



**CYNTHIA A. HARDING, M.P.H.**  
Interim Director

**JEFFREY D. GUNZENHAUSER, M.D., M.P.H.**  
Interim Health Officer

**Substance Abuse Prevention and Control**

**Wesley L. Ford, M.A., M.P.H.**  
Director  
1000 South Fremont Avenue  
Building A-9 East, Third Floor  
Alhambra, CA 91803  
TEL (626) 299-4193 • FAX (626) 458-7637

[www.publichealth.lacounty.gov](http://www.publichealth.lacounty.gov)

**BOARD OF SUPERVISORS**

- Hilda L. Solis**  
First District
- Mark Ridley-Thomas**  
Second District
- Shella Kuehl**  
Third District
- Don Knabe**  
Fourth District
- Michael D. Antonovich**  
Fifth District

**SAPC BULLETIN NO. 15-03-DMC**

August 24, 2015

**TO:** Prospective Drug Medi-Cal Providers

**FROM:** Wesley L. Ford, M.A., M.P.H., Director  
Substance Abuse Prevention and Control *WLF*

**SUBJECT: PERFORMANCE SECURITIES**

These guidelines follow Substance Abuse Prevention and Control’s (SAPC) application packet for contracting with the County of Los Angeles for Drug Medi-Cal (DMC) services. Included in the application packet is Attachment A, which lists the minimum requirements that agencies must meet in order to contract with SAPC.

As part of the application, is the requirement that providers maintain a performance security for the first four years of their agreement equal to the amount of the contract allocation. SAPC has set the initial amount to be \$50,000 per modality. Performance securities may take the form of certificates of deposit, letters of credit, or bond that the County may access in the event the agency discontinues its DMC program without advance notice, insolvency, or termination for cause. This Bulletin serves to clarify the County’s requirements about performance securities, and how and when the applicant’s performance securities or collateral will be accessed by the County.

The following are the County/SAPC guidelines on performance securities and forms of collateral:

1. Certificates of Deposit (CD)
  - a) Purpose: The Contractor may opt to provide performance security in the form of a CD. The County will have the right to cash the CD if the Contractor fails to provide the agreed-upon services, discontinues its DMC program without advance notice, or if the agency becomes insolvent. The County alone determines the Contractor’s compliance with the terms of the contract. The County will access the CD once County Counsel approves termination of the contract.

- b) CD requirements: The maturity of the CD must not be prior to the fourth year Contractor gains experience as provider of treatment services for substance use disorder. The CD also must comply with the minimum criteria and standards established by the County Treasurer and Tax Collector (Attachment B).
- c) CD amount: The amount of the CD should be equal to the estimated annual County maximum obligation of the agreement and will be adjusted whenever there is a change in the annual maximum obligation.

## 2. Letter of Credit (LOC)

- a) Purpose: This form of performance security allows the County to draw money from a financial institution (bank) if the Contractor does not meet the specific obligations stipulated in the agreement, discontinues its DMC program without advance notice, or if the agency becomes insolvent.
- b) LOC requirements: The LOC must specify precisely what triggers the County's right to access the funds. The LOC must also be irrevocable, so that the Contractor cannot withdraw the LOC without a written release from the County. The LOC must be maintained throughout the term of the agreement, or until the agency gains four years of experience as a treatment service provider for substance use disorder, whichever occurs sooner. Like the CD, the LOC must comply with the minimum criteria and standards established by the County Treasurer and Tax Collector (see Attachment B).

The following must be specifically written in the LOC as conditions that will trigger the County's right to access the funds: "The County of Los Angeles will have the right to access the funds specified in this LOC if one or more of the following occurs: (a) the County gives notice to Contractor that it is terminating Contractor's agreement for Drug Medi-Cal services for serious deficiencies found during an audit, including loss of Drug Medi-Cal certification; (b) the County gives notice to Contractor that it is terminating Contractor's agreement because Contractor has discontinued its DMC program without advance notice; or (c) the County gives notice to Contractor that it is terminating Contractor's agreement because the agency has become insolvent. The County will access the LOC once County Counsel finds there is sufficient ground to terminate the contract."

- c) LOC amount: The amount of the LOC should be equal to the annual County maximum obligation of the agreement, and will be adjusted whenever there is a change in the annual maximum obligation.

## 3. Performance Bond:

- a) Purpose: This form of security allows County to invoke bond to insurance company in order to secure any funds due to an audit or cost reporting.
- b) Performance Bond requirements: A faithful performance bond in a form acceptable to County executed by a corporate surety licensed to transact business in the United States.
- c) Performance Bond amount: Must be in the amount equal to 100% of the Agreement award amount.

4. Time line

Upon submission of a CD, LOC, or Performance Bond by the applicant, SAPC will forward it to the Treasurer and Tax Collector's office for review and approval of the financial institution issuing the CD, LOC, or Performance Bond. Upon approval, SAPC will present a County agreement to the applicant for signature, after which the agreement will be submitted to the Department's Contracts and Grants Division for execution.

If you have any questions or need additional information, please contact the Division Chief of Contract Services Division at (626)299-4532.

DD:dd

Attachments

c: Treasurer and Tax Collector's Office  
County Counsel  
Babatunde Yates  
Daniel Deniz

## CERTIFICATES OF DEPOSIT

## MINIMUM CRITERIA

All deposits are to be federally insured through the FDIC and shall meet the following ratings from the Gerry Findley Bank Rating Services as follows:

If the amount is less than \$500,000, the minimum ratings are:

Financial Quality Rating Code:	A (Above Average)
Amount Limit Code:	7 (Up to \$500,000)
Maturity Limit Code:	c (Five year limit)

If the amount is \$500,000 or greater, the minimum ratings are:

Financial Quality Rating Code:	A+ (Above average with good asset qualities, financial solvency, and operating performances)
Amount Limit Code:	5 (Up to \$2.5 million)
Maturity Limit Code:	c (Five year limit)

## CERTIFICATES OF DEPOSIT

## Minimum Criteria and Standards

1. All deposits are to be federally insured through the FDIC or FSLIC (generally up to \$100,000) or shall meet the following ratings from Moody's and/or Standard and Poor's rating agencies:

If the term is less than three (3) years, the minimum ratings are:

	<u>Moody's</u>	<u>Standard and Poor's</u>
Bank Deposits:	A2 or better	A or better
Bank Financial Strength:	B or better	

If the term is three (3) years or greater, the minimum ratings are:

	<u>Moody's</u>	<u>Standard and Poor's</u>
Bank Deposits:	Aa1 or better	AA+ or better
Bank Financial Strength:	B or better	

2. The CD shall be in the County's name.
3. The maturity of the CD may not be prior to the expiration date for performance or other provisions of the performance agreement.
4. The CD at the time of deposit shall be at least equal to the cash amount than required under the terms of the performance agreement.
5. A provision shall exist which states that the County may cash the CD only in the event of a default by the Vendor. Written documentation from the Department concerning the Vendor's default will be required prior to cashing of the CD. Vendor agrees to be held responsible for any penalties or loss of interest associated with early withdrawal of the CD in the event of default by the Vendor.
6. Any interest paid on the CD received by the County shall be paid to the Vendor by the County within ten (10) working days of receipt.
7. Vendor assumes all risk of loss of principal and interest from the CD should the depository be declared insolvent or fall into default and fail to pay principle or interest.
8. Written documentation from the Department of the termination of the performance agreement is required prior to the release of the CD to the Vendor.
9. The names of the persons authorized to give or receive written notice on behalf of the Department and exemplars of their respective signatures are required.