

**State of California
Water Pollution Control Revolving Fund
[Clean Water State Revolving Fund (CWSRF)]
Financing Operations and Processes
September 3, 2014**

Types of Projects and Applicants

Eligible CWSRF projects include the following three types of projects.

1. Publicly Owned Treatment Works are typically wastewater treatment and water recycling facilities, but may also include storm water treatment facilities that are publicly owned.
2. Non-point source (NPS) pollution projects address pollution from any source that does not require a permit (i.e., not collected in a pipe; no discharge point). California has identified seven categories of NPS pollution in its NPS Five-Year Implementation Plan: (1) agriculture, (2) forestry (silviculture), (3) urban, (4) marinas and recreational boating, (5) hydromodification, (6) wetlands, riparian areas, and vegetated treatment systems, and (7) abandoned mines. NPS projects must implement or address a water quality problem identified in the Implementation Plan to be eligible for CWSRF funding.
3. Estuary projects must identify the estuary (i.e., San Francisco Bay, Morro Bay, or Santa Monica Bay) and the section of the estuary's Comprehensive Conservation and Management Plan that will be implemented by the project to be eligible for CWSRF financing.

Project types 2 and 3 above are sometimes referred to as "expanded use" type projects. Expanded use projects involve a wide variety of activities, such as, land purchases, storm water control, treatment, and reduction, irrigation improvements, dairy improvements, habitat and wetland restoration, and septic to sewer system conversions. (Note: Storm water projects can be classified as "publicly owned treatment works" or "expanded use" projects depending on the permit status and ownership of the storm water drainage system.)

An eligible applicant for a publicly owned treatment works project may include a city, town, district, state agency, or other public body (including an intermunicipal agency of two or more of the foregoing entities) created under state law, having jurisdiction over disposal of sewage, industrial wastes or other waste, an Indian tribe or an authorized Indian tribal organization, or a designated and approved management agency under Section 208 of the federal CWA applying for CWSRF funding. For the purpose of an expanded use project, an applicant includes the foregoing, as well as a 501(c)(3) non-profit organization or one of California's National Estuary Programs.

Compiling the Project List and Preparing the Intended Use Plan

The Division of Financial Assistance (DFA) manages the CWSRF program and maintains a Project List¹ (PL). A project must be on the PL to receive CWSRF financing. Projects are added to the PL by the State Water Resources Control Board's (State Water Board's) Executive Director based on a recommendation from DFA staff. DFA staff will recommend that a project be added to the PL after it receives at least one application package from an applicant. Typically an applicant will begin the application process by submitting the "general information" package,

¹ The CWSRF Project List is prepared to meet the requirements of section 603(g) of the Clean Water Act.

but any of the four application packages (general, technical, environmental, or financial security) may be submitted to begin the application process and get a project on the PL.

Projects are classified on the PL in five categories, A through E. (A = public health problems; B = pollution of impaired water bodies; C = compliance with requirements and water recycling; D = projects that serve as preventative measures against further water quality degradation; and E = all others.) In addition projects may receive up to six “sustainability points” if they support or incorporate the sustainability goals identified in Section IV.A.3 of the CWSRF Policy.

Applications are prioritized according to the classification and sustainability points system of the PL. Complete applications² with the highest classification (A being the highest class and E being the lowest class) are reviewed and financed first. Complete applications within the same class are reviewed and financed based on their sustainability points; projects with more sustainability points are reviewed and financed before projects within the same class with fewer sustainability points. If the State Water Board lacks sufficient funds to fund all projects with complete applications, then DFA will first fund projects based on their classifications, giving priority within the class to the small, disadvantaged community with the lowest median household income, and then to the project that most effectively addresses sustainability and global climate change.

Projects that have received an executed financing agreement, whose applications are incomplete after being on the PL for one year and the applicant is unresponsive, or whose applicant has requested that its project be removed from the PL, are removed from the PL by the Executive Director on the next update. Projects that were removed because applicants were non-responsive or because the applicant requested removal, may be added to the PL at any time in the future.

The Executive Director of the State Water Board will generally update the PL quarterly, but may update the PL more frequently if necessary or less frequently if there are no new potential projects to be added during the quarter. DFA staff promptly posts the PL on the Web after the PL has been updated by the Executive Director.

