

Illinois Environmental Protection Agency

PUBLIC WATER SUPPLY LOAN PROGRAM

2024 ANNUAL REPORT

July 1, 2023 – June 30, 2024



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Illinois EPA – Public Water Supply Loan Program – 2023 Annual Report

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**PUBLIC WATER SUPPLY LOAN PROGRAM
2024 ANNUAL REPORT: July 1, 2023 – June 30, 2024**

I. Introduction

In accordance with Title XIV of the 1996 Safe Drinking Water Act as amended (SDWA) and the Public Water Supply Loan Program (PWSLP) Operating Agreement between the Illinois Environmental Protection Agency (Illinois EPA) and the United States Environmental Protection Agency (U.S. EPA), this Annual Report addresses the activities, goals and reporting requirements of the PWSLP for the 12-month period from July 1, 2023, to June 30, 2024 (SFY2024).

II. Executive Summary

The U.S. EPA awarded Illinois EPA four Federal Fiscal Year (FFY) Drinking Water State Revolving Fund (DWSRF) capitalization grants totaling \$224,496,600. This amount consists of a base capitalization grant, a Bipartisan Infrastructure Law (BIL) Supplemental capitalization grants, a BIL Lead Service Line Replacement grant and a BIL Emerging Contaminant grant. Detail breakdown is shown in the table below:

Drinking Water Grants	Grant Amount	Federal Fiscal Year Grant	Date Received
Base- Capitalization Grant	\$26,439,000	FFY2023	September 26, 2023
BIL- Supplemental Grant	\$67,885,000	FFY2023	September 26, 2023
BIL – Lead Service Line	\$106,964,000	FFY2022	September 21, 2023
BIL – Emerging Contaminants	\$32,734,000	FFY2022	September 21, 2023
Total	\$224,496,600		

For the Emerging Contaminants grant, it should be noted that Illinois EPA transferred the Clean Water Emerging Contaminants into the Public Water Supply Loan Program (PWSLP) for SFY2024.

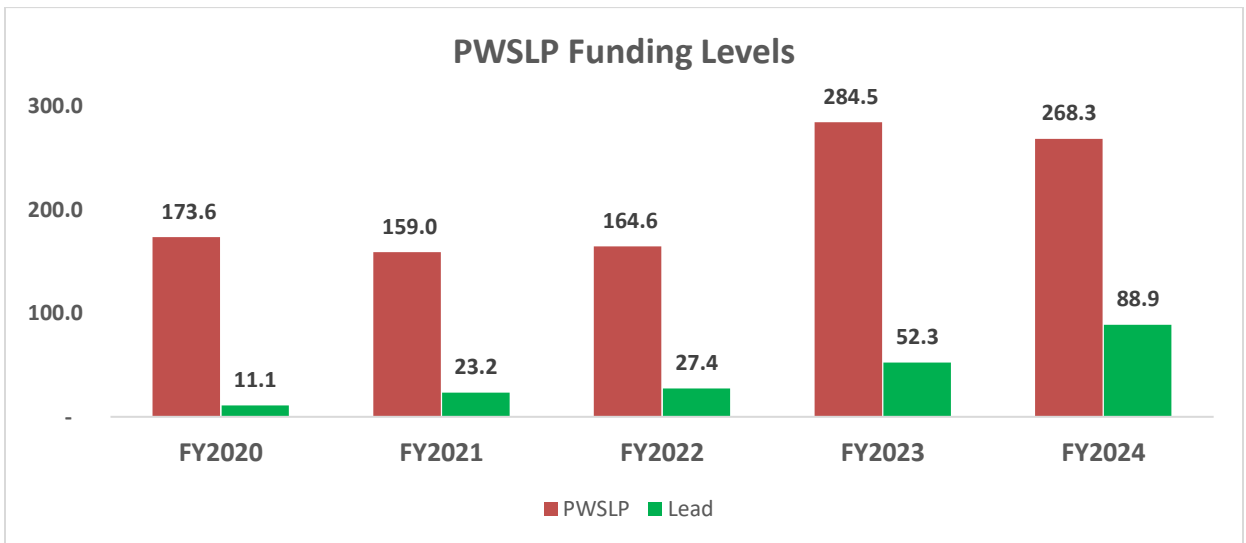
A total of \$117,133,980 in loan repayments were received during the reporting period, with those receipts consisting of \$93,930,448 in repayment principal and \$23,203,532 in repayment interest and loan support.

