

**Public Water Supply Loan Program  
(PWSLP)**

**2023 Intended Use Plan**

**DRAFT - June 2, 2022**

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**Illinois EPA**

**Bureau of Water**

**Infrastructure Financial Assistance Section**

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## **I. Introduction**

The Illinois Environmental Protection Agency (Illinois EPA or Agency) was created on July 1, 1970 by combining the State Sanitation Board and parts of the Illinois Department of Public Health. Illinois EPA's central office is in Springfield, and seven regional offices and one laboratory manage the Agency's various programs.

The Director of Illinois EPA is appointed by the Governor and serves as a Cabinet Member. Illinois EPA establishes and enforces standards for air, water, waste management, and cleanup of sites contaminated with hazardous substances. The 2023 Public Water Supply Loan Program (PWSLP) Intended Use Plan (2023 IUP) describes how the Illinois EPA proposes to prioritize projects, distribute funds, and administer the PWSLP during State Fiscal Year (FY) 2023, July 1, 2022, through June 30, 2023.

### **A. Public Participation**

The Draft 2023 IUP was released for public review on June 2, 2022, thus beginning the 21-day public comment period. The Draft 2023 IUP notice was placed on Illinois EPA's general notice website <https://www2.illinois.gov/epa/public-notice/Pages/general-notice.aspx> and each of the identified stakeholders of the Public Water Supply State Revolving Fund (SRF) program were also notified by e-mail. The Agency expanded its outreach for comment on the IUP this year by also e-mailing additional special interest groups, consulting engineers, professional agencies/associations, and other funding agencies that either expressed an interest in, or are familiar with, the SRF loan programs. The notice directed potential commenters to Barb Lieberoff, Office of Community Relations as the Agency contact for receiving comments and questions pertaining to the Draft 2023 IUP.

### **B. Benefits of the PWSLP**

The main purpose of the PWSLP is to protect public health by providing financial assistance to eligible public water systems to attain and maintain compliance with the requirements of the Safe Drinking Water Act (SDWA) and Illinois statutes and regulations. The PWSLP is designed to operate in perpetuity to provide low interest rate loans and other forms of assistance to public water systems. Using the PWSLP to fund water supply system improvement projects has many advantages, including:

- 1) Below-market rates provide significant cost savings.
- 2) Although the PWSLP must follow certain Federal and State requirements, overall it is a State program. As the program is administered by State personnel, application and funding requirements have been streamlined to ensure clarity and efficiency for the applicant.
- 3) The PWSLP, through its various project review and approval procedures, is more than just a funding program. It helps provide applicants greater assurance that their projects will be economically sound, technically appropriate, and environmentally effective.
- 4) The PWSLP must provide additional subsidy to eligible recipients in the form of forgiveness of principal, negative interest loans, or grants. Illinois EPA has historically offered a

reduction to the amount of principal that an applicant would otherwise need to repay for its project called “principal forgiveness,” per federal statute. Although the name is different, in practical application, principal forgiveness functions much like a grant *i.e.*, the eligible capital costs of the project are reduced by the principal forgiveness amount, thereby eliminating a portion of the principal (and interest) that the borrower must repay. By providing principal forgiveness instead of a grant, the loan recipients avoid duplicative application requirements/processes, preparation and execution of separate funding agreements and additional federal monitoring and reporting requirements both during and after completion of the project.

- 5) The PWSLP can benefit small and economically disadvantaged communities by not only providing a thorough review of the technical and financial viability of their projects, but also offering principal forgiveness and reduced interest rates where applicable.

## II. Goals for the PWSLP

### A. Short-Term Goals

- 1) Support necessary actions to reduce lead levels in public water supplies and offer principal forgiveness to certain projects. Illinois EPA has provided \$40,623,776 of funding over FY2017-2021 as principal forgiveness to replace lead service lines. As part of this continued effort, Illinois EPA took advantage of the Water Infrastructure Fund Transfer Act (WIFTA) which temporarily expands the Clean Water to Drinking SRF transfer authority specifically to address lead-related threats to public health. A total of \$107,892,848 was transferred to the PWSLP which must be provided as loans with 100% principal forgiveness for complete lead service line replacement activity. Approximately \$52M of the transferred funds remains to be provided as funding for lead service line replacement in FY2023.
- 2) In addition to the traditional “base” DWSRF capitalization grant, Illinois EPA anticipates applying for and receiving 3 additional annual federal capitalization grants, over a five-year period, as a result of federal Infrastructure Investment and Jobs Act (P.L. 117-58), also referred to as the “Bipartisan Infrastructure Law” (BIL).
  - a. BIL Supplemental DWSRF Capitalization Grant. The first BIL supplemental DWSRF capitalization grant of \$67,885,000 will be applied for in conjunction with the federal 2022 “base” DWSRF capitalization grant and the funds will be included to increase the capacity of the Public Water Supply Loan Program in FY2023. Illinois EPA will be required to provide a State match equal to 10% of the BIL supplemental DWSRF grant in addition to 20% of the base DWSRF grant. Forty-nine percent of the BIL supplemental DWSRF grant must be provided as additional subsidy, more commonly referred to as principal forgiveness. Details regarding the source of the state match and principal forgiveness parameters are discussed below within this document.
  - b. BIL DWSRF Lead Service Line Replacement Capitalization Grant. Illinois EPA anticipates receiving an additional \$533,688,000 in BIL DWSRF lead service line replacement funding over a five-year period to assist public water supply systems in Illinois with identification and removal of lead service lines. Additional details can be

found within the Bipartisan Infrastructure Law (BIL) Funding section below.

- c. BIL DWSRF Emerging Contaminant Capitalization Grant. Illinois EPA anticipates receiving an additional \$142,525,000 in BIL funding over a five-year period to assist public water supply systems with addressing emerging contaminants. More information on the BIL DWSRF emerging contaminant capitalization grants can be found within the Bipartisan Infrastructure Law (BIL) Funding section below and within Appendix B.
- 3) Provide funding to as many eligible projects as possible, provided the requirements for obtaining funding are satisfied and funds are available.
- 4) Focus financial assistance for projects necessary to achieve or maintain compliance with federal and state drinking water laws and regulations.
- 5) Manage a program that provides applicants with a streamlined approach to financing public water supply and other eligible projects.
- 6) Provide continuous improvement to both the short and long-term planning efforts to ensure the financial strength and stability of the loan programs are maintained.
- 7) Use Set-Aside Funds for a circuit-rider that will assist public water supply systems with technical training, rate analysis, asset management, system analysis, water-loss, etc.
- 8) The Illinois EPA continues to work with the Illinois Finance Authority and financial advisors to analyze the leveraging capacity of the SRF loan programs, the potential need for bond proceeds and the future average annual funding levels the PWSLP can provide while maintaining its perpetuity requirements. No issuance of revenue bonds during FY2023 will be necessary.
- 9) Analyze the methodology used for the establishment of loan program interest rates and initiate a rule modification to establish a new basis for determining interest rates to strengthen the long-term viability of the loan program and ensure a stable and perpetual financing source.
- 10) The Agency is discussing several new initiatives which could provide funding to public water supply systems for addressing capacity development, asset management and compliance related issues. The Agency will be investigating potential avenues for providing funding in some capacity for:
  - a) Efforts related to proper sealing of abandoned wells.
  - b) Funding for corrosion control studies and planning efforts related to the regionalization of public water supply systems.
  - c) Funding for asset management and planning related efforts for very small and economically disadvantaged public water supply systems.