The State Water Board annually approves an Intended Use Plan (IUP) for the CWSRF. The IUP is required by federal statutes and regulations, and is submitted to US EPA as part of each year’s capitalization grant application. The IUP establishes the State Water Board’s business plan for the year, and discusses management’s general approach and its ability to successfully carry out the business plan with the available financial and programmatic resources. In particular, the IUP includes a forecast of the Program’s cash flows and identifies projects the State Water Board anticipates financing each year. The IUP includes program performance measures and the financing terms that the Water Board will offer each year.

Application Process and Due Diligence Review

CWSRF applications are accepted continuously via DFAs Web-based application system, the Financial Assistance Application Submittal Tool (FAAST), electronic mail, or the US mail service. On receipt of a financing application, a DFA engineer, known as a Project Manager (PM), is assigned to work with the applicant and assist it through the entire funding and construction process. Applicants are encouraged to submit complete application packages, but may submit

² A complete application means that DFA has received the complete general, technical, environmental and financial packages for the subject project.

documents and packages as they are completed. There are four application packages: a general information package, a technical information package, an environmental information package, and a financial security information package.

After DFA receives all four complete application packages, it generally takes from four to six months to execute the financing agreement. It can take longer in some cases, particularly if there are significant environmental or cultural effects associated with the project.

Each application undergoes a complete due diligence review by technical, environmental, financial, and legal staff. The review process is as follows:

1. The general and technical packages are reviewed by the PM. Using his or her engineering knowledge and experience, the PM determines if the proposed project will likely provide the desired water quality improvement. DFA technical staff may also consult with State and Regional Water Board staff or the National Estuary Plan partners to ensure that projects are consistent with permits, enforcement orders, Regional Basin Plans, or Comprehensive Conservation and Monitoring Plans. The PM completes the general and technical checklists to document project eligibility and to ensure that the applicable CWSRF Policy requirements are met. The checklists are reviewed and approved by the PM's Senior, as appropriate.
2. The environmental package is reviewed by one of the CWSRF Environmental Review Unit's (ERU) Environmental Scientists for compliance with the CWSRF state and federal environmental requirements. The Environmental Scientist completes an environmental checklist to document that the project meets the CWSRF Policy's environmental review requirements. The checklist is reviewed and approved by the ERU supervisor, and verified by the PM, as appropriate.
3. The financial security package is reviewed by the CWSRF Financial Review staff in conjunction with an outside credit consultant (California Municipal Strategies) to determine the applicant's credit worthiness and ability to repay the CWSRF obligation. The Financial Review staff prepares a financial security review checklist to document its findings and recommendations. The checklist is reviewed and approved by the Financial Review supervisor, as appropriate.

The financial security review also includes an analysis of project affordability and a determination whether the applicant qualifies for additional subsidization, such as, principal forgiveness or State Revolving Fund Small Communities Grant (Small Communities Grant) funding.

4. The reviews of the general, technical, environmental, and financial security packages are done in parallel and coordinated by DFA management. In the later stages of this process, the DFA Technical Senior will request that legal staff from the Office of Chief Counsel consult with the applicant's legal counsel to develop a legal opinion to be provided with the signed financing agreement. The legal opinion addresses the validity of the financing agreement and supporting resolutions, compliance with applicable laws and material obligations, pending or existing litigation, disputes, or adverse findings by outside auditors, and lack of untrue, misleading, or incomplete representations. Where the applicant has material bond debt, the applicant will be expected to submit an opinion from bond counsel regarding the lack of conflict between the CWSRF financing

agreement and the applicant's bond obligations.

5. After the four checklists (general, technical, environmental, and financial security) have been completed by staff and signed by the unit supervisors as noted above, the PM sends these draft checklists to the applicant's staff to double-check their accuracy. The checklists and legal opinion represent the CWSRF's due diligence to verify that each application meets all aspects of the CWSRF Policy before approving financing.

Financing Approval and Agreement Preparation and Execution

An applicant may only receive an initial financing agreement if it meets all CWSRF Policy requirements with limited exceptions. Typically the only two conditions that can be outstanding at the time the initial financing agreement is approved are: (1) compliance with Proposition 218 requirements and (2) documentation of ownership or legal access to land. Applicants must provide documentation that they approved service rates consistent with Proposition 218 requirements. Proposition 218 allows citizens in California to protest adoption of or increases to property related service charges. If a majority of citizens protest an adoption or increase, then a local agency may not adopt or increase the rate. CWSRF will execute an initial financing agreement without proof that the rates sufficient to support full payment of the obligation have been adopted or increased consistent with Prop. 218, but it will not amend the agreement to its final amount or disburse construction funds until this proof is submitted. Documentation of ownership or legal access to land is handled in a similar manner. If documentation cannot be submitted before the initial financing agreement is ready to be executed, then the initial agreement may be executed, but it will not be amended to its final amount and no construction funds will be disbursed until ownership or legal access documentation is submitted.

