are in line with the Program objectives. If the Council chooses to move the product forward for approval, the product is viewed by an RA executive, who may then present the product for approval to WRCOG.                                                               |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                                                                                                                                                                      | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               | <ul style="list-style-type: none"> <li>&gt; Ensures that eligible product energy efficiency/water efficiency/energy generation (as applicable) performance standards are calibrated and verified using performance criteria that the U.S. Department of Energy, U.S. Environmental Protection Agency, the California Energy Commission and/or other federal and state agencies or other reputable third parties has established.</li> </ul> | <p>RA has developed an Eligible Products Database based on a cross-section of different energy efficiency equipment and product websites. RA develops eligibility specifications based on updated performance standards as published by the U.S. Department of Energy, U.S. Environmental Protection Agency, the California Energy Commission and/or other federal and state agencies or other reputable third parties.</p> <p>See section (E) of the Program Parameters background and current process for further details on the various product standards utilized.</p> |
|               | <ul style="list-style-type: none"> <li>&gt; Uses credible third party sources to determine the useful life of the product, which will be used to set the maximum term for the Program's financing.</li> </ul>                                                                                                                                                                                                                               | <p>RA develops product useful life primarily based on the InterNACHI guidelines. If the product is not listed in InterNACHI, RA uses the NAHB's useful life guidelines. In addition to using the NAHB's useful life guidelines, RA indicated it may use manufacturer warranty information.</p> <p>See section (E) of the Program Parameters background and current process.</p>                                                                                                                                                                                            |
|               | <ul style="list-style-type: none"> <li>&gt; Requires that the product is permanently affixed to the Property.</li> </ul>                                                                                                                                                                                                                                                                                                                    | <p>Per RA's "Registered Contractor Terms and Conditions," a document that is required to be signed by HERO Program Contractors, RA has established the requirement of eligible products be permanently-affixed pursuant to Chapter 29 of Division 7 of the California Streets &amp; Highways Code.</p>                                                                                                                                                                                                                                                                     |
| 1.j.          | For Solar Power Purchase Agreements, is the Provider adhering to Streets and Highway Code 5899.2? Please examine a minimum of 10 agreements to ensure it meets the code.                                                                                                                                                                                                                                                                    | <p>In order to test RA's adherence to Streets and Highways Code 5899.2, Baker Tilly tested 10 sample renewable energy (RE) assessments that were financed through lease/power purchase agreements. Of these 10 sample RE assessments, all were financed by the same third-party Lease/PPA Financing Company.</p> <p>All 10 sample RE assessments had a Lease/PPA disclosure letter addressed to the homeowner, separate from the executed</p>                                                                                                                              |

| Workplan Step | WRCOG Question per RFP | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|---------------|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                        | <p>Lease/PPA, which stated that <i>“if any inconsistency exists between the terms and provisions appearing in your [property owner’s] Lease/PPA Financing Company’s Lease/Power Purchase Agreement and those appearing in Section 5899.2, the terms and provisions of Section 5899.2 shall apply.”</i> The Lease/PPA disclosure letter also included the full terms of the Section 5899.2 rights.</p> <p>Per discussion with RA on April 19, 2017, RA is able to determine whether a solar assessment was financed through a PPA/L during both (1) the product call-in and the (2) confirmed terms call. RA then sends the PPA/L disclosure letter to the homeowner on behalf of the solar contractor after the product call-in</p> <p>Regarding some of the specific terms of Section 5899.2, the Lease/PPA Financing Company’s PPA/L for all 10 sample assessments explicitly mentions some of the specific requirements (and agrees with these requirements), such as:</p> <ul style="list-style-type: none"> <li>&gt; (a) the system is an eligible energy resource pursuant to the California RPS (both the solar panel and inverter are CEC approved list of SB-1 compliant products)</li> <li>&gt; (b) the terms of the PPA/L is at least as long as the term of the related assessment contract (the PPA/L is 20 years for all assessments, which is the same or exceeds the assessment contract term)</li> <li>&gt; (c) the Owner of the attached system agrees to install, maintain, and monitor the system of the entire term of the PPA/L (the Owner will “install, maintain, and periodically test a meter at the Property that will measure all electric energy delivered to you [homeowner] from the solar facility.”</li> <li>&gt; (e) after installation, PPA/L is paid in full using the funds from the contractual assessment program (for all</li> </ul> |

| Workplan Step | WRCOG Question per RFP | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                        | <p>assessments, the upfront lease payment matches the assessment contract amount)</p> <ul style="list-style-type: none"> <li>&gt; (f) The right to receive the electricity from the system, through a PPA/L or the right to the system itself, is tied to the ownership of the assessed real property and is required to be automatically transferred with the title to the real property whether the title is transferred by voluntary sale, judicial or nonjudicial foreclosure, or by any other means (the language in the lease mentions that system ownership transfers when the home is sold)</li> <li>&gt; (h) In order to ensure that the property owner is guaranteed the electric power from the system for the length of the lien, the system shall not be removed if the owner of the attached system is not performing its obligations under the contract, and of the following is true: (the lease agreement has a guaranteed kWh output payment schedule if the system does not produce as projected)</li> </ul> <p>All the other terms of Section 5899.2 (i.e., d, g, h1, h2) are mentioned in the PPA/Lease disclosure letter.</p> |

## 2.0 – DISCLOSURES AND DOCUMENTATION

### 2.1 – Background and Current Process

For the 96 samples selected, Baker Tilly requested to review the disclosures and documentation listed below:

- > Application
- > Approval
- > Assessment Contract
- > Right to Cancel
- > Financing Summary
- > Completion Certificate with supporting permits and invoices
- > Payment Summary

For each sample, Baker Tilly viewed the documents listed above to confirm adherence to the PACE Consumer Protection Policies v1.0 2.1-2.4.

RA primarily delivers documents electronically to a homeowner's provided email address. Electronic documents are signed by homeowners with a personal identification number (PIN) that they create over the phone once RA has completed an identity verification screening. Upon request, RA will also mail documentation to the homeowner and accept wet signatures.

The Assessment Contract is issued once the homeowner knows the specific products or improvements and has received a quote from his or her selected contractor. The Assessment Contract provides an estimated disbursement amount and worst case scenario of capitalized interest based on the homeowner taking the maximum amount of time to complete the project before the assessment contract's expiration. The Assessment Contract is issued with the Right to Cancel and Financing Summary. RA requires signatures acknowledging receipt of the Right to Cancel and Financing Summary.

When RA receives a Completion Certificate accompanied by building permits and signed by the contractor and homeowner, RA issues a Payment Summary with the final product amount, interest rate, term, and amortization schedule. The Payment Summary also includes instructions for paying down the lien as well as information for when the payment will be due and how it will impact the property tax bill amount. A phone number is provided for homeowners to call should they have any questions.

## 2.2 – Observations and Recommendations

Baker Tilly makes the following observations and recommendations regarding RA's compliance with Disclosure and Documentation requirements.

**Table 6 – Observations and Recommendations Regarding RA's Compliance with Disclosures and Documentation Requirements**

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Addressed since June 30, 2016 per RA <sup>6</sup> | Recommendation                                                                                                                                                                                                                                                         |
|---------------|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.2.1         | Program observation              | <p>Baker Tilly selected a sample of 96 assessments and tested to determine if the term exceeded the useful life of the product financed. Per the Pace Consumer Protection Policy 11.1.4 <i>"the useful life of the product... will be used to set the maximum term for the Program's financing."</i> During the course of its testing, Baker Tilly noted five (5) instances in which RA offered 15 year financing terms for Premium Artificial Turf. Appendix A of the Administrative Guidelines and Program Report and the PACE Consumer Protection Policies v1.0 do not list premium turf as a product; the two documents list that turf has a useful life of 10 years. RA's internal policies ('PACE Eligible Products Guidelines') list artificial turf and premium artificial turf as two eligible products.</p> <p>Baker Tilly noted the following instances in which a financing term of 15 years was used, which occurred prior to the implementation of the Consumer Protection Policies (only the Administrative Guidelines were in effect):</p> <ul style="list-style-type: none"> <li>&gt; Loan ID: 169265</li> </ul> | In progress                                       | Baker Tilly recommends that RA determine the useful life of premium turf and recommend modifications to the Administrative Guidelines and Program Report. WRCOG and RA should create a more streamlined process to ensure eligible products are updated concurrently.. |

<sup>6</sup> A "Yes" in this column means that RA has stated that this issue has been addressed by new controls or compliance programs put in place since June 30, 2016. An operational review of new controls or programs implemented since June 30, 2016 was outside of the scope of this engagement and Baker Tilly has not tested them and cannot comment on their effectiveness.

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Addressed since June 30, 2016 per RA <sup>6</sup> | Recommendation                                                                                                                                                                                                                                                                                                                                                                     |
|---------------|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                  | <ul style="list-style-type: none"> <li>&gt; Loan ID: 174241</li> <li>&gt; Loan ID: 213886</li> <li>&gt; Loan ID: 255051</li> <li>&gt; Loan ID: 194410</li> </ul> <p>RA stated that 'premium' turf has a longer useful life than turf (15 years vs. 10 years).</p>                                                                                                                                                                                                                                                                                         |                                                   |                                                                                                                                                                                                                                                                                                                                                                                    |
|               | <u>RA's Response:</u>            | <p>Under its administration agreement with WRCOG, Renovate America is required to update the HERO Eligible Product List, which it does accordingly from time to time. The HERO Eligible Product List is publicly available on the HERO Program's website. Renovate America does not have the ability to modify the list of eligible products contained within the Program Report.</p> <p>Premium turf products carry manufacturer's warranties of 15 years, which enables the HERO Program to designate the useful life of such products as 15 years.</p> | In progress                                       | Renovate America welcomes the opportunity to work with WRCOG to create a more streamlined process to verify that applicable eligible product lists are updated concurrently.                                                                                                                                                                                                       |
| 2.2.2         | RA process                       | <p>Baker Tilly selected a sample of 96 assessments. For instances in which a confirmed terms call was randomly recorded by the Program (22 samples), Baker Tilly listened to the confirmed terms calls to verify that all items required per PCPP 2.4 were covered on the call. Required items include that the Partner requests "the homeowner to describe generally the improvement(s) being financed using the program financing, and will ascertain that the homeowner understands:</p>                                                               | Yes                                               | <p>Baker Tilly recommends that RA modify the confirm terms call script to include the required language. RA should train its staff to follow the new call scripts.</p> <p>RA currently monitors confirm term (and other) phone calls with homeowners. Baker Tilly recommends that RA add a step to the monitoring procedures to review that RA confirms all terms as required.</p> |

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Addressed since June 30, 2016 per RA <sup>6</sup> | Recommendation                                                                                                                                                                                                                                                                                          |
|---------------|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                  | <ul style="list-style-type: none"> <li>&gt; The reason for the specific improvement(s) being obtained by such homeowner.</li> <li>&gt; His or her total estimated annual payment.</li> <li>&gt; The date his or her first tax payment will be due.</li> <li>&gt; The term of the Program financing.</li> <li>&gt; Any additional fees (including recording fees) that will be charged to him or her.</li> <li>&gt; That payment for the Program financing will be added to his or her property tax bill and will cause the property tax bill to increase.</li> <li>&gt; That he or she may make payments in the Program financing either directly to the county assessor's office or through his or her mortgage impound account.</li> </ul> <p>Baker Tilly identified six (6) instances in which RA did not cover each of the topics during the confirmed terms phone call with the homeowner and in which the assessment contracts were signed by the homeowner after December 7, 2015 (the date in which WRCOG adopted the PACE Consumer Protection Policies). Specifically, Baker Tilly identified the following:</p> <p>Loan ID: 253842</p> <ul style="list-style-type: none"> <li>– The RA representative did not mention the other fees the homeowner would be charged (e.g., recording fees).</li> </ul> <p>Loan ID: 237909</p> |                                                   | <p>NOTE: Per discussion, RA began performing confirm terms calls on all files in July 2016, after the period of review. The confirm terms scripts have also been enhanced since June of 2016. Given the timing of these enhancements, Baker Tilly did not confirm implementation of these measures.</p> |



| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Addressed since June 30, 2016 per RA <sup>6</sup> | Recommendation |
|---------------|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|----------------|
|               |                                  | <ul style="list-style-type: none"> <li>– The RA representative did not mention the other fees the homeowner would be charged (e.g., recording fees).</li> <li>– The RA representative did not note that the homeowner could make payments via the County Assessor or through an existing impound account.</li> </ul> <p>Loan ID: 253831</p> <ul style="list-style-type: none"> <li>– The RA representative did not mention the other fees the homeowner would be charged (e.g., recording fees).</li> <li>– The RA representative did not note that the homeowner could make payments via the County Assessor or through an existing impound account.</li> </ul> <p>Loan ID: 240104</p> <ul style="list-style-type: none"> <li>– The RA representative did not mention the other fees the homeowner would be charged (e.g., recording fees).</li> <li>– The RA representative did not note that the homeowner could make payments via the County Assessor or through an existing impound account.</li> </ul> <p>Loan ID: 205073</p> <ul style="list-style-type: none"> <li>– The RA representative did not mention the other fees the homeowner would be charged (e.g., recording fees).</li> <li>– The RA representative did not note that the homeowner could make payments via</li> </ul> |                                                   |                |

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Addressed since June 30, 2016 per RA <sup>6</sup> | Recommendation                                                                                                                                                  |
|---------------|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                  | <p>the County Assessor or through an existing impound account.</p> <p>Loan ID: 233128</p> <ul style="list-style-type: none"> <li>– The RA representative did not mention the other fees the homeowner would be charged (e.g., recording fees).</li> <li>– The RA representative did not note that the homeowner could make payments via the County Assessor or through an existing impound account.</li> </ul> <p>The PACE Consumer Protection Policies requires that RA inform the homeowner of additional fees and how the individual makes payments through the assessor's office. These requirements are noted in Section 2.4 of the PCPP.</p> <p>RA provided the confirmed terms script to be used by its representatives. The confirmed terms script did not contain language to inform the homeowner that payments could be made to the County Assessor's Office or through an existing impound account.</p> |                                                   |                                                                                                                                                                 |
|               | <u>RA's Response:</u>            | Renovate America acknowledges that, in some instances, representatives did not refer to additional fees and impound accounts during the confirm terms call. Renovate America has made continuous improvements to the confirm terms process and script since the end of the Baker Tilly review period.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Yes                                               | Renovate America agrees with the recommendation, which has already been implemented. Confirm terms calls are monitored, and subject to quality control reviews. |

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                 | Addressed since June 30, 2016 per RA <sup>6</sup> | Recommendation |
|---------------|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|----------------|
|               |                                  | Throughout the review period, disclosures of fees and payments through impound accounts were present in the HERO Program's financing documents. The current confirm terms script is subject to a monitoring process that evaluates all required disclosures. |                                                   |                |

## 2.3 – Testing and Results

The table below shows WRCOG's questions per the RFP in the Disclosure and Documentation area. Baker Tilly describes the testing performed and the result of the testing for each WRCOG question.

**Table 7 – Review of RA's compliance with Disclosure and Documentation Requirements**

| Workplan Step | WRCOG Question per RFP                                                                                                                                                    | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.a.          | Is the Provider verifying that a homeowner has:                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|               | > Submitted an application                                                                                                                                                | RA requires submittal of an application through the website, call in or by completing a paper application.                                                                                                                                                                                                                                                                                                                        |
|               | > Received approval of the Improvements from RA                                                                                                                           | Applicants receive an electronic confirmation approval letter.                                                                                                                                                                                                                                                                                                                                                                    |
|               | > Executed documentation covering the terms described in this Section and in the Disclosures summarized in this Section? If yes, how is this being verified? If not, why? | Terms are included throughout the documents listed in the background section. Executed documents must be signed by the property owner.                                                                                                                                                                                                                                                                                            |
| 2.b.          | Does the Provider verify that following construction of the Improvements, the homeowner has:                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|               | > Executed an acknowledgement that the installation of the Improvements has been completed satisfactorily; and                                                            | Property owners and contractors are required to sign a Completion Certificate to confirm that products were installed to the satisfaction of the property owner and in compliance with the Program's eligible product list. Property owners are instructed to sign the Completion Certificate after all work is completed. Homeowners may receive a copy of the signed Completion Certificate via postal mail upon request to RA. |
|               | > Received a final summary of costs and payments? If so, how is this verified? How are the materials delivered to the homeowner?                                          | The final summary of all costs is sent to the property owner in the Payment Summary. This document includes a breakdown of the financing term, interest rate, annual amount added to the property tax bill, product cost, fees, and an amortization schedule. Materials are electronically delivered to the property owner or mailed upon request.                                                                                |

| Workplan Step | WRCOG Question per RFP                                                           | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.c.          | Does the Provider verify that the terms are reflected in its documents comprise: | <p>Baker Tilly selected a sample of 96 assessments and tested to determine if the term exceeded the useful life of the product financed.</p> <p>These terms are listed in one or more of the following documents: Assessment Contract, Completion Certificate, Financing Summary, Payment Summary, and the Right To Cancel document.</p>                                                                                                                                                                                                                 |
|               | > The amount financed, fees and capitalized interest included                    | <p>The maximum and estimated disbursement amount financed, fees and capitalized interest are included in the Assessment Contract.</p> <p>The amount financed, fees, and capitalized interest is included in the Financing Summary.</p> <p>The amount financed, fees, and capitalized interest is included in the Payment Summary.</p>                                                                                                                                                                                                                    |
|               | > The repayment process and schedule                                             | <p>The Application details information regarding the payment process an assessment levied against the property in section five (5).</p> <p>The Assessment Contract includes an estimated payment schedule and information regarding prepayment in Section (d) and after the payment and schedule.</p> <p>The Payment Summary includes the final payment schedule, when HERO will appear on the property taxes, how payments may impact monthly mortgage payments for escrow impound accounts, and how to pay for HERO through the property tax bill.</p> |
|               | > The payment amounts                                                            | <p>The final payment amount is included in the Financing Summary.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                     | BT Testing/Results                                                                                                                                                                                                                   |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               | > A term that does not exceed the useful life of the improvements                                                                                                                                                                          | During the course of its testing, Baker Tilly noted five (5) instances in which RA allowed a financing term that was greater than the product's useful life. See Observation 2.2.1 in the previous table for additional information. |
|               | > The rate of interest charged                                                                                                                                                                                                             | The rate of interest is included in the Assessment Contract, Financing Summary and Payment Summary.                                                                                                                                  |
|               | > A rate of interest that is fixed (not variable)                                                                                                                                                                                          | The Assessment Contract states that the interest rate is fixed.                                                                                                                                                                      |
|               | > A payment schedule that fully amortizes the amount financed                                                                                                                                                                              | An estimated payment schedule is provided in the Assessment Contract and Financing Summary. The final schedule is provided in the Payment Summary.                                                                                   |
|               | > The nature of the lien created upon recordation                                                                                                                                                                                          | The Application details information regarding the payment process an assessment levied against the property in section five (5).                                                                                                     |
|               | > The specific improvements to be installed                                                                                                                                                                                                | Improvements are listed on the Assessment Contract, Financing Summary, Completion Certificate and Payment Summary.                                                                                                                   |
|               | > The 3-day right to cancel the financing                                                                                                                                                                                                  | The 3 (three) day right to cancel is reflected in the Right to Cancel document.                                                                                                                                                      |
|               | > The right to withhold approval of payment until the project is complete                                                                                                                                                                  | The Completion Certificate instructs the property owner not to sign until work is complete.                                                                                                                                          |
|               | > Section 5899.2 rights for solar lease improvements. If so, how is this verified?                                                                                                                                                         | For the 10 solar lease improvement assessments viewed, Section 5899.2 rights for solar lease improvements is stated in the PPA/L disclosure letter.                                                                                  |
| 2.d           | Does the Provider verify the delivery to, and receipt by, the homeowners of the disclosures, and does the Provider obtain written acknowledgement that homeowners have read and understand them? If so, how is this verified? If not, why? | Property owner signatures verifying receipt and acknowledgement of the terms are required on the Application, Assessment Contract, Financing Summary, Right to Cancel and Completion Certificate.                                    |
| 2.e.          | At what point does the Provider confirm by telephone interviews with the homeowner applicant each of the Program financing terms (i.e., new contractors, protected classes, etc.)?                                                         | RA verifies the terms and conditions with the property owner immediately after the application has been approved.                                                                                                                    |

| Workplan Step | WRCOG Question per RFP                                                                                              | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------|---------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.f.          | If the Provider is confirming terms, is the following information covered? If so, how is this information verified? | <p>Baker Tilly selected a sample of 96 assessments. For instances in which a confirm term call was required, Baker Tilly viewed the confirm terms calls to verify that all required items were covered on the call.</p> <p>Baker Tilly identified instances in which RA did not cover each of the topics during the confirm terms phone call with the homeowner and in which the assessment contracts were signed by the homeowner after December 7, 2015 (the date in which WRCOG adopted the PACE Consumer Protection Policies). Refer to Observation 2.2.2 in the prior table for additional information.</p> |
|               | > The reason for the specific improvement(s) being obtained by such homeowner.                                      | The reason for the specific property improvement is included in the confirmed terms call script. The Program agent verified the purpose of the home improvement during the 22 calls that Baker Tilly viewed by asking the property owner the improvements that would be made to the home.                                                                                                                                                                                                                                                                                                                        |
|               | > His or her total estimated annual payment.                                                                        | The total estimated annual payment is included in the confirmed terms call script. The Program agent verified the total estimated annual payment in the 22 confirmed terms calls that Baker Tilly viewed.                                                                                                                                                                                                                                                                                                                                                                                                        |
|               | > The date his or her first tax payment will be due.                                                                | The date the property owner's first payment is due is included in the confirmed terms call script. The Program agent verified the date in the 22 confirmed terms calls that Baker Tilly viewed.                                                                                                                                                                                                                                                                                                                                                                                                                  |
|               | > The term of the Program financing.                                                                                | The term the property owner's first payment is due is included in the confirmed terms call script. The Program agent verified the term in the 22 confirmed terms calls that Baker Tilly viewed.                                                                                                                                                                                                                                                                                                                                                                                                                  |
|               | > Any additional fees (including recording fees) that will be charged to him or her.                                | The additional fees were not included in the confirmed terms call script viewed by Baker Tilly. The Program agent did not verify the additional fees in six (6) of the 22 confirmed terms calls that Baker Tilly viewed. Refer to Observation 2.2.2 in the previous table.                                                                                                                                                                                                                                                                                                                                       |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                           | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               | <ul style="list-style-type: none"> <li>&gt; That payments for the Program financing will be added to his or her property tax bill and will cause the property tax bill to increase.</li> </ul>                   | The payment method is included in the confirmed terms call script. The Program agent verified the term in the 22 confirmed terms calls that Baker Tilly viewed.                                                                                                                                                                                                                                    |
|               | <ul style="list-style-type: none"> <li>&gt; That he or she may make payments on the Program financing either directly to the county assessor's office or through his or her mortgage impound account.</li> </ul> | The way in which the property owner may make payments was not included in the confirmed terms call script viewed by Baker Tilly. The Program agent did not direct the property owner that (s)he could make payments directly to the assessor's office or through his/her mortgage impound account in five (5) of the 22 confirmed terms calls that Baker Tilly viewed. Refer to Observation 2.2.2. |



## 3.0 – FUNDING PROCESS

### 3.1 – Background and Current Process

Section 3 of the PACE Consumer Protection Policies states the following:

*It is the policy of the Program that Partners establish a sustainable source of capital for funding PACE financed projects separate from the Authority's general fund or budget and have access to capital markets to ensure funding of qualified projects is available on a consistent basis. A Partner must demonstrate the capacity to fund assessments that the Administrator anticipates originating through such Partner over the six (6) month period immediately following the Administrator's review of such Partners' financial statements.*

In order to establish a sustainable source of funding, RA maintained a working capital line of credit, two warehouse lines of credit, cash on-hand, and the securitization process. Baker Tilly reviewed documentation, including loan documents and financial statements, which demonstrated RA's ability to comply with Section 3 of the PCPP.

Baker Tilly drew this conclusion by comparing an estimate of the dollar amount originated over a 6 month period to the cumulative amount available to RA through the various sources available (e.g., lines of credit, cash on hand).

Section 3 of the PACE Consumer Protection Policies requires that the Program be able to offer subordination of certain rights of its PACE assessment lien to the lien of a mortgage or deed of trust. Baker Tilly interviewed RA's Operation Team to document policies and procedures in place to accommodate homeowner requests. RA has a function known as the 'HERO Property Advisors.' This group is responsible for various post-funding tasks including:

- > Providing a 'welcome kit' to customers post-funding
- > Coordination of partial payments and early payments
- > Subordination of rights to the lien of a mortgage or deed of trust

RA has established a process to identify homes that may require RA to subordinate rights. Specifically, HERO Property Advisors (HPA) has established a team, known as HERO Property Advisors – Subordination, who query the Multiple Listing Service (MLS) to identify home with a PACE assessment that have been put up for sale. When this occurs, HPA – Subordination proactively reaches out to the property owner and to the real estate agent. In the event that the owner requests subordination of rights, HPA – Subordination provides an application to the homeowner and processes the application when complete.

Per RA, there has not been an instance to date in which RA was not able to accommodate a request to subordinate rights of its PACE assessment lien to the lien of a mortgage or deed of trust. Baker Tilly was able to conclude that RA complied with the PCPP, which states the following:

*The Program is not required but may offer the capability to accommodate homebuyers and homeowners by offering subordination of certain rights of its PACE assessment lien to the lien of a mortgage or deed of trust. The subordination may provide the lien under a mortgage or deed of trust with senior rights such that the lender will be induced to make a loan on a PACE-assessed property. The subordination option may be made available to homebuyers and homeowners in accordance with policy agreed upon by the Authority and the Partner.*

**3.2 – Observations and Recommendations**

Baker Tilly noted no observations and recommendations that do not relate to and appear in other sections of this report.

**3.3 – Testing and Results**

The table below shows WRCOG’s questions per the RFP in the Funding Process area. Baker Tilly describes the testing performed and the result of the testing for each WRCOG question.

**Table 8 – Review of RA’s Funding Process**

| Workplan Step | WRCOG Question per RFP                                                                 | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------|----------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.a.          | Does the Provider offer fixed simple interest rates, and payments are fully amortized? | Baker Tilly selected a sample of 96 PACE assessments and viewed relevant documentation to determine if RA offered fixed simple interest rates and that the payments were fully amortized, as required. Specifically, Baker Tilly viewed the Financing Summary, Payment Summary, and the Assessment Contract to determine if a fixed simple rate was offered. Baker Tilly viewed the Financing Summary and Payment summary to verify that payments were fully amortized. Additionally, Baker Tilly selected a subsample of three (3) PACE assessments (one each – Water Conservation, Energy Efficiency, and Renewable Energy) and recreated the amortization schedule to confirm that RA offered a fixed simple interest rate and that the payments were fully amortized. |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                                                                                                | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                                                                                                                                                                                                                                                                                                                                                       | Baker Tilly observed that, for each of the 96 PACE assessments sampled, a fixed simple interest rate was offered and that payments were fully amortized.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 3.b.          | Does the Provider have a source of capital for funding PACE financed projects separate from WRCOG's general fund or budget and have access to capital markets to ensure funding of qualified projects is available on a consistent basis? If so, what is that source of capital?                                                                                      | In order to establish a sustainable source of funding, RA maintained lines of credit with three (3) providers in addition to cash on hand. Baker Tilly concluded through its analysis that RA fulfilled its obligations under Section 3 of the PCPP.                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 3.c.          | Can the Provider demonstrate the capacity to fund assessments that over a six (6) month period immediately following WRCOG's review of the Provider's financial statements? If so, what is that amount and how is it calculated?                                                                                                                                      | In order to establish a sustainable source of funding, RA maintained lines of credit with three (3) providers in addition to cash on hand. Baker Tilly concluded through its analysis that RA fulfilled its obligations under Section 3 of the PCPP.                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 3.d.          | Does the Provider offer the capability to accommodate homebuyers and homeowners by offering subordination of certain rights of its PACE assessment lien to the lien of a mortgage or deed of trust. If so, how many have been executed? How successful are the processes for sales and refinances, and are there any unanticipated issues that needs to be addressed? | RA has established a process to identify homes that may require RA to subordinate rights. Specifically, HERO Property Advisors (HPA) has established a team, known as HERO Property Advisors – Subordination, who query the Multiple Listing Service (MLS) to identify home with a PACE assessment that have been put up for sale. When this occurs, HPA – Subordination proactively reaches out to the property owner and to the real estate agent. In the event that the owner requests subordination of rights, HPA – Subordination provides an application to the homeowner and processes the application when complete.<br><br>Baker Tilly was able to conclude that RA complied with the PCPP, |
| 3.e.          | Does the Provider charge fees to contractors? If so, why and how much?                                                                                                                                                                                                                                                                                                | Per discussion with RA, there are no fees provided to the contractors.<br><br>Baker Tilly selected a sample of 96 assessments and performed testing to verify that fees were not charged to contractors. Baker Tilly did not observe an instance in which RA charged a fee that was passed along to the contractor.                                                                                                                                                                                                                                                                                                                                                                                  |

## 4.0 – OPERATIONAL PROCESS

### 4.1 – Background and Current Process

During the course of the PACE Program operational analysis, Baker Tilly sought to determine if RA had adequate personnel, processes, expertise, tools and technology necessary to support the Program. Baker Tilly executed interviews with RA personnel and analyzed policies, procedures, and standard operating practices to perform this analysis.

The interview topics discussed are summarized in the table below:

**Table 9 – Summary Listing of Interviews with RA**

| Interview Topic                                  |
|--------------------------------------------------|
| Application Intake & Management                  |
| HERO Financing Overview & Calculation            |
| Contractor Registration, Onboarding & Monitoring |
| Data Security                                    |
| Fair Market Value (FMV) Walk-Through             |
| Call Center & Underwriting                       |
| Fund Disbursement (to Contractors)               |
| HERO Property Advisors (post-funding operations) |
| HERO Underwriting                                |
| HERO Program Overview                            |
| Employee Training – Information Security         |
| IT / Information Security                        |
| Legal                                            |
| Marketing / Monitoring of Contractor Marketing   |

| Interview Topic                              |
|----------------------------------------------|
| Maximum Financing Amount & Eligible Products |
| Privacy                                      |
| Asset Verification                           |
| Complaints & Inquiries (general)             |
| Complaints & Inquiries (RSAM system)         |
| Source of Capital                            |

4.2 – Observations and Recommendations

Baker Tilly noted no observations and recommendations that do not relate to and appear in other sections of this report.

4.3 – Testing and Results

The table below shows WRCOG’s questions per the RFP in the Operational Process area. Baker Tilly describes the testing performed and the result of the testing for each WRCOG question.

Table 10 – Review of RA’s Operational Process

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                         | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.a.          | Does the Provider have adequate personnel, processes, expertise, tools and technology necessary to support WRCOG’s Program Report and residential Consumer Protection Policies? If so, how is this determined? | <p>During the course of the PACE Program operational analysis, Baker Tilly sought to determine if RA had adequate personnel, processes, expertise, tools and technology necessary to support the Program. To perform this analysis, Baker Tilly first executed the workplan steps identified throughout this report. Given the testing results in each compliance area identified in WRCOG’s Energy Efficiency and Water Conservation Administrative Guidelines and Program Report, Baker Tilly analyzed whether or not the root cause of each observation was a result of inadequate personnel, process, expertise, tools and technology.</p> <p>Opportunities to improve in the areas of personnel, process, expertise, tools and technology are identified in the specific sections of the report dedicated to the compliance area.</p> |

## 5.0 – POST-FUNDING HOMEOWNER SUPPORT

### 5.1 – Background and Current Process

Section 5.1 of the PACE Consumer Protection Policies states that RA should proactively perform testing and monitoring to ensure compliance with the Policy. Baker Tilly interviewed members of RA's Risk & Control Department to document the testing and monitoring activities that were in effect during the period under review. The following are monitoring activities performed by RA:

**Table 11 – RA's Monitoring Procedures surrounding Post-funding Homeowner Support**

| Compliance Area / Activity | Monitoring Procedure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Asset Verification         | <p>On a monthly basis, RA performs physical asset verifications to confirm that the correct products were installed at a residence and that the products are operational. RA selects a sample consisting of 5% of the number of assessments completed in the prior month. The population is not limited to the WRCOG program; rather, the sample is selected from all assessments administered by RA.</p> <p>The sample is forwarded to a 3<sup>rd</sup> party to perform the asset verifications. RA receives reports after the asset verification is completed. In the event an issue arises, RA creates a compliance case and performs additional work to review the assessment.</p> <p>From time to time, RA performs asset verifications for compliance cases that are opened. These asset verifications are in addition to the monthly sampling.</p> |
| Underwriting               | Monthly, Risk & Control reviews 100 or more (100+) underwriting files to verify compliance with the Consumer Protection Policies as well as internal policies.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Phone Call Review          | Monthly, Risk & Control selects a sample of phone calls with homeowners to verify that the employee followed the relevant script developed by RA. Risk & Control reviews various types of phone calls including onboarding, confirm terms, ID verification, cancellation calls. This information is tracked in an Excel based log, which was shown to Baker Tilly while on-site.                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Subordination of Rights    | Risk & Control performs testing to determine whether or not the HERO Property Advisory – Subordination group follows internal policies and procedures established to enable homeowners in the process of buying and selling a home on which an assessment exists.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Solar Leases and PPAs      | Monthly, Risk & Control performs testing to verify that Solar Leases and Purchase Power Agreements have the appropriate disclosures in place.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

| Compliance Area / Activity                              | Monitoring Procedure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Complaints and Inquiries                                | <p>RA creates compliance cases related to homeowner complaints. The Risk &amp; Control group performs periodic monitoring related to these compliance cases to determine if cases are being reviewed and closed in a timely manner.</p> <p>Furthermore, the Risk &amp; Control group performs data analysis to identify common issues, problematic contractors, and other common issues. The purpose of this data analysis is to improve program operations through the identification of common issues and development of action plans to address these recurring issues.</p>                                                                                                                                                                                                     |
| Contractor Performance                                  | <p>RA creates compliance cases related to homeowner complaints. The Risk &amp; Control group performs periodic monitoring related to these compliance cases to determine if cases are being reviewed and closed in a timely manner.</p> <p>The Risk &amp; Control group performs data analysis to identify common issues related to contractors. The purpose of this data analysis is identify frequent violators and develop action plans (e.g., suspension) to address common issues.</p>                                                                                                                                                                                                                                                                                        |
| Contractor Performance – Social Media and Online Review | <p>RA has procedures to monitor Contractor's social media accounts, common search sites, and other websites where customer complaints are recorded. In the event an issue is identified, RA researches the issue to determine if the issue relates to HERO and if the contractor is resolving issues in a timely manner.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Maximum Financing Amount                                | <p>During the period of the review, RA performed a daily review of assessments. During this review, RA filtered assessment data to show assessments meeting the following criteria:</p> <ul style="list-style-type: none"> <li>&gt; Property Owner is 75 years or older</li> <li>&gt; Property Owner is 65 or older and assessment is \$30,000 or higher</li> <li>&gt; Utilization is greater than 90%</li> <li>&gt; Total assessment is greater or equal to \$60,000</li> <li>&gt; Product count difference is greater than or equal to 1,000 sq. ft.</li> <li>&gt; Loan-to-Value ratio is greater than 95% post-assessment</li> </ul> <p>RA reviews all files meeting any one of the above criteria for various compliance requirements, including Maximum Financing Amount.</p> |
| Marketing                                               | <p>RA performs periodic reviews to ensure that contractors comply with RA's marketing policies. RA will periodically review contractor websites to review marketing materials. RA also purchases common newspapers to review home improvement advertisements for compliance with marketing policies.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |



Baker Tilly interviewed RA personnel to determine how the organization handles complaints and inquiries. RA receives complaints and inquiries on a daily basis. Issues and complaints are communicated through various means – email and phone – and can be communicated by any party – homeowner, contractor, etc. Baker Tilly noted that RA maintained various systems during the period of review to track issues and complaints. The following systems were used during the period to track issues and complaints:

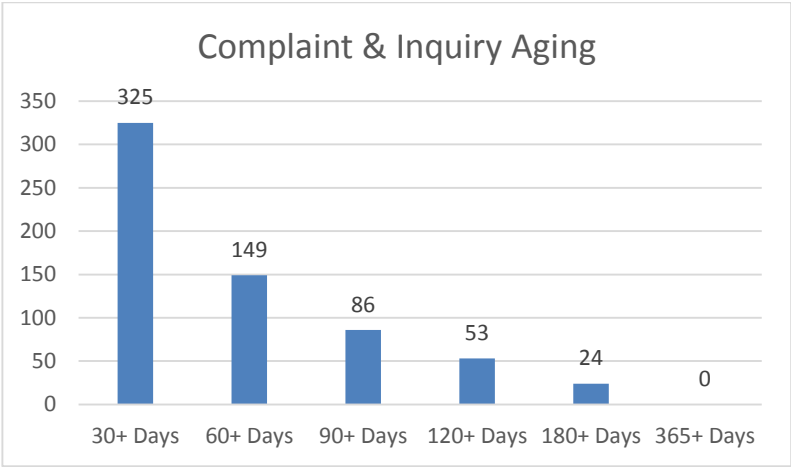
- > Excel based file – utilized from July 1, 2015 through May 2016
- > RSAM – implemented in June of 2016

RA implemented Salesforce.com for purposes of tracking issues and complaints from intake to resolution in December of 2016, after the period of the review.