## **B. Long-Term Goals**

- 1) Maximize below-market rate loans and subsidies to eligible public water systems to fund improvements to eliminate public health threats and ensure compliance with federal and state drinking water laws and regulations.

- 2) Target assistance to small and disadvantaged communities to reduce the financial impact of capital improvements projects on the users of smaller systems and systems serving less affluent populations.
- 3) Support extensions of public water systems to address areas of contaminated private water systems.
- 4) Promote the development of the technical, managerial, and financial capability of public water system owners and operators to maintain compliance with the state and federal SDWA requirements.
- 5) Continue to maintain the Water Revolving Fund (Fund) as a major financial vehicle for achieving compliance with State and federal law.
- 6) Encourage the consolidation and/or regionalization of small public water systems so these systems may take advantage of economies of scale available to larger water systems.
- 7) Maintain the integrity of the Fund by providing a stable and perpetual financing source for eligible public water supply systems within the State and to fund those loan applicants with available loan resources.

**C. Base Drinking Water State Revolving Fund (DWSRF) Annual Capitalization Grant**

Illinois EPA is applying for their federal 2022 “base” DWSRF capitalization grant in conjunction with the federal 2022 “supplemental” BIL DWSRF capitalization grant and the funds will be included to increase the capacity of the FY2023 Public Water Supply Loan Program beginning July 1, 2022.

**D. Bipartisan Infrastructure Law (BIL) Funding**

- 1) The Bipartisan Infrastructure Law (BIL) (P.L. 117-58) was signed by President Biden on November 15, 2021. The law will result in five years of “supplemental” funding for the DWSRF loan program, as well as new funding for DWSRF lead service line replacement activities and DWSRF Emerging Contaminants. Section 1452(b) of the Safe Drinking Water Act requires states to prepare an Intended Use Plan (IUP) which contains a Project Priority List to apply for any of these federal capitalization grants. Before Illinois EPA can apply for any of these new grants, Illinois EPA must have a fundable list of projects for which the total cost of assistance requested is at least equal to the amount of the grant being applied for. Within this FY2023 IUP Illinois EPA is providing information on, and requesting applications for, these new allocations of funding with the expectation that sufficient applications will be received to allow the Agency to apply for the new DWSRF Emerging Contaminants capitalization grant during FY2023 and make the funding available at the start of FY2024, July 1, 2023.
- 2) BIL Supplemental DWSRF Funding. The first BIL supplemental DWSRF capitalization grant of \$67,885,000 will be applied for in conjunction with the FY2022 “base” DWSRF capitalization grant and the funds will be included to increase the capacity of the Public Water Supply Loan Program in FY2023. Illinois EPA will be required to provide a State match equal to 10% of the BIL supplemental DWSRF grant in addition to 20% of the base DWSRF grant. Forty-nine percent of the BIL supplemental DWSRF grant must be provided as additional

subsidy, more commonly referred to as principal forgiveness. Details regarding the source of the state match and principal forgiveness parameters are discussed below within this document.

- 3) BIL DWSRF Lead Service Line Replacement Funding. Funds provided shall be for lead service line replacement projects and associated activities directly connected to the identification, planning, design, and replacement of lead service lines. Illinois EPA anticipates receiving \$106,964,000 annually for five years. There is no state match requirement to obtain the federal capitalization grant. States must provide 49% of the capitalization grant amount as principal forgiveness to water systems that meet the state's disadvantaged community criteria. Illinois EPA is developing new disadvantaged community criteria specifically for funding lead service line replacement activity. Applicants should consider that some water systems can anticipate some portion of any funding that is obtained will need loan principal that must be repaid.

The application process for this funding will be very similar to the existing Public Water Supply Loan Program and applications are encouraged to be submitted immediately. Prioritization of applications, the lead service line replacement disadvantaged community criteria and other parameters related to this new funding are under development and will be disseminated within the IUP that must be submitted to USEPA prior to applying for the federal capitalization grant.

Illinois EPA has approximately \$52M in WIFTA funding yet to be committed to loan applicants which must be provided as 100% principal forgiveness. Unlike the BIL LSLR funding, WIFTA funding provided as principal forgiveness is not limited to those loan applicants defined as a disadvantaged community. For this reason, the Agency will continue to work on a new disadvantaged community definition which will be unique to future lead service line funding so the Agency can apply for the new BIL DWSRF Lead Service Line Replacement capitalization grants. The Agency will apply for the first allocation of BIL DWSRF Lead Service Line Replacement funding during FY2023 for availability at the start of FY2024, July 1, 2023

- 4) BIL DWSRF Emerging Contaminants Funding. Funds provided shall be to projects whose primary purpose is to address emerging contaminants in drinking water with a focus on perfluoroalkyl and polyfluoroalkyl substances. States have the flexibility to fund projects on any of EPA's Contaminant Candidates List (<https://www.epa.gov/ccl>). If USEPA has promulgated a National Primary Drinking Water Regulation (NPDWR) for a contaminant, then a project whose primary purpose is to address that contaminant is not eligible for this funding, with PFAS being the exception as USEPA anticipates establishing a NPDWR for PFOA and PFOS.

The breadth of projects that are eligible for this funding is described in Appendix B of this document; Attachment 1 – Appendix C: DSRF Definition of Emerging Contaminants (from USEPA Implementation Memorandum).

Illinois EPA anticipates receiving \$28,505,000 annually for five years. There is no state match requirement to obtain the federal capitalization grant. States must provide 100% of the capitalization grant to eligible recipients as loans with 100% principal forgiveness. The application process for this funding will be very similar to the existing Public Water Supply Loan Program and applications are encouraged to be submitted immediately. Prioritization of applications and other parameters related to this new funding are under development and will be

announced and disseminated within the IUP that must be submitted to USEPA prior to applying for the federal capitalization grant. Manganese is considered an emerging contaminant and projects that address Manganese are eligible for this funding. Illinois EPA is aware of community water systems that are having issues with Manganese and anticipates prioritizing projects that address Manganese. Provided sufficient applications are received, the Agency will apply for the new BIL DWSRF emerging contaminant capitalization grant and make the funding available at the start of FY2024, July 1, 2023.

### III. Sources and Uses of the PWSLP for FY 2023

#### A. Sources and Amounts of FY 2023 Funds

- 1) Illinois EPA will make approximately \$340,000,000 available for PWSLP funding in FY2023, as detailed in the table below. To meet the demand for assistance during FY2023 and beyond, the Illinois EPA intends to borrow against the PWSLP's loan repayments by issuing revenue bonds. Based on financial analysis provided by the Illinois Finance Authority, combined with information gathered from the Agency's own cash flow modeling tools, the Illinois EPA has determined that it needs to return to establishing an annual funding ceiling to maintain the financial health of the Fund. This decision is driven by the amount of revenue bonds needed to fund the program at current levels as well as the need to limit funding commitments in the future to meet the obligations, both in funding commitments and debt obligations, of the program from prior years.

In FY2023, the PWSLP will impose a funding cap<sup>1</sup>, whereby no more than 25% of the funds available to traditional PWSLP projects (\$85,000,000) will be reserved for any one loan applicant. Should excess funds remain available at the end of FY2023, an applicant may be provided additional funds even if it results in the funding cap being exceeded, provided no other applicants have met the requirements to obtain funding. This step is being taken to maintain the fiscal health of the Fund, while also ensuring distribution of the available funds across the state of Illinois to as many communities as possible.