1. After the four checklists are completed, the PM receives verification of the draft checklists from the applicant's staff, and legal consultation is complete or nearing completion, the project's Master File (NF) ready for routing and financing approval.

If the project is routine and non-controversial, the Deputy Director of DFA (Darrin Polhemus) may approve the financing. If the project is non-routine or controversial, the decision must be made by the State Water Board during one of its regularly scheduled meetings. The State Water Board's meetings are publicly noticed to provide interested parties the opportunity to comment. If the financing must be approved by the State Water Board, then the PM will prepare an agenda item and Board resolution for consideration and approval by the State Water Board using the Clerk of the Board's standard procedures for Board agenda items. In all other respects, the financing approval process is the same for non-routine or controversial projects as it is for routine and non-controversial projects.

2. The PM will compile the project's MF and route it for approval and preparation of the financing agreement. A project fact sheet and route slip are attached to the MF to document the approval process and record the necessary signatures. The Technical Senior reviews and approves the MF for routing if it is complete. The Senior submits the MF to the Supervising Engineer.
3. The MF is reviewed and approved, if appropriate, by the Supervising Engineer. The Supervising Engineer routes the MF to the Contract Analyst (Eva Kawada) for preparation of the financing agreement. The Contract Analyst reviews the MF to confirm that all documents are included. If any items are missing, she returns the MF to the PM

with a notation of the missing documents. The effective date (for project cost eligibility purposes) and the project's interest rate are established at the time of the financing agreement is prepared. (The date the Supervising Engineer approves the MF and routes it to the Contract Analyst or the date that legal consultation is complete, whichever is later, is the start of financing agreement preparation.)

4. The Contract Analyst retrieves the draft financing agreement prepared by DFA's legal counsel during legal consultation, and completes the highlighted areas in the draft financing agreement based on information contained in the MF. Other special conditions, such as, monitoring requirements, reporting requirements, or additional security may be incorporated into the CWSRF financing agreement based on the application and legal reviews. An agreement number is assigned to the financing agreement. (Agreement numbers are obtained in blocks from DAS, Business Services Branch. A log of the numbers that are used is maintained as they are assigned to individual financing agreements.) The Contract Analyst also prepares a transmittal letter to the recipient.

As part of preparing the financing agreement, the Financial Review staff (Van Phan) determines the impact of the project's cash flow on the CWSRF program's cash flow, and whether the CWSRF can finance the project, and the financing agreement's funding source(s), i.e., federal capitalization grants, repayment funds, state bond funds (matching funds), local agency contributions (matching funds), investment earnings, or leverage bond funds, is (are) also determined at the time the financing agreement is prepared. The Contract Analyst completes the Contract Request Form (CRF) and Agreement Summary Form (STD 215).

5. After the financing agreement is prepared by the Contract Analyst and approved by the Financial Review unit supervisor, as appropriate, the MF and financing agreement are routed back to the PM to verify that the financing agreement accurately reflects the contents of the MF.
6. The MF and financing agreement are then routed to DFA's legal counsel and the Assistant Deputy Director of DFA for review and approval as appropriate.
7. After the Assistant Deputy Director approves the MF and financing agreement, they are routed to the Deputy Director (Darrin Polhemus). The Deputy Director will review the MF and the draft financing agreement and, if not previously done by the State Water Board, make the necessary environmental findings for the project, and approve transmittal of the financing agreement to the applicant for signature.
8. The Contract Analyst emails a copy of the transmittal letter, the draft financing agreement, an additional blank copy of the agreement's signature page, and the draft legal opinion letter(s) prepared by DFA legal staff to the applicant for signature.
9. The Contract Analyst will also route the CRF and three copies of the STD 215 with green route slip to Budgets and Accounting for sign-off. Accounting will return the signed CRF and two copies of STD 215 back to the Contract Analyst.
10. The financing applicant will return the two signed signature pages from the financing agreement and the originals of the Bond Counsel and/or General Counsel Opinion letters to the DFA Contract Analyst.