RA provided the population of complaints and inquiries for the year under review. Baker Tilly noted that the population consisted of 1,532 items, which is an average of 128 cases per month. Baker Tilly noted that 204 contractors received more than one complaint, 32 contractors received more than 10 complaints, and seven (7) contractors more than 50 complaints.

The graph below depicts the aging of issues and complaints (i.e., the time from intake to resolution). Items that were resolved within 30 days are not included.

Figure 3 – Complaint & Inquiry Aging



Each of the items that is logged into the tracking system is assigned to a category. The following were the four most commonly reported complaint categories:

- > Workmanship (42% of complaints and inquiries)
- > Assessment Terms (34%)
- > Process
- > Professional Conduct

If the information that is reported constitutes a complaint, then RA generates a 'compliance case.' Baker Tilly requested the population of issues and complaints during the operational analysis period in order to test whether RA was able to "receive, manage, track, timely resolve, and report on all inquiries and complaints from homeowners," as required by Section 5.4 of the Consumer Protection Policies. RA stated and confirmed that the population provided was complete and included all complaints and inquiries. The file provide by RA consisted of 1,532 complaints.

Baker Tilly selected a sample of complaints and requested documentation showing the nature of the complaint, the steps completed to resolve the issue, and the date and nature of the resolution to the issue described. Baker Tilly judgmentally selected the sample of complains. In the sample, Baker Tilly sought to include:

- > Instances in which multiple complaints were received relating to one assessment
- > Instances in which a complaint was resolved over a period of time exceeding one month
- > Each complaint category and subcategory (e.g., conduct, workmanship, terms)
- > Complaints from each system used during the operational review period (Excel, RSAM)

The results of this testing are documented in Section 5.3 below.

Homeowners often have questions throughout the life of the assessment. As such, RA established a department called the HERO Property Advisors (HPA) to handle post-funding homeowner support. HPA responsibilities pertaining to homeowner support include:

- > Sending a 'Welcome Kit' that includes hard copies of all documents provided as well as contact information for HPA
- > Answering questions related to payments (catch-up payments, payment timing, payment amounts and balances, full or partial payment) and providing relevant documentation depending on the nature of the question (e.g., re-amortization given an early payment)
- > Answering questions related to subordination of the assessment and providing an application for subordination upon request

HPA has a dedicated webpage online ([hpa.heroprogram.com](http://hpa.heroprogram.com)). This webpage contains materials for homeowners to reference covering various topics including:

- > Listing a HERO home for sale
- > Refinancing a HERO home
- > HERO payoff instruct

The webpage also contains a link to the HERO FAQ page, which covers topics including:

- > Costs and rebates
- > Selling and refinancing
- > Eligible upgrades
- > Eligibility
- > Solar Leasing

Should a customer wish to speak to a HPA Representative, a dedicated phone line has been established. This phone number is printed on the 'Welcome Kit' materials and is available on the HPA webpage. HPA is equipped to answer and respond to post-funding questions from consumers. In certain circumstances, HPA coordinates with certain groups to resolve questions or issues from consumers. For instance, when a consumer calls to make a partial payment, HPA prepares a re-amortization of the assessment and develops payoff instructions for the consumer. Because RA does not take payment, HPA will provide contact information for the tax assessment administrator.

## 5.2 – Observations and Recommendations

Baker Tilly noted no observations and recommendations that do not relate to and appear in other sections of this report.

## 5.3 – Testing and Results

The table below shows WRCOG's questions per the RFP in the Post-Funding Homeowner Support Requirements area. Baker Tilly describes the testing performed and the result of the testing for each WRCOG question.

**Table 12 – Review of RA's compliance with Post-Funding Homeowner Support Requirements**

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                             | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5.a           | Is the Provider proactively monitoring and testing the consumer protections available to homeowners, and requesting feedback from homeowners and contractors to identify areas in need of improvement? If so, how? | <p>RA performs various monitoring for program compliance, including monitoring of the following:</p> <ul style="list-style-type: none"><li>&gt; Asset verification</li><li>&gt; Underwriting</li><li>&gt; Subordination of rights</li><li>&gt; Phone calls (e.g., elder phone calls)</li><li>&gt; Complaints and issues</li><li>&gt; Contractor performance</li><li>&gt; Marketing</li></ul> <p>Baker Tilly noted that the Provider is proactively monitoring and testing the consumer protections available to homeowners. Specific monitoring activities are documented in the Background section above.</p> |
| 5.b.          | Is the Provider implementing a post-installation onboarding procedure to reinforce key characteristics of the Program, such as those highlighted in the Program disclosures? If so, how is this implemented?       | <p>RA established a group called the HERO Property Advisors (HPA), who act as a resource to homeowners post-funding. To reinforce program characteristics, HPA sends each homeowner a 'welcome kit' that includes hard copies of the documents previously provided as well as information to support the homeowner throughout the life of the assessment. Baker Tilly interviewed RA's Operations team for HPA in order to document</p>                                                                                                                                                                        |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                               | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                                                                                                                                                                                                      | <p>existing policies and procedures to support homeowners post funding.</p> <p>Baker Tilly concluded that the Provider has implemented a post-installation onboarding procedure that reinforces key characteristics of the Program.</p>                                                                                                                                                                                                                                                                                                                                  |
| 5.c.          | Are disclosures and resources in place to resolve homeowner questions regarding matters such as impound account catch-up payments, payment timing inquiries and payment amount reconciliation? If so, what are they? | Baker Tilly concluded that disclosures and resources are in place to resolved homeowner questions. Specifically, RA established a group called the HERO Property Advisors (HPA), who act as a resource to homeowners post-funding. HPA is responsible for matters related to payment including early payoff, partial payments, and other similar inquiries. Baker Tilly interviewed RA's Operations team for HPA in order to document existing policies and procedures to support homeowners post funding.                                                               |
| 5.d.          | Are there procedures for responding to requests for partial or full prepayment of their PACE property tax assessment in a timely and complete manner? If so, what are those procedures?                              | Baker Tilly concluded that there are procedures for responding to requests for partial or full prepayment of a PACE property tax assessment. Specifically, RA established a group called the HERO Property Advisors (HPA), who act as a resource to homeowners post-funding. HPA provides homeowners with an application to prepay the assessment and assists the homeowner in completing and processing the application. Baker Tilly interviewed RA's Operations team for HPA in order to document existing policies and procedures to support homeowners post funding. |
| 5.e.          | Is the Provider tracking, resolving, reporting and otherwise properly managing all inquiries and complaints, etc., from homeowners? If so, how is this completed?                                                    | Baker Tilly requested the population of issues and complaints during the operational analysis period in order to test whether RA was able to "receive, manage, track, timely resolve, and report on all inquiries and complaints from homeowners," as required by Section 5.4 of the Consumer Protection Policies. RA confirmed that population provided was complete and included all complaints and inquiries. The file provide by RA consisted of 1,532 complaints.                                                                                                   |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                                             | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                                                                                                                                                                                                                                                                                                    | <p>Baker Tilly selected a sample of one hundred (100) compliance cases. For each compliance case sampled, Baker Tilly requested that RA provide documentation showing the nature of the complaint, the steps taken to resolve the issue, and the nature of the resolution. In certain circumstances, compliance cases are escalated to RA's Legal Department.</p> <p>In order to test the cases selected, Baker Tilly viewed the case log in Salesforce.com (where data is now housed), listening to calls that were recorded (if applicable), and review of relevant supporting documentation including the completion certificate, financing summary, payment summary, assessment contract, and other primary source documentation.</p> |
| 5.f.          | Is the Provider proactively working to resolve inquiries and complaints in a reasonable and timely manner and in accordance with the Program guidelines, and making communication for homeowners available during regular business hours by phone, email and facsimile communication? If so, how is this verified? | <p>Refer to Workplan Step 5.e. above for additional information related to Baker Tilly's testing of the complaint handling process.</p> <p>Regarding communication, Baker Tilly noted that RA is proactively working to resolve inquiries and complaints in a reasonable and timely manner. To accomplish this, RA has a designated phone line for questions, issues, and complaints that is monitored during normal business hours. Issues and complaints are also accepted via email, live chat, fax, and standard mail.</p>                                                                                                                                                                                                            |
| 5.g.          | Does the Provider have the capabilities to assist homeowners who are refinancing or selling their Properties? If so, how is this determined and verified?                                                                                                                                                          | Baker Tilly observed that RA has the capability to assist homeowners who are refinancing or selling property. Specifically, RA established a group called the HERO Property Advisors (HPA), who act as a resource to homeowners post-funding. HPA performs proactive monitoring of the MLS to identify homes that may require subordination of rights in order to sell. In this case, HPA will proactively perform outreach to the homeowner and to the real estate agent to ensure that all parties understand the process. In addition, HPA responds to inquiries related to selling, buying, and refinancing homes as the inquiries are made.                                                                                          |

| Workplan Step | WRCOG Question per RFP | BT Testing/Results                                                                                                                            |
|---------------|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
|               |                        | Baker Tilly interviewed RA's Operation team for HPA in order to document existing policies and procedures to support homeowners post funding. |

## 6.0 – DATA SECURITY AND PRIVACY SYSTEMS

### 6.1 – Background and Current Process

Per the PCPP Section 6, the market-ready program must “be in robust compliance with sturdy cyber-security standards, and in particular develop secure and tested processes that protect homeowner personal identification information at points of potential vulnerability, especially during the application process.”

Per the interviews and walk-throughs that we had with RA's Information Services Department on January 25, 2017 and April 20, 2017, we were able to gather general information regarding its information systems.

#### RA's information services:

RA utilizes a Windows Active Directory Domain with the HERO Program having a separate authentication system, which only allows the HERO Program contractors and vendors to access the HERO Program Environment. Also, through the Windows Active Directory Domain is able to set access requirements for RA employees and assign roles and various access levels to the different software systems.

RA has indicated that its HERO Program data is stored on an Amazon Web Services (AWS) cloud network, a cloud services platform with encrypted tunnels. With regards to the actual HERO Program data, RA follows the National Institute of Standards and Technology (NIST) Special Publications for setting guidelines and protocols for managing encrypted data communications and data storage across the company's technology medium (i.e., computers, mobile devices).

RA utilizes a third party network and enterprise security firewall platform. RA has a dedicated Security and Monitoring team, both internal and external to the company, who are dedicated to managing the firewall platform and cybersecurity threats.

As part of the Employee onboarding process, RA utilizes Workday, a cloud-based Human Capital Management software, which automatically generates a ticket depending on the employee's title. Based on that position's duties/responsibilities, Workday will generate an automatic list of the user's access. Further as part of the IT orientation, employees learn about known threats, protective measures to working with consumer data, and general security awareness tips (e.g., phishing attempts). Also, during the employee termination process, Workday generates a ticket with a checklist of the employee's IT access (e.g., single sign-on access, third party applications) that needs to be rescinded.



RA's Data Security and Privacy Policies:

Per Data Request #2, RA provided the following 11 company policies, which many were developed in January 2016, pertaining to both data security and privacy:

**Table 13 – Summary of RA's Data Security and Privacy Policies**

| # | RA Policy Name        | Date of Initial Policy | Policy Topics                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---|-----------------------|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Acceptable Use Policy | 1/19/2016              | <p>Computer user rules of conduct and responsibilities for all company personnel (which consists of all employees, consultants, vendors, contractors, and others who are authorized to use or access Company Information Technology Equipment) in key areas/activities such as:</p> <ul style="list-style-type: none"><li>&gt; User Technical Security</li><li>&gt; Password requirements</li><li>&gt; Email conducts</li><li>&gt; Social Media</li><li>&gt; Removal Media</li><li>&gt; Portable applications</li><li>&gt; Maintenance of a clean desk/workstation</li></ul> <p>Further, defines company property to be company internet/intranet/extranet-related systems, including but not limited to Company computer equipment, software, operating systems, storage media, network accounts providing electronic mail, WWW browsing, and FTP, whether hosted locally or within a 3<sup>rd</sup> party "cloud platform.</p> |
| 2 | Asset Disposal        | 1/29/2016              | <p>Proper disposal (destroying or purging) of information and media depending on the information placed intentionally or unintentionally on the media.</p> <p>When information assets (residing on both electronic and physical media) and information systems have reached the end of their useful life they must be properly disposed of in accordance with NIST SP800-88 Rev, "Summary of Sanitization Methods."</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

| # | RA Policy Name       | Date of Initial Policy | Policy Topics                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---|----------------------|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3 | Awareness & Training | 1/20/2016              | <p>To ensure that applicable RA employees, officers, directors, temporary agency personnel, contractor personnel and Third Party Agents are up-to-date and informed on security risks and corporate Information Security policies and procedures.</p> <p>Administration of Information Security Awareness Training ("ISAT") program, which includes, but not limited to, topics in:</p> <ul style="list-style-type: none"> <li>&gt; Phishing</li> <li>&gt; Malware</li> <li>&gt; Scams</li> <li>&gt; Password standards</li> <li>&gt; Physical security</li> <li>&gt; Information backup</li> <li>&gt; Disaster Recovery Plans</li> </ul>                                                                                                                                                                                                                       |
| 4 | Data Classification  | 12/10/2015             | <p>Establishment of a framework for properly identifying the sensitivity level of information assets and assigning a classification standard that clearly identifies the sensitivity level, including:</p> <ul style="list-style-type: none"> <li>&gt; Security classification (i.e., range from numbers 1 through 4, with classification 1 assigned to information of the highest security)</li> <li>&gt; Information asset management (i.e., sensitivity of information determined by performing a business impact assessment to measure consequences of information loss, compromise, or temporary unavailability)</li> <li>&gt; Classification maintenance (i.e., when a security classification is assigned, it must be document at the central source for this information and also when it is known whether the classification should change)</li> </ul> |

| # | RA Policy Name | Date of Initial Policy | Policy Topics                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---|----------------|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5 | Mobile         | 12/10/2015             | <p>Rules and requirements for utilization of mobile devices used for company purposes to be aligned with the mobile security requirements with industry standards such as NIST SP 800-114 and SP 800-124.</p> <p>Defined areas of rules and requirements include:</p> <ul style="list-style-type: none"> <li>&gt; User responsibilities (e.g., only company approved mobile devices may be connected to RA's corporate network)</li> <li>&gt; User physical security (e.g., in case of loss or theft of a mobile device, user must report ASAP to RA's Information Technology Department)</li> <li>&gt; User technical security (e.g., users may only install approved and tested 3<sup>rd</sup> party applications)</li> <li>&gt; Mobile device management (i.e., all mobile devices shall be inventoried, managed, and monitored by the Company centralized mobile device management solution)</li> </ul> |
| 6 | Network        | 1/15/2016              | <p>Outline RA's rules and requirements for computer network access, and the basic architecture of RA's network security environment, including:</p> <ul style="list-style-type: none"> <li>&gt; Network security access (e.g., for 3<sup>rd</sup> party devices, RA's Information Security shall publish minimum security standards for access to the enterprise network and perform a security scan before allowing access)</li> <li>&gt; Information flow (i.e., enforcement of information flow is conducted throughout RA's network environment by using firewalls; device access control lists (ACLs); data exchange controls; authentication; and interconnection agreements)</li> </ul>                                                                                                                                                                                                              |
| 7 | Passwords      | 1/29/2016              | <p>Establishing a standard for the creation of strong passwords, the protection of strong passwords, and the frequency of change.</p> <p>For example, all passwords must meet or exceed the following standards for a strong password: contain at least 10 characters; contain both upper and lower case letters; contain at least one number; contain at least one special character.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

| #  | RA Policy Name      | Date of Initial Policy | Policy Topics                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----|---------------------|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 8  | Physical Security   | 1/29/2016              | <p>Rules and requirements for physical access to RA's facilities, equipment, and information assets, including:</p> <ul style="list-style-type: none"> <li>&gt; Physical access – facilities (e.g., access cards and/or keys must not be shared with others)</li> <li>&gt; Physical access – IT equipment and information assets (e.g., Laptops should be secured to workstations with cable locks attached to the docking station and/or directly to the laptop)</li> <li>&gt; Physical and environmental safeguards (i.e., all IT equipment facilities and support facilities must be physical protected in proportion to the criticality or importance of their function at RA)</li> </ul>                                                                                                 |
| 9  | Remote Access       | 12/29/2015             | <p>Rules and requirements for connecting to RA's network from any external host, including:</p> <ul style="list-style-type: none"> <li>&gt; Remote access, which must be controlled with encryption and strong pass-phrases</li> <li>&gt; Remote access control for mobile devices (by logging all remote access session activity and monitoring for unauthorized connections to IT equipment and for unauthorized activity)</li> <li>&gt; Non-local maintenance (i.e., authorizing, monitoring, and controlling non-local maintenance and diagnostic activities)</li> <li>&gt; Virtual Private Networks [VPNs] (e.g., VPN use is to be controlled using either a one-time password authentication such as a token device or a public/private key system with a strong passphrase)</li> </ul> |
| 10 | System and Endpoint | 2/10/2016              | <p>Rules and requirements to ensuring endpoint security is consistently evaluated and provides necessary host integrity checking and security protection measures.</p> <p>Protecting information assets by monitoring the status, activities, software, authorization and authentication of its network devices.</p> <p>Specific provisions addressed include:</p> <ul style="list-style-type: none"> <li>&gt; Administration</li> <li>&gt; Device Configuration</li> <li>&gt; Access</li> <li>&gt; Antimalware</li> <li>&gt; System Vulnerability and Patch Management</li> </ul>                                                                                                                                                                                                            |

| #  | RA Policy Name                        | Date of Initial Policy | Policy Topics                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|----|---------------------------------------|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 11 | Vulnerability and Penetration Testing | 1/19/2016              | <p>Increase the security posture of RA and mitigate risks posed by vulnerabilities within RA Information Technology Equipment in areas such:</p> <ul style="list-style-type: none"> <li>&gt; Periodic Vulnerability Assessment and Penetration Testing (e.g., conducting periodic vulnerability assessments to include, but not limited to, in-depth monitoring; vulnerability scanning; malicious user testing; insider treat assessment; and performance/load testing).</li> <li>&gt; Continuous Monitoring (e.g., running automated vulnerability scans against all IT equipment on a weekly or more frequent basis and deliver prioritized lists of the most critical vulnerabilities to RA IT for appropriate remediation).</li> <li>&gt; New IT equipment vulnerability assessment during installation and testing and prior to production operations.</li> <li>&gt; Developer Security testing and evaluation (e.g., employing static and/or dynamic code analysis tools to identify common flaws and documenting the results of the analysis</li> <li>&gt; Remediation and compliance (e.g., Information Security Department will conduct quarterly assessment and produce a Mitigation and Compliance Report)</li> </ul> <p>External Audit – Independent 3<sup>rd</sup> party will be contracted annually to perform vulnerability assessment and/or penetration testing in compliance with all applicable laws, regulations and RA Information Security policies.</p> |

## 6.2 – Observations and Recommendations

Baker Tilly noted no observations and recommendations that do not relate to and appear in other sections of this report.

## 6.3 – Testing and Results

The table below shows WRCOG's questions per the RFP in the Data Security and Privacy Systems area. Baker Tilly describes the testing performed and the result of the testing for each WRCOG question.

**Table 14 – Procedures Performed during the Review of RA's Data Security and Privacy Systems**

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                     | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6.a.          | <p>Is the Provider complying with secure and tested processes to protect the personal identifiable information of the homeowner? If so, what are the processes?</p> <p>Such secure and tested processes should, at a minimum, include:</p> | <p>Baker Tilly conducted interviews with RA's Information Services Department and also viewed RA's policy documents to determine whether RA was complying with secure and tested processes to protect the personal identifiable information of the homeowner.</p> <p>Refer to Section 6.1 for a description regarding RA's general practice with respect to information systems.</p> <p>The following rows provide summaries for specific sample assessment testing that relates to information system requirements.</p> |
|               | <p>&gt; A cyber-security policy and protocol that, at a minimum, requires data encryption "during transmission" and "at rest," and compliance with sturdy cyber-security standards.</p>                                                    | <p>Per interviews and policy documents received, RA has a cyber-security policy that is based upon the International Organization for Standardization (ISO) 27001, which is a security certification standard for requirements of an information security management system (ISMS).</p> <p>RA utilizes the AWS cloud platform which states that it has secure encryption tunnels to protect HERO Program data is encrypted during transmission and when stored at rest.</p>                                              |
|               | <p>&gt; The Provider is responsible for controlling access to information, based upon, job function and need-to-know criteria.</p>                                                                                                         | <p>Per interviews with RA on January 25, 2017, through the Windows Active Domain, it is able to set access requirements for RA employees and vendors and assign roles and various access levels to the different software systems.</p>                                                                                                                                                                                                                                                                                   |

| Workplan Step | WRCOG Question per RFP | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                        | <p>Per Data Request #4, Item #1 (dated on February 1, 2017), we requested a copy of any system-generated report that would show access control lists (i.e., listing of employees and either access to key systems). RA provided access control lists of HEROGovAdmin (in .PNG format) to demonstrate access by government partners, in this case WRCOG. Baker Tilly reviewed this list, which showed the first and last names, emails, and the role name (i.e., General User or Signer) of twelve (12) WRCOG employees involved in the HERO Program. However, this list is not sufficient to determine whether RA as the Provider is adequately “controlling access to information, based upon, job function and need-to-know criteria” for its own set of employees and affiliates.</p> <p>Further, RA indicated that “internal access controls lists related to activity directory or other internal systems can be viewed while onsite because of the sensitive nature of the information (user IDs, system access granted, etc.).”</p> <p>We also received a visual walk-through of RA’s system tracking on April 19, 2017, in which we were able to view the listing of all internal RA employees and two authorized contractors who were logged into RA’s VPN network at that particular time. While we could see that RA was properly monitoring and logging remote access to its systems, we could not discern whether the individuals on the network had the proper access to specific modules or applications (e.g., a Marketing Analyst should probably not have access to RA’s custom-built Underwriting Portal).</p> <p>As a follow-up, RA provided to Baker Tilly on November 16, 2017 a full user function access spreadsheet (with a date stamp of September 21, 2017), which contains fields, such as:</p> <ul style="list-style-type: none"> <li>&gt; User ID (with 3,608 unique User IDs)</li> <li>&gt; First Name</li> </ul> |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                                                                                                                                                                                    | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <ul style="list-style-type: none"> <li>&gt; Last Name</li> <li>&gt; User Name</li> <li>&gt; Role Name (with 88 unique user roles)</li> <li>&gt; Role Description</li> <li>&gt; Function Name (with 247 unique functions)</li> <li>&gt; Function Description</li> </ul> <p>This spreadsheet contained details to show which applications and functions each RA employee would be able to access in accordance with their role within the company and its affiliates (e.g., outside sales representatives). Baker Tilly did not test whether this is adequate to control access to fulfill this PCPP requirement as the information is outside the scope of the date period for our engagement.</p> |
|               | <ul style="list-style-type: none"> <li>&gt; The Provider is responsible for taking security measures that protect the security and confidentiality of consumer records and information in proportion to the sensitivity of the information, including, without limitation, requiring all computers and other devices containing any confidential consumer information to have all drives encrypted with industry standard encryption software.</li> </ul> | <p>Refer to Section 6.1 for a description regarding RA's general practice with respect to taking security measures to protect the security and confidentiality of consumer records.</p> <p>Specifically, in RA's Data Classification Policy, it has a classification rating from 1 – 4 of data importance/sensitivity (with 1 as most sensitive and highest and 4 with least sensitive/can be made available for external release) to help provide added restrictions/controls for data that is deemed to be most sensitive information.</p>                                                                                                                                                      |
|               | <ul style="list-style-type: none"> <li>&gt; The Provider is responsible for monitoring and logging all remote access to its systems, whether through VPN or other means.</li> </ul>                                                                                                                                                                                                                                                                       | <p>Per interviews with RA on April 20, 2017, RA's Information Services Department indicated that it monitors and tracks all remote access to its systems, including VPN access from external connections. Based on a visual walk-through of RA's system tracking, Baker Tilly was able to view the list of two authorized contractors who were logged into RA's VPN network at that particular time. Based on what we were able to view, it appears that RA was properly monitoring and logging all remote access to its systems.</p>                                                                                                                                                             |



| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                 | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| >             | Data security policies are subject to auditing and penetration testing conducted by an independent auditor hired by the Authority at least annually and any time a change is made that may have any potential impact on the servers, security policies or user rights. | <p>Per interviews with RA on January 25, 2017, RA performs internal vulnerability and penetration testing, but also per the PCPP is required to conduct an external testing with a report of results.</p> <p>Per Data Request #4, Item #1 (dated on February 1, 2017), we requested a copy of the external report on Vulnerability Assessment and Penetration Testing. RA's response to our request was, "Our data security policies are subject to audit by an independent auditor hired by the Authority, however no firm has been hired by the Authority to conduct such audit or testing. However, RA conducts Vulnerability Assessments and Penetration Testing on a monthly basis."</p> <p>As a follow-up, RA provided to Baker Tilly on July 10, 2017 its own Vulnerability Assessment reports for six individual months from January 2016 – June 2016. Each monthly report contained details such as:</p> <ul style="list-style-type: none"> <li>&gt; Vulnerabilities by severity</li> <li>&gt; Most common vulnerabilities</li> <li>&gt; Highest risk vulnerabilities</li> <li>&gt; Most common operating systems</li> <li>&gt; Most common services</li> </ul> <p>Baker Tilly reviewed each of the monthly reports and determined that internal vulnerability assessments were being completed by RA. However, none of these reports contained results of a penetration testing. As such, there was no external report (whether during the operational analysis-time or since then) for Baker Tilly to review.</p> <p>Per discussion with WRCOG and RA on January 30th, 2018, WRCOG indicated interpretation of the PCPP requirement as subject to auditing and penetration testing conducted by an independent auditor should the Authority choose to exercise its right to do so on an annual basis. As such, RA has indicated willingness to comply with testing should it be required by the Authority in the future.</p> |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                                | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6.b.          | Does the Provider have the minimum viable configurations in place on all servers? All firewalls should have continuous logging enabled and access control lists and audited server configurations should be used to ensure that data security is maintained. Please describe the Providers efforts.   | <p>Refer to Section 6.1 for a description regarding RA's general practice with respect to its firewall network platform.</p> <p>On April 20, 2017, RA's Information Services Department provided a visual walk-through of their firewall network with an active, real-time traffic log with the following fields:</p> <ul style="list-style-type: none"> <li>&gt; Generate Time</li> <li>&gt; Type</li> <li>&gt; From Zone</li> <li>&gt; To Zone</li> <li>&gt; Attacker</li> <li>&gt; Attacker Name</li> <li>&gt; Victim</li> <li>&gt; To Port</li> <li>&gt; Application</li> <li>&gt; Action</li> <li>&gt; Severity</li> <li>&gt; File Name</li> <li>&gt; URL</li> </ul> <p>Further, the Information Services Department obtain and review daily an auto-generated report that has summaries of threats and where they were occurring.</p> |
| 6.c.          | Is the Provider informing and enforcing the compliance with the Program's data privacy and security policies on the part of every employee, contractor, vendor, agent, service provider, representative, and associate who is exposed to personal identifiable information of homeowners? If so, how? | <p>Per interviews with RA on January 25, 2017, the contractors and various representatives of the program are required to sign a vendor security policy agreement.</p> <p>Baker Tilly viewed a copy of this vendor security policy agreement and it lists specific vendor data security requirements in the areas of:</p> <ul style="list-style-type: none"> <li>&gt; Service Provider Security Compliance</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                       |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                      | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                                                                                                                                                             | <ul style="list-style-type: none"> <li>&gt; Access Controls</li> <li>&gt; Network and Security Requirements (e.g. ,virus protection)</li> <li>&gt; Remote Access (e.g., requiring remote access methods that include multi-factor authentication)</li> <li>&gt; Encryption</li> <li>&gt; Physical Security</li> <li>&gt; Record Keeping (i.e., maintaining any user activity audit logs)</li> <li>&gt; Assessments, Audits, and Reporting</li> <li>&gt; Disaster Recovery and Backup</li> <li>&gt; Offshore Requirements</li> <li>&gt; Insurance Requirements</li> </ul> <p>Per discussion with RA, they provide initial onboarding training to contractors on data security and security requirements. Further, contractors are required to participate in annual training courses to discuss evolving IT and data security issues.</p>                                                            |
| 6.d.          | Is the Provider implementing protections and controls to prevent unauthorized copying, disclosure, or other misuse of sensitive consumer information? If so, what are they? | <p>Per interviews with RA on January 25, 2017, it is the company's policy to ensure that HERO employees do not copy, disclose and otherwise misuse sensitive consumer information. For example, certain RA employees with access to consumer information (e.g., social security number) are not permitted to utilize cell phones, which may be utilized to take photos of sensitive details. Further, based on our review of RA's IT policies, RA prohibits the usage of removable media devices (e.g., flash drives), which may be used to download sensitive information.</p> <p>RA indicates that it makes use of access controls to help prevent unauthorized access to sensitive consumer information.</p> <p>Baker Tilly viewed the various policies pertaining to the protections and controls of sensitive consumer information, but did not observe the application of these policies.</p> |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6.e.          | Has the Provider developed and is delivering to homeowners who apply for the Program or who otherwise provide personal identifiable information (e.g., full name, home address, social security numbers, date of birth,) a privacy policy that complies with state and federal law (e.g., the Gramm-Leach-Bliley Act) and, in particular, prohibiting sharing with third parties personal identifying information of homeowners without the homeowners' express authorization except where expressly permitted by state and federal law? If so, how is the privacy policy delivered? | <p>Per interviews with RA on January 25, 2017, RA has developed and provided privacy notices to HERO consumers in accordance with:</p> <ul style="list-style-type: none"> <li>&gt; Gramm-Leach-Bliley Act (GLBA), which requires financial institutions to provide each consumer with a privacy notice at the time the consumer relationship is established and annual thereafter.</li> <li>&gt; California Senate Bill No. 1 ("SB 1"), which is known as the California Financial Information Privacy Act. SB 1 created new limits on the ability of financial institutions to share nonpublic personal information about their clients with affiliates and third parties.</li> </ul> <p>Further per interviews with RA on January 25, 2017, upon receipt of the application from homeowners, RA has provided via mail a separate privacy notice for GLBA and SB No. 1 with "opt-out" options to restrict the sharing of any personal and financial information with RA companies or affiliates. An individual within RA's Compliance Team manages an "opt-out" database to update homeowners' privacy settings daily.</p> <p>Both privacy notices were developed during the entire operational analysis time-frame with the most current version updated in November 2016. Baker Tilly viewed both the GLBA and SB No. 1 privacy notices and found them to be in agreement with the provisions of GLBA and SB No.1.</p> |
| 6.f.          | Is the Provider delivering any updates to such privacy policies to the homeowners? If so, how are these updates delivered?                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <p>Per interviews with RA on January 25, 2017, whenever privacy policies are updated, RA communicates this directly to homeowners through mail. In November 2015, RA sent a notice of an updated Privacy Policy to all HERO homeowners and another update in November 2016. Baker Tilly viewed both the November 2015 version of the privacy policies and the November 2016 version of the privacy policies.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

## 7.0 – MARKETING AND COMMUNICATIONS

### 7.1 – Background and Current Process

(A)Contractors are the primary venue through which program marketing is conducted. The Program has Contractor Marketing Guidelines in place that are distributed to all contractors. Guidelines are distributed electronically to contractors upon registration and agreement to the Contractor Terms and Conditions. For smaller contractors, the Contractor Marketing Guidelines document is their primary resource, and RA's primary communication vehicle, for all program marketing policies. Additionally, contractors are required to view a contractor marketing training video after registration. All contractors have the option to submit their marketing material to RA to be reviewed for compliance. However, RA does not require review of all contractor marketing material.

For larger contractors, Marketing Department representatives work directly with a contractor's marketing team to ensure compliance with the marketing guidelines.

(B)The primary methods through which marketing guideline infractions are identified is through RA initiated Terms and Conditions calls or when other participating contractors notify the Program of a potential infraction by competing contractors. Additionally, the Compliance Department reviews newspaper advertisements regularly to confirm that HERO contractors are in compliance with the HERO marketing terms and conditions. If a contractor is found to be in non-compliance, RA requires that all future marketing material be submitted for review.

## 7.2 – Observations and Recommendations

Baker Tilly makes the following observations and recommendations regarding RA's Marketing and Communications processes:

**Table 15 – Observations and Recommendations Regarding RA's Marketing and Communications Processes**

| Observation # | RA process/<br>Program<br>observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Addressed<br>since June<br>30, 2016 per<br>RA <sup>7</sup> | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7.2.1         | RA process                            | <p>The approved HERO Long Form and Short Form Block text provided to contractors for advertising states that HERO financing is "paid with property taxes." The statement could be misconstrued that property taxes are applied toward the payment of the amount financed by the homeowner rather than paid on the same bill as the property taxes.</p> <p>Revision of the wording would further support the PACE Consumer Protection Policy 8.2 to provide <i>"clear and concise communication to consumers (with) practices that promote informed decisioning on the part of the homeowners."</i></p> | Yes                                                        | <p>We recommend that the approved advertising block text be updated to clearly state that HERO financing payments are paid with the homeowner's own property tax bills and in addition to the other property taxes that apply to the homeowner's property.</p> <p>Renovate America and WRCOG state that since the review period of this report the language on the Block text has been revised to state that the assessment is "paid along with your property taxes" to mitigate potential confusion.</p> |

<sup>7</sup> A "Yes" in this column means that RA has stated that this issue has been addressed by new controls or compliance programs put in place since June 30, 2016. An operational review of new controls or programs implemented since June 30, 2016 was outside of the scope of this engagement and Baker Tilly has not tested them and cannot comment on their effectiveness.

| Observation # | RA process/<br>Program<br>observation | Observations                                                                                                                                                                                                                                                                                                              | Addressed<br>since June<br>30, 2016 per<br>RA <sup>7</sup> | Recommendation                                                                                                                                                                                                                                                 |
|---------------|---------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               | <u>RA's<br/>Response:</u>             | Renovate America does not agree that the statement could lead to potential confusion. PACE assessments are paid with property taxes. Whether "with property taxes" is interpreted to mean "by means of one's property tax payments" or "together with one's property taxes," both interpretations are factually accurate. | Yes                                                        | This language has been updated in Renovate America's guidelines to reflect that assessments are "paid along with your property taxes." However, Renovate America firmly believes both the original statement and the updated statement are factually accurate. |

### 7.3 – Testing and Results

The table below shows WRCOG’s questions in its request for proposal per the RFP in the Marketing and Communications Process area. Baker Tilly describes the testing performed and the result of the testing for each WRCOG question.