*The capacity of the PWSLP will be established in the future based upon the financial analysis and cash flow modeling done by the Illinois Finance Authority and its financial advisors in conjunction with consultation with Illinois EPA in order for the PWSLP to remain operational in perpetuity as required by USEPA.* The annual funding level will be reviewed and established each year during the process of developing the IUP to continue to maintain the PWSLP in perpetuity.

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<sup>1</sup> In accordance with the Loan Rules; *Section 662.260 - The Agency may establish the annual limitations on the amount of loan assistance given to each loan recipient by considering the status of the Fund, capitalization grant amounts, economic conditions and requirements established by USEPA. The annual limitations on the amount of loan assistance established by the Agency must be included as part of the Agency's Intended Use Plan.*



Availability of Funds	Amount
2022 Federal Base DWSRF Capitalization Grant Funds	\$26,439,000
2022 Federal Base DWSRF Cap Grant State Matching Funds*	\$5,287,800
2022 Federal BIL DWSRF Supplemental Capitalization Grant Funds	\$67,885,000
2022 Federal BIL DWSRF Supplemental Cap Grant State Matching Funds	\$6,788,500
Projected PWSLP Carryover Funds from FY2022 (includes previously deposited Base DWSRF Cap Grant State Matching Funds)	\$190,285,598
Additional Bond Funds**	\$0
Loan Repayments, Reimbursements, Accrued Interest***	\$43,314,102
<b>Total Available Funds</b>	<b>\$340,000,000</b>

- \* State Matching Funds were provided and deposited into the Fund in State FY21 from the anti-pollution bond fund.
- \*\* Funds will be acquired as necessary to meet demand.
- \*\*\* Balance available to PWSLP after meeting all debt service obligations.

Historical and projected annual PWSLP funding levels:

2019	\$240.8M
2020	\$173.6M
2021	\$158.0M
2022	\$164.6M
2023	\$340.0M
2024	\$275.0M
2025	\$275.0M

2) Cash Draw Ratios, Obligation of Federal/State Funds (Binding Commitments) and State Match

Cash Draw Ratios: The PWSLP will maintain the required ratios of cash draws and obligations between Federal funds and State Funds to reduce accumulated unliquidated obligations. The priority of disbursements is State Match, Capitalization Grant funds, leveraged bond funds, followed by repayments.

Binding Commitments: In managing the PWSLP funds, the State must enter into loan agreements that provide financial assistance in an amount equal to 120% of the amount of each Capitalization Grant payment received, within one year after receiving its grant payment. Illinois EPA will provide loan commitments within one year that exceed 120% of the Capitalization Grant.

State Match: The Illinois EPA received appropriation authority from the anti-pollution bond fund in fiscal year 2021 which provided funds necessary to match the 2021 and FY2022 Capitalization Grants. These state match proceeds will be 100% disbursed prior to the Agency drawing any federal funds from the 2022 grant award. The Agency will then draw the 2022

Capitalization Grant Federal funds at a 100% ratio until all grant funds are exhausted.

3) Leveraging

The Illinois EPA continues to work with the Illinois Finance Authority and financial advisors to analyze the leveraging capacity of the SRF loan programs, the potential need for bond proceeds and the future average annual funding levels the PWSLP can provide while maintaining its perpetuity requirements. No issuance of revenue bonds during FY2023 will be necessary.

4) Transfer of Funds

Illinois EPA took advantage of the Water Infrastructure Fund Transfer Act which temporarily expands the Clean Water to Drinking SRF transfer authority specifically to address lead-related threats to public health. This transfer of funds resulted in \$107,892,848 being transferred to the PWSLP to provide funding in the form of principal forgiveness for complete lead service line replacement activity.

Illinois EPA is reserving the right to transfer an amount up to 33% of the cumulative Drinking Water State Revolving Fund (DWSRF) Capitalization Grants from the WPCLP to the Public Water Supply Loan Program (PWSLP), or an equivalent amount from the PWSLP to the WPCLP. In State FY 2019, the WPCLP transferred \$39,000,000 of Fund equity to the PWSLP to assist with the PWSLP's current cash flow needs and to allow the PWSLP to leverage less bond funds in order to assist in sustaining the future capacity of the PWSLP.

5) Proportionality

Illinois EPA will spend 100% of all state match funds prior to drawing federal funds and then can draw federal funds at a rate of 100% until the matched grant is exhausted.

6) Financial Planning

The financial planning process is aimed at maximizing 100% of program resources available as efficiently and responsibly as possible while minimizing long-term financial risk in the program. IEPA has engaged financial advisors to independently determine the optimum amount of loan disbursements that is sustainable over the next 20 years while maintaining the USEPA's perpetuity requirements. Illinois EPA is enhancing its current methods of determining the timing of cash inflows and the effect on available resources to meet current and future obligations. Illinois EPA monitors on an ongoing basis cash balances available for disbursement to loan borrowers and needs of the program. Leveraged bond sales are anticipated to occur as the cash needs of the program dictate.

7) Grant Payment Schedule

In each drinking water Capitalization Grant Application (Form 424), and in the cover letter to U.S. EPA, Illinois EPA requests the Capitalization Grant be immediately placed in the "Automated Standard Application for Payment" system for drawing for projects.

8) Set-Asides

Illinois EPA will use the set-asides provided for in the 1996 Amendments to the SDWA from the Capitalization Grants when necessary to supplement existing state programs and funds, and not as substitutes for existing funding. This will allow the maximum amount of funds to be provided for infrastructure improvements. In a guidance memorandum dated February 9, 1999, the U.S. EPA announced that states have an option of reserving the authority to use certain

unused set-aside funds, otherwise referred to as “banking”, for possible use in future years by announcing that possibility in the IUP. The “banking” does not impact the availability or use of loan funds in the current year but gives the State the flexibility to utilize set-aside funds for other eligible purposes for future State FYs. The amount of the 2% and 10% set-asides to be banked at the end of State FY 2022 is reflected in the chart below. The State has asked for and used all of the 4% Administrative set-asides since the beginning of the Drinking Water Loan Program and will ask for the 4% Administrative set-aside in the 2022 Capitalization Grant. The State is not requesting any set-aside funds be banked in the current year from the 2% or 10% set-aside.

<b>Banking of Set-Asides</b>	<b>2% Small System Set-Aside</b>	<b>4% Administrative Set-Aside</b>	<b>10% Program Management Set-Aside</b>	<b>15% Local Assistance &amp; Other Set-Aside</b>
Banked Balance at June 30, 2022	\$ 12,453,708	\$ -	\$ 16,030,600	N/A
FY 2022 DW CAP Grant Banked Amount	\$ 0	\$ -	\$ 0	N/A
FY2022 Anticipated Spending	\$ 100,000	\$ 1,057,560	\$ 0	\$25,000
Cumulative Banked Amount June 30, 2023	\$ 12,453,708	\$ -	\$ 16,030,600	N/A

Illinois EPA entered into a \$250,000 contract for an initial two-year term (FY2019 and FY2020) with the Illinois Rural Water Association to assist public drinking water systems in Illinois with activities and issues including, but not necessarily limited to, technical training of staff, assistance with compliance related issues, user charge analysis, asset management activities, overall system analysis, water-loss analysis, capacity development issues, etc. The contract was renewed for FY2021 and FY2022 and continues to be funded using the Small System (SS) Set Aside (\$100,000 each year) and the Local Assistance and Other State Programs (LAOSP) Set Aside (\$25,000 each year). Illinois EPA was able to extend the contract through FY2023 and will be working to try and continue these efforts into the future.