During the reporting period, the Illinois EPA entered 77 new loans (binding commitments) totaling \$357,127,111 and 47 loan amendments totaling (\$20,592,391) for \$336,534,720 in net funds committed. These loans and amendments are detailed within Attachment A.

Program	Total Funding	Additional Subsidy
PWSLP – Regular Loan Program	\$250,768,484	\$25,277,218
PWSLP – Lead Service Line Funding	\$88,852,307	\$52,416,742
PWSLP – Emerging Contaminant	\$17,506,322	\$17,506,322
Total	\$396,168,950	\$97,298,182

The total funding level for the PWSLP was \$396,168,950 for SFY2024 which includes Lead Service Line and Emerging Contaminant funding.

Illinois EPA also transferred \$50,000,000 of the WPCLP loan support funds into the PWSLP loan support fund and then to the regular PWSLP loan program on July 1, 2024. The \$50,000,000 transferred will be used to fund projects on the PWSLP Intended Funding List in SFY2024.



III. Conditions of the Capitalization Grant Agreement

The Illinois EPA has agreed to administer the PWSLP in accordance with their Operating Agreement with the U.S. EPA, all conditions related to receipt of the capitalization grant agreement awarded by the U.S. EPA, and with the components of the grant application, which includes the Intended Use Plan (IUP). The Illinois EPA has maintained compliance with all cash draw rules, including separation of cash draws by the PWSLP from other U.S. EPA funded programs. Cash draw projections have been reviewed and revised by the

Illinois EPA, based on the availability of funds. Proportionality was maintained not only on deposits into the PWSLP but also on expenditures out of the PWSLP.

A. Goals and Objectives of the IUP

Several short and long-term goals for the PWSLP were outlined by the Illinois EPA in the SFY2024 Intended Use Plan (IUP). Provided below is a restatement of those goals along with a brief discussion regarding outputs and outcomes.

1. Short Term Goals

- a) Support necessary actions to reduce lead levels in public water supplies and offer principal forgiveness to certain projects. 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. As of June 30, 2024, the Illinois EPA had a small residual left from the WIFTA transfer that would be available in SFY2025 for loan applicants.

In addition to the traditional “base” DWSRF capitalization grant, Illinois EPA applied for 3 additional annual federal capitalization grants, because of the Bipartisan Infrastructure Law (BIL). The details of the grants are summarized on page 1 of this document.

- b) Provide funding to as many eligible projects as possible, provided the requirements for obtaining funding are satisfied and funds are available.

During the reporting period, the Illinois EPA entered 77 new loans (binding commitments) totaling \$357,127,111 and 47 loan amendments totaling (\$20,592,391) for \$336,534,720 in net funds committed.

- c) Focus financial assistance for projects necessary to achieve or maintain compliance with federal and State laws and regulations. **The Illinois EPA continues to focus on projects necessary to achieve or maintain compliance with applicable federal and State laws and regulations and will continue to review procedures with a focus towards funding such projects. Projects continue to trickle in that address compliance related issues.**

- d) Manage a program that provides applicants with a streamlined approach to financing public water supply and other projects eligible for funding.

The Illinois EPA continues efforts to improve program operations using best management practices in the administration of the program.

- e) 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.

The Illinois EPA continues to explore best practices which will contribute to the growth and stability of the fund by consulting with financial advisors and industry professionals to examine interest rate setting, leveraging capacity, and overall financial management of the program. The loan program has teamed up with Northbridge on developing a new cash flow model that will help program managers understand the financial health of the Illinois State Revolving Fund.