11. Prior to routing the financing agreement to the Deputy Director for signature and execution, DFA's legal counsel compares the signed legal opinion letter(s) with the original draft(s) prepared during legal consultation. The signed opinion(s) should match the original draft(s). If there are discrepancies, they must be resolved before sending the financing agreement to the Deputy Director for execution.
12. If there are no issues with the legal opinion(s), two copies of the financing agreement are routed to the Deputy Director for execution of the financing agreement. (The Contract Analyst prints an additional copy of the financing agreement and replaces the blank signature page with the second original signature page signed by the applicant's Authorized Representative.) The date the financing agreement is signed by the Deputy Director is the official execution date of the financing agreement. One original copy of the financing agreement is filed in the loan administration file (LAF), and the second original financing agreement is mailed to the Recipient for its records.
13. The Contract Analyst makes three copies of the executed financing agreement. The first copy goes to the PM, the second copy goes to the State Controller's Office (SCO) along with the original copy of the STD 215, and the third copy goes to the Accounting Office. An electronic (pdf) copy of the executed financing agreement is saved in LGTS under Project Costs\Contract History and LGTS data is updated.

Most financing agreements are initially executed based on the estimated cost of the project because project design and procurement (i.e., bidding) have not been completed at that point. Applicants may request disbursement of past planning and design costs after the initial financing agreement is executed. (See the discussion below on the funds disbursement process.) If all project design and procurement is completed at the time the initial financing agreement is prepared, a finalized agreement may be prepared and executed based on the final cost of the project. The project may also receive a finalized agreement at this stage if it is a "Non-Point" or "Estuary" project and a final budget can be established for the project. See the next section for a detailed explanation of how a financing agreement is finalized.

In addition, although almost all projects involve a financing agreement executed between the State Water Board and the applicant using the process described in this section, financing for some expanded use projects also may involve use of two indirect financing mechanisms: the mini-loan program or the link deposit program. Both programs are described below.

Mini-Loan Program

This is the primary way for the CWSRF to fund projects with private parties. DFA executes an agreement with an eligible public agency that will act as an intermediary lender. The local agency takes on the risk and administrative duties of evaluating credit, securing payment from the financing recipients, and administering individual financing agreements with private parties for project implementation. As a part of the agreement, the public agency and DFA will establish the technical and administrative program requirements for projects that will be financed. There are several projects that have been completed, and are in repayment.

Linked Deposit Program

In a Linked Deposit Program, a local public agency typically applies to the State Water Board to establish "linked deposit loans" to address a specific water quality problem in its

area. The State Water Board arranges with local banks to provide loans to individual property owners for the specific water quality projects or actions. The CWSRF agrees to buy a Certificate of Deposit (CD) at a below market rate. In exchange, the bank agrees to provide reduced interest rate loans to private property owners for eligible projects that were reviewed and approved by the local public agency. Currently there are no linked deposit programs in place.

Finalizing the Financing Agreement

1. The recipient completes its final plans and specifications (P&S), conducts bidding in accordance with state contracting requirements and applicable federal requirements associated with CWSRF financing, and selects a contractor(s) to construct or implement the project.
2. The recipient then submits a Final Budget Approval (FBA) package that includes a set of "as bid" P & S, any bidding addenda, its bidding documents, documentation to clear any outstanding conditions on the financing, and additional documentation to meet other CWSRF program requirements. No construction funds can be disbursed until the FBA package is received, reviewed, approved, and a finalized financing agreement is executed. (Signature of the finalized (amended) financing agreement by the applicant constitutes the applicant's agreement with DFA's decisions on the FBA package.)
3. The FBA package is reviewed by the PM, the Davis-Bacon coordinator, and the Contract Analyst. The PM prepares the Construction Contractor Spreadsheet (Form 259) and e-mails it to the Contract Analyst as part of the FBA review process. The Contract Analyst saves the Form 259 on the S:\drive. Once the FBA review is complete, the finalized, i.e., amended, financing agreement is prepared to reflect the final cost of the project.
4. The Contract Analyst emails a copy of the draft, amended financing agreement and an additional blank copy of the agreement's signature page to the applicant for signature. The financing applicant will return the two signed signature pages from the financing agreement to the DFA Contract Analyst.
5. The financing agreement with two signature page copies is routed to the Deputy Director for execution. The Contract Analyst will print an additional copy of the amended financing agreement after the agreement is executed by the Deputy Director and replace the blank signature page with the second original signed page. The date the amended financing agreement is signed by the Deputy Director is the official execution date of the finalized financing agreement. One original copy of the financing agreement is filed in the LAF, and the second original financing agreement is mailed to the Recipient for its records.
6. The Contract Analyst makes three copies of the executed financing agreement. The first copy goes to the PM, the second copy goes to the State Controller's Office along with the original copy of STD 215, and the third copy goes to the Accounting Office. An electronic (pdf) copy of the executed financing agreement is saved in LGTS under Project Costs\Contract History, and LGTS is updated with the financing agreement execution information.
7. After the finalized financing agreement is executed, the Request for Disbursement form (Form 260) is partially prepared by the Contract Analyst. The Contract Analyst completes