Illinois EPA continues to work towards additional efforts that could be accomplished using set-aside funds, with a focus on assisting disadvantaged communities in building their capacity for sustainable and equitable water management activities such as assistance with water rate studies, preliminary engineering or other facility planning, training activities, asset management plans, assistance with identification and replacement of lead service lines, and studies of efficiency measures through utility regionalization or other collaborative intergovernmental approaches.

**B. Structure of the PWSLP**

The PWSLP has traditionally been composed of two accounts used to provide assistance to accomplish its goals:

- 1) The Public Water Supply Loan Program Account will provide financial assistance for the planning, design, and construction of improvements to publicly and privately-owned community water supply systems;

- a) Application Process

To be eligible for PWSLP funds, a potential recipient must be on the Project

Priority List (PPL) discussed below. Only loan applicants that have submitted a Funding Nomination Form shall be placed on the Project Priority List. The submittal of a Project Plan in accordance with 35 Ill. Adm. Code 662.320 begins the Agency working in earnest with the loan applicant towards obtaining funding. The completion of all loan program requirements, in accordance with 35 Ill. Adm. Code 662.350, allows the Agency to provide financial assistance.

b) Additional Program Requirements

Compliance - Illinois EPA will comply with the capacity development authority, capacity development strategy and operator certification provisions to avoid withholdings.

- 2) The Public Water Supply Loan Program Administrative Account will be used to ensure the long-term administration of the program. In 2023, Illinois EPA will set-aside 4% of the 2022 base DWSRF capitalization grant, an amount totaling \$1,057,560, to be used for loan program administration, as provided for under the Water Infrastructure for the Nation (WIIN) Act (Public Law 114-322) (Section 1452(g)(2) of the Safe Drinking Water Act (SDWA) and 4% of the BIL DWSRF supplemental 2022 capitalization grant, an amount totaling \$2,715,400, to be used for loan program administration as provided for under the Bipartisan Infrastructure Law (P.L. 117-58).

The Illinois EPA will be working with its accounting firm to establish any necessary new accounts to track the BIL funds as necessary.

### C. **Project Priority List**

The Illinois EPA has developed a Project Priority List (PPL) (Appendix C) that identifies applicants eligible for assistance and is comprised of all projects which submitted a Funding Nomination Form prior to March 31, 2022. There are \$962,285,359 worth of projects on the FY2023 PWSLP PPL List, far exceeding the amount of funding available.

Projects on the PPL are in various stages of the funding application process but only those projects identified on the **Intended Funding List** have funds reserved for them during the first six months of FY2023. *Projects which are not on the Intended Funding List should not proceed towards bidding their project until sufficient progress has been made towards obtaining funding and the Illinois EPA has notified the applicant in a Letter of Commitment that funds are available for the project.*

Projects which have achieved Project Plan approval by March 31, 2022, and are scheduled to initiate construction prior to March 31, 2023, have been ranked and scored in accordance with the provisions of 35 Ill. Adm. Code 662.345. These projects are eligible for the Intended Funding List per 35 Ill. Adm. Code 662.340. Applicants with a higher priority score will be ranked higher than applicants with a lower priority score. The total costs of projects on the Intended Funding List shall not exceed the total amount of funds available.

The Intended Funding List (IFL) is a subset of the PPL. In accordance with the Loan Rules, loan funds will be reserved for projects on the IFL through December 31, 2022. After January 1, 2023, projects on the IFL may be "bypassed" as detailed below. A project that is bypassed does not lose its eligibility for funding; however, funds for a bypassed project are no longer held in reserve and

may thereafter, during the bypass funding period (January 1, 2023, through June 30, 2023), be awarded to any other project on the PPL that meets the criteria for loan award per Section 662.350 of the Loan Rules. Projects will be funded in the order in which all requirements of Section 662.410 of the Loan Rules are completed.

#### Project Bypass Procedure

Per the Loan Rules, after January 1 of each year, the Agency may bypass projects on the Intended Funding List that have not submitted a loan application, obtained all necessary construction permits and demonstrate they will be unable to establish a bid opening date prior to March 31, 2023. The Agency will evaluate projects on the PPL, based upon readiness to proceed as demonstrated by meeting the criteria for loan award per Section 662.350 of the Loan Rules, and offer loan commitments to projects on the PPL to the extent funds are available in the order in which all requirements of Section 662.410 of the Loan Rules are completed. If a project on the Intended Funding List indicates to the Agency between July 1, 2022, and December 31, 2022, that they do not intend to move forward with construction prior to June 30, 2023, the Agency will issue a "bypass letter" to said project making those funds reserved available for other projects.

Another subset of the PPL are those projects which have achieved Project Plan approval but have an anticipated construction start date after March 31, 2023. In accordance with the Loan Rules, funding may not be reserved for these projects due to their anticipated construction start date. Funding may be provided to these projects during the bypass period, or earlier, should available funds exceed the funding requested by projects on the Intended Funding List.

All other projects which submitted a Funding Nomination Form prior to March 31, 2022, but for which Project Plan approval has not been achieved, have been added to the PPL in alphabetical order and thereby ranked equally. Projects for which a Project Plan has not yet been submitted have their project number (L17#) listed as "to be determined" (TBD).

#### **D. Program Administrative Costs and Fees**

The Illinois EPA has operated and maintained a Loan Support Program (LSP) outside the Federal SRF since 1996. The LSP is maintained as a single entity in Illinois statute, but the Illinois EPA accounts separately for funds attributable to PWSLP and Water Pollution Control Loan Program (WPCLP) loans. The LSP is financed by the loan support portion of the fixed loan rate, with that portion currently established at 50% of the fixed loan rate in the PWSLP and the WPCLP. To date, the LSP has been used primarily to finance the reasonable costs incurred by the Illinois EPA for functions that support the management of the PWSLP, which is the financial mechanism used in administering Illinois' SRF programs.

Estimated PWSLP LSP operational outlays for the Division of Public Water Supplies of the Illinois EPA are projected to total \$4,295,314 dedicated primarily to activities in support of the SRF programs, including compliance, permitting and field operations activities. These costs are separate and distinct from the administrative fees of the PWSLP.

<b>PWSLP Loan Support – Balance/Receipts/Outlays</b>	<b>PWSLP Loan Support</b>
Balance July 1, 2022	\$ 22,863,943
Estimated FY2023 Receipts	\$ 11,359,291
Operational Outlays	\$ (4,295,314)
Transfer to Loan Program to Provide State Match	\$ (0)
Estimated PWSLP Loan Support Balance June 30, 2023	\$ 29,927,920

#### **IV. Program Management**

One of the purposes of the IUP is to facilitate the planning and administration of the PWSLP. The PWSLP is managed in accordance with 35 Ill. Adm. Code Part 662 “Procedures for Issuing Loans from the Public Water Supply Loan Program”, effective October 1, 2019, and the Public Water Supply Loan Program and Loan Support Program Operating Agreement between Illinois EPA and U.S. EPA Region V. The following details some key aspects involved with management of the PWSLP.