- f) Use Set-Aside funds to arrange for a circuit-rider who will assist smaller communities with rate analysis, asset management, system analysis, water-loss, etc.

Illinois EPA has entered into an agreement with the Illinois Rural Water Association (IRWA) to assist public drinking water system staff, owners, operators, clerks, board and council members, and others involved in the operation, maintenance, or management of a public water system. By providing on-site technical assistance and training services, community water supplies should be able to operate and maintain their systems more efficiently. The activities began in SFY 2019 and will continue through SFY 2028. The IRWA contract was recently renewed for 5 years, hence, providing services until SFY2028. An annual report summarizing the activity is submitted separately to USEPA.

- g) To meet the demand for assistance during SFY2024 and beyond, the Illinois EPA intends to borrow against the PWSLP's loan repayments by issuing revenue bonds.

The Illinois EPA will continue working with financial advisors to calculate the leveraging capacity of the SRF loan programs, the immediate need for bond proceeds and future average annual funding levels the PWSLP can provide while meeting the SDWA's perpetuity requirements. The Agency is in preliminary discussions around leveraging in early calendar year 2025 potentially.

- h) 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.
The Illinois EPA has reached out to loan program stakeholders concerning modification to the loan program's interest rates and is always revisiting current practice to ensure we continue to strengthen the long-term viability of the loan program. Due to the size and reach of the SRF loan program, many stakeholders are always interested in discussing various program policies. Illinois EPA meets with study groups, think-tanks all year around to discuss program policies and encourage dialogue.
- i) The Agency is still 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:
The Illinois EPA is always looking to encourage asset management and planning efforts in the loan program for small and economically disadvantaged systems. The Agency is still in discussions to make well-abandonment and corrosion control studies. However, due to other competing priorities, the Agency has not been able to create a concrete action plan. The Agency will reassess if these continue to be a priority in the future.

2. Long Term Goals

- a. 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.
The Illinois EPA executed a total of 77 loans during the reporting period, with a base interest rate offered during this reporting period of 1.81%. The average open market rate during this time was approximately 3.93%. The Illinois EPA will continue to place an overarching emphasis on eliminating public health threats and ensuring compliance with federal and State drinking water laws and regulations.
- b. Target small and disadvantaged community assistance to reduce the financial impact of capital improvements projects on the users

of smaller systems and systems serving less affluent populations.

As demonstrated by the new interest rate tiers, and the focus of additional subsidization towards disadvantaged communities, the Illinois EPA will continue to focus strategies towards providing advantageous financing opportunities to small and economically challenged communities.

- c. Support extensions of public water systems to address areas of contaminated private water systems.

The Illinois EPA will continue to support any projects which will address areas of contaminated private water systems. The current PWSLP loan rules support this by awarding points to projects that address this issue.

- d. 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.

The contractual arrangement between the Illinois EPA and the Illinois Rural Water Association (IRWA) discussed above is a prime example of efforts the Agency would like to promote. Illinois EPA entered 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 through 2028 and it is \$200,000 a year.

- e. Continue to maintain the Fund as a major financial vehicle for public water supply systems achieving compliance with State and federal law.

The Illinois EPA continues to explore best practices which will contribute to the growth and stability of the Fund and will continue to emphasize compliance issues in the prioritization of funding applications.

- f. 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.

The Illinois EPA will continue to explore ideas and practices to 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.

- g. Maintain the integrity of the Water Revolving Fund (the Fund) by providing a stable and perpetual financing source for eligible loan applicants within the State and to fund those loan applicants with available loan resources.

The Illinois EPA has established a revolving loan program, the PWSLP, which will operate in perpetuity for the benefit of eligible loan applicants in Illinois. The Water Revolving Fund remains healthy, with a AAA Bond Rating.

B. Additional Subsidy Requirement

By accepting the FFY2023 Base and BIL Supplemental capitalization grants, the PWSLP agreed to provide additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants to recipients of eligible loans. The PWSLP continues to meet the additional subsidization requirement by awarding principal forgiveness. 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.

