

**CALIFORNIA ALTERNATIVE ENERGY AND  
ADVANCED TRANSPORTATION FINANCING AUTHORITY**

***Consideration of Contract with Crowe Horwath LLP for Audit Services for the Property  
Assessed Clean Energy (PACE) Loss Reserve Program  
in an Amount Not to Exceed \$450,000***

**Tuesday, April 17, 2018**

Prepared by: *David Palsha, Program Analyst*

**REQUEST**

CAEATFA staff (“Staff”) requests approval to enter into a contract (“Contract”) with Crowe Horwath LLP (“Crowe,” “Auditor” or “Contractor”) to provide audit services for CAEATFA under the Property Assessed Clean Energy (“PACE”) Loss Reserve Program (the “Program”).

**Contract Amount.** Not to exceed a total aggregate of \$450,000 over the entire Contract term, including the optional extension.

**Term of Contract.** Staff intends that this Contract will be for a multi-year term. The initial Contract term will be through May 2020 after which CAEATFA may choose to execute one, one-year extension.

**SUMMARY**

Senate Bill 96 (Committee on Budget and Fiscal Review, Chapter 356, Statutes of 2013) authorized CAEATFA to develop and administer the PACE Loss Reserve Program with a one-time allocation of \$10 million. The Program seeks to address FHFA’s concerns regarding the senior lien priority of PACE financing by reimbursing first mortgage lenders for specified losses resulting from the existence of a PACE lien on a property during foreclosure or forced sale for unpaid property taxes. To that end, the Loss Reserve covers the following losses:

- a) PACE payments paid while a first mortgage lender is in possession of a property subject to a PACE assessment.
- b) Any losses to the first mortgage lender up to the amount of outstanding PACE assessments in a forced sale for unpaid taxes or special assessments.

PACE administrators may participate in the Program by applying to CAEATFA and demonstrating that they meet the Program’s eligibility requirements as established in statute and regulation.

Once enrolled, each financing originated by an enrolled PACE administrator and included in its semi-annual reports must be in compliance with the program regulations, and may be covered by the loss reserve for its full term, or until the loss reserve is exhausted. Additionally, PACE administrators that applied to the Program on or before June 9, 2014 were allowed to enroll their

existing portfolios under the loss reserve to maximize the Program’s effectiveness. To allow new PACE programs (created on or after March 10, 2014) to enroll in the Program without delaying their operations, the loss reserve also covers financings originated up to 30 days before their enrollment date.

Since the Program launched in May 2014, CAEATFA has enrolled 18 PACE programs. To date, the loss reserve covers 145,450 PACE financings with a total outstanding principal value of \$3,456,091,949.12.

**Role of the Auditor.** Under the direction of the CAEATFA Executive Director, the Contractor will develop and implement an audit of the participating PACE programs (“Participants”) to evaluate compliance with the Program’s eligibility requirements.

The Contractor will conduct on-site audits of each Participant, and may, at CAEATFA’s discretion, be required to arrange audits with Participants at least annually after the first audit, and perform ad hoc audits deemed necessary by CAEATFA.

**Request for Proposal Process.** On February 5, 2018, CAEATFA Staff advertised a Request for Proposal (“RFP”) through the Department of General Services Contracts Register, as well as on the CAEATFA website. At the proposal deadline, March 19, 2018, the Authority received three proposals.

Staff developed an evaluation process that included an Evaluation Committee consisting of CAEATFA staff and management. The proposals were evaluated based on the characteristics and point values outlined below, for a maximum possible 100 points. Crowe’s proposal received a total score of 99 from the Evaluation Committee.

1. The firm’s workplan and proposed schedule for implementation of the audits. (20 points)
2. The firm’s overall experience with performing similar services, including accounting and auditing of underwriting and financial firm practices, such as analysis of lending operations, practices, and requirements. (20 points)
3. Evaluation of qualifications of the individuals to be assigned to the contract on the basis of background and experience in related work as detailed in the RFP. (30 points)
4. Evaluation of the actual fees proposed, including the reasonableness of the composite rate, cost detail and effectiveness (given value of services to be obtained), and cost effectiveness (given experience and qualifications of the firm and its personnel). (30 points)

After reviewing all proposals, Staff determined that Crowe was the most qualified proposer.