**Table 16 – Review of RA’s Marketing and Communications Processes**

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                                                                                                                                                                                                                | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7.a.          | Is the Provider using any methods that are or could appear to be unfair, deceptive, abusive, and/or misleading, that violate laws or regulations, that provide tax advice, that are inappropriate, incomplete or are inconsistent with the Program’s purpose (e.g., use of check facsimiles to dramatize the amount of PACE Program financing available or presented as if a negotiable instrument), or are otherwise potentially confusing to property owners? If so, what are they? | Baker Tilly viewed the Contractor Marketing Guidelines that RA provides to the contractors. See section (A) for more information regarding the guidelines and the topics that are included within the document. Within the “Describing HERO” section of the guidelines, RA provides specific text describing the HERO Program that contractors can use for their print advertising. Part of that text stated that HERO is “paid with property taxes” which could be misconstrued or confusing to homeowners as to how HERO is financed. See Observation 7.2.1 for more detail. |
| 7.b.          | Are there any marketing practices likely to add unnecessary expense to a homeowner (e.g., paying consumers for applications), or are the unlawful use of sensitive consumer data or that violate any other law or regulation (including, for example, practices related to telemarketing)? If so, what are they?                                                                                                                                                                      | <p>RA affirmed that it made no direct payments to homeowners in exchange for a homeowner to select the program financing or complete an application.</p> <p>If a situation is reported to RA, the RA compliance personnel indicated the compliance department would conduct an investigation.</p> <p>Required adherence to state telemarketing laws is clearly stated within the Contractor Marketing Guidelines. RA does not conduct telemarketing.</p>                                                                                                                       |
| 7.c.          | Does the Provider have a plan for developing, delivering to and enforcing marketing guidelines for the Program’s Registered Contractors? If so, what is the plan?                                                                                                                                                                                                                                                                                                                     | <p>RA’s HERO Program has Contractor Marketing Guidelines in place that are distributed to all contractors.</p> <p>See section (A) of the Marketing and Communications Background and Current Process for more information on the marketing guidelines.</p>                                                                                                                                                                                                                                                                                                                     |



| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                   | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7.d.          | Are any marketing materials that fall outside of marketing guidelines established being approved by the Provider to ensure that they are not unfair, deceptive, abusive and/or misleading? If so, what are they?                                         | <p>RA's Compliance Department performs review of newspaper advertisements regularly to confirm that HERO contractors are in compliance with the HERO marketing terms and conditions to ensure that they are not unfair, deceptive, and/or misleading.</p> <p>See section (B) of the Marketing and Communications Background and Current Process for more information on the process of marketing guideline review.</p>                                                                                                                                                                                                                                                                                                                               |
| 7.e.          | Is the Provider, contractor or third party (who is not a tax expert) providing tax advice to consumers regarding their Program financing which includes making affirmative statements or claims as to the tax deductibility of the payments? If so, why? | RA representatives stated during multiple interviews that it is the Program's policy to not provide tax advice. The Contractor Marketing Guidelines state as a prohibited practice "providing tax advice to consumers regarding the HERO Program" and the "Don't Say" section clearly states that contractors should not say that HERO is a tax-deductible financing option.                                                                                                                                                                                                                                                                                                                                                                         |
| 7.f.          | Is the Provider, contractor or Affiliated Individual providing a direct cash payment or other thing of value to a homeowner explicitly in exchange for such homeowner's selecting Program financing? If so, why?                                         | <p>RA affirmed that it made no direct payments to homeowners in exchange for a homeowner to select the program financing.</p> <p>If a situation is reported to RA, the compliance department would conduct an investigation.</p> <p>Contractors agree to comply with this PCPP requirement by signing the Contractor Participation Agreement. RA's Contractor Participation Agreement Versions 2.0 (updated in September 2014), 2.2 (updated in June 2015), and 2.3 (updated in April 2016) included a provision:</p> <p><i>Providing Property Owners with offers of cash rebates or arranging HERO funding such that money flows to a Property Owner in excess of any costs directly associated with the installation of eligible products.</i></p> |

## 8.0 – PROTECTED CLASSES

### 8.1 – Background and Current Process

(A) Homeowner applications are initially screened by system algorithms based on the eligibility requirements delineated in the administrative guidelines (see program parameters for further detail of the eligibility requirements used). Homeowners that are not approved through the system are then referred to an underwriter. The most likely reason for this is when the system is unable to identify necessary information for the homeowner. The underwriters have the ability to approve or reject applications based on information researched related to the eligibility requirements. Reasons for accepting or rejecting an application are recorded. Further, Underwriters only have access to applicable information that is necessary to determine approval. RA does not collect demographic information as part of the application process.

During the operational analysis period, terms and conditions calls were made and recorded for all new contractors. Since that time, all terms and conditions call are recorded, and randomly selected for review to confirm scripted terms and conditions are covered and calls are in compliance with state and federal laws.

Additionally, the Program has a compliance department in which any non-compliance with state and federal laws of protected classes can be reported. Case reviews are conducted by compliance officers. During the operational analysis period, compliance case details were recorded in Excel spreadsheets and a system called RSAM. Since that time, RA has transitioned to using Salesforce.com to record compliance details.

(B) The program implemented an elder homeowner validation in May of 2015. The Elder Advocate Program was implemented in July of 2015. When a homeowner is identified as an elder in the application, the homeowner is routed to an Elder Advocate to confirm the terms of the application. The terms are:

- > **Elder homeowner is the person who makes financial decisions in the home**
- > Confirm the contractor
- > Confirm the products contracted for installation
- > Confirm the financing term
- > Confirm the amount paid per month and per year
- > **Ask confirmation that based on the homeowner's monthly income and expense, the new assessment payment will fit within the homeowner's budget**
- > Inform the homeowner of the month and year the assessment will appear on the property tax bill
- > Provide the opportunity for any outstanding questions

Bolded items above denote variances from the regular confirmed terms call script. When the above items are reviewed/confirmed, the Program representative proceeds with helping the homeowner set-up a PIN to sign their application. If the homeowner is not the primary person to make financial decision in the home, a copy of the Power of Attorney is requested to be sent to [conditions@heroproram.com](mailto:conditions@heroproram.com) for review. If a third party manages the homeowner's finances, the Program representative requests to speak with the third party for product approval.

Since the scoped operational analysis period, RA has also begun to use a third party source to conduct Fair Lending Analysis. If 60% of the contractors' portfolio is of the elderly class, RA conducts further investigation.

## 8.2 – Observations and Recommendations

Baker Tilly noted no observations and recommendations that do not relate to and appear in other sections of this report.

## 8.3 – Testing and Results

The table below shows WRCOG's questions per the RFP in the Protected Class Requirements area. Baker Tilly describes the testing performed and the result of the testing for each WRCOG question.

**Table 17 – Review of RA's compliance with Protected Class Requirements**

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                           | BT Testing/Results                                                                                                                                                                                                                                                                                         |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 8.a           | Does the Provider have controls designed and is implementing to monitor and test compliance with all state and federal laws covering homeowners in protected classes? If so, what are they?                                                                                                      | <p>The Provider has a Compliance Department, whose responsibility is to monitor and test compliance with all state and federal laws covering homeowners in protected classes.</p> <p>See section (A) in the Protected Classes, Background and Current Process for details on the controls and process.</p> |
| 8.b           | Has the Provider developed and is implementing a program that validates elder homeowner (i.e., homeowners over 64 years old) understanding of the eligible improvement project for which they are seeking Program financing, including the terms of such financing? If so, what is that process? | <p>The Program implemented an elder homeowner validation in May of 2015 and an Elder Advocate program in July of 2015. Refer to section 8.1 (B) in the Protected Classes, Background and Current Process for a description of the process.</p>                                                             |
| 8.c.          | Is the Provider providing legally unbiased access to, and the decision of, requests for Program participation? If so, how?                                                                                                                                                                       | <p>See section (A) in the Protected Classes, Background and Current Process.</p>                                                                                                                                                                                                                           |

## 9.0 – CONTRACTOR REQUIREMENTS

### 9.1 – Background and Current Process

Per the PCPP Section 10, contractors and their sales persons are one of the primary means by which homeowners become aware of Program participation options. Contractors and their sales persons enter into contracts with a Partner, and register with all relevant state and local licensing boards and agencies. Further, contractors are required to complete training courses, follow a code of conduct, maintain insurance, post bonds, follow marketing requirements, among other obligations, all of which are designed to assure positive and productive homeowner interaction with the Program.

#### 9.1.1 – Policies

PCPP Sub-Section 10.1 on Policies indicates that:

*It is the policy of Program that all contractors who sell, install, or manage subcontractors who install, Eligible Improvements have executed and that all such contractors and all employees, entities, owners, partners, principals, independent contractors, third party agents or other person who perform any services for the contractor in connection with a Program financing (collectively, the “Affiliated Individuals”) meet the requirements of the Program’s Contractor Participation Agreement (Attachment C), which include:*

*(A) Compliance with the current Registered Contractor code of conduct, a sample of which is attached hereto as Attachment B or other code of conduct that embodies the principles outlined in Attachment.*

RA has a document entitled “Registered Contractor Terms and Conditions,” which lays out all the same provisions as the “Sample Registered Contractor of Conduct” found in the PCPP Attachment B. RA’s most updated version of its Registered Contractor Terms and Conditions is dated in November 2016 (Version 3.2).

*(B) Maintenance of an active license, and be in good standing, with the California Contractor State License Board (“CSLB”), including compliance with the CSLB (or equivalent agency or program) insurance and bonding requirements.*

The CSLB licenses and regulates the state's construction industry and manages many different license classifications for contractors. The full listing of these licenses is:

- > A - General Engineering Contractor
- > B - General Building Contractor
- > C - Special Contractor
  - C-2 - Insulation and Acoustical Contractor
  - C-4 - Boiler, Hot Water Heating and Steam Fitting Contractor
  - C-5 - Framing and Rough Carpentry Contractor
  - C-6 - Cabinet Millwork and Finish Carpentry Contractor
  - C-7 - Low Voltage Systems Contractor
  - C-8 - Concrete Contractor
  - C-9 - Drywall Contractor
  - C10 - Electrical Contractor
  - C11 - Elevator Contractor
  - C12 - Earthwork and Paving Contractors
  - C13 - Fencing Contractor
  - C15 - Flooring and Floor Covering Contractors
  - C16 - Fire Protection Contractor
  - C17 - Glazing Contractor
  - C20 - Warm-Air Heating, Ventilating and Air-Conditioning Contractor
  - C21 - Building Moving/Demolition Contractor
  - C22 - Asbestos Abatement Contractor
  - C23 - Ornamental Metal Contractor
  - C27 - Landscaping Contractor
  - C28 - Lock and Security Equipment Contractor
  - C29 - Masonry Contractor
  - C31 - Construction Zone Traffic Control Contractor
  - C32 - Parking and Highway Improvement Contractor
  - C33 - Painting and Decorating Contractor
  - C34 - Pipeline Contractor
  - C35 - Lathing and Plastering Contractor
  - C36 - Plumbing Contractor
  - C38 - Refrigeration Contractor

- C39 - Roofing Contractor
- C42 - Sanitation System Contractor
- C43 - Sheet Metal Contractor
- C45 - Sign Contractor
- C46 - Solar Contractor
- C47 - General Manufactured Housing Contractor
- C50 - Reinforcing Steel Contractor
- C51 - Structural Steel Contractor
- C53 - Swimming Pool Contractor
- C54 - Ceramic and Mosaic Tile Contractor
- C55 - Water Conditioning Contractor
- C57 - Well Drilling Contractor
- C60 - Welding Contractor
- C61 - Limited Specialty
- ASB - Asbestos Certification
- HAZ - Hazardous Substance Removal Certification

Some of these licenses pertain to specific eligible HERO products (e.g., C46 for photovoltaic solar energy system installations). Per interview with RA on January 24, 2017, it has relied on the CSLB's website to check the licensing status of contractors since November 2014. Specifically, RA's system is integrated to the CSLB website to be able to pull daily reports of data such as, license classifications, business information (e.g., address), license status, effective and expiration dates of contractor's bonds and workers' compensation.

*(C) Execution of the Program's Contractor Participation Agreement only by a person who is listed as an Responsible Managing Owner ("RMO"), Responsible Managing Employee ("RME"), Responsible Managing Manager ("RMG"), Responsible Managing Member ("RMM"), sole owner or qualifying partner with the CSLB and who is authorized to act on behalf of, and who is responsible for the actions of, a Registered Contractor (a "Qualifying Individual").*

RA requires the Registered Contractor Terms and Conditions to be signed by an individual as defined by the PCPP. Per RA, this individual may also be a Chief Financial Officer (CFO), who is "authorized to act on behalf of, and who is responsible for the actions of, a Registered Contractor."

*(D) Oversight and management of employees, independent contractors and subcontractors who provide services to Registered Contractors accessing the Program.*

RA has implemented a formal “Contractor Onboarding Standard” on March 4, 2016, the publishing date of this Standard document. Prior to the Standard implementation, RA had indicated that it had system integration to the CSLB website for gathering key information on the contractors since November 2014. The objective of this Standard is to “ensure that each potential third party Contractor Company (“Contractors”) requesting to offer the Company’s [RA] products and/or services are (a) properly vetted, (b) operates as a legitimate business, and (c) conducts business operations in accordance with applicable law, contractual requirements, and internal Company [RA] policy.”

Per this Standard, RA requires that the Contractors register with RA and provide the following information:

- > Business Information:
  - Legal Entity Name
  - Doing Business As (DBA)/ Fictitious Business Names, if applicable
  - Physical Address of Business (no P.O. Boxes)
  - Business Phone Number
  - Officer of the business
  - Completed and Signed W-9 Form
  - Applicable State/ Local Contractor Licensing Information
  - Insurance and Bonding Information
- > Officer(s) Information:
  - Full Legal Name
  - Date of Birth
  - Last Four (4) Digits of Social Security Number
  - Contact Phone Number
  - Email Address
  - Home Address

Through the Standard, RA has performed Contractor Due Diligence on all registered contractors, which includes a verification of the business information provided by the Contractors as well as research into publicly available information about the Contractor Company. Specific information verified includes:

- > Business Information Verification:
  - Business Name
  - DBA/Fictitious Business Names
  - Business Address/Location
  - Business Phone Number

- Federal Tax Classification (e.g., Corporation, LLC, Partnership, etc.)
- > Contractor License Verification
  - Centralized Licensing Boards – Verifying the current status of the Contractor Company’s Contractor License within the state it operates (i.e., California)
  - Decentralized Licensing Boards
- > Insurance/Bonding Verification
  - Workers Compensation (if applicable)
  - Liability Insurance
  - State Mandated Bonding Requirements
- > Office of Foreign Asset Control Search (“OFAC”) – verifying that the Contractor Company, DBAs and its applicable Officers are not listed on the Specifically Designated Nationals List from the OFAC website.
- > Verification of Officer(s) Information
  - Identity Verification – verifying the identity of the applicable Officer executing the Contractor Participation Agreement through (1) passing a company-approved third party identity verification process, or (2) providing a government issued photo identification (e.g., driver’s license, passport, etc.)
- > Business Research – reviewing the Contractor and Officer(s) to identify any financial risks, criminal or other conduct inconsistent with RA’s core values, and assessing Contractor’s ability to provide a positive experience for every homeowner through:
  - Financial Stability (e.g., Involuntary Lines, Judgments, Derogatory UCC1 filings)
  - Consumer Sentiment (e.g., Yelp rating of 3 stars or better, minimum 10 reviews, Better Business Bureau rating)
  - Litigation (i.e., no closed or pending litigation in past 36 months, no history of fraud or violence within the past 7 years).
  - Web Search (i.e., negative news articles or other public records in previous 36 months)
  - Affiliations (e.g., must not be affiliated with any banned Contractors of individuals)

Also, per RA’s Standard, it performs ACH verification for any Contractor that requests to receive electronic fund transfers or wire transfers and requires the name of all Contractor Company Affiliated Individuals that will offer Company products and services for tracking and retention purposes.

Further, per this Standard, RA shall “maintain a monitoring and testing program to assess the performance of this Standard as it relates to compliance with applicable third party risk management standards.” Contractor Management is further discussed in Sub-section 9.1.3 of this report.

*(E) Meeting all other state and local licensing, training and permitting requirements.*



Per the Registered Terms and Conditions document version 3.2 (November 2016) Section 1.1 Contractor Registration Requirement, RA requires of its contractors:

*Contractor must register with Renovate America to become a “Registered Contractor” by providing all business and other relevant information requested by Renovate America for such registration. If required by the state, city, country, or other municipality or by law where the Registered Contractor is doing business or is located, such Registered Contractor must also possess an active, valid contractor’s license (a “License”) issued by the applicable licensing organization (“Licensing Board”), including, without limitation, in California, by the California Contractors State License Board (“CSLB”), including but not limited to meeting all bonding and workers compensation insurance requirements associated with such License (if applicable). For the avoidance of doubt, a License that is expired, suspended, revoked subject to probation, or has additional status codes does not qualify as an active, valid License under these Terms and Conditions.*

Per discussion with RA’s Compliance Team in regards to state and local licensing, training and permitting requirements, RA relies upon the information as maintained on the CSLB website for the registering contractor’s license status, bonding, and workers compensation insurance requirements.

*(F) Compliance with the Program’s marketing policies.*

To ensure that the HERO registered contractors comply with the Program’s marketing policies, RA has published a *Contractor Marketing Guidelines* document, which provides guidance to the HERO marketing team and representatives regarding approved marketing and prohibited marketing practices. This document is made available to HERO Contractors through the HERO Pro log-in portal for contractors. As stated in this document, “Any Contractor failing to comply with, or found to be in violation of the Contractor Marketing Guidelines and the Contractor Participation Terms and Conditions will be subject to disciplinary action as outlined in the Contractor Participation Terms and Conditions.”

Refer to Section 7.1 of this report for any specific guidelines regarding contractor marketing practices.

*(G) Ensuring all Affiliated Individuals register with the Program.*

Per the Registered Terms and Conditions document version 3.2 (November 2016) Section 1.2 Requirement to Register Individuals, RA has defined the terms “affiliated individuals” and “services” in connection with a financing product as such:

*“affiliated individuals” means all employees, entities, owners, partners, principals, independent contractors, third party agents or other person who perform any Services for the Registered Contractor in connection with a Financing Product. [Whereas,] “Services” means any sales, installation, advising, construction, creative services, digital marketing, lead generation, inspection or any other services delivered in connection with a Financing Product.”*

Further, RA assigns each individual a unique HERO Log-in username, so they can be tracked across different companies/contractors and therefore, a RA Compliance team member can restrict an individual contractor’s unique log-in, if they are suspended from the HERO Program.

### 9.1.2– New Contractors

PCPP Sub-Section 10.2 on New Contractors indicates that:

*Regarding Registered Contractors new to the Program, it is the policy that the Partner:*

*(A) Has a specified probationary period been identified (i.e., place the new Registered Contractors on a watch list until) the new Registered Contractors have completed the required number of Improvements)? If so, what is the period of time?*

*(B) Has procedures in place, during the Registered Contractor probationary period, to provide additional quality assurance steps for Improvements completed by the Registered Contractors on the watch list? If so, what are the additional assurance steps?*

*(C) Has procedures in place to review Registered Contractor's work to confirm satisfactory completion of projects conducted during the probationary period for which Program financing is used? If yes, what is that process?*

Per our interviews with RA on January 25, 2017, they have identified the probationary period during the operational analysis time-frame as five funded assessments and minimum 90 days in the Program. During this probationary period, RA's team will monitor the assessments through confirmed terms calls with the homeowner (which was only fully implemented in July 2016).

When any contractors are later added to the "watch list," it was typically due to violation of the Participation Agreement for issues with the Terms and Conditions, not necessarily a matter of contractor workmanship.

To ensure satisfactory completion of work, in some instances, RA would request a Home Improvement Contract (HIC) from the contractor and review the chosen products against the HIC. Further, in some instances, RA may perform on-site verification through a third-party contractor to validate the HERO product installations.

Per our discussion with RA, they have evolved the "watch list" process during the course of the operational analysis time-frame, by migrating to more of a due diligence process with various escalation categories that would lead to potential contractor suspension or probation. This process was implemented to be more consistent across the board and also more transparent to determine the nature of any homeowner issues or inquiries. This process is described below.

### **Contractor Compliance Tracking and Due Diligence:**

Per interviews with RA, during the first six months of the operational analysis time-frame (i.e., July – December 2015), RA's Compliance Department relied on multiple sources for information related to consumer complaints, violations of license status, bonding, or workers compensation insurance for the different HERO Program registered contractors. During this time-frame, RA's Compliance Department was utilizing an Excel spreadsheet to track any instances of contractor complaints or issues.

In June 2016, RA had fully implemented the RSAM system, which allowed the Compliance Department to perform contractor due diligence and initiate the escalation process within RSAM. Per our walk-through with RA on February 14, 2017, we were able to view the key system fields/actions such as:

- > Notes about Contractor escalation issues
- > Reported by whom:
- > Received via:
- > Initiated by:
- > Primary Category:
  - Protections
  - Professional Conduct
  - Program Representation
  - Terms
  - Workmanship & Product Performance
  - General Inquiry/Communication
- > Sub-Category; approximately 40 sub-categories in total (e.g., Ineligible Products, Work Begun Before Notice to Proceed is Issued, Product Price Concern, Damage to Property, General Inquiry/ Communication, etc.)
- > Logs of all activities
- > Cues for RA of when to send follow-up calls (based on a set date)

Further, by performing contractor due diligence on 100% of applications, RA was able to utilize RSAM to show key information on contractors such as:

- > Month by month for HERO Program – number of contractors registered
- > Number of contractors who appeal the decision
- > Reviews on denied contractors
  - Shows a reason for contractor being declined
- > Documents related to contractor, for example:
  - TLO report details on any past and present legal and fraud issues for the contractor
  - Dun & Bradstreet report
  - Yelp Rating
  - W9 form
  - Insurance

In late December 2016, RA went live with Salesforce.com, which is supposed to provide all the same functionalities of RSAM, but with additional capabilities, such as contractor risk scoring. In the future, RA may have a contractor risk score available, and based on this risk score, may decide to perform a higher percentage of random asset verification for that particular contractor.

#### 9.1.3– Contractor Management

PCPP Sub-Section 10.3 on Contractor Management indicates that:

*It is the policy that the Partner implement contractor management systems and procedures that manage and track contractor training and compliance violations on an individual and company basis.*

Per our interviews with RA, RA's Compliance Team performs proactive monitoring activities of registered contractors with focus on areas such as:

- > Installation of correct products (e.g., a Compliance Analyst performs a daily manual file review of any elderly individual assessments with an examination of product, pricing; the Analyst can "lock" the file and request a follow-up Home Improvement Contract)
- > Understanding of terms (e.g., based on homeowner negative feedback, RA's Program Services and Compliance team may reach out to the homeowner to resolve issues pertaining to the assessment and whether the contractor explained the terms of the HERO contract assessment properly)
- > Review (e.g., a Compliance Analyst may review the Underwriting documents and perform internal QC to ensure proper financing thresholds were met).

As RSAM was not available until June 2016, any issues resulting from monitoring activities were previously tracked via Excel.

Pertaining to our sample assessment testing of 96 HERO assessments, in response to Data Request #4 Item # 9, RA provided a "Contractor Log" (in PDF format) which showed a listing of all 96 sample assessments with the following fields:

- > HERO IDs
- > The funding date
- > Contractor Name
- > License Status
- > Current HERO Status \*
- > Signed Terms and Conditions (Yes/No),
- > Name of Individual Who Signed

- > HERO Status at funding
- > Qualifying Individual (Yes/No)
- > Notes (suspension or compliance terminated dates)

\*The Current HERO Status reflected the contractor's HERO status on the date in which the log was generated/sent to Baker Tilly on March 9, 2017.

Further, RA provided a listing of the Contractor Status Descriptions (in PDF format) which were last updated on October 2, 2016 and pertains to the HERO Status fields of the "Contractor Log". This listing included the following fields:

**Table 18 – Contractor Status Field Descriptions**

| Category          | Contractor Status                     | Previous Status             | Description                                                                                                                                                           | HERO Pro | Submit New Apps | Generate Docs | Funding      | Listed as HERO Contractor |
|-------------------|---------------------------------------|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------------|---------------|--------------|---------------------------|
| <b>CO Review</b>  | In Review                             | <i>In Review</i>            | Application Received                                                                                                                                                  | No       | No              | No            | No           | No                        |
| <b>CO Review</b>  | Denied                                | <i>Denied</i>               | CO did not meet T&Cs                                                                                                                                                  | No       | No              | No            | No           | No                        |
| <b>Management</b> | Approved                              | <i>Approved</i>             | Verified that the company identity matches what is on their insurance, and they meet our T&Cs                                                                         | Yes      | Yes             | Yes           | Yes          | No                        |
| <b>Management</b> | Approved Listed                       | <i>Approved Listed</i>      | The company has attended training, and RA has reviewed public records and metrics to verify that they are a business in good standing (i.e., Yelp, BBB, Angie's List) | Yes      | Yes             | Yes           | Yes          | Yes                       |
| <b>Management</b> | Compliance Admin Review               | <i>This is a new Status</i> | Funding of files are locked pending compliance release (verification by inspection, document review, PO confirmation)                                                 | Yes      | Yes             | Yes           | After review | No                        |
| <b>Management</b> | Compliance Admin Review – No New Apps | <i>Compliance Suspended</i> | Funding of files are locked pending compliance release (verification by inspection, document review). No new apps are permitted.                                      | Yes      | No              | Yes           | After review | No                        |

| Category            | Contractor Status               | Previous Status            | Description                                                                                                                                   | HERO Pro | Submit New Apps | Generate Docs | Funding | Listed as HERO Contractor |
|---------------------|---------------------------------|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------------|---------------|---------|---------------------------|
| <b>Management</b>   | Compliance Temporarily Inactive | <i>Temporary Suspended</i> | CO is being reviewed for a serious compliance matter. CO cannot be associated with files and cannot log into HERO Pro until issue is cleared. | No       | No              | No            | No      | No                        |
| <b>Off Boarding</b> | Termination                     | <i>Deactivated</i>         | CO has been removed from program. Requires notification to issuers.                                                                           | No       | No              | No            | No      | No                        |

These rules are in-place to allow or prohibit contractor activities in the HERO Program depending on their HERO contractor status. Per discussion with RA, the 'previous status' field represents the potential HERO contractor statuses possible during the operational analysis time-frame.

Additionally, RA provided a more detailed listing of the contractor status in response to the follow-up information requested in DR #8 that was not provided in DR #4. The additional fields requested and provided were:

- > Contractor's name
- > Contractor's CSLB #
- > Contractor's HERO status during funding

#### 9.1.4– Contractor Training

PCPP Sub-Section 10.4 on Contractor Training indicates that:

*It is the policy of the Program that each Partner make available contractor training regarding, at a minimum, the following: (i) the applicable contractor code of conduct terms as required by the Program, (ii) protected classes, including, without limitation, elder protection, and (iii) other consumer protection measures as required by the Program.*

Per interviews with RA on February 14, 2017, after a contractor is approved into the HERO Program, the contractor on-boarding process begins. At this time, RA may assign to larger contractors a Channel Account Manager (CAM), who serves as the point-of-contact for the new registered contractor. During this on-boarding process, the CAM ensures that the contractor signs and agrees to RA's "Registered Contractor Terms and Conditions", is apprised of protected classes, and introduces the contractor to the HERO Pro portal and how to access online training courses on the HERO Program processes and consumer protection measures. As a compliance measure, RA requires annually of the HERO contractors to re-agree to the Registered Contractor Terms and Conditions.

RA provides and tracks mandatory HERO onboarding training to new contractors through the HERO Pro portal. It is our understanding that the HERO Pro portal launched sometime in early 2016, and thus was not available during the entire operational analysis time-frame. Prior to the online trainings, training was tracked through sign-in/sign-out sheets. As of January 2017, RA now requires 100% of contractors to perform their training online.

The HERO Pro Portal currently (in 2017) includes courses for contractors in areas such as:

- > Application Process – to find out how to guide a homeowner through submitting a HERO application and how to call in Products
- > Installation – to learn about HERO’s financing documents, document submission requirements, and the benefits of using eSignature to complete this process
- > Close process – to go over the final steps in order to close a HERO deal
- > eSignature – for Administrators & Managers to guide property owners through the process of reviewing and signing financing documents electronically.
- > HERO Pro Walkthrough for Administers to learn about Proposal Plus – Solar Pitch
- > HERO “Need to Know”:
  - HERO FAQs – to equip Contractors to answer most FAQs from property owners
  - HERO Marketing – to learn the do’s and don’ts of HERO’s Marketing Policy

Upon completion of the courses, the contractors are required to take an exam, which tests their knowledge of the concepts introduced in the courses. If an individual passes the exam, RA issues through the HERO Pro Portal a certificate of completion.

#### 9.1.5– Remedial Action

PCPP Sub-Section 10.5 on Remedial Action indicates that:

*Partners warn, suspend or terminate a Registered Contractor and/or Affiliated Individual from the Program based on violations of the Contractor Participation Agreement. The Program does not accept Program applications processed by suspended or terminated contractors and/or associated representatives.*

Per our interviews with RA, the Contractor Compliance Tracking and Due Diligence process would provide guidance for RA to warn, suspend, or terminate a Registered Contractor and/or Affiliated Individual from the Program based on violations of the Contractor Prior Participation Agreement. Prior to the implementation of RSAM (in June 2016), RA relied primarily on the CSLB website and the Excel Tracking log.

## 9.2 – Observations and Recommendations

Baker Tilly makes the following observations and recommendations regarding RA's compliance with Contractor Requirements.

**Table 19 – Observations and Recommendations Regarding RA's compliance with Contractor Requirements**

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Addressed since June 30, 2016 per RA <sup>8</sup> | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|---------------|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 9.2.1         | RA process                       | <p>During review of the sample assessment documents, Baker Tilly observed 8 assessments that had a contractor in which the individual who signed the Contractor Participation Agreement did not appear on the CSLB website for the contractor license as either an RMO, RME, RMG, RMM, or sole owner/qualifying partner (whether currently associated with the license or no longer associated with the license) in accordance with PCPP requirement 10.1.3, which is that:</p> <p><i>Execution of the Program's Contractor Participation Agreement only by a person who is listed as an Responsible Managing Owner ("RMO"), Responsible Managing Employee ("RME"), Responsible Managing Manager ("RMG"), Responsible Managing Member ("RMM"), sole owner or qualifying partner with the CSLB and who is authorized to act on behalf of, and who is responsible for the actions of, a Registered Contractor (a "Qualifying Individual").</i></p> | Yes                                               | <p>For these contractors, Baker Tilly recommends that RA review the personnel listing to determine whether a different/active individual of the contractor company who is registered with the CSLB (i.e., RMO, RME, RMG, RMM or sole owner/qualifying partner), should re-sign the Contractor Participation Agreement. Alternatively, the individual who has signed the Contractor Participation Agreement can register with the CSLB to be considered a qualifying individual.</p> <p>RA should modify its existing procedures to confirm that the individual signing the participation agreement is qualified to do so per the CSLB website.</p> <p>In addition, RA and WRCOG may consider modifying the WRCOG Administrative Guidelines on this particular PCPP requirement (10.1.3) such that the individual who is signing the contractor participation has legal binding authority for the company does not specifically need to be listed on</p> |

<sup>8</sup> A "Yes" in this column means that RA has stated that this issue has been addressed by new controls or compliance programs put in place since June 30, 2016. An operational review of new controls or programs implemented since June 30, 2016 was outside of the scope of this engagement and Baker Tilly has not tested them and cannot comment on their effectiveness.



| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Addressed since June 30, 2016 per RA <sup>8</sup> | Recommendation                                                                                                                                                                                                                                                                             |
|---------------|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                  | <p>These assessments were:</p> <ul style="list-style-type: none"> <li>&gt; Loan ID: 119151 ^^ (See the following after this table for a full description on the status of this contractor)</li> <li>&gt; Loan ID: 119839</li> <li>&gt; Loan ID: 222070</li> <li>&gt; Loan ID: 168220</li> <li>&gt; Loan ID: 210124</li> <li>&gt; Loan ID: 156652</li> <li>&gt; Loan ID: 207319</li> <li>&gt; Loan ID: 213722</li> </ul> <p>While we acknowledge RA's due diligence in verifying that individual signing the contractor participation agreement have legal binding authority on behalf of the contractor, the specific wording of the PCPP requirement would indicate that the individual executing the contract needs to be listed as one of the qualifying individuals on the CSLB website.</p> |                                                   | the CSLB website. We would only recommend this possible revision if it is clear that none of the names of individuals listed on the CSLB website for a contractor have any binding legal authority for the company, despite being a RMO, RME, RMG, RMM, sole owner, or qualifying partner. |
|               | <u>RA's Response:</u>            | <p>Renovate America conducts a thorough review of all newly registered contractors and requires that the individual signing the Contractor Participation Agreement ("CPA") have the authority to bind the contractor company.</p> <p>The individual listed on the CSLB website is not always an individual who has the authority to bind a company. In some cases, the license holder's primary role within a company</p>                                                                                                                                                                                                                                                                                                                                                                        | Yes                                               | Renovate America has worked with WRCOG to update the PCPP requirement such that the individual who is signing the contractor participation agreement has the authority to bind the contractor company, but does not specifically need to be listed on the CSLB website.                    |

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Addressed since June 30, 2016 per RA <sup>8</sup> | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                  | is to oversee the installation of eligible improvements. In such cases, Renovate America verifies that at least one individual acting on behalf of the contractor company has a CSLB license, and that at least one individual with authority to bind the company has signed the CPA.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 9.2.2         | Program observation              | <p>During review of the sample assessment documents, Baker Tilly observed 13 instances in which several documents (in particular, the completion certificates) were found to be signed by contractor affiliated individuals that were not registered with the HERO Program or through the CSLB.</p> <p>These assessments were:</p> <ul style="list-style-type: none"> <li>&gt; Loan ID: 119151 ^^ (See the following after this table for a full description on the status of this contractor)</li> <li>&gt; Loan ID: 160613</li> <li>&gt; Loan ID: 119839 (See Observation 9.2.1 for more details on this contractor)</li> <li>&gt; Loan ID: 140330</li> <li>&gt; Loan ID: 158531</li> <li>&gt; Loan ID: 253831</li> <li>&gt; Loan ID: 226521</li> <li>&gt; Loan ID: 259579</li> <li>&gt; Loan ID: 205073</li> <li>&gt; Loan ID: 210124</li> </ul> | Yes                                               | <p>While Baker Tilly recognizes there are individuals that may not be actively part of the sales or installation of the assessments, the HERO products, and the HERO Program, we recommend WRCOG and RA decide which specific contractor individuals should be registered through the HERO Program or through the CSLB and whether that would include positions, such as an administrative assistant. This may also require a revision of the wording of the PCPP 10.1 and 10.1.7 requirements to include or exclude certain individuals and employee titles.</p> <p>As it currently stands, the PCPP 10.1 requirement states that <i>“it is the policy of the Program that all contractors who sell, install, or manage subcontractors who install, eligible improvements will have executed and that all such contractors and all employees, entities, owners, partners, principals, independent contractors, third party agents or other person who perform any services for the contractor in connection with a Program financing (collectively, the “Affiliated Individuals”).</i></p> |

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Addressed since June 30, 2016 per RA <sup>8</sup> | Recommendation                                                                                                                                                                                           |
|---------------|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                  | <ul style="list-style-type: none"> <li>&gt; Loan ID: 184604</li> <li>&gt; Loan ID: 153166</li> <li>&gt; Loan ID: 253304</li> </ul> <p>Most of these individuals were determined to be administrative assistants working for the contractors and handling completion certificates. Per discussion with RA, they believe the term “affiliated individual” should refer to individuals directly involved in the assessment (e.g., sales person, product installer, etc.).</p> |                                                   | As it currently stands, the PCPP 10.1.7 requirement states “ <i>ensuring all affiliated individuals register with the Program including completing the Program’s identity verification procedures.</i> ” |
|               | <u>RA’s Response:</u>            | It is not a HERO Program requirement that completion certificates must be signed by an affiliated individual. Because access to HERO Program tools (e.g., the contractor portal) is limited only to affiliated individuals, who must register with the HERO Program, an affiliated individual is ultimately responsible for reviewing and submitting completion certificates to Renovate America.                                                                          | Yes                                               | Renovate America has worked with WRCOG to update the PCPP requirement to better define which individuals qualify as affiliated individuals.                                                              |

<sup>^^</sup> Per RA’s Contractor Tracking log and the CSLB website, this license is currently suspended for the following reasons:

- 1) License is under suspension for failure to comply with Workers Comp. A workers’ compensation certificate or exemption statement may have been received by the Board but not yet processed. Once the certificate or exemption statement is processed the suspension will be lifted retroactively to the effective date of the certificate or exemption statement. Ask the contractor for proof of worker’s compensation and contact the insurance company to verify coverage.

- 2) License is under Contractors Bond Suspension. A contractor's bond may have been received by the Board but not yet processed. Once the bond is processed the suspension will be lifted retroactively to the effective date of the bond. Ask the contractor for proof of a contractor's bond and contact the bonding company to verify bond status.
- 3) License is under suspension for Lack of Qualifier.

### 9.3 – Testing and Results

The table below shows WRCOG’s questions per the RFP in the Contractor Requirements area. Baker Tilly describes the testing performed and the result of the testing for each WRCOG question.