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 in 2019, which temporarily expanded 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 SFY2024 until the allotted funds are expended.

Disadvantaged Community Principal Forgiveness - Section 1452 of the SDWA requires states to provide a minimum of 12% (\$1,798,200) and a maximum of 35% (\$5,244,750) 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 \$63,895,000 and 49% of this grant, or

\$31,308,550, must be provided as subsidization, in the form of principal forgiveness, for loan recipients who meet the definition of a “disadvantaged community”. The PWSLP can provide a maximum of \$36,553,300 as Disadvantaged Community Principal Forgiveness. 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 public water supply owned by a local government unit or not-for-profit water corporation 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 pages 15-16 of this document.

For SFY2024, 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 \$1,650,000. No loan recipient shall receive more than \$1,650,000 in disadvantaged community principal forgiveness in SFY2024.

In addition to the subsidization required to be provided by the SDWA, the federal Capitalization Grant because of the annual appropriations act requires that 14% (\$2,097,900) 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 two segments, making \$1,048,950 available for Small System Compliance Assistance principal forgiveness, \$1,048,950 available for One Well Critical Review principal forgiveness. 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 \$1,048,950 in principal forgiveness available for applicants whose project will address 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 projects must address a situation where a community water supply meets 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) The CWS whose situation is being resolved must serve fewer than 3,300 customers.

Illinois EPA will make \$1,048,950 in principal forgiveness available for these projects in SFY2024. Applicants will be scored and ranked for priority in accordance with 35

Ill. Adm. Code 662.345. No applicant can receive more than \$524,475 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 \$1,048,950 in principal forgiveness available for projects which address CWS which are only served by one well and are on the Agency’s Critical Review list per 35 Ill. Adm. Code 602.107. Eligible projects must address a situation where a community water supply meets the following requirements:

- 1) The CWS 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).

Illinois EPA will make \$1,048,950 in principal forgiveness available for these projects in SFY2024. Projects will be scored and ranked for priority in accordance with 35 Ill. Adm. Code 662.345. No applicant can receive more than \$524,475 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.

The unused dollars from Small System Compliance and One Well Critical Review Principal Forgiveness will be put back into the Disadvantaged Community Principal Forgiveness in SFY2024.

C. Certifications

The Illinois EPA has provided the necessary certification from the Illinois Attorney General, for each capitalization grant received, that the Illinois EPA can legally bind itself to the terms of the capitalization grant, and in accordance with the Drug-Free Workplace Act of 1988, the Illinois EPA has instituted a Drug-Free Workplace Policy.

This policy encourages any Illinois EPA employee with a potential drug or alcohol problem to use the State Employee Assistance Program. Also, by accepting the most recent capitalization grant, the Illinois EPA has certified again that it has complied with the requirements of the Anti-Lobbying Act. The Illinois EPA has taken affirmative steps to meet the requirements of the Federal Funding Transparency and Accountability Act of 2006 (FFATA) and is operating the PWSLP in compliance with all FFATA reporting requirements. And finally, the Illinois EPA certifies, and has previously certified that all assistance made available under the PWSLP was provided under terms and conditions requiring compliance with the Davis-Bacon Wage Act as specified in the appropriations for the Drinking Water SRF. In short, the Illinois EPA has established a program which has led to adherence to all objectives and conditions of each capitalization grant received.

IV. Program Funding

A. Source of Funds

1. Capitalization Grant

The U.S. EPA awarded the FFY 2023 base DWSRF capitalization grant to the Illinois EPA on September 26, 2023, in the amount of \$14,957,128.

The U.S. EPA awarded the BIL- Supplemental FFY23 grant to Illinois EPA on September 26, 2023, in the amount of \$63,895,000.

The U.S. EPA awarded the BIL- Emerging Contaminants FFY22 grant to Illinois EPA on September 21, 2023, in the amount of \$32,734,000. Illinois EPA is a year in arrears in their EC funding allocation.