##### **A. Principal Forgiveness, Interest Rate and Loan Term Determinations**

Loan Program staff routinely discuss principal forgiveness, interest rates and loan terms with loan applicants. Staff complete an internal checklist using the loan applicant’s information to determine if an applicant qualifies for principal forgiveness, which interest rate an applicant qualifies for and the maximum term for the loan agreement. The principal-forgiveness, interest rate and loan term are finalized at the time of loan agreement execution, following bidding of the contract and prior to the commencement of construction activity.

###### **1) Principal Forgiveness**

The PWSLP can offer a reduction to the amount of principal that an applicant would otherwise need to repay for its project. This reduction is called “principal forgiveness,” per federal statute. Although the name is different, in practical application, principal forgiveness functions much like a grant *i.e.*, the eligible capital costs of the project are reduced by the principal forgiveness amount, thereby eliminating a portion of the principal (and interest) that the borrower must repay. During FY2023, Illinois EPA will offer five options for loan applicants to receive subsidies in the form of principal forgiveness.

*Lead Service Line Replacement (LSLR) Principal Forgiveness* – Illinois EPA will provide principal forgiveness towards PWSLP funded projects directly related to activities that reduce or eliminate lead from potable water by replacing lead service lines, and related equipment and appurtenances. To qualify, a community water system must document lead service lines are connected to its system.

Illinois EPA took advantage of the Water Infrastructure Fund Transfer Act which temporarily expands the Clean Water to Drinking SRF transfer authority specifically to address lead-related threats to public health. This transfer resulted in \$107,892,848 being transferred to the PWSLP to provide funding in the form of principal forgiveness for complete lead service line replacement activity. The \$107,892,848 in LSLR principal forgiveness will be available

to loan recipients through FY2023 until the allotted funds are expended. As of July 1, 2022, \$55,527,620.57 of these funds have been committed to projects.

The remaining LSLR principal forgiveness monies will be available up to a maximum amount of \$4,000,000 in FY2023 for any one loan recipient. Total project costs include engineering, administrative, legal, and construction costs. Lead service line replacement work will be funded in separate loan agreements and will be excluded from any calculations pertaining to disadvantaged community or small systems compliance principal forgiveness discussed below.

As the LSLR principal forgiveness is a finite amount, and not nearly enough to pay for the replacement of even a small portion of the total amount of lead service lines in Illinois, loan applicants should be prepared to fund the necessary improvements with local funds, or other funding sources besides the PWSLP, as necessary.

*Disadvantaged Community Principal Forgiveness* - Section 1452 of the SDWA requires states to provide a minimum of 12% (\$3,172,680) and a maximum of 35% (\$9,253,650) of its annual available Capitalization Grant funds to provide subsidization, in the form of principal forgiveness, for loan recipients who meet the definition of a “disadvantaged community”. In addition to the “base DWSRF” capitalization grant the Agency will be receiving a “supplemental DWSRF” capitalization grant in the amount of \$67,885,000 and 49% of this grant, or \$33,263,650, must be provided as subsidization, in the form of principal forgiveness, for loan recipients who meet the definition of a “disadvantaged community”. The PWSLP’s definition of a disadvantaged community per 35 Ill. Adm. Code Part 662 “Procedures for Issuing Loans from the Public Water Supply Loan Program” is as follows;

*Disadvantaged Community – A local government unit that qualifies for either the Small Community Rate or Hardship Rate as defined in Section 662.210.*

Section 662.210 of the Loan Rules detailing the criteria by which a loan applicant qualifies for the Small Community Rate or Hardship Rate is also listed on page 15-16 of this document.

For FY2023, all loan recipients which meet the definition of a disadvantaged community qualify for disadvantaged community principal forgiveness. The maximum amount of disadvantaged community principal forgiveness provided to any loan recipient will be equivalent to 50% of the initial loan amount (exclusive of costs related to, and eligible for, lead service line replacement principal forgiveness) up to a maximum of \$1,250,000. No loan recipient shall receive more than \$1,250,000 in disadvantaged community principal forgiveness in FY2023.

In addition to the subsidization required to be provided by the SDWA, the federal Capitalization Grant as a result of the annual appropriations act requires that 14% (\$3,701,460) of the available funds may be used to provide additional subsidization for eligible loan recipients in the form of principal forgiveness (“appropriation” principal forgiveness). Use of these funds and eligibility is determined by each state. The Illinois EPA will divide a portion of the “appropriation” principal forgiveness into three segments, making \$1,000,000 available for Small System Compliance Assistance principal forgiveness,

\$1,350,000 available for One Well Critical Review principal forgiveness, and \$1,350,000 available for Manganese Compliance Assistance principal forgiveness as defined below. Any of the unused “appropriation” principal forgiveness will be provided as Disadvantaged Community principal forgiveness.

*Small System Compliance Assistance Principal Forgiveness* – Illinois EPA will make \$1,000,000 in principal forgiveness available for community water supplies with a health-based MCL violation. Eligible projects must result in the system with a history of health-based violations returning to compliance with Safe Drinking Water Act regulations. Eligible applicants must meet the following requirements:

- 1) The Agency has issued a Violation Notice to the community water supply (CWS) under Section 31 of the Illinois Environmental Protection Act (Act) or has initiated an enforcement action against the CWS under Section 43 of the Act.
- 2) Loan Applicant’s service population has a median household income below the State average median household income.
- 3) Loan Applicant must serve fewer than 3,300 customers.

Illinois EPA will make \$1,000,000 in principal forgiveness available for these projects in FY2023. Applicants will be scored and ranked for priority in accordance with 35 Ill. Adm. Code 662.345. No applicant can receive more than \$500,000 in small system compliance assistance principal forgiveness.

If small systems compliance assistance principal forgiveness funding is not expended, it may be used to provide disadvantaged community principal forgiveness. Loan recipients may receive both disadvantaged community principal forgiveness and small systems compliance assistance principal forgiveness. When applicable, Illinois EPA will first apply the disadvantaged community principal forgiveness to a project, up to the maximum amount allowed, and then apply the small system compliance assistance principal forgiveness, up to the maximum amount.

*One Well Critical Review Principal Forgiveness* – Illinois EPA will make \$1,350,000 in principal forgiveness available for community water supplies which are only served by one well and are on the Agency’s Critical Review list per 35 Ill. Adm. Code 602.107. Eligible applicants must meet the following requirements:

- 1) The loan applicant’s public water supply system must appear on the Agency’s Critical Review list per 35 Ill. Adm. Code 602.107, and the project will result in removal from the Critical Review list.
- 2) Loan Applicant’s Project Plan must consider at least three alternatives and include a justification of the most feasible alternative that is based upon financial considerations, operational requirements, operator qualifications, reliability, and water quality considerations per 35 Ill. Adm. Code 602.225(d).
- 3) Loan Applicant must have a service population of fewer than 3,300 customers.

Illinois EPA will make \$1,350,000 in principal forgiveness available for these projects in FY2023. Applicants will be scored and ranked for priority in accordance with 35 Ill. Adm. Code 662.345. No applicant can receive more than \$675,000 in one well critical review principal forgiveness.

If one well critical review principal forgiveness funding is not expended, it may be used to provide disadvantaged community principal forgiveness. Loan recipients may receive both



disadvantaged community principal forgiveness and one well critical review principal forgiveness. When applicable, Illinois EPA will first apply the disadvantaged community principal forgiveness to a project, up to the maximum amount allowed, and then apply the one well critical review principal forgiveness, up to the maximum amount.