**Table 20 – Review of RA’s compliance with Contractor Requirements**

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 9.a.          | Does the Provider confirm that all contractors who sell, install, or manage subcontractors who install, Eligible Improvements have executed and that all such contractors and all employees, entities, owners, partners, principals, independent contractors, third party agents or other person who perform any services for the contractor in connection with a Program financing (collectively, the “Affiliated Individuals”) meet the requirements of the Program’s Contractor Participation Agreement (Attachment C), which include: | <p>Refer to items (A) – (G) in Sub-section 9.1.1 for a description regarding RA’s general practice with respect to the policies on Contractor Requirements.</p> <p>The following rows provide summaries for specific sample assessment testing that relates to Program Contractor Requirements.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|               | <p>&gt; Compliance with the current Registered Contractor code of conduct, a sample of which is attached here to as Attachment B or other code of conduct that embodies the principles outlined in Attachment B.</p>                                                                                                                                                                                                                                                                                                                      | <p>Based on the testing of all 96 sample assessments and their contractors, Baker Tilly has noted the following versions of RA’s Registered Contractor Terms and Conditions:</p> <ul style="list-style-type: none"> <li>&gt; Version 0.1 – November 2011</li> <li>&gt; Version 01.2 – November 2011</li> <li>&gt; Version 01.5 – April 2012</li> <li>&gt; Version 1.0 – September 2013</li> <li>&gt; Version 2.0 – September 2014</li> <li>&gt; Version 2.2 – June 2015</li> <li>&gt; Version 2.3 – April 2016</li> <li>&gt; Version 3.2 – November 2016</li> </ul> <p>This list may not necessarily reflect the full listing of all versions of RA’s Registered Contractor Terms and Conditions since the inception of the HERO Program. Per discussion with RA on January 24, 2017, RA occasionally updates the Terms and Conditions to enhance certain requirements that are to be required</p> |

| Workplan Step                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | WRCOG Question per RFP                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>&gt; Maintenance of an active license, and be in good standing, with the California Contractor State License Board (“CSLB”), including compliance with the CSLB (or equivalent agency or program) insurance and bonding requirements.</li> </ul>                                                                                                                                                                                                                   | <p>of contractors and any updates with WRCOG’s Administrative Guidelines.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <p>Regarding maintenance of an active license, Baker Tilly viewed all 96 sample assessments to ensure that all contractors were registered on the CSLB website with current and active licenses, proper license classification, active contractor bond, and active worker compensations insurance.</p>                                                                                                                                                                                                                                                     |
| <ul style="list-style-type: none"> <li>&gt; Execution of the Program’s Contractor Participation Agreement only by a person who is listed as an Responsible Managing Owner (“RMO”), Responsible Managing Employee (“RME”), Responsible Managing Manager (“RMG”), Responsible Managing Member (“RMM”), sole owner or qualifying partner with the CSLB and who is authorized to act on behalf of, and who is responsible for the actions of, a Registered Contractor (a “Qualifying Individual”).</li> </ul> | <p>We compared our viewings from the CSLB website to a document provided by RA in response to Data Request #4 Item #9, “Contractor Log” (in PDF format), which showed a listing of all 96 sample assessments with the current HERO status and CSLB license status on the date March 9, 2017 (the date in which this log was generated/sent to Baker Tilly).</p>                                                                                                                                                                                             | <p>We also compared each sample to the documents “AllTimeContractorStatusHistory” and “Contractor Status History” provided by RA in response to DR #8, Item #3. The documents provided were exports from the RA system and contained all contractor status change history. The system interfaces with the CSLB website and therefore historical changes in a contractor’s CSLB status is tracked and reported in detail. Review of the two documents allowed Baker Tilly to confirm that RA is actively tracking the contractors’ CSLB license status.</p> |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <p>Baker Tilly viewed all 96 sample assessments to ensure that all registered contractors had a Qualifying Individual sign the HERO Contractor Participation Agreement in accordance with PCPP requirement 10.1.3. Baker Tilly checked the CSLB license number for all the contractors on the CSLB website, specifically the Personnel List to see if the person who signed the Contractor Participation Agreement was listed on the CSLB Personnel List page (whether currently associated with the license or no longer associated with the license).</p> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

| Workplan Step | WRCOG Question per RFP                                                                                                                                    | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                                                                                                                                           | Of the 96 sample assessments, Baker Tilly found that 8 assessments had a contractor in which the individual who signed the Contractor Participation Agreement did not appear on the CSLB website for the contractor license as either an RMO, RME, RMG, RMM, or sole owner/qualifying partner. The listing of these assessments can be found in the Observations and Recommendations tables for this section. |
|               | > Oversight and management of employees, independent contractors and subcontractors who provide services to Registered Contractors accessing the Program. | Baker Tilly viewed a sample set of compliance cases during the operational analysis-time frame as found on RA's Compliance Log (Compliance Matters 20150701 – 20160630) to determine any issues pertaining to contractor compliance with the Program's marketing policies.                                                                                                                                    |
|               | > Meeting all other state and local licensing, training and permitting requirements.                                                                      | <p>Baker Tilly viewed all 96 sample assessments to ensure that all appropriate CSLB licenses were associated with the HERO assessment product type.</p> <p>Of the 96 sample assessments, Baker Tilly found no assessments had the improper CSLB license associated with the HERO product assessment.</p>                                                                                                      |
|               | > Compliance with the Program's marketing policies.                                                                                                       | Baker Tilly viewed a sample set of compliance cases during the operational analysis-time frame as found on RA's Compliance Log (Compliance Matters 20150701 – 20160630) to determine any issues pertaining to contractor compliance with the Program's marketing policies.                                                                                                                                    |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                                           | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               | <ul style="list-style-type: none"> <li>&gt; Ensuring all Affiliated Individuals register with the Program.</li> </ul>                                                                                                                                                                                            | <p>Baker Tilly viewed all 96 sample assessments to ensure that all affiliated individuals that were involved in the assessments were registered with the HERO Program. In particular, Baker Tilly viewed the completion certificate document as that included the name/signature of an affiliated individual of the contractor company. (See 9.a for testing on Contractor Participation Agreement)</p> <p>Of the 96 sample assessments, RA was not able to provide supporting (e.g., HERO system screenshot, signed HERO form, etc.) for 13 of the assessments. The listing of these assessments can be found in the Observations and Recommendations tables for this section.</p> |
| 9.b.          | Does the Provider confirm the following for all new Registered Contractors? If not, why?                                                                                                                                                                                                                         | <p>Refer to items (A) – (C) in Sub-section 9.1.2 for a description regarding RA's general practice with respect to requirements of new contractors.</p> <p>The following rows provide summaries for specific sample assessment testing that relates to Program Contractor Requirements.</p>                                                                                                                                                                                                                                                                                                                                                                                         |
|               | <ul style="list-style-type: none"> <li>&gt; Has a specified probationary period been identified (i.e., place the new Registered Contractors on a watch list until the new Registered Contractors have completed the required number of Improvements)? If so, what is the period of time?</li> </ul>              | <p>RA has a specified probationary period during the operational analysis time-frame of five funded assessments and minimum 90 days in the Program.</p> <p>Refer to items (A) – (C) in Sub-section 9.1.2 for a description regarding RA's general practice with respect to requirements of new contractors.</p>                                                                                                                                                                                                                                                                                                                                                                     |
|               | <ul style="list-style-type: none"> <li>&gt; Has a procedure in place, during the Registered Contractor probationary period, to provide additional quality assurance steps for Improvements completed by the Registered Contractors on the watch list? If so, what are the additional assurance steps?</li> </ul> | <p>In some instances, RA would request a Home Improvement Contract (HIC) from the contractor and review the chosen products against the HIC. Further, in some instances, RA may perform on-site verification through a third-party contractor to validate the HERO product installations.</p> <p>Refer to items (A) – (C) in Sub-section 9.1.2 for a description regarding RA's general practice with respect to requirements of new contractors.</p>                                                                                                                                                                                                                               |



| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                            | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               | <ul style="list-style-type: none"> <li>&gt; Has a procedure in place to review Registered Contractor's work to confirm satisfactory completion of projects conducted during the probationary period for which Program financing is used? If yes, what is that process?</li> </ul> | <p>In some instances, RA may perform on-site verification through a third-party contractor to validate the HERO product installations.</p> <p>Refer to items (A) – (C) in Sub-section 9.1.2 for a description regarding RA's general practice with respect to requirements of new contractors.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 9.c.          | Has the Provider implemented a contractor management system and has procedures that manage and track contractor training and compliance violations on an individual and company basis. If so, what are they?                                                                      | <p>Refer to Sub-section 9.1.3 for a description regarding RA's general practice with respect to contractor management requirements.</p> <p>In order to test this particular requirement, Baker Tilly requested the following items in Data Request #3 (originally requested on December 20, 2016):</p> <p>(1) Please provide a listing of all approved contractors for the PACE program for the period of July 1, 2015 – June 30, 2016.</p> <p>(2) Please provide a list of all contractors that were warned, suspended, or terminated for the period of July 1, 2015 – June 30, 2016, and the reason for doing so.</p> <p>In response to our request, RA provided a '<i>Contractor Status List 20150701 – 20160630.xlsx</i>' for the operational analysis period (provided on February 7, 2017). The list includes the fields as follows:</p> <ul style="list-style-type: none"> <li>&gt; Organization ID [5 digit number]</li> <li>&gt; Registration Date</li> <li>&gt; CSLB Expiration Date</li> <li>&gt; Contractor Status</li> </ul> <p>This listing does not contain the name of the contractor, but instead an Organization ID, which provided us no way to determine the contractor name.</p> |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                                                                                             | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                                                                                                                                                                                                                                                                                                                                                    | <p>Baker Tilly re-requested the following information in DR #8 to test this requirement:</p> <ul style="list-style-type: none"> <li>&gt; Contractor's name</li> <li>&gt; Contractor's CSLB #</li> <li>&gt; Contractor's HERO status during funding</li> </ul> <p>RA provided two Contractor Status documents in response to DR #8 Item #3 with the information listed above allowing Baker Tilly to tie each sample to the associated contractor's status history. Baker Tilly viewed the detailed tracking that RA maintains to manage and track contractor training and compliance violations on an individual and company basis</p> |
| 9.d.          | Does the Provider make available contractor training regarding, at a minimum, the following: (i) the applicable contractor code of conduct terms as required by the Program, (ii) protected classes, including, without limitation, elder protection, and (iii) other consumer protection measures as required by the Program. If so, how are they made available? | <p>RA has in-place a contractor on-boarding process in which the contractor signs and agrees to RA's "Registered Contractor Terms and Conditions", is apprised of protected classes, and is introduced to the HERO Pro portal with access to access online training courses on the HERO Program processes and consumer protection measures. As a compliance measure, RA requires annually of the HERO contractors to re-agree to the Registered Contractor Terms and Conditions.</p> <p>Refer to Sub-section 9.1.4 for a description regarding RA's general practice with respect to contractor training requirements.</p>             |
| 9.e.          | Does the Provider warn, suspend or terminate a Registered Contractor and/or Affiliated Individual from the Program based on violations of the Contractor Participation Agreement? If so, how is this being determined?                                                                                                                                             | <p>In order to test this particular requirement, Baker Tilly requested the following in Data Request #3 (originally requested on December 20, 2016):</p> <p>(1) Please provide a listing of all approved contractors for the PACE program for the period of July 1, 2015 – June 30, 2016.</p> <p>(2) Please provide a list of all contractors that were warned, suspended, or terminated for the period of July 1, 2015 – June 30, 2016, and the reason for doing so.</p>                                                                                                                                                              |

| Workplan Step | WRCOG Question per RFP                                                                                                                        | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                                                                                                                               | <p>In response to our request, RA provided a '<i>Contractor Status List 20150701 – 20160630.xlsx</i>' for the operational analysis period (provided on February 7, 2017). The list includes the fields as follows:</p> <ul style="list-style-type: none"> <li>&gt; Organization ID [5 digit number]</li> <li>&gt; Registration Date</li> <li>&gt; CSLB Expiration Date</li> <li>&gt; Contractor Status</li> </ul> <p>This listing does not contain the name of the contractor, but instead an Organization ID, which provided us no way to determine the contractor name.</p> <p>Baker Tilly re-requested the following information in DR #8 to test this requirement:</p> <ul style="list-style-type: none"> <li>&gt; Contractor's name</li> <li>&gt; Contractor's CSLB #</li> <li>&gt; Contractor's HERO status during funding</li> </ul> <p>RA provided two Contractor Status documents in response to DR #8 Item #3 with the information listed above allowing Baker Tilly to tie each sample to the associated contractor's status history. Baker Tilly viewed the detailed tracking that RA maintains with the suspension and termination records (ass applicable) of the 96 samples.</p> |
| 9.f.          | Does the Provider accept Program applications processed by suspended or terminated contractors and/or associated representatives? If so, why? | <p>Baker Tilly sought to verify that the contractors who funded the 96 sampled assessments had appropriate HERO contractor status allowing them to accept new HERO applications (e.g., Approved, Approved Listing) during the time-frame in which the applications were dated. In order to test this particular requirement, Baker Tilly requested the following items in Data Request #3 (originally requested on December 20, 2016):</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

| Workplan Step | WRCOG Question per RFP | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                        | <p>(1) Please provide a listing of all approved contractors for the PACE program for the period of July 1, 2015 – June 30, 2016.</p> <p>(2) Please provide a list of all contractors that were warned, suspended, or terminated for the period of July 1, 2015 – June 30, 2016, and the reason for doing so.</p> <p>(3) Please provide a listing of all PACE program loans by type and each loan amount and total loan dollar amount (Energy Efficiency, Renewable Energy, Water Conservation) for the operational analysis period July 1, 2015 through June 30, 2016.</p> <p>Additionally, Baker Tilly requested the following item in Data Request #4 (originally requested on February 1, 2017):</p> <p>(9)(a) Proof of confirmation of an active license and good standing with the CSLB for each of the 96 samples.</p> <p>In response to our DR #3 request, RA provided a '<i>Contractor Status List 20150701 – 20160630.xlsx</i>' for the operational analysis period (provided on February 7, 2017). The list includes the fields as follows:</p> <ul style="list-style-type: none"> <li>&gt; Organization ID [5 digit number]</li> <li>&gt; Registration Date</li> <li>&gt; CSLB Expiration Date</li> <li>&gt; Contractor Status</li> </ul> <p>This listing does not contain the name of the contractor, but instead an Organization ID, which provided us no way to determine the contractor name.</p> <p>In response to our DR #4 request, RA provided for each contractor pertaining to the selected 96 sample assessments, a screenshot of the internal RA System that shows an automatic data log updates to the CSLB website's license status page with a time-stamp.</p> |

| Workplan Step | WRCOG Question per RFP | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                        | <p>Baker Tilly re-requested the following information in DR #8 to test this requirement:</p> <ul style="list-style-type: none"> <li>&gt; Contractor's name</li> <li>&gt; Contractor's CSLB #</li> <li>&gt; Contractor's HERO status during funding</li> </ul> <p>RA provided two Contractor Status documents in DR #8 with the information listed above allowing Baker Tilly to tie each sample application date to the status of the associated contractor. After review of the documents and clarification of outstanding questions during a meeting with RA on August 10, 2017, Baker Tilly determined that the contractors for each of the 96 samples tested were in compliance with the PACE Consumer Protection Policy 10.5 and therefore were not suspended or terminated at the time the applications were submitted.</p> |

## 10.0 – MAXIMUM FINANCING AMOUNT

### 10.1 – Background and Current Process

Per the PCPP Section 12, the Maximum Financing Amount (MFA) serves as a ceiling for amounts that can be financed to property owners regarding the installation of energy efficiency, renewable energy, and water conservation improvements for their homes.

#### Compliance Analyst – Pricing Review Process (during the operational analysis time-frame):

During the time-frame of the HERO Program operational analysis review, the pricing review process begins with a RA's Compliance Analyst running a *Daily Price Checking Report*, which uploads all calculated contract assessments from the previous day. The raw data from this report is then entered into an Excel spreadsheet with a Macro, which performs an advanced filter based on the following criteria:

- > Property Owner is 75 years old or higher
- > Property Owner is 65 years old or higher + Assessment is \$30,000 or higher
- > The Assessment is greater than or equal to 90% utilization
- > Total Assessment is greater than or equal to \$60,000
- > Product Count difference is greater than or equal to 1,000 sq. ft., where "Difference" = (Product Count) – (Living sq. ft. + 400 sq. ft.)
- > LTV % is great than 95% post assessment, where  $LTV = [ (Total\ Open\ Mortgage\ Lien\ Balance) + (Closing\ Total\ Financing\ Amount) ] / (Combined\ Home\ Value)$

RA's Compliance Analyst utilizes the Excel Macro filter to prioritize "High Dollar Alerts" assessments for pricing review. If an assessment meets any of the criteria outlined above, RA's Compliance Department filters and inputs that assessment's data onto a new tab. The Analyst then sums the total product amounts and sorts the assessments from highest to lowest amounts and reviews each of the respective assessments and supporting files. Per documents provided by RA, the Analyst performs the following steps for review:

- > Opens file on "Ops Web" to look for any flags:
  - Concerning notes
  - Multiple ACA's generated
  - Many linked files
  - Inconsistent product pricing
  - Product count errors

- > Views the property address on Google Earth (for certain product types)
  - Looks for signs of suitability
    - » Example 1: Drought Tolerant Landscaping, does the sq. ft. match up with yard space
    - » Example 2: Solar (does the Solar Offset make sense – possible extreme climate or pool, etc.)
    - » Example 3: Roof (does the roof appear damaged at all – typically requires more labor/costs)
  - Measures all properties in which “Difference” exceeds 1,000 sq. ft.
    - » Inputs into sq. ft. calculated to identify potential product count inflation
      - Looks for Home Improvement Contract (HIC) if the revised Price Per Unit (PPU) is over the MFA (of price is lowered)
    - » If revised PPU is under the MFA, adds to *Cool Wall Overestimated* Sheet

Compliance Analyst – Pricing Review Process (post operational analysis time-frame):

Per documents provided by RA, they have made enhancements to this Pricing Review Process since June 30, 2016. In particular some of the following changes were made:

- > An advanced filter was implemented to help improve the process for identifying “high dollar” assessments
- > Notation of any concerning data in the daily reporting tables (e.g., locked for elder review; file locked due to pending UW approval – bankruptcy documents; product note Texcote authorized)
- > Addition of color-coding to signify any follow-up actions:
  - Blue = Escalated (file locked for HIC, Elder review of High Dollar Alert)
  - Yellow = Under review (pending measurements, UW approval, CT, etc.)
  - Orange = Get a different opinion (email all findings to another analyst for 2<sup>nd</sup> review)
  - Green = Products appear fairly priced and project looks suitable for home

## 10.2 – Observations and Recommendations

Baker Tilly makes the following observations and recommendations regarding RA's Maximum Financing Amount Requirements.

**Table 21 – Observations and Recommendations regarding RA's compliance with Maximum Financing Amount Requirements.**

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                               | Addressed since June 30, 2016 per RA <sup>9</sup> | Recommendation                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.2.1        | RA process                       | In reviewing the MFA "Pricing Sheet" (both Versions 1 and 2) provided by RA, it appears that there are several products without a high MFA price. In Version 1, there were 13 products without a max MFA price; in Version 2, there were only 5 products without a Max MFA price.                                                                                                                                                          | Yes                                               | We recommend for such products with missing max MFA prices that RA perform additional research or analysis to determine a max MFA price to serve as a basis for evaluating funding requests with these products.<br><br>Note: this issue has been addressed since June 30, 2016 per RA. As this time period is outside of the scope of this project Baker Tilly has not tested or confirmed this. |
|               | <u>RA's Response:</u>            | Renovate America pioneered a pricing review approach for eligible products in September 2014, well before the implementation of the PCPP, and the first of its kind in the PACE industry.<br><br>Renovate America conducted pricing reviews of projects during the entire review period, and continues that practice today. Over time, however, Renovate America has continuously enhanced its maximum financing amount ("MFA") process by | Yes                                               | Renovate America used the information obtained in its previous MFA process to implement specific MFA amounts.                                                                                                                                                                                                                                                                                     |

<sup>9</sup> A "Yes" in this column means that RA has stated that this issue has been addressed by new controls or compliance programs put in place since June 30, 2016. An operational review of new controls or programs implemented since June 30, 2016 was outside of the scope of this engagement and Baker Tilly has not tested them and cannot comment on their effectiveness.



| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Addressed since June 30, 2016 per RA <sup>9</sup> | Recommendation |
|---------------|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|----------------|
|               |                                  | <p>analysis of data it was only able to obtain from products it already reviewed and by implementing more automated systems on all product types.</p> <p>As Baker Tilly previously stated, the referenced products were not common in the HERO Program. Therefore, Renovate America did not have adequate information to set one maximum MFA amount for such products at that time. If Renovate America had attempted to set such a static number, this would have been largely guesswork, unsupported by actual data.</p> <p>Nevertheless, a maximum amount would be determined for products through Renovate America's risk-based manual review conducted by Renovate America staff. This manual approach provided a better informed and more accurate result for such products at that time.</p> <p>Over time, Renovate America used the analysis described above to set specific MFA amounts, which are now used in its automated systems. However, the more holistic process employed by Renovate America previously was also consistent with the requirements of the PCPP.</p> |                                                   |                |

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Addressed since June 30, 2016 per RA <sup>9</sup> | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.2.2        | RA process                       | <p>In reviewing the MFA “Pricing Sheet” (both Versions 1 and 2) provided by RA, it appears that there were a few eligible HERO products not listed on the pricing sheet. These products were:</p> <ul style="list-style-type: none"> <li>&gt; Alternative Energy &gt; Fuel Cell Power System</li> <li>&gt; Building Envelope &gt; Insulated Siding</li> <li>&gt; HVAC &gt; Geothermal Heat Pump</li> <li>&gt; HVAC &gt; Radiant Heating System</li> </ul> <p>With the exception of one assessment with insulated siding, none of the other products were installed/funded between July 1, 2015 and June 30, 2016.</p> | Yes                                               | <p>While these products do not appear to be common in the HERO Program, we recommend that RA perform additional research to determine a conservative maximum MFA price to serve as a basis for evaluating funding requests with these products.</p> <p>Note: this issue has been addressed since June 30, 2016. As this time period is outside of the scope of this project Baker Tilly has not tested or confirmed this.</p> |
|               | <u>RA’s Response:</u>            | <p>Renovate America pioneered a pricing review approach for eligible products in September 2014, well before the implementation of the PCPP, and the first of its kind in the PACE industry.</p> <p>Renovate America conducted pricing reviews of products during the entire review period, and continues that practice today. Over time, however, Renovate America has continuously enhanced its maximum financing amount (“MFA”) process by analysis of data it was only able to obtain from products it already reviewed and by implementing more automated systems on all product types.</p>                      | Yes                                               | Renovate America used the information obtained in its previous MFA process to implement specific MFA amounts.                                                                                                                                                                                                                                                                                                                 |

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Addressed since June 30, 2016 per RA <sup>9</sup> | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                  | <p>Aside from one instance of insulated siding, none of the products identified by Baker Tilly were installed or funded during the review period. At the time, adequate information did not exist for the Program to set an informed predetermined MFA for such products. Nevertheless, a maximum amount was determined for such products through the risk-based manual review conducted by Renovate America staff. This manual approach provided an informed result for such products at that time.</p> <p>Over time, Renovate America used the analysis described above to set specific MFA amounts, which are now used in its automated systems. However, the more holistic process employed by Renovate America previously was also consistent with the requirements of the PCPP.</p> |                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 10.2.3        | RA process                       | During the operational analysis period (i.e., July 1, 2015 – June 30, 2016), RA used a risk-based approach to evaluate the assessment and financing value. This risk-based approach looked at the characteristics of the assessment (e.g., contract assessment amounts) and that of the individual (e.g., age) to determine if the assessment should be examined further. By relying on this risk-based approach to evaluate the maximum financing value, there does not appear to be a                                                                                                                                                                                                                                                                                                   | Yes                                               | <p>We recommend that as part of the evaluation of all products' financing amounts that the product equipment costs be examined as well.</p> <p>Some of the product price per unit may be captured in the Home Improvement Contracts. As such, we recommend that RA develop a spreadsheet/database of each eligible HERO product and when enough pricing information is gathered on these products, a maximum product cost, which would serve as an additional price control for homeowners.</p> |

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Addressed since June 30, 2016 per RA <sup>9</sup> | Recommendation                                                                                                                                                                                                                                                                                                    |
|---------------|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                  | <p>thorough examination of the eligible product costs during the initial pricing review.</p> <p>Baker Tilly identified one (1) instance in which RA financed a project that exceeded the maximum financing amount. Specifically, Baker Tilly observed the following:</p> <p>Loan ID: 255051</p> <ul style="list-style-type: none"> <li>– The homeowner financed 1,036 square feet of premium turf. At a maximum amount of \$21.27 per square foot, the maximum financing amount is \$22,036. The amount financed was 23,700, which exceeds the maximum financing amount.</li> </ul> <p>As a result of using the risk based approach described above, RA would not identify all instances in which the maximum financing amount is exceeded.</p> |                                                   | <p>NOTE: Per discussion, RA has begun reviewing the MFA for all products. This fully automated process began in July of 2016, after the period of review. Given the timing of implementation, Baker Tilly did not perform testing to confirm that this process has been implemented and is fully operational.</p> |
|               | <u>RA's Response:</u>            | <p>Renovate America pioneered a pricing review approach for eligible products in September 2014, well before the implementation of the PCPP, and the first of its kind in the PACE industry.</p> <p>In the beginning, maximum financing amounts ("MFAs") were determined through an internal product lookup tool and pricing sheets created by Renovate America staff, and monitored internally. The MFA process</p>                                                                                                                                                                                                                                                                                                                            | Yes                                               | Renovate America used the information obtained in its previous MFA process to implement specific MFA amounts.                                                                                                                                                                                                     |

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                           | Addressed since June 30, 2016 per RA <sup>9</sup> | Recommendation |
|---------------|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|----------------|
|               |                                  | <p>was part of a broader review of such files and acted as a factor in the manual review process.</p> <p>Over time, Renovate America used the analysis described above to set specific MFA amounts, which are now used in its automated systems. However, the more holistic process employed by Renovate America previously was also consistent with the requirements of the PCPP.</p> |                                                   |                |

### 10.3 – Testing and Results

The table below shows WRCOG’s questions per the RFP in the Maximum Financing Amount area. Baker Tilly describes the testing performed and the result of the testing for each WRCOG question.

**Table 22 – Review of RA’s Compliance with the Maximum Financing Amount Requirements**

| Workplan Step | WRCOG Question per RFP                                                                                                                                      | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.a.         | How is the Provider determining maximum financing amounts (MFA)?                                                                                            | <p>Per discussion with RA and supporting documentation provided, RA has developed maximum pricing amounts based on market and data and program experience, taking into account geographical/regional factors. The Product Management team performs regression analysis of key correlated factors that are driving price (e.g., manufacturer, efficiency rating, historical pricing, etc.).</p> <p>RA indicated that it started conducting MFA pricing review of HERO Program projects as early as September 2014, and that since that time, the Compliance team continues to enhance its development of risk-based criteria for selecting projects to review, and to create a low/high pricing document that is to be used as guideline when files meet certain risk criteria. Each project and the products selected are reviewed and a determination is made by the Compliance Department by verifying the correct square footage and/or quantity of the products match the available attributes of the property and overall suitability of the products for the property.</p> |
| 10.b.         | Has the Provider established a MFA for each product type (e.g. for central air conditioners, solar PV systems, solar thermal systems, and artificial turf)? | <p>Per discussion with RA and supporting documentation provided, RA has developed a “Pricing Sheet” that contains both average and maximum \$ per unit financing amounts for each product type. There are two versions of this Pricing Sheet: (1) Version 1 that was used between January 2015 – October 2016; (2) Version 2 that was used from October 2016 – Current</p> <p>In Version 1 of the “Pricing Sheet”, the following product types did not have an established MFA:</p> <ul style="list-style-type: none"> <li>&gt; Alternative Energy &gt; Fuel Cell Power System</li> <li>&gt; Building Envelope &gt; Insulated Siding</li> <li>&gt; HVAC &gt; Duct Sealing</li> <li>&gt; HVAC &gt; Geothermal Heat Pump</li> <li>&gt; HVAC &gt; Radiant Heating System</li> </ul>                                                                                                                                                                                                                                                                                                 |

| Workplan Step | WRCOG Question per RFP                                                                                                                                                       | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                                                                                                                                                              | <p>However, in Version 2 of the “Pricing Sheet”, all of the same product types were still missing, with the exception of Duct Sealing, which now has a MFA. See Observation 10.2.1 for further details.</p> <p>Further, it appears that there are several products without a high MFA price in both Versions 1 and 2 of the Pricing Sheet. See Observation 10.2.1 for further details.</p> <p>In reviewing the entire population of WRCOG HERO assessment loans for the operational analysis time-frame, there was only one assessment that had a duct sealing and only one assessment that had insulated siding. However, the assessment with insulated siding also had reflective/cool wall coverings, and as a result, may be difficult to determine a MFA just for insulated siding due to the multi-product installation. All the other product types listed did not have any HERO assessments from July 2015 – June 2016.</p> <p>As such, Baker Tilly believes that RA has appropriately established a MFA for each product type in the HERO Program.</p>                                                                |
| 10.c.         | Has the Provider established product/project attribute related pricing rules that dictate what pricing within such low to high MFA range is justified? If so, what are they? | <p>Per version 1 of the “Pricing Sheet”, RA has developed an average and high MFA prices for each product, which is based on a regression analysis of the key correlated factors.</p> <p>Per our interviews with RA’s Product Management team on February 15, 2017, there is not necessarily a minimum MFA price for each product type, but rather an assessment of reasonableness of the price in accordance with the product specifications (e.g., manufacturer, size, efficiency rating). The intent of the MFA is to prevent contractor from setting egregious prices, but not to necessarily dictate what a contractor would charge.</p> <p>There does not appear to be specific rules that dictate the low (average) to high MFA range. Rather, the range between the average MFA and high MFA may vary greatly for some products in which there is a large range in both size of equipment and efficiency ratings (e.g., split system central air conditioners can range from say 2 – 5 tons with SEER ratings from 15 up to 25). Some products do not have a high MFA price, but rather just an average MFA price.</p> |

| Workplan Step | WRCOG Question per RFP                                                                                                                         | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.d.         | Has the Provider established processes and systems for purposes of enforcing the MFA rules for every project? If so, what are those processes? | <p>Per discussion with RA and supporting documentation provided, RA had a product pricing review process in-place since September 2014, which was before the operational analysis time-frame.</p> <p>Initially, in September 2014, this was a manual process in which RA's Product Management team calculated and tracked product pricing statistics for every product type in the HERO Program. Every project file was analyzed manually against the internal risk criteria (as described in Section 10.1), and if a file met those metrics it was prevented from funding until the required internal conditions on the file were met (e.g., reviewed and approved Home Improvement Contract).</p> <p>Starting in December 2014, RA indicated that it began to roll out full automated MFA systems for certain products types through system preventative controls, which includes the advanced filtering. Improvements/funding requests that exceed MFA were provided from adding products to the assessment contract if it exceeded system-controlled MFA. RA indicated that it also reviewed manually any products against the risk criteria even if it met the Automated System Control of MFA.</p> <p>Per RA, as of July 11, 2016, all products have an Automated System Control of MFA.</p> |
| 10.e.         | Has the Provider funded any improvements for an amount that is greater than the MFA for such product? If so, why?                              | <p>Baker Tilly viewed all 96 sample assessments and recalculated the MFA (based on version 1 of the "Pricing Sheet") for each specific HERO assessment and its products to determine that the financed amount did not exceed the re-calculated MFA value. Of the 96 sample assessments, Baker Tilly found one (1) assessment in which RA financed a project that exceeded the maximum financing amount. Refer to Observation 10.2.3 for further details on this particular assessment.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |



## 11.0 – REPORTING

### 11.1 – Background and Current Process

The PCPP requires RA to assemble a quarterly metrics report. Per the PCPP, the reported metrics should be developed using standardized methodologies, and the report should contain the following statistics:

- > Number of projects funded
- > Project amount funded
- > Estimated amount of energy savings
- > Estimated amount of renewable energy produced
- > Estimated amount of water savings
- > Estimated amount of greenhouse gas emissions reductions
- > Estimated number of jobs created

Baker Tilly requested the Quarter 1 (Q1) and Quarter 2 (Q2) 2016 statistical reports. Baker Tilly viewed the reports to determine if the reports were provided to WRCOG as required, and if the reports contained the statistics noted above. The results of Baker Tilly's testing appear in Section 11.3 below.

Per discussion with RA, all data, including the items noted above, are available for on-demand reporting on RA's website. This enables governments to generate custom reports at any time.

## 11.2 – Observations and Recommendations

Baker Tilly makes the following observations and recommendations regarding RA's Reporting requirements.

**Table 23 – Observations and Recommendations Regarding RA's compliance with Reporting Requirements.**

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Addressed since June 30, 2016 per RA <sup>10</sup> | Recommendation                                                                                                                                                                                                                                                                                                      |
|---------------|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 11.2.1        | Program observation              | <p>Baker Tilly requested statistical reports for Q1 and Q2 of 2016 to verify that all required information was included in the reports. The Consumer Protection Policies requires that the report contains the following information: (i) number of projects funded, (ii) project amount funded, (iii) estimated amount of energy savings, (iv) estimated amount of renewable energy produced, (v) estimated amount of water savings, (vi) estimated amount of greenhouse gas emissions reductions, and (vii) estimated number of jobs created.</p> <p>RA did not provide the Q1 report. The Q2 report did not contain one of the required statistical measures – (iv) the estimated amount of renewable energy produced.</p> <p>RA stated that all statistical measures are made available on-demand through its web-based reporting tool.</p> | Yes                                                | <p>Baker Tilly noted an observation given that the requirements of the PCPP were not met.</p> <p>WRCOG has confirmed that RA reports these metrics in real time through the HERO Gov portal but does not receive quarterly reports. We recommend RA and WRCOG confer to agree to the level of reporting needed.</p> |

<sup>10</sup> A "Yes" in this column means that RA has stated that this issue has been addressed by new controls or compliance programs put in place since June 30, 2016. An operational review of new controls or programs implemented since June 30, 2016 was outside of the scope of this engagement and Baker Tilly has not tested them and cannot comment on their effectiveness.

| Observation # | RA process / Program observation | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Addressed since June 30, 2016 per RA <sup>10</sup> | Recommendation                                                                                                       |
|---------------|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|
|               | <u>RA's Response:</u>            | For the entire review period, Renovate America maintained a standard reporting tool that contained all required metrics called the HERO Gov Portal (the "Portal"). The Portal enables real-time, on-demand capabilities for WRCOG and other governmental entities to access all information required by the PCPP. By providing real-time data to WRCOG, Renovate America far exceeded the requirements under the PCPP. Because it reported real-time information to WRCOG through the Portal, Renovate America did not have a practice of providing quarterly reports to WRCOG. | Yes                                                | Renovate America understands that WRCOG has indicated that the level of reporting through the Portal is appropriate. |

### 11.3 – Testing and Results

The table below shows WRCOG’s questions per the RFP in the Reporting area. Baker Tilly describes the testing performed and the result of the testing for each WRCOG question.