the upper portion of the Form, except for the Date and Disbursement Request No., Column (A), Description; and Column (B), Agreement/Grant Amount, and e-mails the partially complete Form 260 and the Form 259 to the Recipient for its use during the disbursement period.

Project Construction/Implementation and Disbursements

At any time after an applicant receives an executed financing agreement, it may submit a request for disbursement of eligible costs. All disbursements are made on a cost (incurred) reimbursement basis. It may request allowances and identified pre-purchased material or equipment costs based on an initial financing agreement. It may request all eligible costs based on a finalized financing agreement. Disbursement continues throughout construction as costs are incurred by the borrower. DFA staff review disbursement requests and monitor construction until the project's construction is complete and the final disbursement is made.

1. The Recipient submits completed Forms 259 and 260 to request reimbursement of incurred costs. The Recipient completes Column 3, Total Costs Incurred to Date and Column 4, Costs Claimed for Payment to Date on the Form 260 for each disbursement request. The Authorized Representative signs each Form 260 prior to its submission. For construction costs, the borrower submit the contractor's progress payment (invoice), completed by the prime contractor that shows the total contract amount, previously requested expenditures, expenditures to date, and current expenditures being requested for reimbursement. The progress payment is signed by the Recipient and the contractor. The Recipient must provide a detailed schedule of all costs related to the project that matches the progress payment invoice. The Recipient must also submit backup invoices for all allowance expenditures as proof of incurred costs.
2. The disbursement request is routed to a Payment Analyst in DFA for review (currently Van Phan). The Payment Analyst first ensures that the Recipient provided a completed Form 260, Form 259, contractor's progress payment, and other supporting invoices. The Payment Analyst will reconcile the contractor's progress payment with the Recipient's 259 and any allowances (soft costs) that the recipient may be claiming on the Form 260
3. When reconciling with the Recipient's Form 259, the Payment Analyst verifies that the recipient did not modify any of the "contract bid items" or any of the "as-bid contract dollars." The contract bid items and as-bid contract dollars on the Form 259 are determined at the initiation of the project by DFA and the Recipient. Therefore, the Form 259 from the Recipient should not be altered. Column H on the Form 259 is the only section the recipient should be completing based on cost incurred to date from the Contractor's progress payment. Columns K, L, M on the Form 259 should auto populate based on Column H. The Payment Analyst will then transfer the totals from Column K, L, and M on the Form 259 to the "state use only" portion of the Form 260.
4. The Payment Analyst then routes the Form 260, 259's, and the backup invoices to a second Payment Analyst (Maria Horcasitas). The second Payment Analyst performs a duplicate review of the package to ensure accuracy. The second Payment Analyst returns the reviewed disbursement package to the first Payment Analyst to finalize the disbursement. The first Payment Analyst will then route the disbursement request package to the PM assigned to the financing along with the LAF. The LAF contains all information related to previous disbursement requests.