Manganese Compliance Assistance Principal Forgiveness – Illinois EPA will make \$1,350,000 in principal forgiveness available for community water supplies with a State MCL violation for manganese in accordance with 35 Ill. Adm. Code 611.300(b). Eligible projects must result in the system with a State MCL violation for manganese returning to compliance. Eligible applicants must meet the following requirements:

- 1) The Agency has issued a Violation Notice to the community water supply (CWS) under Section 31 of the Illinois Environmental Protection Act (Act) or has initiated an enforcement action against the CWS under Section 43 of the Act.
- 2) Loan Applicant's Project Plan must consider at least three alternatives and include a justification of the most feasible alternative that is based upon financial considerations, operational requirements, operator qualifications, reliability, and water quality considerations per 35 Ill. Adm. Code 602.225(d).
- 3) Loan Applicant must have a service population greater than 1,000 but fewer than 3,300 customers.

Illinois EPA will make \$1,350,000 in principal forgiveness available for these projects in FY2023. Applicants will be scored and ranked for priority in accordance with 35 Ill. Adm. Code 662.345. No applicant can receive more than \$675,000 in manganese compliance assistance principal forgiveness.

If manganese compliance assistance principal forgiveness funding is not expended, it may be used to provide disadvantaged community principal forgiveness. Loan recipients may receive both disadvantaged community principal forgiveness and manganese compliance assistance principal forgiveness. When applicable, Illinois EPA will first apply the disadvantaged community principal forgiveness to a project, up to the maximum amount allowed, and then apply the manganese compliance assistance principal forgiveness, up to the maximum amount.

As projects on the Intended Funding List that qualified for principal forgiveness are bypassed, those funds will be made available to the next applicant which qualifies for a Letter of Commitment in accordance with Section 662.355 of the Loan Rules, excluding Section 662.355(a)(2), with priority given to the project with the higher loan priority score.

## 2) Interest Rate and Loan Term Determinations

The Loan Rules provide for a fixed loan rate that shall be established annually at one-half the market interest rate. Specifically, the fixed loan rate is defined by rule as one-half the mean interest rate of the 20 General Obligation Bond Buyer Index from July 1 to June 30, in the preceding State FY, rounded to the nearest .01%. Current Loan Rules establish a new interest rate each July 1 for the following State FY. Based on bond rates through June 30, 2022, the fixed loan rate for loans executed by Illinois EPA from July 1, 2022 through June 30, 2023 will be 1.24%.

The Loan Rules also allow for reduced interest rates, based upon certain criteria, as well as the possibility for a maximum term of up to 30 years from the initiation of operation, with initial repayments of principal to commence within one year of the initiation of operation. The fixed

loan rate is a simple, annual rate. The details from the Loan Rules governing interest rates and repayment period are below:

**Section 662.210 Fixed Loan Rate** The interest rate of the loan agreement shall be a fixed loan rate and shall be established as follows:

- a) Base 20 Year Rate – Loan agreements with a repayment period not to exceed 20 years shall have a fixed loan rate equal to 50% of the market interest rate (mean interest rate of the 20 General Obligation Bond Buyer Index, from July 1 through June 30 of the preceding State fiscal year rounded to the nearest 0.01%).
- b) Small Community Rate – A public water supply with a service population less than 25,000 that also meets any one of the following three criteria qualify for a fixed loan rate equal to 75% of the Base 20 Year Rate:
  - 1) The median household income of the public water supply's service population is less than the statewide average.
  - 2) The unemployment rate of the public water supply's service population is greater than the statewide average.
  - 3) The public water supply's annual user charge, based upon the average monthly bill of the public water supply's residential customers, is greater than 1.0% of the median household income of the public water supply's service population.
- c) Hardship Rate – A public water supply with a service population less than 10,000 that also meets any one of the following three criteria qualify for a fixed loan rate of 1.0%:
  - 1) The median household income of the public water supply's service population is below 70% of the statewide average.
  - 2) The unemployment rate of the public water supply's service population is at least 3.0% greater than the statewide average.
  - 3) The public water supply's annual user charge, based upon the average monthly bill of the public water supply's residential customers, is greater than 1.5% of the median household income of the public water supply's service population.
- d) Environmental Impact Discount – When at least 50% of the eligible project costs fund any of the following components, the loan applicant shall receive a 0.2% discount from the rates established in subsection (a), (b), or (c):
  - 1) green infrastructure projects;
  - 2) projects lowering water demand;
  - 3) projects reducing energy demands at a public water supply; or

- 4) projects involving the removal or replacement of lead in water mains or service lines.

### **Section 662.220 Loan Repayment Period**

- a) Except as provided in subsections (b) and (c), the loan repayment period cannot exceed the lesser of 20 years beyond the initiation of operation date, 20 years beyond the initiation of the loan repayment period, or the projected useful life of the project to be financed with proceeds of the loan.
- b) For loan applicants that are a disadvantaged community, the loan repayment period cannot exceed the lesser of 30 years beyond the initiation of operation date, 30 years beyond the initiation of the loan repayment period, or the projected useful life of the project to be financed with proceeds of the loan.
- c) The Agency may require a loan repayment period term of less than the maximum. In evaluating the appropriateness of alternative loan terms, the Agency shall consider such factors as the scope of the proposed project, the impacts of alternative loan terms on user fees, and the overall cost of the project.

## **V. Federal Assurances**

Illinois EPA provides the following assurances and certifications to the U.S. EPA as a part of the IUP. Illinois EPA agrees to the following as required by the SDWA, the PWSLP Operating Agreement with the U.S. EPA, and as conditions of the grants to capitalize the PWSLP.

### **A. Environmental Reviews**

The Illinois EPA will conduct environmental reviews for all projects as specified in its Operating Agreement with the U.S. EPA and specified in Part 662 of the Procedures for Issuing Loans from the Public Water Supply Loan Program (PWSLP). The procedures establish a methodology to assure that loan funded projects are environmentally acceptable.

### **B. Expeditious and Timely Expenditures**

Illinois EPA will expend all funds in the PWSLP in a timely and expeditious manner as per 40 CFR 35.3550(1).

### **C. Program Benefits Reporting**

All funded projects will be reported to the U.S. EPA's Office of Water State Revolving Funds reporting database on an ongoing basis, as required by U.S. EPA. In addition, Illinois EPA will

meet the reporting requirements set forth by the Federal Funding Accountability and Transparency Act (FFATA) and will report annually into the National Information Management System database.

#### **D. Wage Rates and Standards**

In order to meet a Federal Capitalization Grant condition, the Illinois EPA will require PWSLP projects to comply with the Federal wage and employment standards under the Federal Davis-Bacon Act.

#### **E. Archeological and Historic Preservation Act of 1974, National Historic Preservation Act of 1966 and other federal Cross-Cutters**

U.S. EPA has determined that the provisions of PL 93-291, also known as the National Historic Preservation Act, must be applied to activities of State revolving loan funds where their activities are supported by funds directly made available by Federal Capitalization Grants. All PWSLP projects are reviewed by the Illinois Historic Preservation Agency (IHPA) for compliance. All projects must have a federal Section 106 sign-off prior to receiving a loan. The sign-off may be unconditional, or it may be conditional upon the applicant agreeing to incorporate measures to protect or recover historic or archeological resources.

Construction projects partially or fully funded by the DWSRF Program must comply with federal laws generally known as “cross-cutters.” Illinois EPA will ensure that DWSRF loan recipients comply with applicable federal laws through a variety of program procedures.