The U.S. EPA awarded the BIL- Lead FFY22 grant to Illinois EPA on September 21, 2023, in the amount of \$106,964,000. Illinois EPA is a year behind in their lead funding allocation.

The Illinois EPA realizes that federal drawdowns must be proportional to state match drawdowns. Starting with the 2014 grant, the Illinois EPA spent the state match in its entirety and then drew both the loan funds and the administrative funds at a rate of 100 percent. The Illinois EPA no longer receives In-Kind Contractual Services funding as part of the Capitalization Grant. A contract has been entered with The Northbridge Group to facilitate the needs of the Agency for which the In-Kind funding was previously used.

2. State Matching Funds

The State of Illinois provided \$9,380,926 in total DWSRF State Match. The Drinking Water State Match covered both Base capitalization grant and the Bipartisan Infrastructure Law (BIL) Supplemental grant. The state match requirement for the Base capitalization grant is 20% and 10% for the BIL Supplemental grant.

3. Repayments and Fund Equity

The Illinois EPA committed all loan repayment funds and fund equity resources to the PWSLP for binding commitments.

4. Leveraging

On December 15, 2020, the program issued \$50,000,000 in Drinking Water Leveraged Bonds. After adding the premium of \$12,800,170.05 and subtracting costs of issuance, the realized proceeds of \$62,800,170.05 are for use in the loan program. The supplemental funding from BIL has allowed the loan program to delay the need for leveraging currently. The Agency continues to monitor the need for a potential future leveraging exercise by running IEPA cash flow models. However, the Agency is in conversations to potentially leverage again in the Calendar Year 2025.

B. Binding Commitments

During the reporting period, the Illinois EPA entered 77 new loans (binding commitments) totaling \$357,127,111 and 47 loan amendments totaling (\$20,592,391) for \$336,534,720 in net funds committed. These loans and amendments are detailed within Attachment A.

C. Disbursements

Disbursements made to loan recipients during this reporting period totaled \$259,775,056. 54% of the disbursements were made from the Federal funding source, 44% of the disbursements were made from the Repayment Funds funding source and the remaining 2% was made from State Match.

D. Fiscal Status of the PWSLP

An analysis in this area requires a direct comparison of financial data including revenues, expenditures, PWSLP sources and uses, and PWSLP balance (see Attachment B, Financial Statements). The Illinois EPA has established operating procedures and management tools that assure that the program can operate in perpetuity.

V. Program Requirements

A. Financial Reports

The Illinois EPA has submitted the Federal Cash Transaction Report (FCTR) on a quarterly basis and the Financial Status Report (FSR) on an annual basis.

B. MBE/WBE Reporting

The Illinois EPA has submitted a completed “MBE/WBE Utilization Under Federal Grants, Cooperative Agreements and Interagency Agreements” report (EPA Form 5700-52A) on an annual basis.

C. Single Audit Act

The Illinois EPA has complied with the requirements of the Single Audit Act historically. In SFY2024, a Statewide Single Audit was not performed on the State of Illinois.

D. Generally Accepted Auditing Standards and Accounting Principles

The Illinois EPA has complied with Generally Accepted Government Auditing Standards (GAGAS) and all loan recipients are encouraged to comply with Generally Accepted Accounting Principles (GAAP).

E. Federal Requirements

The Illinois EPA has fulfilled all applicable federal requirements required by the SDWA including.

- 1) Assurances and certifications provided in the IUP have been met;
- 2) Environmental reviews have been done in accordance with federal and State law;
- 3) Binding commitments to provide assistance have been made in amounts equal to more than the required 120 % of the amount of each grant payment within one year after receiving the grant payment;
- 4) All funds have been expended in an expeditious and timely manner; and
- 5) Beginning January 17, 2014, implemented the “American Iron and Steel” requirement as described in the Consolidated Appropriation Act of 2014.

Attachment A- List of Loan Awards

Attachment B- PWSLP Financial Statements