**Table 24 – Review of RA’s compliance with Reporting Requirements**

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                                                                                                                                                                  | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 11.a.         | Is the Provider providing statistics reporting and estimated impact metrics in the following categories on a quarterly basis: (i) number of projects funded, (ii) project amount funded, (iii) estimated amount of energy savings, (iv) estimated amount of renewable energy produced, (v) estimated amount of water savings, (vi) estimated amount of greenhouse gas emissions reductions, and (vii) estimated number of jobs created. | <p>Baker Tilly requested statistical reports for Q1 and Q2 of 2016 to verify that all required information was included in the reports.</p> <p>RA did not provide the Q1 report. RA did provide the Q2 report, which did not contain one of the required statistical measures – (iv) the estimated amount of renewable energy produced. Refer to Observation 11.2.1 for additional information.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 11.b.         | Is the Provider reports developed and collected using standardized, third party verified methodologies? If so, by which third party?                                                                                                                                                                                                                                                                                                    | <p>Baker Tilly requested documentation of the methodologies in use for the following required statistics – (iii) estimated amount of energy savings, (v) estimated amount of water savings, (vi) estimated amount of greenhouse gas emissions reductions, and (vii) estimated number of jobs created.</p> <p>RA provided support for the Economic Impact Analysis used to develop estimates for the number of jobs created. This model was prepared with the assistance of a professor of Urban Planning &amp; Environmental Policy at Texas Southern University.</p> <p>RA utilizes a proprietary model to estimate the reduction of greenhouse gas emissions, water savings calculations, renewable energy generation, and home energy savings. RA stated that its methodologies had been audited by a 3<sup>rd</sup> party. Baker Tilly requested the report issued by the 3<sup>rd</sup> party. RA provided the report on January 15<sup>th</sup>, 2018.</p> |

## 12.0 – CLOSING & FUNDING

### 12.1 – Background and Current Process

The Consumer Protection Policies requires the following:

- > RA must obtain confirmation from the customer that eligible products financed are installed and operational
- > The homeowner is responsible for obtaining permits as required and provides evidence upon request
- > RA disburses funds only for completed projects
- > RA develops an onsite inspection protocol to verify assets

Upon project completion, a homeowner signs a Completion Certificate. By signing the document, the homeowner certifies the following (partial list):

- > The products installed are completed to the satisfaction of the customer
- > The correct products are installed on the property
- > The homeowner has or will obtain the correct permits
- > The homeowner assigns his rights to HERO funding to the Contractor

Baker Tilly selected a sample of 96 assessments and tested to determine if the customer executed the Completion Certificate. Through this testing, Baker Tilly determined if the homeowner confirmed that products were installed and operational (Workplan Step 12.a.) and if the homeowner obtained required permits (Workplan Step 12.b.). Refer to Section 12.3 below for additional information related to our testing.

Baker Tilly interviewed RA personnel to gain an understanding of the funding process. RA stated that projects are only funded after a project is complete. Baker Tilly viewed funding dates to verify that projects were funded after the completion certificate was completed. Additional information is located in in Section 12.3 below.

Regarding asset verifications, RA performs physical asset verifications to confirm that the correct products were installed at a residence and that the products are operational. RA selects a sample consisting of five percent (5%) of the number of assessments completed in the prior month. The population of assets to be verified is not limited to the WRCOG program; rather, the sample is selected from all assessments administered by RA.

The sample is forwarded to an independent third party contractor who performs the asset verifications. RA receives reports after the asset verification is completed. In the event an issue arises, RA creates a compliance case and performs additional work to review the assessment.

## 12.2 – Observations and Recommendations

Baker Tilly noted no observations and recommendations that do not relate to and appear in other sections of this report.

## 12.3 – Testing and Results

The table below shows WRCOG's questions per the RFP in the Closing & Funding area. Baker Tilly describes the testing performed and the result of the testing for each WRCOG question.

**Table 25 – Review of RA's compliance with Closing & Funding Requirements**

| Workplan Step | WRCOG Question per RFP                                                                                                                                                                                                                                                                                                                                                                                                                            | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                         |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12.a.         | Is the Provider confirming, before funding, that the Eligible Improvements financed are installed, operational and in a condition that is acceptable to the homeowner and the contractor, and requiring that the homeowner and the contractor attest to such by signing a document stating that all Improvements have been installed to the homeowner's satisfaction and in accordance with product specifications? If so, how is this confirmed? | Baker Tilly selected a sample of 96 assessments to determine if the homeowner and contractor signed a Completion Certificate certifying that products were installed and are operational. Baker Tilly observed that a completion certificate was completed for each of the 96 assessments sampled.                                                                                                                                         |
| 12.b.         | Is the Provider confirming that the homeowners obtains required permits for the installation of Improvements and provide verification thereof upon request? If so, how?                                                                                                                                                                                                                                                                           | <p>Baker Tilly selected a sample of 96 assessments to determine if the homeowner and contractor signed a Completion Certificate certifying that it obtained the applicable permits. For each of the sample items, Baker Tilly also requested the permits, which are required to be submitted by the homeowner, per the Completion Certificate.</p> <p>Baker Tilly noted no issues in execution of its operational analysis procedures.</p> |
| 12.c.         | Is the Provider only disbursing funds for completed projects? If so, how is this documented?                                                                                                                                                                                                                                                                                                                                                      | RA explained that funds were not disbursed for projects until the Completion Certificate was completed. Baker Tilly selected a sample of 96 and tested to determine if funds were disbursed prior to execution of the Completion Certificate.                                                                                                                                                                                              |

| Workplan Step | WRCOG Question per RFP                                                                                                                                           | BT Testing/Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               |                                                                                                                                                                  | <p>Baker Tilly also viewed a sample of 100 complaints. During the course of this review, Baker Tilly verified that projects were not funded when a Completion Certificate had not been executed.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 12.d.         | <p>How does the Provider confirm that product(s) listed on the Completion Certificate and for which Program financing has been provided have been installed?</p> | <p>As noted above, RA requires that the homeowner certify that the correct products were installed. The homeowner makes this certification by executing the Completion Certificate. Baker Tilly selected a sample of 96 assessments and tested to determine if the homeowner and contractor executed the Completion Certificate as required.</p> <p>In addition, RA performs physical asset verifications to confirm that the correct products were installed at a residence and that the products are operational. RA selects a sample consisting of five percent (5%) of the number of assessments completed in the prior month. The population of assets to be verified is not limited to WRCOG's HERO Program; rather, the sample is selected from all assessments administered by RA.</p> <p>RA stated that the population of assets to be verified is not limited to WRCOG's HERO Program; rather, the sample is selected from all assessments administered by RA. As such, the five percent (5%) sample does not exclusively consist of assets administered through WRCOG's HERO Program.</p> <p>Baker Tilly requested evidence of the asset verifications that took place in February, April, and June of 2016. RA provided a listing of assessments that had been part of the asset verification process. The following number of assessments were part of the asset verifications process in the applicable months:</p> <ul style="list-style-type: none"> <li>&gt; February – 71</li> <li>&gt; April – 68</li> <li>&gt; June – 34</li> </ul> |

| Workplan Step | WRCOG Question per RFP                                                                                            | BT Testing/Results |
|---------------|-------------------------------------------------------------------------------------------------------------------|--------------------|
| 12.e.         | Has the Provider developed and implemented a randomized onsite inspection protocol? If so, what is that protocol? | See 12.d. above.   |



## 13.0 – Opportunities for Improvement

Throughout the process of interviewing those involved in administering the WRCOG PACE program, Baker Tilly noted a number of areas in which there were opportunities for process and administration improvements. The recommendations provided below are made in addition to and not in conjunction with the recommendations provided in sections 1.0-12.0 above. As such, the recommendations should not be interpreted to be reflective of RA's compliance with the PCPP. Rather, the recommendations are provided as an aid for future processes and administration improvements.

**Table 26 – Recommended Opportunities for Improvement**

| Opportunity #         | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1                     | <p>Baker Tilly viewed the population of complaints provided by RA and identified 16 instances in which a complaint had not been resolved in the system.</p> <p>The explanation provided by RA is that these complaints were resolved but that the resolution was not noted due to a transition to a new system (RSAM). The specific instances in which this occurred are considered to be confidential. As such, Baker Tilly has not documented the Loan ID's for the 16 instances noted.</p>                                                      | <p>Baker Tilly recommends that RA improve its procedures for implementing new systems to include proper data validation prior to importing old data.</p> <p>RA stated to Baker Tilly that RA has implemented improved monitoring procedures over compliance cases. RA has indicated that starting in April 2017 it now performs a 100% Quality Control review of all compliance cases. The WRCOG Compliance Manager is involved in these compliance reviews. Baker Tilly did not test these procedures as their implementation date is outside of the operational review period.</p> |
| <u>RA's Response:</u> | Of the 1532 inquiries and complaints provided to Baker Tilly, only 16 (1%) did not have a close date listed in the spreadsheet reviewed by Baker Tilly. However, all 16 inquiries and complaints were associated with additional records which reflected close dates, and which Renovate America reviewed with Baker Tilly.                                                                                                                                                                                                                        | The lack of close dates for a very small number of inquiries and complaints contained in one of Renovate America's tracking spreadsheets was a result of Renovate America's transition to a more comprehensive tracking database. This database better enabled Renovate America to validate and import data going forward.                                                                                                                                                                                                                                                           |
| 2                     | Pertaining to the testing of the PCPP requirement 6.1.5, <i>Data security policies are subject to auditing and penetration testing conducted by an independent auditor hired by the Authority at least annually and any time a change is made that may have any potential impact on the servers, security policies or user rights</i> , RA has indicated that "Our data security policies are subject to audit by an independent auditor hired by the Authority, however no firm has been hired by the Authority to conduct such audit or testing. | We recommend that given the PCPP requirement 6.1.5 of an annual audit and penetration testing, that WRCOG consider hiring an independent auditor to perform the annual penetration testing or that RA's third-party contractor performs the penetration testing.                                                                                                                                                                                                                                                                                                                     |

| Opportunity #         | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                       | <p>However, RA conducts Vulnerability Assessments and Penetration Testing on a monthly basis.”</p> <p>While there was evidence of internal monthly vulnerability testing being performed by RA through a third-party tool, there was no penetration testing results during the operational analysis time-frame.</p> <p>As such, there was no external audit report (whether during the operational analysis-time or since then) for Baker Tilly to review.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <u>RA's Response:</u> | Renovate America supports WRCOG's right to engage an independent data security auditor, but WRCOG has not chosen to exercise this right to date.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Renovate America supports WRCOG's exercise of its rights under the PCPP.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 3                     | <p>A compliance case was escalated on Sept 16, 2015 for the property owner of a funded HERO assessment from the Elder onboarding call made by the program, prior to the project funding. The Property owner was 94 years old at the time of the call.</p> <p>The property owner had concerns regarding the monthly financed amount. Baker Tilly listened to the recorded confirmed terms call. The property owner was confused during the call regarding the financing amount and products that were to be installed. He stated that he did not know the amount that was to be financed and that his wife would know. The property owner did not confirm the amount with his wife, but then said the amount would fit into his monthly budget. The program agent on the call proceeded though the property owner was confused.</p> <p>Considering the date of the compliance case, the confirmed terms call occurred prior to adoption of the PACE Consumer Protection Policies but after the Program's adoption of the elder confirmed terms calls.</p> | <p>Page 13 of 15 of the Elder Check Reference Guide shows the escalation process if a homeowner has agreed to the terms but the program representative does not believe the homeowner understands the terms.</p> <p>Description of this process should have further prominence in the script and could be placed at the beginning of the script, as general confusion regarding the terms being accepted was a compliance complaint record.</p> <p>Furthermore, Baker Tilly recommends RA review its training program and procedures for program representatives to consistently confirm understanding of contract terms for all elderly applicants.</p> |

| Opportunity #                | Observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Recommendation                                                                                            |
|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
|                              | <p>As noted in Section 8.1, RA created HERO Elder Advocate positions in July of 2015 that monitor elder confirmed terms calls and respond to notifications and concerns from sales representatives.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                           |
| <p><u>RA's Response:</u></p> | <p>As Baker Tilly indicates, the activity at issue occurred prior to the adoption of the PCPP. In fact, the elder onboarding call was initiated by Renovate as a matter of best practice prior to the adoption of the PCPP, and was not a requirement of the Program.</p> <p>In this instance, Renovate America acknowledges that this property owner was hard of hearing, but disagrees that he was confused. The Program Services Representative ("PSR") reasonably concluded that the property owner understood the monthly payment amount and the date of his first payment.</p> <p>Renovate America's internal controls worked effectively because, following the call that Baker Tilly reviewed, Renovate America provided additional information to one of the property owners, who understood the project and the terms of the financing. This matter was resolved, and the property owner was satisfied with the end result.</p> | <p>Renovate America will continue to provide training and engage in quality assurance as appropriate.</p> |

## APPENDIX A – INTERVIEW LIST

The following table lists all interview topics Baker Tilly held with RA and WRCOG individuals:

Table 27 – Interview List

| Date      | Topic(s)                                                                                                                       |
|-----------|--------------------------------------------------------------------------------------------------------------------------------|
| 1/23/2017 | High-Level Overview of HERO Program                                                                                            |
| 1/24/2017 | Contractor Monitoring; QC/Monitoring of Applicants; Program Reporting; Protected Classes, Contractor Registration & Onboarding |
| 1/24/2017 | Contractor Monitoring; QC/Monitoring of Applicants; Program Reporting; Protected Classes, Contractor Registration & Onboarding |
| 1/25/2017 | Source of Capital / Funding Adequacy; Contractor Fees                                                                          |
| 1/25/2017 | Data Security                                                                                                                  |
| 1/25/2017 | Application Management; Walkthrough of Application Intake                                                                      |
| 1/26/2017 | Privacy                                                                                                                        |
| 1/26/2017 | Marketing / Monitoring of Contractor Marketing                                                                                 |
| 2/14/2017 | Fund Disbursement to contractors                                                                                               |
| 2/15/2017 | Fair Market Value; Call Center; Underwriting                                                                                   |
| 2/15/2017 | RSAM and Salesforce.com; Asset Verification; Marketing & Communications                                                        |
| 2/15/2017 | Maximum Financing Amount; Eligible Products Database                                                                           |
| 2/16/2017 | RSAM walk-through                                                                                                              |
| 2/16/2017 | ISAT Training                                                                                                                  |
| 2/16/2017 | RSAM walk-through; Complaints log                                                                                              |
| 3/1/2017  | Fair Market Value (FMV) Hierarchy; walk-through of sample assessment                                                           |
| 3/1/2017  | Fair Market Value (FMV) Hierarchy; walk-through of sample assessment                                                           |

| Date      | Topic(s)                                            |
|-----------|-----------------------------------------------------|
| 4/4/2017  | Walk-through of compliance cases and complaints log |
| 4/5/2017  | Walk-through of compliance cases and complaints log |
| 4/6/2017  | Walk-through of compliance cases and complaints log |
| 4/10/2017 | Walk-through of compliance cases and complaints log |
| 4/12/2017 | Walk-through of compliance cases and complaints log |
| 4/13/2017 | Walk-through of compliance cases and complaints log |
| 4/19/2017 | HERO Property Advisors - post-funding process       |
| 4/19/2017 | Legal Case Review                                   |
| 4/19/2017 | Calculating HERO Financing                          |
| 4/20/2017 | HERO Underwriting Questions                         |
| 4/20/2017 | IT/Information Security                             |
| 5/2/2017  | Walk-through of compliance cases and complaints log |

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# Western Riverside Council of Governments Administration & Finance Committee

## Staff Report

**Subject:** Western Community Energy Activities Update

**Contact:** Barbara Spoonhour, Director of Community Choice Aggregation Development,  
[bspoonhour@wrcog.us](mailto:bspoonhour@wrcog.us), (951) 405-6760

**Date:** February 14, 2018

*The purpose of this item is to provide the Committee with an update on the status of implementing Western Community Energy (WCE), a Community Choice Aggregation for participating jurisdictions in the subregion.*

### **Requested Action:**

1. Receive and file.

*Community Choice Aggregation (CCA) allows cities and counties to aggregate their buying power to secure electrical energy supply contracts on a region-wide basis. In California, CCA (Assembly Bill 117) was chaptered in September 2002 and allows for local jurisdictions to form a CCA for this purpose. Several local jurisdictions throughout California are pursuing the formation of CCAs as a way to provide local control in rate-making, and potentially lower energy costs and/or provide a "greener" energy supply. WRCOG's Executive Committee has directed staff to pursue a separate agency for the implementation of CCA for Western Riverside County.*

### **California Public Utilities Commission Draft Resolution E-4907**

On December 8, 2017, WRCOG staff received notification that the California Public Utilities Commission (CPUC) was going to hear an item on Draft Resolution E-4907 at its January 11, 2018, meeting (which has now been extended until February 8, 2018). The Draft Resolution proposes an informal process of review of CCA Implementation Plans pursuant to the requirements and directives of Public Utilities Code Section 366.21 and Decision (D.) 05-12-041. This process of review will coordinate with the timeline of the mandatory forecast filings of the CPUC's Resource Adequacy Program to ensure that newly launched and expanding CCAs comply with Resource Adequacy requirements, as established by Section 380, before they serve customers.

After receiving numerous comments on Draft Resolution E-4907, the CPUC staff released an Updated Draft Resolution on February 2, 2018 (Attachment 1), which the CPUC Commission adopted on February 8, 2018. The revised Draft Resolution is a step forward and provides a way for Western Community Energy to move forward with CCA formation through the submittal of a "waiver" to the CPUC for approval regarding the purchasing of Resource Adequacy (RA) from the Investor Owned Utility (IOU). However, there are some issues in the Resolution that still need clarification. Staff worked with Desert Community Energy (DCE) to submit a letter to the CPUC regarding these issues; however, the Commission adopted the Resolution in its entirety, with no changes.

Again, while we still believe that clarification is needed on the process of the "waiver," specifically whether will the CPUC automatically approve the "waiver" and how long will that process would take. And, there continues to be uncertainties on the potential financial costs to CCAs for RA, if CCAs are unable to reach agreement with its IOU and the lack of details on the criteria for considering a waiver request. We will continue to work with the

CPUC staff to gain clarity. Given the structure proposed by the Draft Resolution, the IOUs will have significant leverage to negotiate with CCAs since absent an agreement, the CCA is either in a position of having to delay its implementation or is subject to a future cost that is to be determined by the CPUC. WRCOG is concerned that the IOUs would not limit the negotiations over the purchase of their excess short-term RA to that issue alone, but would seek additional concessions not directly related to RA procurement. Specifying within the Resolution that any discussions between the IOUs and CCAs on the question of excess short-term RA should be limited to that question alone would help eliminate this potential. The CPUC staff and Commissioners did acknowledge this issue during the meeting and made it clear that the IOUs are to negotiate in good faith and that the CPUC will be monitoring the negotiations. If there appears to be any straying from the intent of the negotiations, CCAs are to bring the matter to the CPUC staff.

We will continue to reach out to CPUC staff to see if a number of inconsistencies in the Resolution can be administratively fixed, this includes the text that discusses waivers for service “prior to January 1, 2019” though Ordering Paragraph 3’s language, which is different and mentions service prior to the Appendix deadlines. The Appendix does not contain the waiver process or a timeframe for application, so it is not clear on how the CPUC would proceed.

The following outlines the new waiver process and a timeline for the 2018 transition year as contained in the revised Draft Resolution.

1. **The New Waiver Process:** CCAs may request a waiver to begin service in new or expanded territory prior to January 1, 2019, so long as either:
  - a. the CCA and the IOU mutually agree on RA cost responsibility for 2018, and the CCA submits a Tier 1 Advice Letter 75 days ahead of the service date; or
  - b. the CCA and the IOU do not agree on RA cost responsibility for 2018, and the CCA submits a Tier 1 Advice Letter 75 days ahead of service date, and also files a motion in the RA proceeding seeking a determination on cost responsibility within 60 days of the Advice Letter submittal.
2. **Timeline for the 2018 Transition Year:** There are three categories in this transition:
  - a. Implementation plan submissions prior to December 8 are “not impacted”: Los Angeles County Clean Energy (LACCE), East Bay Clean Energy, Redwood Coast Energy Authority expansion to Ferndale, Monterey Bay Community Power, Pioneer Community Energy, City of Rancho Mirage, Valley Clean Energy Alliance, City of Solana Beach, City of San Jose, and the Marin Clean Energy expansion.
  - b. Submissions after December 8 will serve load no sooner than January 1, 2019, unless the waiver process is followed: Desert Community Energy, King City, Riverside County Unincorporated, Silicon Valley Clean Energy expansion, and the LACCE expansion.
  - c. Additional CCAs submissions on or before March 1, 2018, will serve load in January 1, 2019.

### **Petition for Modification to the Code of Conduct**

On January 30, 2018, the Joint Utilities (IOUs), representing Pacific Gas and Electric (PG&E), San Diego Gas & Electric Company (SDG&E), and Southern California Edison (SCE), filed a petition (Attachment 2) to the CPUC for a modification to the Code of Conduct that would allow them to communicate with local governments and the media regarding CCAs. While the petition at face value seems reasonable (in that the IOUs would be able to answer direct questions regarding CCAs), a deeper examination indicates something far from that, with unknown implications that could allow the IOUs to unfairly influence a local government’s decision regarding participation in a CCA.

**Background on the Code of Conduct:** Senate Bill 790 (Chaptered 2012) required the CPUC to adopt a code of conduct, associated rules, and enforcement procedures, to govern the conduct of the Investor Owned Utilities (IOUs) treatment of Community Choice Aggregators, and established an expedited complaint procedure applicable to complaints filed by CCAs against such corporations. The rules and procedures are intended to provide CCAs with the opportunity to compete on a fair and equal basis with other load serving entities, and to prevent investor-owned electric utilities from using their position or market power to undermine the



development or operation of aggregators. The Code of Conduct was also established to assist customers by enhancing their ability to make educated choices among authorized electric providers.

The Petition filed from the IOUs alleges that local governments are not being informed on the operating costs of a CCA and that the Power Charge Indifference Adjustment (PCIA) or Exit Fee is not being clearly articulated to the local governments. In addition, SCE specifically calls out a number of cities that are in the process of scheduling items to consider CCA participation, including the cities of Murrieta and Wildomar. WRCOG takes strong exception to the IOUs broad, unsupported allegation

Regarding the PCIA, WRCOG is party to the CPUC Proceeding which is examining different models to ensure that customers that remain with the IOUs (bundled customers) are not negatively impacted by a CCA being formed. WRCOG has openly supported the need to ensure that bundled customers should not be burdened and staff continues to actively seek solutions (i.e., change in the PCIA methodology, updated indexes, etc.). In fact, WRCOG has been having recent conversations with SCE on how the impacts could be minimized. As staff has reported in the past, the Feasibility Study conducted for the subregion, included a conservative (high) PCIA charge, which still showed a potential savings to customers.

Regarding the costs associated with implementation, staff has selected a team of consultants (The Energy Authority (TEA), Calpine Energy, EES Consulting, Public Financial Management, and Best, Best & Krieger) that will assist with the implementation of the CCA. In fact, TEA and Calpine Energy are providing a financial solution so that WCE's upfront implementation capital needs are significantly reduced; this includes all bonding requirements held by the CPUC and SCE, and allows WCE to develop a rate structure that could provide a savings to the subregion.

Staff continues to provide presentations and meet with its member jurisdictions to objectively present and discuss benefits and risks.

The benefits include:

- Local control over rate setting
- Customer choice in their energy supplier
- Customer choice in their energy mix (i.e., more renewables)
- Competitive / lower rates

The risks include:

- Potential regulatory changes
- Potential increased energy costs
- Potential decrease in the IOUs rates

The release of this Petition seems to come at a time of convenience when some of our member jurisdictions are considering joining the CCA, the CPUC is to dealing with the Exit Fees in an open proceeding, and the CPUC staff has submitted a Draft Resolution to its Board which seeks to provide a strategy for dealing with short term Resource Adequacy costs, but is in fact creating additional confusion in the process; it would also stifle other aspiring CCA efforts throughout the state. Also, WRCOG, along with LACCE and DCE, are in negotiations with SCE to remedy some of these aforementioned issues.

The time to submit comments regarding the Petition is March 1, 2018. WRCOG is working with LACCE and DCE to prepare comments. Staff will provide members with a copy of the comments once submitted to the CPUC.

### **Prior Action:**

January 18, 2018: The Technical Advisory Committee received and filed.

**Fiscal Impact:**

This item is information only; therefore, there is no fiscal impact.

**Attachments:**

1. Updated Draft Resolution E-4907.
2. Joint Utilities Petition to Modify the Code of Conduct.

# Item 5.D

Western Community Energy  
Activities Update

## Attachment 1

Updated Draft Resolution E-4907

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**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**  
**Item #9 (Rev. 1)**  
**Agenda ID #16190**  
**RESOLUTION E-4907**  
**February 8, 2018**

**ENERGY DIVISION**

**R E S O L U T I O N**

**Resolution E-4907. Registration Process for Community Choice Aggregators.**

**PROPOSED OUTCOME:**

- This resolution would publish and implement a registration process for Community Choice Aggregators.

**SAFETY CONSIDERATIONS:**

- There is no impact on safety.

**ESTIMATED COST:**

- Potential unquantifiable bundled ratepayer savings due to elimination of cost shifting of resource adequacy costs.

By the Commission's own initiative.

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**SUMMARY**

The Commission through this Resolution proposes an informal process of review of Community Choice Aggregation (CCA) Implementation Plans pursuant to the requirements and directives of Public Utilities Code Section 366.2<sup>1</sup> and Decision (D.) 05-12-041. This process of review will coordinate with the timeline of the mandatory forecast filings of the Commission's Resource Adequacy program to ensure that newly launched and expanding CCAs comply with Resource Adequacy requirements, as established by Section 380, before they serve customers.

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<sup>1</sup> All further references are to the Public Utilities Code unless otherwise specified.

This Resolution will require Community Choice Aggregators (CCAs) to submit to a process that includes a timeline for submission of Implementation Plans; a requirement to “meet and confer” between the CCA and the incumbent utility that can be triggered by either the CCA or the utility; a registration packet including a CCA’s service agreement and bond; and a Commission authorized date to begin service.

This resolution could delay the dates in which some CCAs serve customers but for a limited period of time in most circumstances no longer than one year and if a new or expanding CCA cannot comply with the new timelines the resolution creates a process where the CCA can still seek a waiver to serve customers within several months of approval of their implementation plans.

This Resolution, in part, is responsive to the directive of D.05-12-041 instructing the Executive Director to publish steps for the submission of Implementation Plans, and addresses the current rapid growth of CCA programs. The filing deadlines in this Resolution are intended to coordinate with the timeline for mandatory forecast filings in the Resource Adequacy program.

## **BACKGROUND**

### **Overview of Community Choice Aggregation**

In 2002 the State Legislature enacted Assembly Bill (AB) 117 (codified at Section 366.2), authorizing the creation of Community Choice Aggregators (CCAs). The Commission implemented the provisions of AB 117 in D.04-12-046, and D.05-12-041, among other Decisions.

D.05-12-041 directed the Executive Director to prepare and publish instructions for CCAs and utilities which would provide a forum for the CCA and the utility to understand the CCA’s implementation plans and to assure that the CCA is able to comply with utility tariffs. The instructions should include a timeline and descriptions of the procedures for submitting and certifying receipt of the Implementation Plan, notice to customers, and notice to CCAs of the appropriate Cost Responsibility Surcharge (CRS) and registration of CCAs.

After D.05-12-041, no CCA came into formation until 2010 with the launch of Marin Clean Energy. From 2010 to 2015, two CCAs launched serving approximately 135,000 customer accounts statewide. From 2016 to 2017, CCA formation accelerated and 12 more communities launched or submitted CCA Implementation Plans to the Commission. As a result of this rapid growth in CCAs, it is appropriate now to address the directives of D.05-12-041 to create and publish processes for CCA implementation and registration.

### **Overview of CCA Implementation Plan Requirements**

Section 366.2 authorizes the aggregation of electric loads by CCAs and establishes the broad requirements for implementing a CCA program. Section 366.2 grants the Commission authority over CCA implementation, and includes directives on the policy requirements of CCA programs, necessary implementation documents, timing requirements and deadlines for CCA implementation.

Section 366.2(c)(8) establishes the authority of the Commission to designate a CCA's start date with consideration of the impact on the electrical corporation's annual procurement:

No entity proposing community choice aggregation shall act to furnish electricity to electricity consumers within its boundaries until the commission determines the cost recovery that must be paid by the customers of that proposed community choice aggregation program, and provided for in subdivisions (d), (e), and (f). The commission shall designate the earliest possible effective date for implementation of a community choice aggregation program, taking into consideration the impact on any annual procurement plan of the electrical corporation that has been approved by the commission.<sup>2</sup>

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<sup>2</sup> Section 366.2(c)(8).

Policy Requirements for CCAs

Any CCA program must provide for universal access, reliability, equitable treatment of all classes of customers, and fulfill requirements established by state law or by the commission concerning aggregated service.<sup>3</sup>

Section 366.2(c)(4) states:

A community choice aggregator establishing electrical load aggregation shall prepare a statement of intent with the implementation plan. Any community choice load aggregation established pursuant to this section shall provide for the following:

- (A) Universal access.
- (B) Reliability.
- (C) Equitable treatment of all classes of customers.
- (D) Any requirements established by state law or by the commission concerning aggregated service, including those rules adopted by the commission pursuant to paragraph (3) of subdivision (b) of Section 8341 for the application of the greenhouse gases emission performance standard to community choice aggregators.

Additionally, the implementation of a CCA program “shall not result in a shifting of costs between the customers of the community choice aggregator and the bundled service customers of an electrical corporation.”<sup>4</sup>

Implementation Documents and Requirements

Section 366.2 requires that CCAs submit an Implementation Plan and a Statement of Intent to the Commission and sets forth seven elements that Implementation Plans, and any subsequent changes to implementation plans, must contain.<sup>5</sup> Section 394.25(e) also requires that “an electric

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<sup>3</sup> Section 366.2(c)(4).

<sup>4</sup> Section 366.2(a)(4).

<sup>5</sup> Section 366.2(c)(3) requires that Implementation Plans and any subsequent changes to implementation plans must be considered and adopted at a duly noticed public hearing and



service provider or community choice aggregator shall post a bond or demonstrate insurance sufficient to cover those reentry fees” in the event of an involuntary return of CCA customers back to bundled service.<sup>6</sup>

### Timing and Deadlines

The Public Utilities Code establishes requirements that direct the Commission how and when to respond to Implementation Plan filings. Within 10 days of an Implementation Plan filing, the Commission must notify the respective electrical cooperation of the filing.<sup>7</sup> Additionally, within 90 days of the filing of an Implementation Plan, the commission must “certify that it has received the plan” as well as provide the CCA with its findings regarding cost recovery.<sup>8</sup>

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must contain all the following: (A)An organizational structure of the program, its operations, and its funding.(B)Ratesetting and other costs to participants, (C)Provisions for disclosure and due process in setting rates and allocating costs among participants. (D)The methods for entering and terminating agreements with other entities. (E)The rights and responsibilities of program participants, including, but not limited to, consumer protection procedures, credit issues, and shutoff procedures. (F)Termination of the program. (G)A description of the third parties that will be supplying electricity under the program, including, but not limited to, information about financial, technical, and operational capabilities.

<sup>6</sup> Regarding the bond requirement in Section 394.25(e), in 2007 the Commission established in Resolution E-4133 an interim bond amount of \$100,000. Currently the Commission is examining the permanent CCA bond calculation methodology in R.03-10-003.

<sup>7</sup> Section 366.2(c)(7) states:

Within 90 days after the community choice aggregator establishing load aggregation files its implementation plan, the commission shall certify that it has received the implementation plan, including any additional information necessary to determine a cost-recovery mechanism. After certification of receipt of the implementation plan and any additional information requested, the commission shall then provide the community choice aggregator with its findings regarding any cost recovery that must be paid by customers of the community choice aggregator to prevent a shifting of costs as provided for in subdivisions (d), (e), and (f).

<sup>8</sup> Section 366.2(c)(7).

Finally, the CCA “shall register with the Commission, which may require additional information to ensure compliance with basic consumer protection rules and other procedural matters.”<sup>9</sup>

### **Overview of CCA Resource Adequacy Requirements**

As more CCAs launch, it is important to consider how a registration process interacts with a CCA’s compliance with its Resource Adequacy requirements.

All Load-Serving Entities (LSEs) are subject to Resource Adequacy (RA) requirements pursuant to Section 380. Section 380(k) defines LSEs to include CCAs. Additionally, D.05-12-041 in Conclusion of Law 19 states that “The utilities will not procure power on behalf of CCA customers as part of their resource adequacy planning.”

The Commission in D.04-10-035 adopted a protocol which required LSEs to submit load forecasts using their best estimates of future customers and their loads. The Commission established a preliminary load forecast submission timeline in D.05-10-042.<sup>10</sup>

There are two mandatory annual load forecast deadlines that an LSE must comply with in order to receive an annual RA obligation responsibility for the following year.<sup>11</sup> First, an LSE must file a preliminary load forecast by mid-April for the following calendar year. An LSE then must file a revised forecast in

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<sup>9</sup> Section 366.2(c)(15).

<sup>10</sup> D.05-10-042, page 83.

<sup>11</sup> D.04-10-035 adopted a protocol whereby LSEs are required to submit load forecasts using their best estimates of future customers and their loads. D.05-10-042 at page 83 specified the preliminary load forecast submission timeline and set April 15 as the date for the submission of preliminary load forecasts. D.11-06-022 at page 38 modified the year-ahead forecast timeline to include optional revisions to be submitted by Aug. 19th of each year. D.17-06-027 ordered that the revised August forecast be mandatory.

August.<sup>12</sup> The August forecast was intended to refine and improve the accuracy of April forecast.<sup>13</sup>

The timeline of RA load forecast submissions has practical implications for newly forming CCAs and expanding CCAs. If an existing or pre-operational CCA does not submit an annual load forecast, they are not allocated a year-ahead RA obligation for the following year. In this scenario, the incumbent utility remains responsible for that load and procures RA for those customers, even if those customers are about to be served by a CCA. This scenario is most likely to occur if a CCA launches or expands service to customers (or additional customers in the case of an existing, yet expanding CCA) after the RA annual load forecast deadlines without filing an annual load forecast.

As a result, the utilities incur short-term power purchase costs for the customers of CCAs in their launch or expansion year. Utilities procuring for CCAs in their first launch or expansion year creates a cost shifting challenge. D.11-12-018 excluded power purchase transactions less than a year in term from the total portfolio calculation of the Power Charge Indifference Adjustment (PCIA). Consequently, Resource Adequacy contracts of over one year are captured by the PCIA, but Resource Adequacy contracts of less than one year are not captured by the PCIA. Therefore, such costs are borne by bundled customers, potentially resulting in millions of dollars annually of stranded costs and potentially in contravention of the indifference requirement of Section 366.2

Energy Division issued data requests to PG&E confirming the existence of stranded costs. Responses to these data requests were confidential because of the market-sensitive information they contain. The Commission does not rely on those responses in making the determinations made herein.

Public information illustrates the scale of load migration happening in the year-ahead RA program. Existing and new CCAs that were not a part of the year

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<sup>12</sup> Although D.11-06-022 modified the year-ahead forecast timeline to include optional revisions to be submitted by Aug. 19th of each year, later D.17-06-027 (OP 7) ordered that the revised August forecast be mandatory. The exact date of the August deadline varies by year.

<sup>13</sup> D.17-06-027, Finding of Fact 11.

ahead 2018 RA process but plan to serve load in 2018 would have been allocated a System Peak RA requirement of approximately 3,616 MW and a local RA requirement of approximately 1,793 MW. These year-ahead RA requirements were met by the utilities that currently serve these customers. Some of these costs are recovered by the PCIA, however, any contracts less than one year are not captured by the PCIA and are borne by remaining bundled customers. Due to the confidentiality of utility's market position, the proportion of those contracts that are less than one year cannot be disclosed publicly.

In addition, if the California Independent System Operator (CAISO) procures back-stop capacity through its capacity procurement mechanism (CPM), it appears based on the CAISO's tariff language these costs will be allocated only to those LSEs that exist at the time of the designation (annual designations would occur in December, before the compliance year). It is not yet clear if the PCIA addresses this potential cost-shifting issue.

## **DISCUSSION**

D.05-12-041 ordered the Executive Director to develop and publish two distinct processes in Ordering Paragraphs (OP) 8 and 10 of that Decision.

### **D.05-12-041 Ordering Paragraph 8 Implementation**

**Ordering Paragraph 8 requires the Executive Director to develop and publish the steps of an informal process of review that provides a forum for the CCA and the utility to understand the CCA's Implementation Plans and assures that the CCA is able to comply with the utility's tariffs.**

The goal of this "forum" is to "facilitate the smoother operation of the CCA where its policies, practices, and decisions may affect the utility and its customers."<sup>14</sup> The operation and launch of a CCA program inherently requires logistical coordination between the utility and the CCA, and many CCA-utility partnerships must engage in these kinds of information-sharing discussions to facilitate smooth transitions to CCA service.

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<sup>14</sup> OP 8, D.05-12-041.

In order to comply with the directive of Ordering Paragraph 8, at the request of either the CCA or the utility, the parties must “meet and confer” as soon as reasonably practical. If the first attempts at resolution are not successful, the parties are required to meet in person. Should the parties be unable to reach consensus after the in-person meeting(s), either party may request that Energy Division assist by sponsoring a moderated in-person discussion between the parties. Such a request should come in the form of a request to the Director of Energy Division explaining the general nature of any unresolved issues regarding CCA compliance with utility tariffs. During the “meet and confer” parties shall discuss the contents of the CCA’s Implementation Plan and any relevant issues with compliance with utility tariffs.