#### **F. Guidelines for Enhancing Public Awareness of SRF Fund Assistance Agreements**

U.S. EPA has produced a document titled “Guidelines for Enhancing Public Awareness of SRF Assistance Agreements” (dated June 3, 2015), which outlines the requirement for increased awareness of Federal funding through the DWSRF and CWSRF. These guidelines include options for project “signage”. Illinois EPA has satisfied this requirement by modifying Standard Condition No. 23 within the Loan Agreement, which states:

The loan recipient shall meet a signage requirement by posting a sign at the project site or making an equivalent public notification such as a newspaper or newsletter publication; utility bill insert; or online posting for the project duration. After the signage requirement is met, documentation must be submitted to the Illinois EPA using the Public Notification/Signage Requirement Certificate of Completion.

All loan recipients must submit the certification form prior to the first disbursement of loan funds. All signage must include language that the project is wholly or partially funded with joint funding using both State and Federal funds. (<https://www2.illinois.gov/epa/Documents/epa-forms/water/financial-assistance/srf/signage-form.pdf>)

#### **G. American Iron and Steel (AIS) Requirements, and Build America, Buy America**

All PWSLP projects must include the requirement for American Iron and Steel per the "Consolidated Appropriations Act 2017." This law continues the requirement for the use of AIS products in DWSRF projects. The definitions, applications, and processes of AIS as included in the CWA are essentially the same as the AIS requirement that was included in the Continuing Appropriations Act of 2014. Standard Condition No. 18 of all loan agreements obligates the applicant to comply with the AIS requirements. Further guidance on AIS requirements is available on IEPA's website.

<https://www2.illinois.gov/epa/topics/grants-loans/state-revolving-fund/guidance/Pages/american-iron-and-steel-requirements.aspx>

On November 15, 2021, President Biden signed into the Infrastructure Investment and Jobs Act which includes the Build America, Buy America Act (BABA). The Act requires the following:

(1) All iron and steel used in the project are produced in the United States. (2) All manufactured products used in the project are produced in the United States. This means the manufactured product was manufactured in the United States, and the cost of the components of the manufactured product that are mined, produced, or manufactured in the United States is greater than 55 percent of the total cost of all components of the manufactured product. (3) All construction materials are manufactured in the United States.

This is a federal requirement that effects SRF programs nationwide. At this time, Illinois EPA is investigating the use of equivalency to meet this new requirement. BABA becomes effective when IEPA begins utilizing funds from the FY2022 Base or BIL capitalization grants.

## **H. Equivalency**

States can identify a group of loans, the sum of which is equal to the amount of its capitalization grant, to meet crosscutter and single audit requirements. This concept is called "equivalency".

Illinois considered using equivalency to satisfy the single audit requirements. However, this methodology did not work for the program and the PWSLP continues to require all loan recipients to follow single audit requirements and continues to monitor all loan recipients as required. Illinois EPA has chosen not to use equivalency to satisfy any crosscutter requirements.

## **I. Small Systems Minimum Assistance**

The SDWA requires that of the amount credited to any state loan fund in any fiscal year, 15% shall be available solely for providing loan assistance to public water systems which regularly serve fewer than 10,000 persons to the extent such funds can be obligated for eligible projects of public water systems.

Illinois EPA has historically met this requirement on an annual basis but fell below the 15% level in FY2017 and FY2018 as demonstrated by the table below. In recent years with grant funding

being scarce, more and more small communities have applied for funding through the PWSLP to take advantage of the principal forgiveness being offered.

Of the \$340,634,975 worth of projects on the FY2023 Intended Funding List \$29,034,968 or 8.50%, of project costs are anticipated to provide funding to loan recipients serving less than 10,000 people.

The Illinois EPA will continue to look for ways to increase the amount of funding to loan applicants serving fewer than 10,000 persons to ensure sufficient levels of funding go to meet this requirement on an ongoing basis.

State Fiscal Year	Total Funding	Funding to Loan Recipients Serving Fewer Than 10,000 Persons	Percent of Funding to Loan Recipients Serving Fewer Than 10,000 Persons
2017	\$273,569,175	\$21,100,707	7.71%
2018	\$337,662,582	\$23,781,895	7.04%
2019	\$240,791,941	\$44,181,530	18.35%
2020	\$173,786,824	\$33,429,063	19.26%
2021	\$158,974,430	\$58,289,940	36.67%
2022*	\$98,259,328	\$52,987,462	53.93%
2023**	\$340,000,000	\$30,025,611	8.80%

\* 2022 numbers pulled from Loan Grant Tracking System as of 5-16-2022.

\*\* 2023 numbers are from the PWSLP FY2023 Intended Funding List.

**J. Accounting/Auditing Requirements**

Illinois agrees to ensure that the State and public water systems receiving assistance will use accounting, audit, and fiscal procedures conforming to Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board or, in the case of privately-owned systems, the Financial Accounting Standards Board.

## APPENDIX A: Definitions and Acronyms

As used in this document, the following words and terms mean:

Agency – Illinois Environmental Protection Agency

Binding Commitment – A legal obligation between the Agency and a loan recipient to provide financial assistance from the Public Water Supply Loan Program to that loan recipient, specifying the terms and schedules under which assistance is provided. The loan agreement will be considered a binding commitment.

Bypass - An action by Illinois EPA to remove a project from funding consideration in a State FY.

Capitalization Grant – The actual federal funds received by the Agency for deposit into the PWSLP as a result of the Capitalization Grant agreement with USEPA.

Construction – *Any one or more of the following which is undertaken for a public purpose: preliminary planning to determine the feasibility of the public water supply facilities; engineering, architectural. Legal, fiscal, or economic investigations or studies, surveys, designs, plans, working drawings, specifications, procedures or other necessary actions, erection, building, acquisition, alteration, remodeling, improvement or extension of public water supply facilities, or the inspection or supervision of any of the foregoing items.* (415 ILCS 5/19.2(d))

Director – Director of the Illinois Environmental Protection Agency

DWSRF – Drinking Water State Revolving Fund

EPA – Environmental Protection Agency

Facilities – Equipment or operating systems that are constructed installed or established to serve the particular purpose of improving or augmenting sustainability for public water supplies and public water supply facilities in a watershed. Facilities may involve stand-alone projects or be involved as component pieces of public water supply projects. Facilities in the context of the Green Project Reserve will address green infrastructure, water and energy efficiency improvements and other environmentally innovative activities.

FFATA – Federal Funding Accountability and Transparency Act

Fund – The Water Revolving Fund authorized by 415 ILCS 5/19.3, consisting of the Water Pollution Control Loan Program, the Public Water Supply Loan Program, and the Loan Support Program.

FY – Fiscal Year

Initiation of Operation – The date specified by the loan agreement on which use of the project began operation for the purposes that it was planned, designed, and constructed.

IUP – Intended Use Plan – A plan that includes a description of the short- and long-term goals and objectives of the Public Water Supply Loan Program, project categories, discharge requirements, terms of financial assistance and the loan applicants to be served. (415 ILCS 5/19.2(e))

Interest Rate - The interest rate of the loan agreement shall be a fixed loan rate.

Loan Agreement – The contractual agreement between the Agency and the local government unit or privately-owned community water supply that contains the terms and conditions governing the loan issued from the PWSLP.

Loan Applicant – A local government unit or privately-owned community water supply that has applied for a loan from the PWSLP for construction of public water supply facilities.