5. The PM will review the requested disbursement to verify that the work performed is eligible for reimbursement, and may also review other information to better understand the expenditures requested for reimbursement. PMs also conduct periodic on-site inspections during construction to physically verify construction of the project. After the PM determines the disbursement request is for allowable expenditures and confirms that the quarterly progress reports have been submitted for the project, he or she will sign all four copies of the Form 260. The PM gives the disbursement package back to the first Payment Analyst. The first Analyst will sign all four copies of the 260, and then route the disbursement package to DFA Administration Manager (currently Kelly Valine).
6. The Administration Manager reviews the 260, initials all four copies of the 260 next to the Payment Analyst's signature line, and then routes the disbursement package to one of the DFA Authorized Representatives. James Maughan, Assistant Deputy Director, and Lance Reese, Manager, are the individuals approved to authorize grant/loan payments.
7. The DFA Authorized Representative signs all four copies of the 260, and returns it to the Payment Analyst. The Payment Analyst inputs the disbursement information from the 260 and 259 into LGTS.
8. The Analyst will then route three copies of the 260 to the Division of Administrative Services, Accounting Branch, Contract Payment Unit (CPU), to Senior Accounting Officer, Tirunesh Futassa or Accounting Officer, Pauline Xie. The 260 with the original signature of the Authorized Representative is maintained in the LAF.
9. The CPU takes the 260 and verifies that the total disbursement amount requested matches the Payment Request section and the Encumbrance/Disbursements section in LGTS. CALSTARS encumbrance balances are reconciled quarterly with LGTS and the Agreement File maintained by CPU. LGTS automatically calculates the state match portion based on the loan information in LGTS. The local match is calculated on the 260 form. State and local match are calculated at 83.333% federal and 16.667% match (non-federal). CPU will then document at the bottom of the 260 the breakout between federal and the match. CPU will also start the Audit Package Checklist and document the breakout on the bottom of the checklist. The disbursement requested is reviewed a second time when the claim schedule is signed by the Senior Accounting Officer, Tirunesh Futassa or the Accounting Administrator I, Debra Latour, before release to the State Controller for payment.

Project Completion and File Closeout

1. The recipient is required to submit a Project Completion Report (PCR) at the end of the project's construction. During the "final project inspection" by the PM, the PM and the recipient will establish a due date for the PCR. The PCR must describe the project, describe the water quality problem the project sought to address, discuss the project's likelihood of successfully addressing that water quality problem in the future, and summarize compliance with environmental conditions, if applicable. The PCR must also be submitted to the appropriate Regional Water Board.

(Note: The first payment notice includes a request for the PCR as a technical report under Water Code Section 13267. Section 13267 includes penalties of up to \$1,000 per day for late reports. If an applicant does not submit a PCR, DFA will also hold any further disbursements to that agency and will not process any pending applications for

new financial assistance until the missing report is submitted.)

2. After the PM has accepted the PCR, the "Administration Completion" close-out process can be completed.
3. SRF Administration staff periodically review the "Project Close-out Report for Active Projects with a Contract" to determine which files are ready to be "administratively closed." The status report is listed under "Project Tracking – Project Close-out Report" in LGTS.
4. SRF Administration staff review the MF and the LAF to ensure that they contain all of the documents identified on the "Close-Out Checklist." SRF Administration staff date and initial the Close-out Checklist to verify that the files contain the required documents.
5. Once all documents are accounted for SRF Administration staff:
 - A. Places a copy of the Close-Out Checklist in the LAF on the right hand side of the first section.
 - B. Completes the "Closeout" checklist in LGTS, enters the close-out date in the Milestone and Project Checklist, and changes the "Administration Completion Status" on the "Project Costs" tab in LGTS to "Complete."
 - C. Sends an email to the PM and the Senior telling them the project is administratively complete.
 - D. Returns the LAF to the file room.
6. The Project file(s) are then sent to the State Records Center for storage off-site. Only the LAF and MF remain in the file room after Administration Completion close-out.

Repayment Process

1. All loan repayments must begin within one year of construction completion or in some cases one year after first disbursement. Repayments are typically made annually.
2. The Associate Government Program Analyst (AGPA) in the DFA, SRF Administration Unit (SRF Admin) emails a repayment reminder notice to the local agency that its repayment is due in 30 days. An electronic version of the loan amortization schedule is sent as an attachment with the reminder notice (billing) approximately 4-6 weeks before the repayment due date. Starting in Dec 2013, Electronic Funds Transfers (ACH) payment instructions are also included with the reminder notices. This notification is considered a courtesy and is not required for repayment by loan recipients. A copy of the reminder notice and the amortization schedule is emailed to DAS, Accounting Branch, SRF Unit (SAU).
3. ACH payments are submitted directly online thru the State's ACH portal and deposited into the State Water Resources bank account. Daily reports are provided by the bank to the DAS, Accounting Branch, Transactions Section.
4. Loan repayment checks are mailed directly to the accounting P.O. Box and processed by DAS, Accounting Branch, Transactions Section.
5. The mail clerk in Accounting opens the mail and endorses the checks immediately. A pre-listing of all checks is prepared. The checks and the pre-listing are forwarded to the deposit staff.
6. The deposit staff prepares the deposit and makes copies of the check and all backup. They forward the information to their supervisor/lead for approval. Once approved,