#### D.05-12-041 Ordering Paragraph 10 Implementation

**Ordering Paragraph 10 of D.05-12-041 requires the Executive Director to prepare and publish instructions for CCAs and utilities that includes a timeline and describes the procedures for submitting and certifying receipt of the Implementation Plan, notice to customers, notice to CCAs of the appropriate Cost Responsibility Surcharges (CRS), and registration of CCAs.**

#### Adopted Timeline for 2019 and Beyond

Appendices A and B of this Resolution include a timeline of the CCA registration process, including the timeline adopted by this Resolution.

The Prior Timeline in Appendix B reflects the current practice of CCA registration. The statutory deadlines in the Prior Timeline were established in Section 366.2. However, several milestones in the Registration process did not have deadlines defined by statute. These milestones are represented as “undefined” in the Prior Timeline. D.12-05.041 included an illustrative registration timeline based on statutory deadlines associated with CCA implementation.<sup>15</sup>

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<sup>15</sup> D.05-12-041, Attachment D.

The Adopted Timeline modifies the Prior Timeline and the Illustrative Timeline (proposed in D.05-12-041 Attachment D) in several respects. First, the Adopted Timeline includes a deadline by which Implementation Plans must be received in order for CCAs to serve new load beginning January 1 of the following year. The goal of this requirement is to assist the proposed CCA in securing the certification and registration within enough time to file its preliminary load forecast by mid-April in order to serve load the following calendar year.

Second, the Adopted Timeline includes the Meet-and-Confer option for the CCA and the utility to discuss how the CCA will conform its operations to the utility's tariff requirements. Third, the Adopted Timeline includes the deadlines for submission of CCA RA load forecasts in the year prior to a CCA beginning to serve load. Fourth, the Adopted Timeline includes a deadline by which the CCA must submit its Registration Packet and receive confirmation of registration.

In order to coordinate the launch of a new or expanding CCA with the RA requirements, the Implementation Plan and Statement of Intent must be submitted to the Commission on or before January 1 in order to serve load in the following year.<sup>16</sup>

These requirements are authorized by Section 366.2(c)(4), which requires a CCA to “provide for universal access, reliability, equitable treatment of all classes of customers, **and any requirements established by state law or by the commission concerning aggregated service.**”<sup>17</sup> Additionally, Load-Serving Entities, including CCAs, must comply with RA requirements pursuant to Section 380(a). Current RA rules require all LSEs to file an annual load forecast if they plan to serve load in the following year. Additionally, Section 366.2(c)(8) also supports this action and compels the Commission to “designate the earliest possible effective date for implementation of a community choice aggregation program, taking into consideration the impact on any annual procurement plan of the electrical corporation that has been approved by the commission.”

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<sup>16</sup> For example, a new or expanding CCA intending to serve new load in 2020 must submit its Implementation Plan on or before January 1, 2019.

<sup>17</sup> Section 366.2(c)(4), emphasis added.

Thus, in order to comply with the year-ahead RA process, Implementation Plans, including Implementation Plans of an existing CCA that expands its territory, must be received by January 1 in order to serve load in the following year

Adopted Timeline for Transition Year Only (2018)

**a. CCAs that filed by December 8, 2017**

Prior to the mailing of the draft of this Resolution on December 8, 2017, the following Implementation Plans were submitted to the Commission:

1. Los Angeles Community Choice Energy
2. East Bay Community Energy
3. Redwood Coast Energy Authority Expansion to the City of Ferndale
4. Monterey Bay Community Power
5. Pioneer Community Energy
6. City of Rancho Mirage
7. Valley Clean Energy Alliance
8. City of Solana Beach
9. City of San Jose
10. MCE's expansion to the unincorporated areas of Contra Costa County; the cities of Concord, Martinez, Oakley, Pinole, Pittsburg and San Ramon; and the towns of Danville and Moraga

Collectively these Implementation Plans represent approximately 3,600 MW of new CCA load for 2018. This resolution has no effect on these 10 Implementation Plans or expansions

**b. CCAs that filed after December 8, 2017**

Following the mailing date of this Resolution on December 8, 2017, the following Implementation Plans have been submitted to the Commission:

1. Desert Community Energy
2. King City
3. Riverside CCA
4. Silicon Valley Clean Energy's Expansion to Milpitas
5. Los Angeles Community Choice Energy's Expansion to serve an additional 21 cities

Collectively these additional Implementation Plans represent approximately 1700 MW of new CCA load that CCAs express a desire to serve in 2018. These five CCAs are impacted by the new timeline adopted in this resolution and may serve load no sooner than January 1, 2019, assuming all deadlines set forth below

are met, unless these CCAs apply for a waiver from this resolution to serve customers in 2018 as set forth in section (c) below.

Energy Division will complete an expedited review of the Implementation Plans submitted by the five CCAs above as well as any additional Implementation Plans and registration packages received on or before March 1, 2018. Energy Division will complete its review by April 13, 2018. CCAs certified by April 13, 2018 must submit their registration packets (including signed service agreements and bond) no later than April 20, 2018 so that those CCAs are certified and registered before the Resource Adequacy annual load forecast deadline in April 2018. This will allow these CCAs to serve load in 2019.

**c. Waiver Process**

Any new or expanding CCA may request a waiver from the timelines set forth in this resolution in order to begin service in that new or expanded territory prior to January 1, 2019. To request a waiver either:

- A. The CCA and utility in whose service territory the CCA intends to begin service shall jointly submit a Tier 1 Advice Letter no later than 75 days prior to the RA compliance month in which the CCA wishes to begin service. This Advice Letter shall provide notification that the utility and CCA mutually agree (via payment, allocation of RA or a combination thereof) that they have addressed RA requirements and cost responsibility concerns raised by the intra-year load migration for 2018.<sup>18</sup> Notification of agreements must include what categories of RA for what periods are being satisfied; or,
- B. If no agreement is reached, the CCA shall file a Tier 1 Advice Letter no later than 75 days prior to the RA compliance month in which the CCA wishes to begin service. This Advice Letter shall provide notification that the utility and the CCA are unable to reach agreement to address the RA

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<sup>18</sup> Any allocation of RA can be a portion of a contract, a group of contracts, a pro rata share of the portfolio, or a combination thereof in addition to other forms of payment not identified.



requirements and cost responsibility concerns raised by the intra-year load migration for 2018, and shall state that the CCA agrees to be bound by a future Commission determination in the RA proceeding (R.17-09-020) regarding cost responsibility for intra-year load migration, subject to appellate rights under the Commission's Rules. The CCA then shall file a motion in the RA proceeding seeking such a determination within 60 days of the submittal of the Advice Letter. Submittal of this Advice Letter allows the CCA to begin service in 75 days later and shifts RA responsibility from the utility to the CCA.

#### CCAs Forming in Small and Multi-Jurisdictional Utility Territories

Should a CCA form in a Small and Multi-Jurisdictional Utility (SMJU) territory, various procedural, cost-shifting, and other potential issues will be presented. Those issues are not being addressed in this Resolution, but the Commission expects to address these issues in an as yet determined forum.

#### Procedural Components for CCA Implementation Plans

##### Procedure for Submission and Certification of Receipt

This Resolution adopts a new deadline for submission of Implementation Plans. Implementation Plans will be submitted to the Director of the Energy Division both via email and a hard copy on or before January 1<sup>19</sup> in order to serve load in the following year.<sup>20</sup> Within 90 days of receiving an Implementation Plan, the Energy Division will certify that the plan assuming it meets all requirements.

##### Notice to Customers

This Resolution adopts no changes for Notice to Customers. Implementation Plans shall include the timing of notices sent to utility customers who will be transitioned to CCA service.

##### Notice to Customers of the Appropriate Cost Responsibility Surcharge (CRS)

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<sup>19</sup> Except for 2018, where plans may be submitted by March 1, 2018.

<sup>20</sup> For 2018, Energy Division will certify plans by 4/13 if received by 3/1/18 as long as plans are reasonably complete and meet all requirements.

This Resolution adopts no changes for Notice to Customers of the Appropriate CRS. The current Cost Responsibility Surcharge (CRS) has three major components: the Department of Water Resources (DWR) Bond Charge, the Competitive Transition Charge, and the Power Charge Indifference Adjustment (PCIA).

CCAs shall include in their Implementation Plans how they will notify customers of the applicable CRS. The PCIA methodology is currently under reconsideration in R.17-06-026.

#### Registration of CCAs

This Resolution adopts two new deadlines for CCA registration. First, this Resolution requires that a CCA submit its registration packet to the CPUC within 90 days of filing its Implementation Plan. Second, this Resolution requires that if the Registration Packet is complete, the CPUC will confirm the CCA's registration within 120 days of the CCA submittal of its Implementation Plan assuming it meets all requirements.

To register, a CCA must submit its registration packet including a signed service agreement with the utility and a bond pursuant to Section 394.25 (e). The interim bond amount was set to \$100,000 in Resolution E-4133 (2007) and the amount of the bond is currently under consideration in R.03-10-003.

Once a bond has been submitted, Energy Division will issue a registration letter confirming completion of all registration requirements. After a potential or expanding CCA has fulfilled the above requirements, it may initiate service to its new customers no earlier than the service date authorized by this Resolution.

#### **COMMENTS**

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. The draft Resolution was mailed for Comments on December 8, 2017.

The deadline for comments was extended to January 11, 2018 and reply comments were allowed seven days later.

Over 60 comments and reply comments were received from the public, including numerous individual stakeholders as well as organizations. Of those comments, the majority opposed this resolution. The Joint Utilities (SDG&E, SCE and PG&E), TURN, ORA, and the Coalition of California Utility Employees generally supported Resolution E-4907, with some caveats. Comments primarily focused on the following topics: timing, policy effects, and due process.

### **Timing**

Many comments expressed opposition to Draft Resolution E-4907 and urged the Commission to delay action on Resolution. Many comments stated that Commission consideration of the Resolution in January or February 2018 presented too short a time period for adequate review and analysis.

Resolution E-4907 was held from the January 11, 2018 Commission meeting and scheduled for the February 8, 2018 Commission meeting. The deadline for comments was extended from December 29, 2017 to January 11, 2018. Reply comments were accepted with a deadline of January 18, 2018. The Commission is satisfied that it has provided adequate time for comment and has the information that it needs to decide the issues presented by this resolution.

### **Policy Effects**

Some opposing commenters cited the significant negative impact to nascent CCA programs and expanding CCAs for 2018 and for 2019. They asserted that Draft Resolution E-4907 places substantial and unnecessary burdens on newly forming CCAs. Numerous stakeholders stated that communities invested significant time and resources to launch CCA programs and that these communities would be unfairly harmed in delaying a CCA's service date. Delay of service to new load represents a delay in associated revenues and program benefits according to some commenters. Many asserted that the proposed timeline was arbitrary.

Although Resolution E-4907 may delay some CCAs' desired date to begin service, any such delay would be for a finite period and for the purpose of avoiding unlawful cost shifting. Section 366.2 (c) (8) requires:

No entity proposing community choice aggregation shall act to furnish electricity to electricity consumers within its boundaries until the commission determines the cost recovery that must be paid by the customers of that proposed community choice aggregation program, as provided for in subdivisions (d), (e), and (f). The commission shall designate the earliest possible effective date for implementation of a community choice aggregation program, **taking into consideration the impact on any annual procurement plan of the electrical corporation that has been approved by the commission.** [emphasis added.]

Here, Resolution E-4907 designates the earliest possible effective date, taking into account the year-ahead requirements of the Resource Adequacy program in conjunction with our responsibility to avoid shifting costs onto bundled customers. Resource Adequacy is a key component of annual procurement planning and a responsibility of all Load-Serving Entities. The timeline requirements adopted by Resolution E-4907 are allowed by Section 366.2 (c) (8). Revisions to the resolution adjust compliance dates to ensure that the new provisions are consistent with the requirements of Section 366.2(c)(8) that the commission designate the earliest possible effective date for implementation of a community choice aggregation program.

### Due Process

Numerous commenters assert that the resolution violates their due process rights. We disagree. The changes in the CCA timeline made by this resolution are an exercise of authority the Commission has had since 2002. Section 366.2(c)(8) establishes the authority of the Commission to designate a CCA's start date with consideration of the impact on the electrical corporation's annual procurement. The Commission could have set a start date/timeline for a CCA in a letter certifying its Implementation Plan. There is no substantive difference here, where the Commission is simply setting that start date/timeline for all CCAs.

Ordering Paragraph 10 of D.05-12-041, moreover, requires the Executive Director to "prepare and publish instructions for CCAs and utilities that includes a timeline and describes the procedures for submitting and certifying receipt of the

Implementation Plan, notice to customers, notice to CCAs of the appropriate CRS, and registration of CCAs.” This resolution effectuates that order. Commenters assert that there was no opportunity to be heard. We disagree. Comments on draft resolutions are normally afforded about 20 days to comment.<sup>21</sup> Here, in response to requests from commenters, additional time was afforded for comments. In addition, reply comments, while not normally allowed, were allowed.

Finally, two additional changes were made in response to comments. First, the deadline to submit Implementation Plans in 2018 has been moved forward to March 1, 2018, allowing several additional CCAs to begin service in 2019. Second, CCAs that desire to serve in may request a waiver if they reach an agreement with the incumbent utility to resolve RA cost-shifting concerns. These changes provide greater flexibility to CCAs on the date they can begin service.

## **FINDINGS AND CONCLUSIONS**

1. Ordering Paragraph 8 of D.05-12-041 requires that the Executive Director develop and publish the steps of an informal process of review that provides a forum for the CCA and the utility to understand the CCA’s implementation plans and assures the CCA is able to comply with utility tariffs.
2. Ordering Paragraph 8 of D.05-12-041 requires that the forum be mandatory at the request of either the utility or the CCA and where the request is presented in writing with a recitation of disputed items or areas of concern. The process shall implicate no approvals, either formal or informal, from the Commission. Utility tariffs shall describe the meet and confer process for resolving disputes over operational issues prior to initiation of services.
3. The Commission should develop and publish the steps of an informal process of review that provides a forum for CCAs and utilities as directed in Ordering Paragraph 8 of D.05-12-041.

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<sup>21</sup> Compare section 311(g)(1) with California Public Utilities Commission, Rules of Practice and Procedure (Rules), Rule 14.5.

4. Ordering Paragraph 10 of D.05-12-041 requires the Executive Director to prepare and publish instructions for CCAs and utilities that includes a timeline and describes the procedures for submitting and certifying receipt of the Implementation Plan, notice to customers, notice to CCAs of the appropriate
5. The Commission should prepare and publish instructions for CCAs and utilities that includes a timeline and describes the procedures for submitting and certifying receipt of the Implementation Plan, notice to customers, notice to CCAs of the appropriate Cost Responsibility Surcharge (CRS), and registration of CCAs. Cost Responsibility Surcharge (CRS), and registration of CCAs.
6. CCAs must comply with the Resource Adequacy requirements as set forth in Public Utilities Code Section 380 before beginning service.

**THEREFORE IT IS ORDERED THAT:**

1. Within 14 days of the effective date of this Resolution, Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas and Electric Company (SDG&E), shall update their tariffs and submit Tier 2 Advice Letters with the adopted timeline and procedures listed in Appendix A.
2. Prospective or expanding Community Choice Aggregators who have not yet submitted an Implementation Plan as of December 8, 2017 shall file their Implementation Plans pursuant to the adopted timeline and procedures listed in Appendices A and B and fulfill the Resource Adequacy portion of Appendices A and B prior to initiating service to customers unless they receive a waiver from the Commission as described in Paragraph 3 below. This Resolution is not retroactive.

3. Any new or expanding CCA may request a waiver from the timelines set forth in this resolution in order to begin service prior to the deadlines in Appendices A and B. To request a waiver either:
  - A. The CCA and utility in whose service territory the CCA intends to begin service shall jointly submit a Tier 1 Advice Letter no later than 75 days prior to the RA compliance month in which the CCA wishes to begin service. This Advice Letter shall provide notification that the utility and CCA mutually agree (via payment, allocation of RA or a combination thereof) that they have addressed RA requirements and cost responsibility concerns raised by the intra-year load migration for 2018. Notification of agreements must include what categories of RA for what periods are being satisfied; or,
  - B. If no agreement is reached, the CCA shall file a Tier 1 Advice Letter no later than 75 days prior to the RA compliance month in which the CCA wishes to begin service. This Advice Letter shall provide notification that the utility and the CCA are unable to reach agreement to address the RA requirements and cost responsibility concerns raised by the intra-year load migration for 2018, and shall state that the CCA agrees to be bound by a future Commission determination in the RA proceeding (R.17-09-020) regarding cost responsibility for intra-year load migration, subject to appellate rights under the Commission's Rules. The CCA then shall file a motion in the RA proceeding seeking such a determination within 60 days of the submittal of the Advice Letter. Submittal of this Advice Letter allows the CCA to begin service in 75 days later and shifts RA responsibility from the utility to the CCA.
4. Commission staff will process Implementation Plans pursuant to the adopted timeline and procedures listed in Appendices A and B.
5. The Commission will revisit this process, if necessary, depending on the outcome of R.03-10-003 or successor proceedings.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on February 8, 2018; the following Commissioners voting favorably thereon:

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TIMOTHY SULLIVAN  
Executive Director



## Appendix A: Adopted CCA Registration Timeline and Procedures

| <b>Date</b>                                                           | <b>Action</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Day 1, Year 1</b><br>(On or before January 1 Year 1) <sup>22</sup> | (1) The prospective or expanding CCA submits its Implementation Plan to Energy Division and serves it on the R.03-10-003 Service List, on the R.16-02-007 Service List, and on the R.17-09-020 Service List, or successor proceedings.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Day 1 – 10, Year 1</b>                                             | (1) The CPUC notifies the Utility servicing the customers that are proposed for aggregation that an implementation plan initiating their CCA program has been filed.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Day 1 – 60, Year 1</b>                                             | <p>(1) The CCA provides a draft customer notice to CPUC’s Public advisor.</p> <p>(2) Within 15 days of receipt of the draft notice, the Public Advisor shall finalize that notice and send it to the CCA.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>DAY 1 – 90, Year 1<sup>23</sup></b>                                | <p>(1) The CPUC sends a letter confirming that it has received the Implementation Plan and certifying that the CCA has satisfied the requirements of an Implementation Plan pursuant to Section 366.2(c) (3). This letter informs the CCA about the cost recovery mechanism as required by P.U. Code Section 366.2(c)(7).</p> <p>If and when the CPUC requests additional information from a CCA, the CCA shall respond to CPUC staff within 10 days, or notify the staff of a date when the information will be available.</p> <p>(2) The CPUC provides the CCA with its findings regarding any cost recovery that must be paid by customers of the CCA in order to prevent cost shifting. (P.U. Code Section 366.2 (c) (7).)</p> |

<sup>22</sup> For Plans to be submitted in 2018 to serve load in 2019, this deadline is extended to March 1, 2018.

<sup>23</sup> For Plans submitted by March 1, 2018, CPUC will complete review by April 13, 2018.

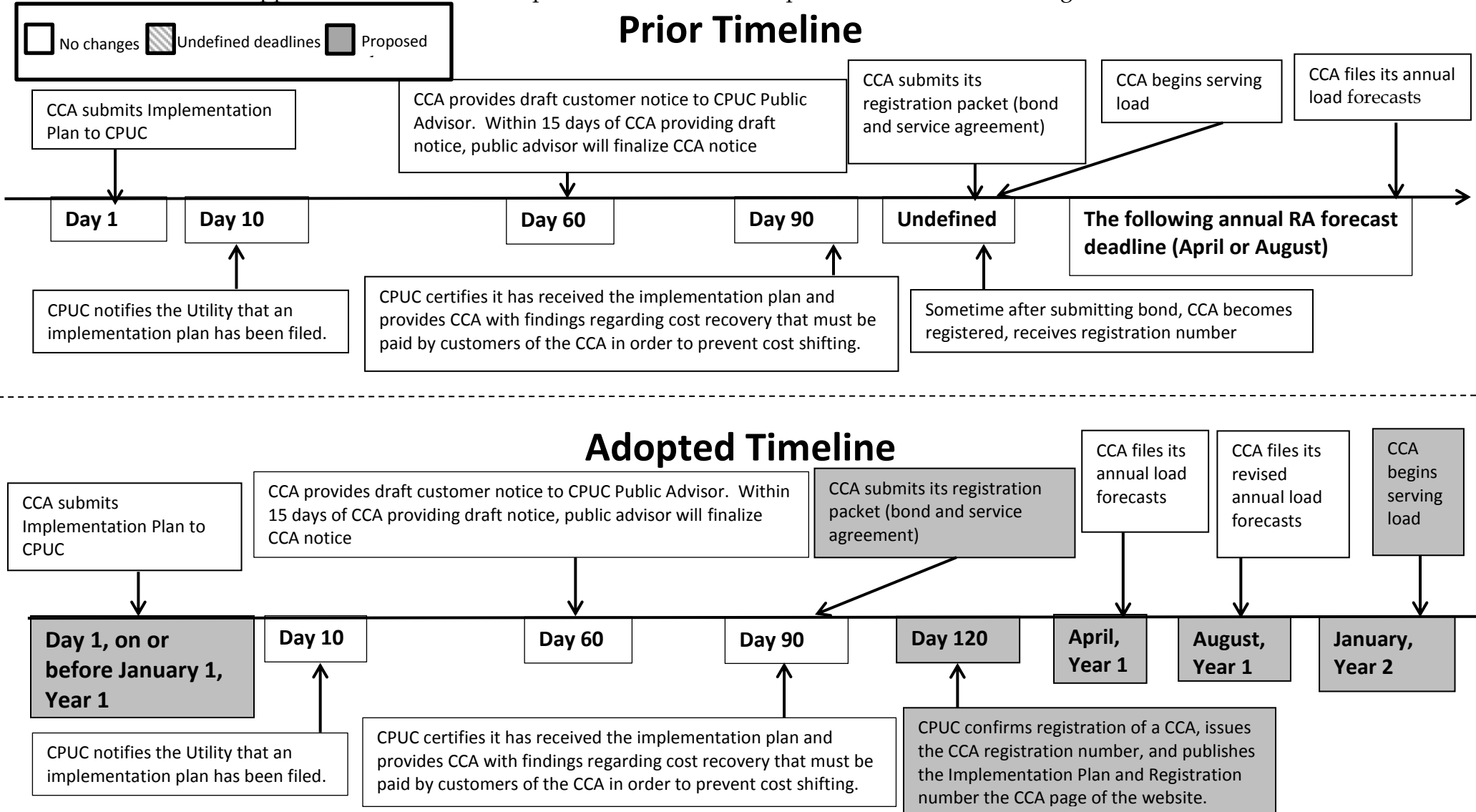
|                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                  | (3) The CCA and the Utility should Meet-and-Confer regarding the CCA's ability to conform its operations to the Utility's tariff requirements.                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>DAY 1 – 90, Year 1<sup>24</sup></b>                                           | (1) The CCA submits its registration packet to the CPUC, including: <ol style="list-style-type: none"> <li>Signed service agreement with the utility, and</li> <li>CCA interim bond of \$100,000 or as determined in R.03-10-003</li> </ol>                                                                                                                                                                                                                                                                                                                                                    |
| <b>Day 90 – 120, Year 1<sup>25</sup></b>                                         | (1) If the registration packet is complete, the CPUC confirms Registration as a CCA.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>April, Year 1</b>                                                             | (1) The CCA submits its year ahead Resource Adequacy forecast (P.U. Code Section 380)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>August, Year 1</b>                                                            | (1) The CCA submits its updated year-ahead RA forecast                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>October Year 1 (75 days before service commences)</b>                         | (1) CCAs submit their Monthly load migration forecast for the Resource Adequacy program, filed about 75 days prior to the compliance month.                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Within 60 days of the CCA's Commencement of Customer Automatic Enrollment</b> | (1) The CCA shall send its first notice to the prospective customers describing the terms and conditions of the services being offered and the customer's opt-out opportunity prior to commencing its automatic enrollment. (P.U. Code Section 366.2 (c) (13) (A))                                                                                                                                                                                                                                                                                                                             |
| <b>Within 30 days of the CCA's Commencement of Customer Automatic Enrollment</b> | <ol style="list-style-type: none"> <li>(1) The CCA shall send a second notice to the prospective customers describing the terms and conditions of the services being offered and the customer's opt-out opportunity prior to commencing its automatic enrollment. (P.U. Code Section 366.2 (c) (13) (A))</li> <li>(2) Once notified of a CCA program, the Utility shall transfer all applicable accounts to the new supplier within a 30-day period from the date of the close of their normally scheduled monthly metering and billing process. (P.U. Code Section 366.2 (c) (16))</li> </ol> |
| <b>January 1, Year 2</b>                                                         | (1) CCA begins service.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Following the CCA's Automatic Customer Enrollment</b>                         | <ol style="list-style-type: none"> <li>(1) The CCA shall inform participating customers for no less than two consecutive billing cycles that:             <ol style="list-style-type: none"> <li>a. They have been automatically enrolled into the CCA program and that each customer has the right to opt out of the CCA program without penalty. (P.U. Code Section 366.2 (c) (13)(A)(i).)</li> </ol> </li> </ol>                                                                                                                                                                            |

<sup>24</sup> For 2018, the bond and signed service agreement must be submitted by April 20, 2018.

<sup>25</sup> For 2018, the CPUC will confirm registration by April 27, 2018.

|  |                                                                                                      |
|--|------------------------------------------------------------------------------------------------------|
|  | b. Terms and conditions of the services being offered.<br>(P.U. Code Section 366.2 (c) (13)(A)(ii).) |
|--|------------------------------------------------------------------------------------------------------|

## Appendix B: Schematic Comparison of Prior and Adopted Timelines for CCA Registration Process



# Item 5.D

Western Community Energy  
Activities Update

## Attachment 2

Joint Utilities Petition to Modify the  
Code of Conduct

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**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking Pursuant to  
Senate Bill No. 790 to Consider and Adopt a  
Code of Conduct, Rules and Enforcement  
Procedures Governing the Conduct of  
Electrical Corporations Relative to the  
Consideration, Formation and Implementation  
of Community Choice Aggregation Programs.

Rulemaking 12-02-009  
(Filed February 16, 2012)

**PETITION FOR MODIFICATION OF DECISION 12-12-036 OF  
PACIFIC GAS AND ELECTRIC COMPANY (U 39-E),  
SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) AND  
SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)**

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**January 30, 2018**

**PETITION FOR MODIFICATION OF DECISION 12-12-036 OF PACIFIC GAS AND  
ELECTRIC COMPANY (U 39-E), SAN DIEGO GAS & ELECTRIC COMPANY  
(U 902-E) AND SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)**

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**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking Pursuant to Senate Bill No. 790 to Consider and Adopt a Code of Conduct, Rules and Enforcement Procedures Governing the Conduct of Electrical Corporations Relative to the Consideration, Formation and Implementation of Community Choice Aggregation Programs.

Rulemaking 12-02-009  
(Filed February 16, 2012)

**PETITION FOR MODIFICATION OF DECISION 12-12-036 OF  
PACIFIC GAS AND ELECTRIC COMPANY (U 39-E),  
SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) AND  
SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)**

Pursuant to Rule 16.4 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), Pacific Gas and Electric Company (“PG&E”), San Diego Gas & Electric Company (“SDG&E”), and Southern California Edison Company (“SCE”) (each a “utility” and collectively, the “Joint Utilities”) respectfully submit this Petition for Modification of Decision (“D.”) 12-12-036

**I.**

**EXECUTIVE SUMMARY**

The Joint Utilities ask the Commission to allow electrical corporations (“utilities”) to communicate with local governments regarding Community Choice Aggregators or Aggregation (“CCAs”). In D.12-12-036, the Commission adopted a Code of Conduct that imposes substantial restrictions on such communications, which the Code classifies as “lobbying.” Modifying these restrictions would advance the public interest, would be consistent with California law, and is

necessary to ensure that the Code complies with the United States Constitution. For these same reasons, the Joint Utilities also request that the Commission confirm that the Code of Conduct does not restrict the Joint Utilities' right to communicate with the press—newspapers, television stations, and radio stations—regarding CCAs.<sup>1</sup>

The Joint Utilities' goal in filing this petition is not to prevent CCA formation. To the contrary, the Joint Utilities support customers' right to choose CCAs, as long as bundled service customers are not allocated costs that should be borne by CCA customers. Accordingly, in this petition, the Joint Utilities do not seek any changes to the Code of Conduct's "marketing" provisions, which restrict their ability to communicate with customers "regarding the [utility's] and community choice aggregators' energy supply services and rates."<sup>2</sup> Instead, this petition concerns only communications with local governments and the press.

Modifying the Code of Conduct's lobbying restrictions is in the public interest. Utility customers are not well served if localities make uninformed decisions because they have been able to hear only from certain constituencies. Without complete information regarding CCA formation and operation, localities may adopt or implement CCA programs without a full understanding of the benefits, risks, and costs of their decisions. This could result in unintended negative consequences for utility customers served by the CCA, as well as for bundled service customers who may face additional costs as a result of a CCA program's flaws or the return of customers to bundled service. In both cases, the Joint Utilities' customers would be negatively affected.<sup>3</sup>

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<sup>1</sup> This petition does not seek any change the Code's marketing restrictions on a utility's ability to communicate with customers through paid advertising. *See* Code of Conduct Rule 1(a).

<sup>2</sup> The Joint Utilities do not believe that the Code's "marketing" restrictions, by their terms, prohibit utilities from communicating with customers or correcting misleading statements about the utilities' *own* services and rates (so long as such communications do not reference CCA services and rates). But to the extent the Code is interpreted otherwise, it would raise significant free speech concerns.

<sup>3</sup> CCA customers are also utility customers because they continue to receive transmission, distribution, and other services from a utility.

Allowing the Joint Utilities to communicate with local governments regarding CCA programs is particularly important with respect to localities' decisions to form or join CCAs. CCA formation involves numerous complex issues, including Commission-approved tariff rules that govern utility services to CCAs, the rules and obligations governing procurement by load serving entities in California (including CCAs), resource planning, long-term planning assumptions (e.g., forecasting market conditions and resource costs), rate-setting issues (such as the status of default time-of-use (TOU) rate implementation for residential customers), cost recovery, the operation of departing load charges such as the Power Charge Indifference Adjustment ("PCIA") or its successor, and the need for adequate financial security requirements for involuntary returns of CCA customers to utility service.

It appears, however, that localities in SCE's and SDG&E's service areas are not always receiving the necessary information, and in some instances have received information that is incomplete, inaccurate, and potentially misleading. Indeed, some local public officials have expressed frustration to the Joint Utilities about their inability to more fully comment on the benefits and costs of proposed CCA programs.<sup>4</sup> Absent access to information from the utility, local governments' primary source of information is often external advisory firms that potentially anticipate having a role in implementing the CCA entity after the feasibility study.

Allowing the Joint Utilities to communicate with local governments in connection with their deliberations on CCA formation will promote informed decision-making by these governments and mitigate the risk of unanticipated costs and outcomes that customers may incur resulting from CCA formations based on incomplete or inaccurate information.

The PG&E-area situation is somewhat different. PG&E already serves over 1.1 million CCA customers today, and by January 2019, approximately half of PG&E's electric customers will likely be served by CCAs. Accordingly, as compared to the SCE-area and SDG&E-area, PG&E has less of a need to discuss CCA-related issues with communities that are deciding

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<sup>4</sup> See, e.g., Declaration of J. Christopher Thompson ¶ 8.

whether to adopt CCA programs. Nevertheless, PG&E is interested in discussing CCA-related issues with local government officials of the communities it serves even after CCAs begin service.

The Code of Conduct's restrictions on CCA-related communications between the Joint Utilities and local government officials appear to be an outlier. Although some states impose certain limits on marketing to CCA customers, the Joint Utilities are not aware of any jurisdiction that restricts a utility from communicating with local government officials regarding CCAs.

The Commission also should confirm that the Code of Conduct does not restrict the Joint Utilities' right to communicate with the press regarding CCA-related issues. The Code currently does not directly address such communications, but the Joint Utilities are concerned that some may allege that communications with the press could be deemed to constitute prohibited "lobbying" or "marketing." Just as local governments will benefit from receiving information from utilities regarding the issues surrounding CCA formation and operation, so too will the press for its communications with the public at large. Preventing the Joint Utilities from commenting on or providing the press with the Joint Utilities' perspective on these issues is not in the public interest because it would result in these discussions being informed only by certain constituencies and by incomplete information.

In addition, the Commission should grant the relief requested in this petition to avoid a violation of the Joint Utilities' First Amendment rights to communicate on a matter of public concern and to be free of content-based restrictions on their speech. The restrictions on lobbying also violate the Joint Utilities' right to communicate with local government representatives.

The relief requested in this petition is consistent with California law, which does not require the Commission to retain the Code of Conduct's lobbying restrictions or restrict the Joint Utilities' communications with the press. California Public Utilities Code § 707, the statute that requires the Commission to adopt a Code of Conduct, directs the Commission to "[e]nsure that an electrical corporation does not *market* against a community choice aggregation program,



except through an independent marketing division.”<sup>5</sup> Section 707 does not mention lobbying communications with local government officials, or communications with the press.

Because many local governments in the Joint Utilities’ service areas are currently considering CCA programs, the Commission should act promptly on this petition so that the Joint Utilities can communicate with these governments in a timely manner and so that local government officials will have access to as much information as possible to help them make informed decisions on issues that impact CCA formation and operation. Accordingly, the Joint Utilities respectfully request that the Commission decide this petition by June 1, 2018, in accordance with the Proposed Schedule described in Part IV, below.

## II.

### **BACKGROUND**

Public Utilities Code § 707 (a) directs the Commission to adopt a “code of conduct” to “govern the conduct of the electrical corporations relative to the consideration, formation, and implementation of community choice aggregation programs.” As relevant here, this code of conduct must:

Ensure that an electrical corporation does not market against a community choice aggregation program, except through an independent marketing division that is funded exclusively by the electrical corporation’s shareholders and that is functionally and physically separate from the electrical corporation’s ratepayer-funded divisions.<sup>6</sup>

The code must also “limit” the independent marketing division’s “use of support services from the electrical corporation’s ratepayer-funded divisions”; require that this division be allocated any costs of any permissible support services from the “ratepayer-funded divisions on a

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<sup>5</sup> Cal. Pub. Util. Code § 707 (a) (emphasis added). All subsequent statutory references in this petition are to the California Public Utilities Code.

<sup>6</sup> Cal. Pub. Util. Code § 707 (1).

fully allocated embedded cost basis”<sup>7</sup>; and require that this division not have access to competitively sensitive information.<sup>7</sup>

In D.12-12-036, the Commission adopted the Code of Conduct. Rule 2 of the Code states:

No electrical corporation shall market or lobby against a community choice aggregation program, except through an independent marketing division that is funded exclusively by the electrical corporation’s shareholders and that is functionally and physically separate from the electrical corporation’s ratepayer-funded divisions.<sup>8</sup>

Rule 2 largely tracks § 707(a) (1), except that it applies to both “market[ing]” and “lobby[ing],” while the statute mentions only “market[ing].” The Code of Conduct defines “lobby” as communicating “with public officials or the public or any portion of the public for the purpose of convincing a government agency not to participate in, or to withdraw from participation in, a [CCA] program.”<sup>9</sup> Lobbying does not include the following:

- i) Provision of factual answers about utility programs or tariffs, including but not limited to rate analyses, in answer to questions from a government agency or its representative.
- ii) Provision of information to potential Community Choice Aggregators related to Community Choice Aggregation program formation rules and processes.<sup>10</sup>

The Code of Conduct defines “[m]arket” to mean “communicate with customers . . . regarding the electrical corporation’s and community choice aggregators’ energy supply services and rates.”<sup>11</sup> Marketing does not include the following:

- i) Communications provided by the electrical corporation throughout all of its service territory to its retail electricity customers that do not reference community choice aggregation programs.

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<sup>7</sup> § 707(a) (2)-(3). As an alternative, section 707 also allows the Commission “to require that any marketing against a community choice aggregation plan shall be conducted by an affiliate of the electrical corporation . . . subject to affiliate transaction rules to be developed by the Commission.” § 707(c). The Commission has not taken any actions pursuant to this provision.

<sup>8</sup> Code of Conduct Rule 2.

<sup>9</sup> Code of Conduct Rule 1(b).