LSLR – Lead Service Line Replacement

Maximum Contaminant Level (MCL) – The maximum permissible level of a contaminant in water that is delivered to any user of a public water system.

Median Household Income or MHI - The median household income is the American Community Survey 5-year estimate from the United States Department of Commerce, Bureau of the Census.

Operating Agreement - The agreement between the Agency and U.S. EPA that establishes the policies, procedures and activities for the application and receipt of Federal Capitalization Grant funds for capitalization of the WPCLP.

Principal – All disbursements, including interest and loan support accrued on the disbursements, that will be financed at the time the repayment schedule period begins.

Principal Forgiveness - The portion of a loan's principal for which there is no repayment obligation, consistent with the terms of the project's loan agreement.

Privately Owned Community Water Supply (System) – *an investor-owned water utility, if under Illinois Commerce Commission regulation and operating as a separate and distinct water utility; a not-for-profit water corporation, if operating specifically as a water utility; and a mutually owned or cooperatively owned community water system, if operating as a separate water utility.* (415 ILCS 5/19.2)

Project – The activities or tasks the Agency identifies in the loan agreement for which the loan recipient may expend loan funds.

PPL – Project Priority List, which is an ordered listing of projects developed in accordance with the priority system described in 35 Ill. Adm. Code 662.345 (Loan Priority Score) that the Agency has determined are eligible to receive financial assistance from the PWSLP.

PWSLP – The Public Water Supply Loan Program as authorized by Section 19.2 of the Environmental Protection Act. (415 ILCS 5/19.2)

Readiness to Proceed - Timely progress toward achieving a binding commitment during the State FY and initiating project activities. This is measured by an applicant's success in meeting all applicable pre-award PWSLP program requirements.

SDWA – The Federal Safe Drinking Water Act, as amended. (42 USC 300f)

SRF – State Revolving Fund

U.S. EPA - United States Environmental Protection Agency.

User Charge - A charge levied on the users of a treatment works to produce adequate revenues for the operation, maintenance and replacement of the treatment works.

WPCLP – Water Pollution Control Loan Program, as authorized by Section 19.2 of the Environmental Protection Act. (415 ILCS 5/19.2)



## **APPENDIX B: BIL DWSRF Emerging Contaminants Funding Eligibility**

**(From USEPA BIL Implementation Memo)**

### **Attachment 1 – Appendix C:**

#### **Detailed List of DWSRF Emerging Contaminants Project and Activity Examples**

Below are non-exhaustive lists of DWSRF-eligible projects and activities under the BIL DWSRF Emerging Contaminants capitalization grants. For a project or activity to be eligible for funding under this appropriation, it must be otherwise DWSRF eligible, and the primary purpose must be to address emerging contaminants in drinking water with a focus on perfluoroalkyl and polyfluoroalkyl substances (PFAS) Projects that address any contaminant listed on any of EPA's Contaminant Candidate Lists (<https://www.epa.gov/ccl>) are eligible (i.e., CCL1 – draft CCL5).

##### **From the DWSRF Infrastructure Fund:**

- Emerging contaminants costs associated with the construction of a new treatment facility or upgrade to an existing treatment facility that addresses emerging contaminants.
- Development of a new source (i.e., new/replacement well or intake for a public water system) that addresses an emerging contaminant issue [Note: water rights purchases must still meet the criteria in the Class Deviation for Water Rights].
- Consolidation with another water system that does not have emerging contaminants present or has removal capability.
- Costs for planning and design and associated pre-project costs.
- Infrastructure related to pilot testing for treatment alternatives.
- Creation of a new community water system to address unsafe drinking water provided by individual (i.e., privately-owned) wells or surface water sources.

## APPENDIX C: Summary of Public Participation and Public Comments

The Draft 2023 IUP was released for public review on June 2, 2022, thus beginning the 21-day public comment period. The Draft 2023 IUP notice was placed on Illinois EPA's general notice website <https://www2.illinois.gov/epa/public-notice/Pages/general-notice.aspx> and each of the identified stakeholders of the Public Water Supply State Revolving Fund (SRF) program were also notified by e-mail. The Agency expanded its outreach for comment on the IUP this year by also e-mailing additional special interest groups, consulting engineers, professional agencies/associations, and other funding agencies that either expressed an interest in, or are familiar with, the SRF loan programs. The notice directed potential commenters to Barb Lieberoff, Office of Community Relations as the Agency contact for receiving comments and questions pertaining to the Draft 2023 IUP.

Various comments were received by the Agency regarding the loan priority score of various projects. Upon further review the Agency made the following adjustments:

The following projects, which had Planning Approval prior to March 31, 2022, were inadvertently omitted from the Project Priority List. These projects were scored for priority and placed upon the Project Priority List accordingly:

Morrison L173475                      Oreana L176024

The following lead service line replacement project, which had Planning Approval prior to March 31, 2022, had an incorrect construction start date input initially. The correct construction start date was entered and the project was scored for priority and placed upon the lead service line replacement Project Priority List accordingly:

Batavia L175844

The following projects were re-scored to reflect correct unemployment data and placed on the Project Priority List accordingly:

Carrolton L174008                      Macon L175736                      Mound City L174312  
Rushville L175778                      Sycamore L176101, L175816

Plainfield (L176147) has an asset management plan. The project priority score was updated, and the project was placed on the Project Priority List accordingly.

The appropriate service population for North Chicago (L175812) was not used in the initial project priority scoring and determination of principal forgiveness. The project does qualify for the Small Community Rate and disadvantaged community principal forgiveness.

The Village of Lee has a draft user charge ordinance for project L173252 which would qualify them for disadvantaged community principal forgiveness. The Agency will re-evaluate the monthly user charge necessary as a result of implementing the project and require the adoption of the appropriate user charge ordinance before principal forgiveness will be provided in a loan agreement.

The Agency received lengthy comments from the Environmental Policy Innovation Center in collaboration with the Metropolitan Planning Council, the Alliance for the Great Lakes along with

various co-signatories. While neither time, nor space within this document, allows the Agency to provide specific comments on all of the issues discussed within the 22 pages of comments received, the Agency will be taking these comments into consideration as it prepares for future operations of the Public Water Supply Loan Program; the administration of the additional funds to be received as a result of the Bipartisan Infrastructure Law; potential modifications to loan rules; definitions and policy related to providing funding assistance for lead service line replacements; addressing emerging contaminants; pursuing ways to provide technical assistance to disadvantaged communities; as well as continuing to provide incentives to disadvantaged communities throughout the State of Illinois.

The Agency received comments from The Nature Conservancy. The Agency appreciates the comments received and is working to achieve many of the same goals expressed such as providing additional technical assistance to disadvantaged communities, continue to provide as much funding as possible to lead service line replacements and working to identify emerging contaminant issues in community water supply systems in Illinois. The Agency will be taking these comments into consideration as it prepares for future operations of the Public Water Supply Loan Program; the administration of the additional funds to be received as a result of the Bipartisan Infrastructure Law; potential modifications to loan rules; definitions and policy related to providing funding assistance for lead service line replacements; addressing emerging contaminants; pursuing ways to provide technical assistance to disadvantaged communities; as well as continuing to provide incentives to disadvantaged communities throughout the State of Illinois.

**APPENDIX D: 2023 Public Water Supply Loan Program - Project Priority List  
and List of Lead Service Line Replacement Projects**

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