copies are distributed and the deposit is sent to the bank. As of February 2014, a new Remote Deposit System (RDS) was implemented. The deposit staff prepares the deposit, then uses the RDS to scan the checks for transmission to the bank, then makes copies of the check and all back up, and submits to their supervisor/lead for approval. Once approved the scan is released and transmitted to the bank. The checks are kept on hand for a minimum of 14 days as required by the bank before being destroyed.

7. One copy of the check and back up (including the Report of Collection, deposit slip, and original envelope) or one copy of the ACH Daily Summary and Transaction report is given to SAU, usually Yasuko Okamoto or Angel Davalos. A repayment checklist is started and information is entered into LGTS. Note that the final journal entry to post the information to LGTS is made by Heather Bell, Manager, or Cheryl Thomas, Lead. The journal entry that Heather or Cheryl post is created by LGTS after it notes the amount of the payment received. Heather or Cheryl (Management) posting the journal entry is considered a review/control process over how LGTS applies these payments. DAS retains the original envelope, and a copy of the check. SRF Admin is notified in the event a payment is not received.
8. SAU records the postmark date in LGTS when the repayments are processed. If the payment was received late, then the postmark date is checked to ascertain if the payment was mailed within the 10-day grace period. If the postmarked date exceeds the 10-day grace period SRF Admin determines if a penalty assessment is appropriate.
9. The SAU prepares an electronic Remittance Advice (RA), which is sent electronically through the EFits system to the SCO. Postings are done in CALSTARS for the repayment deposit (DR General Cash CR Revenue or Principal), and for the remittance (DR Cash in Transit CR General Cash). SCO posts the RA in their system which generates a journal entry. When the journal entry is received by SAU, it is posted to CALSTARS (DR Cash in State Treasury CR Cash in Transit). A monthly reconciliation is performed between SCO, CALSTARS and LGTS to ensure that all payments are properly receipted and remitted to the SRF. Loans processed near year-end are manually reviewed by the accounting staff and reviewed by Cheryl Thomas, SAU Lead to ensure proper cutoff.

Pledged & Non-Pledged Loan Repayment

The DAS, Accounting Branch, Transactions Section receives loan repayments for all loans. When a repayment check is received, the Transactions Section completes the Report of Collections (RC), Report of Deposit (deposit slip) and makes a copy of the check and submits it for internal review. After review, the original checks are sent to the Bank of America for deposit to the State Water Resources Control Board Account. . As of February 2014, a new Remote Deposit System (RDS) was implemented. The deposit staff prepares the report of collections, then uses the RDS to prepare the deposit slip and scan the checks, then makes copies of the check and all back up, and submits it for internal approval. Once approved the scan is released and transmitted to the bank. The checks are kept on hand for a minimum of 14 days as required by the bank before being destroyed. Then a copy of the RC, deposit slip, check, any supporting documentation that was sent in with the check and the original envelope are given to the SAU for processing.

State Controller's Sub-fund number 617006 [Series 2002 Bond Repayment Account] also referred to as Pledged Repayment Account was established per the Payment and Pledge Agreement of the bond agreement for deposit of any repayment monies received for pledged

loans through November 2012. Series 2002 Revenue Bonds were refinanced by Series 2012 in December 2012. In December 2012, Sub-fund number 617014 was established per the Payment and Pledge Agreement [Series 2012 Restricted Assets Fund] for deposit of pledged repayment monies.

All loan repayments are processed through LGTS on a daily basis. An electronic remittance advice is prepared specifying the correct account the funds are to be deposited. Loans identified as pledged are remitted to the pledged account set up at the State Controller's Office (SCO). Prior to December 2012, they were remitted to the Pledged Repayment Fund (0617006) and as of December 2012 they are remitted to the Restricted Assets Fund (0617014). All other SRF non-pledged repayments are remitted to the Repayment Account (617002) which was established for that purpose. LGTS generates a file for posting to CALSTARS. SCO prepares journal entries, which are forwarded to SAU for processing. SCO, CALSTARS, and LGTS postings are reconciled monthly.