**Overview of Crowe Horwath LLP.** Crowe is a professional certified public accounting (“CPA”), consulting, and technology firm that has been in business since 1942 and currently employs over 2,800 professionals. Crowe has six offices in California, including one office in Sacramento. As the prime Contractor, Crowe will be supported by subcontractor Richardson & Company, LLP (“Richardson”), which will assist with the coordination and execution of the audit services. Richardson is a regional CPA firm that provides audit, accounting, tax and business advisory services to public and private organizations primarily located in the Sacramento and San Francisco-Oakland bay areas.

Crowe has extensive experience conducting compliance and accounting assessments of organizations on behalf of external State and Federal funders, such as risk assessments, regional entity audits, and sub-recipient monitoring activities on behalf of regulatory entities, non-profit organizations, and governmental entities acting as prime recipients of Federal funds. Crowe has conducted over 400 auditing and consulting projects for State of California entities, including the State Treasurer’s Office, California Public Utilities Commission, California Energy Commission, and the California Tax Credit Allocation Committee. Additionally, Crowe has significant experience serving financial institutions with loan loss reviews and mortgage servicing, and has expertise in analyzing lending operations and auditing of underwriting and financial practices. As the subcontractor, Richardson also brings experience with performing financial and compliance audits of governmental entities and performing investigative, forensic audits of water districts.

Crowe was selected out of the three proposals because of its extensive experience providing financial audit and advisory services to California state and local government agencies, and by demonstrating a strong understanding of the scope of work.

**Contract Terms.** The initial Contract term will be through May 2020, after which CAEATFA may choose to execute a one-year extension at the discretion of the Executive Director for a maximum Contract term of three years. The compensation amount shall not exceed \$450,000 for the term of the Contract, including any extensions.

The Authority will compensate the Contractor for services satisfactorily rendered, and upon receipt and approval of invoices pursuant to the approved Fee Schedule. Invoices shall be provided to CAEATFA monthly and in arrears.

**Recommendation.** Staff recommends adoption of a resolution authorizing execution of a contract with Crowe Horwath LLP for audit services for the Property Assessed Clean Energy (PACE) Loss Reserve Program in an amount not to exceed \$450,000 over three years.

**RESOLUTION OF THE CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED  
TRANSPORTATION FINANCING AUTHORITY AUTHORIZING THE EXECUTION  
OF A CONTRACT WITH CROWE HORWATH LLP AS AUDITOR FOR THE PACE  
LOSS RESERVE PROGRAM**

April 17, 2018

**WHEREAS**, the California Alternative Energy And Advanced Transportation Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized and empowered by the provisions of the California Alternative Energy And Advanced Transportation Financing Authority Act (Division 16 (commencing with Section 26000) of the California Public Resources Code) (the “Act”); and

**WHEREAS**, the Authority has determined it requires audit services to assist with administration of the Property Assessed Clean Energy (“PACE”) Loss Reserve Program (the “Program”); and

**WHEREAS**, the Authority has undergone a competitive process to identify an appropriate contractor to provide audit services for developing and implementing an audit of the PACE programs enrolled in the PACE Loss Reserve Program to evaluate compliance with the Program’s eligibility requirements, and performing an analysis of the PACE programs’ underwriting practices and procedures;

**NOW, THEREFORE, BE IT RESOLVED** by the Authority, as follows:

**Section 1.** The Authority hereby authorizes the execution of a contract in an amount not to exceed \$450,000 to retain Crowe Horwath LLP to provide audit services and other actions related thereto in connection with the PACE Loss Reserve Program.

**Section 2.** The term of the contract will commence upon its execution and will continue through May 2020 with an option for the Authority to extend for one additional year, unless earlier terminated by the Authority.

**Section 3.** The Chair of the Authority and Executive Director are hereby authorized for and on behalf of the Authority to obtain audit services, with the form and substance of said contracts to be reviewed and approved by legal counsel of the Authority.

**Section 4.** This resolution shall take effect immediately upon its approval.