<sup>10</sup> *Id.*

<sup>11</sup> Code of Conduct Rule 1(a).

ii) Communications that are part of a specific program that is authorized or approved by the California Public Utilities Commission (CPUC), . . . renewable energy rebate, or tariffed programs . . . .

iii) Provision of factual answers about utility programs or tariffs, including but not limited to rate analyses, in answer to the questions of individual customers.<sup>12</sup>

The Code of Conduct also imposes various restrictions on any independent marketing division that is created by a utility to conduct marketing and lobbying in compliance with Rule 2. The independent marketing division shall not have access to a utility's "competitively sensitive information." Nor may the division access the utility's "market analysis reports or any other types of proprietary or non-publicly available reports, including but not limited to market, forecast, planning or strategic reports."<sup>13</sup> Apart from shared support services, utility employees may not be employed by the independent marketing division<sup>14</sup> and may not speak on behalf of the independent marketing division.<sup>15</sup>

The formation of an independent marketing division also is subject to other significant restrictions. The independent marketing division must be physically separated from the utility.<sup>16</sup> The independent marketing division may not share equipment, services, and systems (including information technology systems) with the utility, except as necessary to perform corporate support services.<sup>17</sup> Transfers of employees between the utility and the independent marketing division are restricted and subject to a transfer fee.<sup>18</sup>

The utility and the independent marketing division are subject to audits for compliance with the rules.<sup>19</sup> And the Code also provides an expedited complaint procedure that generally

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<sup>12</sup> *Id.*

<sup>13</sup> Code of Conduct Rules 5, 8.

<sup>14</sup> Code of Conduct Rule 15.

<sup>15</sup> Code of Conduct Rule 9.

<sup>16</sup> Code of Conduct Rules 2, 11.

<sup>17</sup> Code of Conduct Rule 11.

<sup>18</sup> Code of Conduct Rule 16.

<sup>19</sup> Code of Conduct Rule 23.

requires any complaints filed against utilities by CCAs to be resolved in no more than 180 days.<sup>20</sup>

The combined effect of these restrictions is to discourage the utility from communicating to localities, unless specifically asked, crucial information—including information about market structure and challenges, impacts of future market conditions, rate-setting and cost recovery issues, and rules and policies applicable to CCAs—that is understood by utility employees who are subject-matter experts on these issues but who cannot speak for (and are restricted from transferring relevant information to) an independent marketing division.

### III.

#### **JUSTIFICATION FOR PETITION FOR MODIFICATION**

The Commission has broad authority to “amend any order or decision made by it” at “any time, upon notice to the parties[] and with opportunity to be heard.”<sup>21</sup> In compliance with Rule 16.4 (b) of the Commission’s Rules of Practice and Procedure, Section A, below, proposes the specific wording to carry out the Joint Utilities’ requested modifications to the Code of Conduct.

Sections B, C, D, and E, below, provide a concise justification for the requested relief. Section B explains why § 707 does not require the Commission to restrict the Joint Utilities’ communications with local governments or the press. Section C explains why the requested modifications to the Code of Conduct would improve local governments’ access to information regarding CCA programs and promote more informed decision-making, which would be in customers’ interest. Section D explains why allowing the Joint Utilities to communicate with the press regarding CCA-related issues is in the public interest. Section E explains why the relief requested in this petition is necessary to comply with the First Amendment.

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<sup>20</sup> Code of Conduct Rule 24.

<sup>21</sup> §1708; *see also* D.12-04-012 at 3 (“Pursuant to [§ 1708], the Commission has broad authority to modify decisions after notice to parties to the prior proceeding.”)

Finally, in compliance with Rule 16.4 (d), Section F explains why this “petition could not have been presented within one year of the effective date of” D.12-12-036.

**A. Description of the Requested Modifications**

**1. Modifying the Code of Conduct’s Lobbying Restrictions**

The Joint Utilities request that the Commission eliminate the restrictions on lobbying from the Code of Conduct. Consistent with Rule 16.4 (b), Exhibit A to this Petition shows the requested modifications to the Code of Conduct in the form of a markup to the existing Code. As a result of these modifications, a utility’s communications with local government officials regarding CCA-related issues would be treated on the same footing as a utility’s communications with this Commission regarding CCA-related issues; on the same footing as a utility’s communications with local government officials regarding any other issue or concern; and on the same footing as CCA consultants’ communications with local government officials about CCA formation.

If the Commission declines to eliminate the restrictions on lobbying in their entirety, SCE and PG&E submit that the Commission should at a minimum narrow these restrictions to allow utilities to share useful and timely information with localities. SCE and PG&E ask the Commission to clarify that the lobbying restrictions encompass only express advocacy against CCA programs. Such a clarification would provide at least incremental certainty that the Joint Utilities can communicate important information to local governments without running the risk that they will later be deemed to have had the “purpose” of dissuading CCA participation. SDG&E does not believe that this narrowing solves the constitutional problems with the Commission’s lobbying restrictions and does not support this approach.

No specific changes to the language of the Code are necessary in order for the Commission to clarify that the Code’s lobbying restrictions apply only to express advocacy. Rather, the Commission could simply issue a decision containing the following language or its

equivalent: “An electrical corporation shall not be deemed to have the purpose of convincing a government agency not to participate in, or to withdraw from participation in, a Community Choice Aggregation program unless the electrical corporation expressly advocates against participation in such a program.”

While no change to the wording of the Code is necessary to address utility communications with the press, the Joint Utilities ask the Commission to issue a decision that confirms that such communications are not restricted. The Joint Utilities propose that the Commission use the following language: “Nothing in the Code of Conduct is intended to restrict an electrical corporation’s right to communicate with the press, including newspapers, television stations, and radio stations.”

**B. Section 707 Does Not Require the Commission to Restrict the Joint Utilities’ Communications with Local Governments or the Press**

Section 707(a) requires the Commission to “[e]nsure that an electrical corporation does not *market* against a community choice aggregation program, except through an independent marketing division.”<sup>22</sup> Section 707(a) does not mention lobbying or communications with local government officials. Accordingly, § 707(a) neither instructs nor requires the Commission to adopt any rules regarding an electrical corporation’s communications with local government officials. Nor does § 707(a) mention communications with the press.

No other provision of § 707 prevents the Commission from granting the requested modification to the Code’s lobbying provisions or confirming that the Code does not apply to communications with the press. Section 707(a) (5) states that the Commission may adopt any rules it finds “necessary or advisable to protect a ratepayer’s right to be free from forced speech.” But this provision does not mandate the adoption of any specific rules regarding communications with local government officials or the press. In particular, it does not mandate that the

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<sup>22</sup> § 707(a) (emphasis added).

Commission require that any communications with local government officials or the press be conducted solely through an independent marketing division. And in any event, as further described in Section E, below, a utility's communications with local government officials or the press would not infringe upon a "ratepayer's right to be free from forced speech," and the Code of Conduct's existing restriction on utility lobbying is not necessary to prevent any such infringement.

In addition, in § 707(a) (4)(B) the Legislature expressed its "intent" that the Code of Conduct "include, in whole or in part, the rules approved by the commission in D.97-12-088 and D.08-06-016." Again, this provision does not mandate the adoption of any specific rules regarding communications with local government officials or the press. Indeed, the Legislature expressly provided that this provision "does not limit the authority of the commission . . . to modify any rule adopted in those decisions."<sup>23</sup> Nor do the Decisions referenced by the Legislature impose any requirement that an electrical corporation conduct all communications with local government officials or the press through an independent marketing division or affiliate.<sup>24</sup>

Because § 707 does not require the Commission to allow utilities to communicate with local government officials or the press only through an independent marketing division or affiliate, the Joint Utilities' request that the Commission exempt communications with local

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<sup>23</sup> § 707(a) (4)(C).

<sup>24</sup> In D.97-12-088 the Commission adopted standards of conduct governing relationships between utilities and their affiliates. These standards of conduct limit a utility's ability to share certain services and engage in certain transactions with an affiliate, but they do not restrict a utility's ability to engage in lobbying activities or communicate with the press. *See* D.97-12-088, Appendix A. In D.08-06-016, the Commission adopted a settlement between a CCA, the San Joaquin Valley Power Authority ("SJVPA"), and PG&E. The settlement required both parties to limit themselves to truthful marketing and lobbying, and required functional separation of PG&E's marketing division, but it did not require PG&E to engage in lobbying or communications with the press solely through this marketing division. D.08-06-016 at 5-7. Indeed, the settlement expressly did not prevent PG&E "from timely communicating with the city and county governments participating in SJVPA's CCA program." *Id.* at 6.

government officials or the press from the scope of the Code of Conduct is permissible under § 707.

**C. Modifying “Lobbying” in the Code of Conduct Will Inform Local-Government Decision-Making**

**1. Local governments do not always have complete information about CCA programs**

Many localities in California have recently considered or are currently considering taking on electrical power procurement obligations through a CCA program, including the cities of Long Beach, Huntington Beach, Laguna Beach, Palmdale, Murrieta, Wildomar, and Desert Hot Springs, in SCE’s service area. The County of Los Angeles and cities of Rolling Hills Estates and South Pasadena are in the process of implementing Los Angeles Community Choice Energy (LACCE), and are inviting other localities to consider joining LACCE.<sup>25</sup>

A CCA formation decision involves important complex questions, including whether the CCA can deliver lower cost and/or greener power over time, operate independent of system planning requirements and existing utility commitments, and what risks the CCA and its sponsoring locality must undertake in attempting to do so. Among these complex issues are the following:

- Procurement:

CCAs will be required to deliver a significant amount of the energy required by the Renewables Portfolio Standard (“RPS”) from long-term contracts (i.e., contracts with terms of ten year or longer) to comply with Senate Bill (SB) 350.<sup>26</sup> CCAs also have to meet Local and

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<sup>25</sup> LACCE submitted a supplemental implementation plan on December 29, 2017, to add 21 jurisdictions: Agoura Hills, Alhambra, Arcadia, Beverly Hills, Calabasas, Carson, Claremont, Culver City, Downey, Hawaiian Gardens, Hawthorne, Malibu, Manhattan Beach, Ojai, Paramount, Santa Monica, Sierra Madre, Temple City, Thousand Oaks, West Hollywood, and County of Ventura.

<sup>26</sup> See § 399.13(b).



Flex Resource Adequacy (“RA”) requirements, which may become more challenging (particularly for Local) as additional load serving entities are created and enter the market seeking to purchase a limited amount of Local and Flex RA supply. Utility personnel can identify questions and issues that localities should raise with their CCA consultants in order to ensure that they have a broad understanding of the benefits and risks associated with long-term resource procurement and Resource Adequacy requirements.

For example, some of the feasibility studies presented to localities by consultants do not appear to address risks associated with the need to enter into long-term supply contracts, such as credit and collateral requirements, or the ability of the CCA to recover above-market costs of long-term contracts from customers that depart CCA service for other procurement options.<sup>27</sup> Some studies mention the need to enter into long-term supply contracts only in passing; others mention that the CCA can and should enter into such contracts for a term, but do not address the risk to the CCA associated with changes in market conditions or credit requirements.<sup>28</sup>

- Resource Mix:

Utilities have contracted resources that provide important reliability services to the electric grid, such as Local Capacity Requirements and New Generation resources. The current electric grid cannot be reliably and safely operated with only RPS and short-term spot resources. Local government officials should have a full understanding of the need for integration services, ancillary services, voltage and short circuit duty, black start, and energy supply for hours in which renewables generation is insufficient, which will create additional system costs for localities that only consider the purchase cost of renewables and short-term spot markets in their CCA formation decisions.<sup>29</sup>

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<sup>27</sup> Declaration of Colin E. Cushnie ¶ 8.

<sup>28</sup> *Id.*

<sup>29</sup> Declaration of Colin E. Cushnie ¶ 9.

The Joint Utilities have observed a number of representations that CCAs will be greener than utilities.<sup>30</sup> This representation may be incomplete if it is not also explained that the utilities will also have portfolios that exceed 50% RPS consistent with the requirements of SB 350.<sup>31</sup>

- Projected Cost Savings:

Projected cost savings from CCA formation are often based on a comparison of the utility's generation rate, which is based on a portfolio of resources contracted over time, to current market prices. Based on current market conditions, such comparisons will show lower potential direct costs for the CCA as compared to the utility's legacy portfolio costs. But these comparisons should also account for the fact that, in order to ensure that the utility's remaining bundled service customers are indifferent to CCA formation—as is required by California law—the PCIA (or successor charge) will need to account for the difference between legacy costs and current market costs.<sup>32</sup> This topic is discussed in further detail below.<sup>33</sup> Additionally, such comparisons should also reflect that utilities will be purchasing in the same market environment as a newly formed CCA and all other CCAs, and therefore it is not reasonable to expect a meaningful cost difference for new procurement.

- Customer Migration:

Local government officials also may not fully understand the potential migration of customers and the impact of such migration on their ability to recover costs, or the rules regarding the return of customers to the utility's procurement service. In addition, § 394.25(e) requires CCAs to post a bond or demonstrate sufficient insurance to cover the costs resulting from an involuntary return of customers to bundled service. The consultants' feasibility studies

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<sup>30</sup> Declaration of Colin E. Cushnie ¶ 9.

<sup>31</sup> § 399.15(b)(2)(B). Additionally, some utilities have large hydroelectric resources that do not produce GHG emissions, but which are not included in RPS-eligible energy procurement results.

<sup>32</sup> See § 366.2(a)(4), (c)(5).

<sup>33</sup> See pp. 18-21, below (discussing the Cost Responsibility Surcharge).

that SCE has reviewed generally do not address—or address only in passing—potential changes to the bond requirement and the impact of these changes on the locality and the CCA.<sup>34</sup>

- Cost Responsibility Surcharge:

A CCA’s customers must pay a Cost Responsibility Surcharge (“CRS”) sufficient to ensure that the utility’s remaining customers are indifferent to the departure of the customers who will be served by the CCA.<sup>35</sup> The current CRS is established through a Commission-adopted methodology, and is recovered through the PCIA and the CTC rates.<sup>36</sup> The Commission recently opened a docket to consider modifications to the current methodology for calculating the CRS in order to more accurately implement this statutory directive.<sup>37</sup>

It is critically important that localities accurately and completely understand this statutory requirement and its implications for CCA customers. To the extent there is currently an opportunity for a CCA to underprice a utility’s generation rate, that difference may be due in whole or in part to the PCIA’s failure to capture accurately the difference between market prices and the cost of the utility’s legacy generation portfolio. When the Commission addresses that issue in its Order Instituting Rulemaking to Review, Revise, and Consider Alternatives to the PCIA (Rulemaking (R.)17-06-026), the CCA’s opportunity to underprice the utility’s generation rate may change.

Localities apparently are not being fully informed on these issues. In its recent comments in R.17-06-026, The Utility Reform Network (“TURN”) noted:

Many municipalities and Joint Powers Authorities are currently considering whether to pursue CCA formation. Unfortunately, local public officials may not be aware of the possible impact of changes to the PCIA on the total costs of service to be offered by a new CCA. Given the Code of Conduct prohibition on marketing or lobbying by an IOU, local governments are forced to rely almost exclusively on the representations of CCA proponents when attempting to

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<sup>34</sup> Declaration of Colin E. Cushnie ¶ 7.

<sup>35</sup> See § 366.2(c)(5), (d)-(i) (AB 117); D.05-12-041 at 23-25.

<sup>36</sup> The CTC rates recover competition transition costs. See § 367.

<sup>37</sup> See Order Instituting Rulemaking to Review, Revise, and Consider Alternatives to the Power Charge Indifference Adjustment, R.17-06-026 (July 10, 2017).

understand the role of the PCIA in assessing the competitiveness of alternative service that may be offered to their businesses and residents.<sup>38</sup>

In addition, some consultant reports have told localities to expect a declining PCIA, which is inconsistent with their simultaneous predictions of declining market prices.<sup>39</sup> Because the PCIA is calculated to recover the above market costs of a fixed vintaged portfolio,<sup>40</sup> the PCIA generally varies inversely to current market prices. In a declining market price environment, the PCIA will increase as the difference between market value and the cost of the above-market, long-term commitments in the vintaged portfolio(s) applicable to the CCA customers increases. However, at least one consultant report SCE has reviewed suggests that a CCA could obtain savings through lower market energy prices, but fails to note that lower market prices would typically correspond with a higher PCIA for the CCA's customers (and other departing load).<sup>41</sup>

The relationship between current market prices and the PCIA can be complicated, and it is important that utilities be allowed to engage officials of localities considering CCA formation to discuss these issues to allow for more informed decision-making.

All of the foregoing examples, and other important issues relating to CCA formation, operation, and procurement, involve core aspects of the utility business that directly affect utility customers.

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<sup>38</sup> Comments of The Utility Reform Network on the Order Instituting Rulemaking, R.17-06-026 (July 31, 2017).

<sup>39</sup> Declaration of Colin E. Cushnie ¶ 6.

<sup>40</sup> Pursuant to D.08-09-012, departing load customers are only responsible for the above-market costs of the resources that were procured on their behalf. As such, customers are subject to a "vintaged" PCIA rate that corresponds with the "vintaged portfolio" that was procured prior to their departure. See D.08-09-012, at 4 n. 8.

<sup>41</sup> Declaration of Colin E. Cushnie ¶ 6.

**2. Eliminating the Code of Conduct’s “lobbying” restrictions would allow the Joint Utilities to provide local governments with information relevant to their decisions about CCA programs**

The Joint Utilities have significant expertise regarding many of the issues relevant to CCA programs and would like to share that information with local governments. For example, the Joint Utilities could explain the bond requirement to local governments and explain how the Commission’s actions could affect that requirement. Similarly, by providing local governments with specific comments on a feasibility analysis conducted by a consultant, the Joint Utilities could identify inaccuracies, inconsistent or flawed assumptions, or unidentified risks. And the Joint Utilities could provide local governments guidance on how the PCIA is calculated, how changes in market prices affect the PCIA, and how the utilities’ proposals and Commission’s actions could affect the PCIA.

By considering the information provided by the Joint Utilities—along with all the information provided by consultants and others—local governments will be in a better position to critically and carefully evaluate their assumptions and models regarding CCA programs and to assess the benefits and risks of any particular option. The Joint Utilities’ communications with local governments about CCA-related issues would benefit potential CCA customers and remaining bundled service customers. Local governments can be more fully informed with utility engagement in their deliberations on CCA programs, and use that knowledge to construct their CCA programs in a manner intended to increase the likelihood of success. More informed decision-making should reduce the risk that a CCA program fails or elects to terminate service to all or a substantial portion of its customers. A failing CCA program creates a high risk of cost-shifting to bundled service customers under the current, inadequate interim CCA bond requirement because bundled service customers may be forced to subsidize the reentry costs of the CCA customers who are involuntarily returned to a utility’s procurement service.

The Joint Utilities have restricted their communications with local government officials because of the broad sweep of the Code of Conduct's restrictions on lobbying and the risk that any communications with such officials regarding CCA formation may be deemed to violate the Code. Initially, the Code of Conduct defines "lobby" as communication "for the purpose of convincing a government agency not to participate in, or to withdraw from participation in, a community choice aggregation program."<sup>42</sup> The Joint Utilities' goal in providing information to localities is not to persuade localities not to form CCAs; rather, the Joint Utilities' goal is to ensure that localities have relevant information the utility can provide. But to the extent the Joint Utilities provide information that describes the risks associated with a CCA program, the Joint Utilities run the risk under the Code that a party will claim that the true motivation was to convince the locality not to participate in the program. Given the difficulty associated with proving state of mind, any communication regarding CCA programs is, as a practical matter, fraught with peril.

This is not a hypothetical concern. Even where the Joint Utilities have engaged in speech that is plainly permissible under the Code, certain CCA proponents have complained to the Commission about such speech and have requested that the Commission initiate burdensome and expensive investigations and audits. Recently, California Choice Energy Authority ("CCEA"), submitted a letter (attached as Exhibit B) to the Commission accusing SCE of violating the Code of Conduct by communicating with community leaders and others regarding certain issues pending before this Commission. Specifically, SCE communicated with these leaders to encourage them to support SCE's efforts to reform the PCIA in the pending rulemaking before the Commission.<sup>43</sup> Nothing in the Code of Conduct prohibits such communications, which were made to draw attention to a current regulatory issue and encourage participation in the Commission's pending rulemaking. Nevertheless, CCEA requested that the Commission initiate

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<sup>42</sup> Code of Conduct Rule 1(b).

<sup>43</sup> See generally R.17-06-026.

an “audit” and “thorough review” of SCE’s speech, suggesting that it might violate the “letter” or “spirit” of the Code. Even meritless complaints can create a chilling effect on protected utility speech.

As a result of the risk of being accused of violating the Code, the Joint Utilities have self-censored their communication to localities regarding CCA programs based on their legitimate concern that these communications might be deemed a violation of the Code of Conduct.

For example, SCE has not answered certain CCA-related questions from local government officials due to the risk that an answer could be alleged to violate the Code’s lobbying restrictions.<sup>44</sup> Similarly, SCE has generally been unable to comment on the substance of the CCA feasibility studies submitted to local governments because of the risk that any comments might be alleged to run afoul of the Code.<sup>45</sup> As a result, SCE employees have not told local government officials about information that was inaccurate or incomplete that these officials were provided or were considering.<sup>46</sup> Some localities have expressed to SCE that they would like more information and the perspective of the utility on CCA formation, including specific feedback on the feasibility studies that localities receive from CCA consultants.<sup>47</sup>

The two express exceptions to the definition of “lobby” in the Code of Conduct do not ameliorate the risk utilities face when communicating with local government officials regarding CCA-related issues because they do not provide adequate safe harbors from the chilling effect of the Code’s “lobbying” restriction. The first exception to the definition of “lobby” is limited to providing “factual answers about utility programs or tariffs” in response to “questions from a government agency.”<sup>48</sup> This exception is of limited use because local governments may not ask a utility for its comments for numerous reasons, including because they are not aware that they have received incomplete or inaccurate information or that the utility could provide useful

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<sup>44</sup> Declaration of J. Christopher Thompson ¶ 8.

<sup>45</sup> *Id.*; Declaration of Colin E. Cushnie ¶ 10.

<sup>46</sup> Declaration of J. Christopher Thompson ¶ 8; Declaration of Colin E. Cushnie ¶ 10.

<sup>47</sup> Declaration of J. Christopher Thompson ¶ 8.

<sup>48</sup> Code of Conduct Rule 1(b)(i).

information. In addition, even in response to a question, the Joint Utilities are limited to providing information regarding “utility programs or tariffs.” And the Code of Conduct also does not provide any guidance on what would constitute a “factual answer” that could qualify for this exception as opposed to a non-factual opinion that would not qualify.

Similarly, the information that may be provided under the second exception to the definition of “lobby” is limited in scope: a utility may provide information regarding “[CCA] formation rules and processes.”<sup>49</sup> Accordingly, this exception does not create a safe harbor that would allow the Joint Utilities to provide local officials with a more complete set of information relevant to decisions regarding CCA programs.

Finally, the Code’s exemption for communications by an independent marketing division does not avoid the Code’s significant burden on the Joint Utilities’ communications with local government officials. The Joint Utilities would need to endure the burdens associated with an independent marketing division or an affiliate in order to communicate with local governments, even though the risk that the Joint Utilities would be seeking to address is a customer-related risk, and not a shareholder risk.<sup>50</sup> Nor are these burdens minor. To the contrary, an independent marketing division would create significant financial and logistical burdens. To speak to local officials, a utility would have to create the division, hire additional employees for the division, and maintain and operate additional office space. The utility would also have to comply with the extensive regulations that apply to independent marketing divisions and affiliates.

And even if the utility were to attempt to create an independent marketing division or affiliate, it would still obtain only a limited ability to communicate with local government officials. Utility employees with the most knowledge and understanding of issues related to

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<sup>49</sup> Code of Conduct Rule 1(b)(ii).

<sup>50</sup> CCA formation creates opportunities and risks for the customers that take service from the new CCA, and introduces re-entry and cost allocation risk for remaining bundled service customers. Generally, the Joint Utilities do not have cost recovery risk for their approved contract resources, and therefore can focus on providing important information to help local governments make more informed CCA-related decisions.



CCAs and energy procurement contracts would remain unable to speak to local government officials or provide relevant information to the independent marketing division or affiliate.

**3. Modifying the Code of Conduct’s lobbying restrictions would still promote the dissemination of useful information to local governments**

In light of the benefits of allowing utilities to communicate with local governments regarding CCA programs, and taking into account the constitutional concerns raised by the Code’s lobbying restrictions, the Commission should eliminate the Code’s lobbying restrictions in their entirety.

Absent a complete elimination of the lobbying restrictions, SCE and PG&E (but not SDG&E) submit that the Commission should clarify that these restrictions apply only to *express advocacy* against CCA programs. As noted above, the Joint Utilities are concerned that the Code’s lobbying restrictions turn on whether a communication is “for the purpose of convincing” a local government not to participate in a CCA program. A purpose-based test is inherently fraught with peril because of the subjectivity of such a test and the difficulty in discerning an entity’s state of mind. Even where communications are factually accurate and helpful to the local government, a party could claim that the utility’s true motivation was to convince the locality not to participate in a CCA program. Clarifying that the Code applies only to express advocacy would incrementally lessen this risk while still preventing a utility from advocating against CCA formation.<sup>51</sup>

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<sup>51</sup> See e.g., *Buckley v. Valeo*, 424 U.S. 1, 77 (1976) (narrowly construing a statute that applied to expenditures of money for the purpose of influencing the nomination or election of candidates for federal office to apply only to “expenditures for communications that expressly advocate the election or defeat of a clearly identified candidate”); also *Yamada v. Snipes*, 786 F.3d 1182, 1188 (9th Cir. 2015) (narrowly construing a similar state campaign finance statute to apply only to “communications or activities that constitute express advocacy or its functional equivalent”); also *Wisconsin Right To Life, Inc. v. Barland*, 751 F.3d 804, 833 (7th Cir. 2014) (narrowly interpreting a similar statute to apply only to “express advocacy” for or against a candidate).

**D. Utility Communications with the Press Regarding CCA Issues Are in the Public Interest**

The Code of Conduct does not prohibit the Joint Utilities from communicating with the press regarding CCA-related issues. There is no express provision in the Code that addresses such communications.<sup>52</sup> Nor would such communications fall within the Code’s definition of “market” or “lobby.” The definition of “market” covers only direct communications with customers, such as “letters, delivery of printed materials, phone calls, spoken word, emails, and advertising,” not communications with the press.<sup>53</sup> The definition of “lobby” is similarly limited to communications with the “public” or with “public officials,” and is also limited to communications that have the purpose of “convincing a government agency not to participate in, or to withdraw from participation in, a [CCA] program.”<sup>54</sup> A communication with the press cannot reasonably be construed as “lobbying,” regardless of its content or purpose. Moreover, given the serious free speech issues at stake, the Code should not be construed to limit communications with the press absent an unmistakably clear statement to that effect, which does not exist.

Nevertheless, the Joint Utilities are concerned that they could be accused of violating the Code of Conduct by communicating with the press regarding CCA-related issues. Given the Code of Conduct’s expedited enforcement procedure, burdensome audit rules, and penalty provisions, the Joint Utilities seek confirmation that communications with the press are not covered by the Code of Conduct.

Allowing the Joint Utilities to communicate with the press regarding CCA-related issues is in the public interest. As noted above, CCA-related issues, particularly concerning formation,

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<sup>52</sup> While nothing in the Code prohibits communications with the press, the Code’s marketing restrictions do restrict a utility’s ability to communicate with customers through paid advertising. *See* Code of Conduct Rule 1(a). This petition does not seek any change to that provision of the Code.

<sup>53</sup> Code of Conduct Rule 1(a).

<sup>54</sup> Code of Conduct Rule 1(b).

procurement, and the PCIA are complex. These issues are also currently matters of significant public concern, and they are being examined and debated by the Legislature, before the Commission, and in local communities. The Joint Utilities can help inform this debate with their perspective, which is based on decades of experience in California's energy markets, and by providing more complete information regarding these issues. By contrast, to the extent the Joint Utilities are unable to communicate with the press, the public debate on CCA-related issues may be informed by the unchallenged views of only some constituencies.

**E. The Requested Relief Is Necessary to Comply with the First Amendment<sup>55</sup>**

**1. The Code of Conduct is subject to “strict scrutiny” under the First Amendment**

The Free Speech clause of the First Amendment to the United States Constitution, as incorporated against the states by the Fourteenth Amendment, “guarantee[s] that no State shall abridge the freedom of speech.”<sup>56</sup> Because the Supreme Court has “rejected the argument” that a speaker’s “status as a regulated utility company lessens its right to be free from state regulation that burdens its speech,” the Joint Utilities are entitled to the full protection of the First Amendment.<sup>57</sup>

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<sup>55</sup> To the Joint Utilities’ knowledge, the Commission has not previously considered whether the Code’s restrictions on lobbying or similar restrictions are consistent with the First Amendment. As noted in footnote 21, above, in D.08-06-016, the Commission adopted a settlement between SJVPA and PG&E. Although that settlement did address lobbying activities, it was primarily aimed at PG&E’s marketing activities. The settlement did not require PG&E to engage in lobbying solely through an independent marketing division. D.08-06-016 at 5-7. And the settlement expressly did not prevent PG&E “from timely communicating with the city and county governments participating in SJVPA’s CCA program.” *Id.* at 6.

<sup>56</sup> *Consolidated Edison Co. of N.Y. v. Pub. Serv. Comm’n of N.Y.*, 447 U.S. 530, 534 (1980) (internal quotation marks and alterations omitted).

<sup>57</sup> *Pacific Gas & Elec. Co. v. Pub. Utilities Comm’n of California* (“PG&E I”), 475 U.S. 1, 17 n. 14 (1986) (plurality opinion); see *Consolidated Edison*, 447 U.S. at 534 n.1; *Pacific Gas & Elec. Co. v. Pub. Utilities Comm’n* (“PG&E II”), 85 Cal. App. 4th 86, 93 (2000).

Although the Code of Conduct permits lobbying and other speech by a utility's independent marketing division, it is nonetheless subject to scrutiny under the First Amendment because it burdens the Joint Utilities' ability to speak—"[i]t is of no moment that the [Code] does not impose a complete prohibition" on speech.<sup>58</sup> Financial, logistical, or administrative burdens on speech are all sufficient to trigger First Amendment scrutiny.<sup>59</sup>

In *Citizens United*, for example, the Supreme Court struck down certain campaign finance laws applicable to corporations as inconsistent with the First Amendment "notwithstanding the fact that a PAC [(a Political Action Committee)] created by a corporation can still speak."<sup>60</sup> The Supreme Court noted that the financial and logistical burdens associated with PACs would burden a corporation's speech because PACs are "expensive to administer and subject to extensive regulations."<sup>61</sup> Like the campaign finance restrictions at issue in *Citizens United*, the Code of Conduct burdens the Joint Utilities' ability to communicate. Not unlike PACs, independent marketing divisions and affiliates create financial and logistical burdens. As noted above, to speak to local officials a utility would have to create the division, hire additional employees for the division, lease additional office space, and comply with the extensive regulations that apply to such divisions, or address the burdens associated with affiliates. These burdens are especially acute given that the utility's goal is to improve the quality of CCA-related decisions on behalf of all utility customers, including CCA customers.

Not only is the Code of Conduct subject to scrutiny under the First Amendment, it is subject to "strict scrutiny"—the most searching standard of review available—because it regulates speech based on its content. "Content-based laws—those that target speech based on

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<sup>58</sup> *United States v. Playboy Entm't Grp.*, 529 U.S. 803, 812 (2000).

<sup>59</sup> See *Citizens United v. Fed. Election Comm'n*, 558 U.S. 310, 324 (2010); see, e.g., *Watchtower Bible & Tract Soc'y of N.Y., Inc. v. Village of Stratton*, 536 U.S. 150, 154 (2002) (requirement that canvassers obtain a permit was subject to First Amendment scrutiny, even though the permit was free and issued routinely); *Simon & Schuster, Inc. v. Members of N.Y. State Crime Victims Bd.*, 502 U.S. 105, 115 (1991) (requirement that publisher of book deposit money due to author in escrow account under certain conditions).

<sup>60</sup> *Citizens United*, 558 U.S. at 337.

<sup>61</sup> *Id.*

its communicative content—are presumptively unconstitutional and may be justified only if the government proves that they are narrowly tailored to serve compelling state interests.”<sup>62</sup>

A regulation is “content based” if it “applies to particular speech because of the topic discussed or the idea or message expressed.”<sup>63</sup>

The Commission’s Code of Conduct is unquestionably a content-based restriction on the Joint Utilities’ communications. Because the Code applies only to communications that “lobby against a community choice aggregation program,” it applies “different restrictions” based on the “topic discussed . . . or message expressed.”<sup>64</sup> Communications lobbying for or against non-CCA-related issues are not subject to the Code. Nor are non-lobbying communications and non-marketing communications subject to the Code.

In addition, the Code of Conduct is subject to strict scrutiny for a second reason: it restricts the Joint Utilities’ ability to communicate regarding a matter of public concern. “[S]peech on matters of public concern is at the heart of the First Amendment’s protection.”<sup>65</sup> “The First Amendment reflects a profound national commitment to the principle that debate on public issues should be uninhibited, robust, and wide-open.”<sup>66</sup> In *Consolidated Edison*, for example, a public utility’s bill inserts that discussed topics of public concern, such as “the benefits of nuclear power,” were accorded full protection under the First Amendment and a regulation prohibiting them was subject to strict scrutiny.<sup>67</sup> Similarly, a court would accord full protection under the First Amendment to speech regarding the benefits, costs, and risks of CCA programs.

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<sup>62</sup> *Reed v. Town of Gilbert*, 135 S. Ct. 2218, 2226 (2015).

<sup>63</sup> *Id.* at 2227.

<sup>64</sup> *Id.*

<sup>65</sup> *Snyder v. Phelps*, 562 U.S. 443, 451-52 (2011) (citation, internal quotation marks and alterations omitted).

<sup>66</sup> *Id.* at 452 (citation and internal quotation marks omitted).

<sup>67</sup> *See Consolidated Edison*, 447 U.S. at 532, 535, 540-41 (internal quotation marks omitted).

Because the Code of Conduct is subject to strict scrutiny, it can be upheld only if it is “narrowly tailored to serve compelling state interests.”<sup>68</sup> As discussed below, the Code does not survive this demanding test.

Finally, as relevant to the Joint Utilities’ communications with local government officials, the First Amendment protects not only speech, but also the right to “petition the Government for a redress of grievances.” As the Supreme Court has described it, lobbying the government is a “fully protected” right under the First Amendment.<sup>69</sup> The Supreme Court has explained that providing “information upon which government must act” is protected petitioning activity.<sup>70</sup> Accordingly, the Joint Utilities’ communications with local government officials are protected not only by the Free Speech clause of the First Amendment, but also by the Right to Petition clause.

## **2. The Code of Conduct is not narrowly tailored to serve a compelling government interest**

As discussed above, the Code of Conduct cannot be upheld unless it is narrowly tailored to serve a compelling government interest.<sup>71</sup> At a minimum, for a regulation to meet this standard, “the curtailment of free speech must be actually necessary” to solve an “actual problem.”<sup>72</sup> And the restriction must be the “least restrictive means to further” the government’s asserted interest.<sup>73</sup> In describing this “demanding standard,” the Supreme Court has explained

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<sup>68</sup> *Reed*, 135 S. Ct. at 2226. Nor is the Code subject to a more relaxed level of scrutiny reserved for certain kinds of commercial speech. Commercial speech is speech that “does no more than propose a commercial transaction.” *Hunt v. City of Los Angeles*, 638 F.3d 703, 715 (9th Cir. 2011) (internal quotation marks omitted). The Joint Utilities’ speech does “more than propose a commercial transaction” because it is directed at government officers in their policy-making capacity. Instead of proposing a transaction with the government, the Joint Utilities’ speech provides information relevant to a policy choice that affects the residents and businesses in the government’s jurisdiction.

<sup>69</sup> *F.T.C. v. Superior Court Trial Lawyers Ass’n* 493 U.S. 411, 426 (1990).

<sup>70</sup> *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 139 (1961).

<sup>71</sup> *Reed*, 135 S. Ct. at 2226.

<sup>72</sup> *Brown v. Entertainment Merchants Ass’n*, 564 U.S. 786, 799 (2011).