Per the revenue bond documents, the repayments are to be deposited in the Bond Repayment Fund immediately. The process documented above is considered to satisfy this requirement as the monies are transferred daily.

Tracking Loan Repayments

Reminder notices are sent to borrowers electronically four to six weeks before the payment is due by SRF Admin and an electronic copy is provided to SAU. SAU keeps these notices in a file until payment is received. Once the payment is received the notice is removed from this file and attached to the Repayment package. The file of notice letters is reviewed regularly to determine if any are past due payments. In addition, a billing log (Summary of Payment Due), which is an aging of notes receivable produced from LGTS is printed at least quarterly and used to track the payments that are due. Receivables found to be past due for 2 working days are flagged and investigated. SAU works with the DFA Admin to contact the entity in question if it is determined the payment is late. If the payment is not received during the 10-day grace DFA Admin determines if a penalty is appropriate.

Distressed Borrowers

Project managers work closely with borrowers and are aware of the financial status of the entities. They may attend city council meetings and look for press or news releases regarding the recipients. As a result of these relationships, the fund is generally aware of potential problem loans far before a payment is missed. These situations do not happen often, so they receive a lot of attention when they occur. DFA Admin staff requests and reviews Financial Statements on each new borrower for the first five years of the loan. DFA Admin will continue to watch borrowers that show signs of financial uncertainty. The new SRF audit contract provides additional resources for in-depth financial reviews of borrowers that can be chosen for review by DFA Admin.

Along with the PMs, DFA Management and DAS Management monitor press releases and bankruptcy filings to watch for borrowers that are showing signs of distress. When encountered, attorneys are consulted and the situation is assessed. Updated financial information is requested from the borrower and a financial analysis is performed. Once it is determined that a payment is unlikely to be received, a default letter is sent to the borrower.

DFA Management consults with DAS Management regarding the status of problem loans. DFA

Management consults with the borrower to determine the best course of action to secure repayment of the loan, which can include rate increases and restructuring of loan terms, etc. DAS Management is kept informed. As possible outcomes become clearer, DAS Management assesses whether there is a need to increase the reserve for doubtful accounts and consults with DFA Management. DFA Management works closely with the borrower to make sure any agreed to corrective actions are implemented and DAS Management is kept informed.

DFA management also maintains a “watch list” that includes entities already financed, entities applying for financing, and entities that might seek financing. The watch list updated by Jerrel or Kelly, and is reviewed regularly as part of the bi-monthly finance-audit committee meeting review process. Triggers for borrowers being added to the list could be anything which has come to the CWSRF’s attention that would raise need for further review of collectability, including negative press, late payments, and communications from the borrower or others. Action items are identified by the committee and tracked on the watch list.

The watch list is divided in to four categories.

- 1) Restructured Loan Agreements – These borrowers have requested and received restructured agreements. The amount listed as doubtful reflects payment amounts that were missed as a result of the restructure. These borrowers should be tracked closely to make sure their finances continue to improve as projected. Once they make their first full payment under the restructured agreement and there is a current financial review, they can be moved to a lower level of watch.
- 2) Bankruptcy Filed/Next Payment in Doubt – These borrowers have either filed bankruptcy and/or have signaled the next payment may be missed. They may request to restructure their agreements or that may be ordered by the court. Until more information is received or a financial review is completed, their risk of missing the next payment is considered relatively high.
- 3) Warning – These borrowers are involved in a situation that could lead to increased financial distress that would cause a missed payment and/or have signaled a bankruptcy filing may be possible. In general, these borrowers are awaiting the outcome of legal proceedings and/or a financial review before being reclassified to a higher or lower level of watch.
- 4) Early Warning – Financial concerns have been raised, but these borrowers are still a significant event away from potentially missing a payment. Depending on a new event or a financial review, these borrowers could move to a higher level of watch or off the list all together.

The watch list is used to ensure that borrowers that have become distressed and/or borrowers that show signs of distress are tracked closely. The watch list is used to keep track of the status of borrowers including the total amount outstanding, last payment received next payment due, date of last financial review, and notes from the last contact with the borrower. If a payment is determined to be doubtful, the amount is tracked on the watch list. Borrowers are tracked on the watch list until they are no longer showing signs of distress.