<sup>73</sup> *A.C.L.U. of Nevada v. City of Las Vegas*, 466 F.3d 784, 792 (9th Cir. 2006) (internal quotation marks omitted); *Sable Communications of California, Inc. v. FCC.*, 492 U.S. 115, 126 (1989).

that it is “rare that a regulation restricting speech because of its content will ever be permissible.”<sup>74</sup>

The Commission has noted that the Code of Conduct is designed to prevent utilities from using their “structural advantages” to influence decisions regarding CCA adoption.<sup>75</sup> These structural advantages are purported to be: (1) the “inherent market power” that utilities have, including, (2) their “well-developed relationship with customers in their service territories,” (3) their “name recognition,” and (4) their “access to competitive customer information.”<sup>76</sup> According to the Commission, by limiting utility marketing and lobbying activities the Code of Conduct will provide CCAs “with the opportunity to compete on a fair and equal basis” with investor-owned electric utilities.<sup>77</sup>

The “structural advantages” identified by the Commission appear to relate solely to speech between utilities and their customers. A utility’s alleged market power might give it certain marketing advantages, but those advantages – if they exist at all – would potentially affect its communications with customers, not its speech to government officials or the press.<sup>78</sup> Similarly, even assuming that a utility’s “well-developed relationship” with customers or its “name recognition” would give it an advantage in influencing customers selecting between the utility and a CCA, that consideration does not justify restricting its communications with government officials or the press. Although access to customer information may allow a utility to better target its messages to customers, the Commission did not identify how this information would unduly affect the utility’s communications with local government officials or the press.

Indeed, many local governments have significant resources and market power of their own. For example, in addition to its regulatory powers, Los Angeles County manages a budget

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<sup>74</sup> *Brown*, 564 U.S. at 799 (internal quotation marks omitted).

<sup>75</sup> D.12-12-036, at 8-9, 37.

<sup>76</sup> *Id.* (internal quotation marks omitted).

<sup>77</sup> *Id.*

<sup>78</sup> While local governments are, of course, customers of the utility, communications regarding CCA formation are directed to governments in their capacity as policymakers for their residents and businesses.

of \$25.44 billion.<sup>79</sup> By contrast, Edison International, the parent holding company of SCE, had total revenues of \$11.69 billion.<sup>80</sup> Even assuming that the Joint Utilities have certain structural advantages, it is unclear how these advantages could overwhelm a local government's independent decision-making abilities.

In any event, neutralizing the Joint Utilities' "structural advantages" is not a cognizable interest that can justify restrictions on the Joint Utilities' speech. The Supreme Court has squarely rejected the notion that government has a compelling interest in "leveling the playing field" in the context of free speech.<sup>81</sup> As the Court has explained, "[t]he concept that government may restrict the speech of some elements of our society in order to enhance the relative voice of others is wholly foreign to the First Amendment."<sup>82</sup>

The Commission has also justified the Code of Conduct on the basis that "[i]t is reasonable and consistent with [§ 707] to require that marketing or lobbying against CCAs is supported by shareholder funds, not ratepayer funds."<sup>83</sup> This statement appears to be a reference to § 707(a)(5), which instructs the Commission to adopt any rules it determines to be necessary or advisable to "protect a ratepayer's right to be free from forced speech."

But utility communications with local government officials or the press would not constitute forced speech for two reasons. First, "[t]he United States Constitution protects individual rights only from *government* action, not from *private* action."<sup>84</sup> For purposes of constitutional analysis, government-regulated utilities like the Joint Utilities are generally treated

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<sup>79</sup> <http://budget.lacounty.gov/#!/year/default>.

<sup>80</sup> Edison International and Southern California Edison, 2016 Annual Report at 1, *available at* <https://www.edison.com/content/dam/eix/documents/> <https://www.edison.com/content/dam/eix/documents/investors/corporate-governance/2016-annual-report.pdf>.

<sup>81</sup> See *Arizona Free Enter. Club's Freedom Club PAC v. Bennett*, 564 U.S. 721, 749 (2011) (internal quotation marks omitted).

<sup>82</sup> *Citizens United*, 558 U.S. at 350 (internal quotation marks and citation omitted).

<sup>83</sup> D.12-12-036 at 39.

<sup>84</sup> *Single Moms, Inc. v. Montana Power Co.*, 331 F.3d 743, 746 (9th Cir. 2003).



as private actors, not government actors.<sup>85</sup> Accordingly, the United States Court of Appeals for the Ninth Circuit has held that an electric and natural gas utility did not violate customers' First Amendment rights by lobbying for deregulation.<sup>86</sup>

Second, even if the Joint Utilities' speech were assumed to be state action, expenditures of money for speech that is "germane" to a utility's mission would not infringe on a customer's right to be free from forced speech.<sup>87</sup> "Expenditures are 'germane' to an organization's purpose where they 'are necessarily or reasonably incurred for the purpose' of the organization."<sup>88</sup> Communicating with local governments or the press on CCA-related issues is germane to a utility's organizational mission. Such communications mitigate the risk of cost-shifting to a utility's remaining bundled service customers, may involve questions about how to maintain the reliability of the statewide grid, and promote understanding of the relationship between the CCA and the utility. Additionally, CCA customers continue to receive their electric distribution services from the utility, including metering and billing. As such, CCA formation and operations involve operating concerns of the utility, and communicating regarding such concerns is therefore germane to the utility's mission. Indeed, issues regarding the procurement of electricity, including costs, supply mix, resource adequacy, and the like go to the very heart of what utilities do for their customers. It is difficult to imagine any topic more "germane" to the mission of a utility.

In any event, the Code of Conduct's restrictions go well beyond regulating the source of funding for CCA-related speech. In particular, the Code's burdensome regulations regarding the use of information, employees, and facilities are not narrowly tailored to address any potential concern regarding the source of funding for CCA-related speech.

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<sup>85</sup> See *id.*; *Jackson v. Metro. Edison Co.*, 419 U.S. 345, 350-51 (1974).

<sup>86</sup> See *Single Moms*, 331 F.3d at 746.

<sup>87</sup> *Braintree Elec. Light Dep't v. F.E.R.C.*, 550 F.3d 6, 14 (D.C. Cir. 2008); see also *Keller v. State Bar of California*, 496 U.S. 1, 14 (1990).

<sup>88</sup> *Braintree Elec. Light Dep't*, 550 F.3d at 14.

**F. This Petition for Modification Could Not Have Been Presented Within One Year of the Effective Date of D.12-12-036**

This Petition for Modification is being filed more than one year after the effective date of D.12-12-036. But this post-one-year filing is justified by significant changed circumstances. When D.12-12-036 was adopted, relatively few localities were considering CCA formation.<sup>89</sup> Now, five years later, dozens of localities have recently considered or are considering adopting CCA programs. As localities have begun to consider this option, the Joint Utilities have become aware that localities may not be receiving complete or accurate information regarding CCA formation. These changed circumstances have convinced the Joint Utilities that they should communicate with local governments to ensure that they have more complete and accurate information relevant to their decisions on CCA formation and operations. But, at the same time, the Joint Utilities have come to understand that, as a practical matter, the Code of Conduct effectively prohibits them from providing such information to local government officials.<sup>90</sup>

Moreover, the Code of Conduct was the Commission's first attempt to craft a comprehensive set of rules to satisfy § 707. When first adopted, these rules were untested and their impact uncertain. Indeed, the Commission phrased its understanding of the impact of these rules in tentative terms: "[W]e *believe* that such a Code of Conduct *should* benefit customers by preserving their ability to make educated choices among authorized electric providers."<sup>91</sup> It is only natural that, over time, the effect of the Code of Conduct would become more certain and additional clarification or refinement would become necessary.<sup>92</sup>

As shown above, this petition's proposed refinements to the Code of Conduct are both narrow and necessary.

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<sup>89</sup> Declaration of Colin E. Cushnie ¶ 4; Declaration of J. Christopher Thompson ¶ 3.

<sup>90</sup> Declaration of Colin E. Cushnie ¶¶ 4-10.

<sup>91</sup> D.12-12-036 at 6 (emphasis added).

<sup>92</sup> Additionally, it has recently become clear that the effects of the PCIA will become increasingly problematic as departing load increases, and that the Commission will need to address the current PCIA methodology, which it is currently doing in R.17-06-026.

#### IV.

#### **PROPOSED SCHEDULE**

Many localities in the Joint Utilities' service areas are currently in the process of considering forming or joining CCAs, including Long Beach, Huntington Beach, Laguna Beach, Palmdale, Murrieta, Wildomar, and Desert Hot Springs, in SCE's service area; and Solana Beach in SDG&E's service area.<sup>93</sup> To ensure they have an opportunity to communicate with these localities before they make a final decision, the Joint Utilities respectfully request that the Commission take prompt action on this petition and set the following schedule:

- **Responses to Petition Due:** March 1, 2018.<sup>94</sup>
- **The Joint Utilities' Reply Due:** March 12, 2018, if permission to file a reply is granted.<sup>95</sup>
- **Proposed Decision Issued:** June 1, 2018.

As required by Rule 16.4 (c) of the Commission's Rules of Practice and Procedure, the Joint Utilities have served this petition on all parties to R.12-02-009, the proceeding that resulted in D.12-12-036. The Joint Utilities have also served all parties to R.03-10-003 and R.17-06-026.

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<sup>93</sup> Declaration of J. Christopher Thompson ¶ 4.

<sup>94</sup> Thirty days from the filing of this Petition, as required by Rule 16.4 (f) of the Commission's Rules of Practice and Procedure.

<sup>95</sup> Ten days from the date Responses to this Petition are due, as set forth in Rule 16.4 (g) of the Commission's Rules of Practice and Procedure.

Respectfully submitted,

JANET S. COMBS  
FADIA RAFEEDIE KHOURY  
HENRY WEISSMANN  
KURUVILLA J. OLASA

*/s/ Janet S. Combs*

By: Janet S. Combs

Attorneys for  
SOUTHERN CALIFORNIA EDISON COMPANY

STACY VAN GOOR  
E. GREGORY BARNES

*/s/ Stacy Van Goor*

By: Stacy Van Goor

Attorneys for  
SAN DIEGO GAS & ELECTRIC COMPANY

RANDALL J. LITTENEKER

*/s/ Randall J. Litteneker*

By: Randall J. Litteneker

Attorney for  
PACIFIC GAS AND ELECTRIC COMPANY

**Dated: January 30, 2018**

**EXHIBIT A**

**Proposed Revisions to D.12-12-036**

## PROPOSED REVISIONS TO D.12-12-036

### **8.1 Rules of Conduct for Electrical Corporations Relative to Community Choice**

#### **Aggregation Programs**

- 1) The following definitions apply for the purposes of these rules:
  - a) “Market” means communicate with customers, whether in oral, electronic, or written form, including but not limited to letters, delivery of printed materials, phone calls, spoken word, emails, and advertising (including on the Internet, radio, and television), regarding the electrical corporation’s and community choice aggregators’ energy supply services and rates. Marketing under this definition does not include the following:
    - i) Communications provided by the electrical corporation throughout all of its service territory to its retail electricity customers that do not reference community choice aggregation programs.
    - ii) Communications that are part of a specific program that is authorized or approved by the California Public Utilities Commission (CPUC), including but not limited to customer energy efficiency, demand response, SmartMeter™, and renewable energy rebate, or tariffed programs such as the California Solar Initiative and other similar CPUC-approved or authorized programs. (See Decision (D.) 08-06-016, Appendix A.
    - iii) Provision of factual answers about utility programs or tariffs, including but not limited to rate analyses, in answer to the questions of individual customers.
  - ~~b) “Lobby” means to communicate whether in oral, electronic, or written form, including but not limited to letters, delivery of printed materials, phone calls, spoken word, emails, and advertising (including on the Internet, radio, and television), with public officials or the public or any portion of the public for the purpose of convincing a government agency not to participate in, or to withdraw from participation in, a community choice aggregation program.~~

~~(Cf. D.08-06-016, Appendix A.)<sup>1</sup> Lobbying under this definition does not include~~

- ~~i) Provision of factual answers about utility programs or tariffs, including but not limited to rate analyses, in answer to questions from a government agency or its representative.~~
- ii) Provision of information to potential Community Choice Aggregators related to Community Choice Aggregation program formation rules and processes.

e) b) "Promotional or political advertising" means promotional or political advertising as defined in 16 U.S.C. Sec. 2625(h).

d) c) "Competitively sensitive information" means non-public information and data specific to a utility customer which the utility acquired or developed in the course of its provision of utility services. This includes, without limitation, information about which customers have or have not chosen to opt out of community choice aggregation service. (See D.97-12-088, App. A, Part I.D.)

2) No electrical corporation shall market ~~or lobby~~ against a community choice aggregation program, except through an independent marketing division that is funded exclusively by the electrical corporation's shareholders and that is functionally and physically separate from the electrical corporation's ratepayer-funded divisions.<sup>2</sup> (See Pub. Util. Code § 707(a)(1).)

3) [No Change]

4) [No Change]

5) [No Change]

6) [No Change]

7) [No Change]

8) [No Change]

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<sup>1</sup> The language from D.08-06-016, Appendix A has been modified to cover the conduct of electrical corporations relative to consideration and formation of community choice aggregation programs, as required by Cal. Pub. Util. Code § 707(a). All statutory references are to the California Public Utilities Code unless otherwise stated.

<sup>2</sup> In the case of a holding company that owns two or more regulated utility entities (e.g., Sempra Energy), one regulated utility cannot market ~~or lobby~~ against a CCA in the service area of the other utility, except as provided for in this paragraph (e.g., through an independent marketing division funded exclusively by shareholders and separate from ratepayer-funded divisions).

- 9) [No Change]
- 10) [No Change]
- 11) [No Change]
- 12) [No Change]
- 13) As a general principle, an electrical corporation may share with its independent marketing division joint corporate oversight, governance, support systems and support personnel; provided that support personnel shall not include any persons who are themselves involved in marketing ~~or lobbying~~. Any shared support shall be priced, reported and conducted in accordance with applicable Commission pricing and reporting requirements. As a general principle, such joint utilization shall not allow or provide a means for the transfer of competitively sensitive information from the electrical corporation to the independent marketing division, create the opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidization of the independent marketing division. (See D.97-12-088, App. A, Part V.E.)
- 14) [No Change]
- 15) [No Change]
- 16) [No Change]
- 17) [No Change]
- 18) [No Change]
- 19) [No Change]
- 20) [No Change]
- 21) No later than March 31, 2013, each electrical corporation that intends to market ~~or lobby~~ against a CCA shall submit a compliance plan demonstrating to the Commission that there are adequate procedures in place that will preclude the sharing of information with its independent marketing division that is prohibited by these rules, and is in all other ways in compliance with these rules. The electrical corporation shall submit its compliance plan as a Tier 1 advice letter to the Commission's Energy Division and serve it on the parties to this proceeding. The electrical corporation's compliance plan shall be in effect between the submission and Commission disposition of the advice letter.
  - a) An electrical corporation shall submit a revised compliance plan thereafter by Tier 2 advice letter served on all parties to this



proceeding whenever there is a proposed change in the compliance plan for any reason. Energy Division may reject the Tier 2 advice letter and require resubmission as a Tier 3 advice letter if Energy Division believes the change requires an additional level of review.

- b) An electrical corporation that does not intend to ~~lobby or~~ market against any community choice aggregation program shall file a Tier 1 advice letter no later than March 31, 2013, stating that it does not intend to engage in any such ~~lobbying or~~ marketing.
  - (i) If such an electrical corporation thereafter decides that it wishes to ~~lobby or~~ market against any community choice aggregation program, it shall not do so until it has filed and received approval of a compliance plan as described above, with its compliance plan filed as a Tier 2 advice letter with Energy Division. (See D.97-12-088, App. A, Part VI.A.)
- c) Any CCA alleging that an electrical corporation has 1) violated the terms of its filed compliance plan or 2) has engaged in ~~lobbying and/or~~ marketing after filing an advice letter stating that it does not intend to conduct such activities, may file a complaint under the expedited complaint procedure authorized in § 366.2(c)(11).

22) [No Change]

## **8.2 Rules Regarding Enforcement Procedures**

[No Change]

**EXHIBIT B**

**Copy of CCEA's September 25, 2017 Letter**



R. Rex Parris Chair  
Marvin E. Crist Vice Chair  
Ken Mann Authority Member  
Angela E. Underwood-Jacobs Authority Member  
Raj Malhi Authority Member  
Mark B. Bozigian Executive Director

September 25, 2017

Assigned Commissioner Michael Picker  
Assigned Commissioner Carla Peterman

Dear Commissioners Picker and Peterman:

I am writing to you in your respective roles as assigned commissioners over two rulemaking proceedings involving issues central to Community Choice Aggregation (CCA) programs. This letter briefly describes recent actions by Southern California Edison Company (SCE) raising questions that should be examined openly before the California Public Utilities Commission (CPUC), since the questions involve industry-related rules pertaining to all CCA programs. I am also copying other CPUC commissioners and the service lists in the two rulemaking proceedings.

I serve as Executive Director for the California Choice Energy Authority (CCEA). CCEA is a joint powers authority among several cities in southern California. CCEA was formed for the purpose of providing support services for cities considering CCA programs. Under the model established by CCEA, individual cities maintain the role of Community Choice Aggregators, ensuring local control and governance, with CCEA providing various back-office, regulatory and procurement services.

SCE has initiated a formal campaign, known as *Equitable Energy Choice for Californians* (EECC Coalition), to lobby the CPUC on matters affecting CCA programs, principally the Power Charge Indifference Adjustment (PCIA). SCE's government affairs representatives are actively communicating with local government and community leaders, urging these leaders to support regulatory reform needed to address the rise of CCA programs. In certain situations, SCE is communicating with local government officials who will be making decisions on CCA programs. I have attached sample documents. The primary message in this round of lobbying is that "the rise in California customers served by Community Choice Aggregators" has created problems with cost allocation mechanisms – problems that jeopardize "California's progress in meeting [] clean energy and environmental goals" that were "kick-started" by SCE and the other utilities. SCE's communications and its efforts are problematic on several levels, and emblematic of key concerns.

First and foremost, SCE's communications and its lobbying efforts appear to be funded exclusively by SCE's ratepayers, including customers receiving or expected to receive service from Community Choice Aggregators. In similar contexts, SCE has stated that its regulatory and government affairs costs are allocated predominantly (84%) to the distribution function. Since CCA customers pay distribution rates, SCE's allocation methodology results in CCA customers paying for SCE's lobbying activities. This is problematic, and raises broader questions on the appropriateness of using SCE's resources and attributes (including SCE's name-recognition) for lobbying and competition-related activities. The California Legislature expressed similar

Assigned Commissioner Michael Picker  
Assigned Commissioner Carla Peterman  
September 25, 2017  
Page 2

concerns about the utilities' use of their "*inherent market power* derived from, among other things, name recognition among customers, longstanding relationships with customers, . . . and the potential to cross-subsidize competitive generation services." (Senate Bill 790 [2011]; Sec. 2(c).) CCEA urges the CPUC in the context of its two rulemaking proceedings to broadly examine cost-allocation issues and the appropriateness of CCA customers funding SCE's activities and attributes that principally benefit competitive generation services, including SCE's lobbying and regulatory campaigns.

Second, although SCE's communications are squarely aimed at CCA programs and implicate a host of lobbying issues, the communications appear to be unrestricted and lacking in regulatory oversight. If not violative of the *letter* of the CCA Code of Conduct, these activities appear to implicate the *spirit* of the code. Adopted in CPUC Decision (D.)12-12-036, the CCA Code of Conduct sets forth requirements for utility actions vis-à-vis CCA programs. For utility communications that are considered marketing or lobbying in nature, funding should be exclusively provided by the utility's shareholders, and the utility would additionally need to form an independent division and be subject to further regulatory oversight. Even *non*-marketing utilities, however, are subject to audit requirements. If nothing else, SCE's actions with respect to the EECC Coalition warrant particular scrutiny as part of a formal audit. In light of SCE's role in the EECC Coalition and the model that could be set for future CCA-related lobbying by other utilities, CCEA specifically requests that the SCE's audit under D.12-12-036 be initiated immediately, and that the scope of the audit include a thorough review of SCE's involvement in the EECC Coalition. (See D.12-12-036; Ordering Paragraph 4.)

Thank you in advance for your consideration of these matters, and your ongoing efforts to ensure that the utilities' inherent market power does not unfairly thwart the development of CCA programs.

Respectfully,

/s/ Mark Bozigian

Mark Bozigian  
Executive Director  
CALIFORNIA CHOICE ENERGY AUTHORITY

Attachments:        Sample SCE and EEUC Coalition lobbying material  
                              (See also <http://equitablechoice.com> )

Copy:                CPUC Commissioner Martha Guzman Aceves  
                              CPUC Commissioner Liane Randolph  
                              CPUC Commissioner Clifford Rechtschaffen  
                              Service Lists: R.17-07-026 and R.03-10-003

----- Forwarded message -----

From: Salvador Ramirez <Salvador.Ramirez@sce.commailto:Salvador.Ramirez@sce.com>>

Date: Tue, Sep 19, 2017 at 12:25 PM

Subject: Equitable Energy Choice for Californians (EECC)

To: [REDACTED] g>>

Dear [REDACTED],

It was great speaking with you last night. Specifically, I'm following up on the discussion we had regarding the CPUC Proceeding on the Power Charge Indifference Adjustment (PCIA), and to obtain your organizations support.

This is an energy issue that will likely be of interest to you and your organization. If no changes are made to current regulations, hundreds of thousands of electricity customers could end up paying extra in their monthly bills for clean energy contracts and other power that was purchased for other customers. The CPUC recognizes that the current cost-allocation mechanism isn't working so they have opened up a formal proceeding.

We have formed a coalition called Equitable Energy Choice for Californians (EECC) to engage at the CPUC and in other efforts to ensure cost equity among all customers. The attached fact sheet provides additional information on the PCIA. We are approaching you and other organizations to alert you to the issue and encourage you to support the coalition.

If you are in support of joining the EECC coalition please fill out the attached EECC Coalition Sign-up Form and return it to Salvador.Ramirez@sce.commailto:Salvador.Ramirez@sce.com>.

Attached is the current list of the organization who have signed on to the Equitable Energy Choice for Californians (EECC) coalition. Please share with other organizations you believe may be interested in joining this list.

Thank you for your continual support. Should you have any questions feel free to call me at (626) 320-9845<tel:(626)%20320-9845>.

Sincerely,

Sal Ramirez  
Government Affairs Manager  
Local Public Affairs and Government Affairs  
Phone: 626-320-9845<tel:(626)%20320-9845>  
1000 Potrero Grande Drive, Monterey Park, CA 91755

[REDACTED]

# Fact Sheet

## **Tell the CPUC you believe all energy consumers should share equitably in the cost of investments in clean energy and other resources**

California is a leader in clean energy and environmental climate change goals. We are on track to meet our mandated goal of 50% renewable energy by 2030, thanks to the leadership of our state's elected officials and regulators, and in large part to the long-term investments in renewable energy made by customers of the state's investor-owned utilities. These investments helped kick-start renewable energy technologies to make them far more affordable and accessible today than when the legislature first mandated utilities purchase increasing amounts of clean energy.

However, the way people buy energy is changing and more customers are buying power from sources other than their utility. If we are to continue California's progress in meeting our clean energy and environmental goals, we must ensure that all customers continue to contribute equitably in the costs of clean energy and other resources purchased on their behalf.

Current law requires that no customer be required to pay for power purchased for other customers. However, the mechanism established to protect customers is not working. As a result, some are paying more than they should. To address this problem, the CPUC recently opened a formal proceeding to review the mechanism often referred to as the Power Charge Indifference Adjustment or PCIA.

As part of this announcement, the CPUC acknowledged that:

- "Investor-owned utilities and Community Choice Aggregators both have stated that the current cost allocation is inequitable."
- "The rise in California customers served by Community Choice Aggregators makes the cost allocation more important to customer bills."
- "...stakeholders have identified cost allocation issues as the most urgent topic in electric retail choice in California."

## **Urge the CPUC to create rules that ensure all customers equitably share in the cost of clean power**

The CPUC needs to hear from diverse constituencies that want to preserve customer choice, while ensuring all customers equitably contribute to meeting our renewable energy and climate action goals. Please consider signing on to the attached letter so we can tell the CPUC:

### **Current laws to protect customers from paying for power investments made on behalf of others are not working.**

- It has been estimated that some customers who now receive power through an alternative energy provider may on average only pay roughly 65% of the cost of clean energy that was purchased on their behalf.
- As a result, some customers who do not use an alternative energy provider could end up paying roughly \$150 extra per year to pay for power purchased for others.
- This is not sustainable. In all cases, as more alternative energy providers form, there are going to be fewer remaining utility customers left paying an increasing cost for power purchased for others.

**The CPUC must establish rules to ensure all customers share equitably in the costs of renewable and other energy.**

- To ensure that the move to more customer choice is both sustainable and equitable, the CPUC must reform the current mechanism, including the PCIA, to ensure all customers share equitably in the costs of the long-term investments in renewable and other resources that were purchased on their behalf when they were a utility customer.
- That means all customers – whether they move to an alternative power provider or stay with the utility – will share equitably for past purchases made on their behalf, and no customer shall be left paying for power purchased for others.
- We all benefit from the clean energy investments that have been made to improve our air quality and environment, so no customers should be forced to pay more than their fair share.

**EXHIBIT C**  
**Supporting Declarations**



**Declaration of Colin E. Cushnie In Support Of The Joint Utilities' Petition For  
Modification Of Decision 12-12-036**

1. I, Colin E. Cushnie, make this declaration to state new and changed facts in support of the Joint Utilities' Petition for Modification of Decision (D.) 12-12-036. The statements in this declaration are true and correct to the best of my knowledge.

2. I am currently Vice President, Energy Procurement & Management at Southern California Edison Company (SCE). My responsibilities include overseeing SCE's wholesale energy contracting and management activities and wholesale energy market operations. Before my current position, I was Director of Portfolio Planning & Analysis in SCE's Power Supply Unit. In that position, my responsibilities included energy portfolio analysis and risk assessment and demand and price forecasting. I have also served as Director of Regulatory Affairs for SCE and, in that capacity, I represented SCE before the California Public Utilities Commission on energy procurement and market design issues.

3. Based on my decades of experience at SCE, I am very familiar with energy procurement, long-term energy contracts, demand and price forecasting, resource planning, the Commission's Resource Adequacy rules, the Renewables Portfolio Standard, and other procurement compliance obligations. I believe that my expertise on these topics and the expertise of other subject matter experts on my team at SCE on these and other topics could be helpful to localities in SCE's service area considering the costs and benefits of, and procurement and other obligations associated with, forming a Community Choice Aggregator ("CCA"), or considering the feasibility of implementing a CCA program.

4. My team and I are aware of the significant increase over approximately the last eighteen months in localities' interest in CCA programs as compared to five years ago, when D. 12-12-036 was adopted. At least some of this interest appears to be spurred by consulting firms

that are in the business of providing localities with analyses, reports, or feasibility studies that promote the benefits of CCA programs.

5. In my experience, the information received by local governments from consultants or from other sources regarding the costs and benefits of CCAs is not always accurate or complete.

6. In some cases, local governments receive inaccurate or incomplete information regarding the Power Charge Indifference Adjustment (“PCIA”) or other departing load customer obligations. I have reviewed reports in which consultants have told localities to expect both the PCIA and market prices for energy to decline over time. But this is unlikely because the PCIA generally varies inversely with market prices. Similarly, at least one report suggested that a CCA could obtain savings through lower market costs, but failed to note that lower market costs would lead to higher PCIA charges. In addition, some reports assume a locked-in PCIA rate, assume the Commission will stabilize the PCIA rate, or do not mention the fact that the Commission could modify the PCIA in response to arguments made by SCE and others that the PCIA does not adequately ensure indifference for bundled service customers.

7. My team and I have also reviewed reports or analyses that do not address the re-entry bond or insurance requirements that apply to CCAs pursuant to Public Utilities Code Section 394.25(e). The Commission currently requires CCAs to pay an interim bond amount, but the Commission in Rulemaking 03-10-003 is currently evaluating how to implement the requirements of Section 394.25(e). A change in the interim bond requirement could affect the cost of forming a CCA, but many of the feasibility reports I have reviewed do not discuss this issue, at all.

8. Some of the feasibility studies that I have reviewed do not disclose that CCAs will need to enter into long-term contracts to comply with the Renewables Portfolio Standard pursuant to Senate Bill 350 (2015), and some do not consider the price differential between “brown” and renewable power in estimating savings for the CCA. Other reports mention the need to enter into long-term contracts, but do not address the financial risks associated doing so. Some studies do not address the credit requirements for entering into long-term contracts.

9. I have also reviewed reports that state that CCAs will be “greener” than investor owned utilities, but that do not provide additional context for this claim. Some CCAs may ultimately achieve lower greenhouse gas emissions on a MWh-served basis, but these reports often compare what a CCA could achieve in the long term with what the investor owned utility has achieved today. They do not account for the fact that utilities will also increase their relative use of renewables over time to comply with the Renewables Portfolio Standard. And many studies that I have reviewed do not consider some of the other costs associated with renewable energy, including for integration services, ancillary services, voltage and shortage circuit duty, black start, and energy supply for hours in which renewables generation is insufficient. Nor do many of these studies address the obligations that CCAs have, or should expect to have, with respect to supporting the Commission’s Integrated Resource Planning (IRP) process.

10. Although I have seen inaccuracies and omissions in the information received by local governments, my team and I have generally not affirmatively approached local governments to discuss these concerns, or provided comments or additional information to local governments even though some local government officials have sought our views on certain issues or feasibility studies, due to the concern that any such communications could be deemed to violate the Code of Conduct established by D. 12-12-036.



11. Because CCA formation has considerable financial implications, and will impact resource development and grid operations, it is important that knowledgeable SCE personnel have more ability to communicate with local government officials as part of their CCA formation deliberations.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on January 24, 2018, at Rosemead, California.

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COLIN E. CUSHNIE

**Declaration of J. Christopher Thompson In Support Of The Joint Utilities' Petition For  
Modification Of Decision 12-12-036**

1. I, J. Christopher Thompson, make this declaration to state new and changed facts in support of the Joint Utilities' Petition for Modification of Decision (D.) 12-12-036. The statements in this declaration are true and correct to the best of my knowledge.

2. I am currently Vice President, Local Public Affairs for Southern California Edison Company ("SCE"). My responsibilities include staying apprised of developments at the local government level in SCE's service area that could impact SCE's operations or customers and, where appropriate, communicating with local government officials regarding these developments. Based on my work at SCE, I am aware that certain local governments in SCE's service area are considering or have recently considered forming or joining a Community Choice Aggregator ("CCA").

3. I am informed by my team and believe that in 2012, when D.12-12-036 was adopted by the California Public Utilities Commission, there was a comparatively lower level of interest in CCA formation.

4. Today, there appears to be a significantly greater interest in CCA formation or adoption. Many localities in California, including in SCE's service area, are considering whether to form or join CCAs. These localities include the cities of Long Beach, Huntington Beach, Laguna Beach, Palmdale, Murrieta, Wildomar, and Desert Hot Springs, in SCE's service area.

5. Recently, SCE's Local Public Affairs staff have observed a growing cottage industry of consultants and advisors advocating in favor of CCAs. I am informed that, in some cases, the information presented to local governments by these consultants is not accurate or complete.

6. When a locality is considering an issue that could significantly affect SCE's customers or its operations, SCE will often proactively engage with the locality to provide local government officials with information and resources, including access to subject-matter experts from SCE. But, with respect to CCA formation or adoption, the Code of Conduct adopted by D.12-12-036 has curtailed SCE's ability to provide local governments with information regarding the costs and benefits of CCA programs or to correct inaccurate or incomplete information provided to local governments.

7. Because of the breadth of the Code of Conduct and the risk that any communications with local governments regarding CCA issues could be alleged to violate the Code, SCE has limited its communications with local governments regarding CCA formation or adoption. As a result of the Code of Conduct, SCE has instructed its Local Public Affairs staff to avoid providing information on the veracity of a prospective CCA's or CCA consultant's representations about the CCA's services, its rates, and its feasibility.

8. SCE has limited its communications with local governments regarding CCA formation or adoption even when local government officials have asked SCE for additional information. For example, when one local government official asked SCE how a CCA could procure energy at cheaper rates than SCE, my staff declined to respond to avoid any perceived violation of the Code. Similarly, when officials from one locality asked my staff questions regarding the benefits of adopting a CCA, we did not comment and, instead, directed the officials to speak to the prospective CCA. That locality also invited SCE to present at a meeting at which the prospective CCA planned to present, but SCE declined this invitation to avoid being accused of a Code of Conduct violation. And when one city manager asked SCE detailed questions regarding CCA energy procurement and whether a CCA could offer power at a lower cost than

SCE, SCE declined to answer the city manager's questions. Some local government officials have asked SCE for its views on CCA consultants' representations, or for comments on CCA feasibility studies, but SCE has declined or limited the scope of its responses because of the Code of Conduct. Several local government officials have expressed concerns to my team regarding the limitations on SCE's ability to communicate with them about CCA adoption. Others have stated that they would like SCE to share its views on CCAs.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on January 26, 2018, at Rosemead, California.

  
J. CHRISTOPHER THOMPSON



**Declaration of Mitch Mitchell In Support of Petition for Modification of  
Decision 12-12-036 Of Pacific Gas and Electric Company (U 39-E), San  
Diego Gas & Electric Company (U 902-E) and Southern California Edison  
Company (U 338-E)**

1. I, Eugene "Mitch" Mitchell, make this declaration to state new and changed facts in support of the above-referenced Petition for Modification. The statements in this declaration are true and correct to the best of my knowledge.

2. I am currently Vice President, State Governmental Affairs and External Affairs for San Diego Gas & Electric ("SDG&E") and Southern California Gas Company ("SoCalGas"). I am responsible for state governmental affairs for both companies and I oversee all external affairs activities for SDG&E. Based on my work at SDG&E, I am aware that certain local governments in SDG&E's service area are considering or have recently considered forming or joining a Community Choice Aggregator ("CCA").

3. I am informed by my team and am aware that many localities in California, including in SDG&E's service area, are considering or have recently considered whether to join or form CCAs. These localities include the City of San Diego, County of San Diego, City of Del Mar, City of Chula Vista, and City of Encinitas. The City of Solana Beach has submitted a formation plan to the Commission.

4. Increasingly since 2015, city, county, and state representatives have communicated to SDG&E asking for information to help inform their decision on whether to adopt or join a local CCA. For example, in September 2017, the San Diego Associations of Government ("SANDAG") contacted SDG&E's Public Affairs team requesting to discuss 100% renewable energy goals. In October 2017, the San Diego County Taxpayers Association contacted SDG&E Public Affairs requesting to discuss "renewable energy options" and the city's



Climate Action Plan. These examples reflect a broader local government sentiment of wanting to hear about issues that also bear on CCAs matters.

5. There have been discussions like these in which members of SDG&E's Public Affairs team declined to speak to avoid any perceived violation of the Code of Conduct adopted in D.12-12-036 ("Code of Conduct").

6. Local media sources have also implicated SDG&E in their discussions of CCAs, largely advocating for adoption of CCAs. In some cases, the information disseminated through these media sources is not accurate or complete.

7. When the local press comments about or discusses SDG&E, SDG&E has provided information to correct or complete the messaging and avoid the spread of misinformation. But SDG&E has not talked broadly about CCA issues to the press, even when asked by reporters about issues relating to CCA. SDG&E does not believe that correcting misstatements made by the media is within the scope of the Code of Conduct, but out of an abundance of caution, has self-regulated its communications with the press to the detriment of the public's understanding of the topic.

8. Third, there have been instances where local government could substantively benefit from the insight and input of the utility, but SDG&E has been prevented from providing information out of cautious regard for the Code of Conduct. When a locality is considering an issue that could significantly affect SDG&E's customers or its operations, SDG&E would normally engage with the locality to provide local government officials with information and resources, including access to subject-matter experts from SDG&E. But, with respect to CCA formation or adoption, the Code of Conduct has curtailed SDG&E's ability to provide local

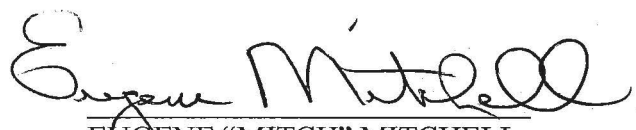
governments with information regarding the costs and benefits of CCA programs or to correct inaccurate or incomplete information provided to local governments.

9. For example, the City of San Diego prepared a CCA feasibility study in July 2017. SDG&E determined internally on review that the study contained questionable assumptions and relied on poorly chosen sources. To avoid alleged violations of the Code of Conduct, SDG&E did not bring these study flaws to the attention of the City.

10. The utility's insights would be substantively valuable to local governments' assessments of CCA-related issues and to the benefit of ratepayers. SDG&E has been constrained as to its perspective and insights because of the Code of Conduct. The Code of Conduct has also caused SDG&E to forgo rectifying misinformation spread through various media.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on January 25, 2018, at San Diego, California.

  
EUGENE "MITCH" MITCHELL