PUBLIC WATER SUPPLY LOAN PROGRAM

ANNUAL REPORT

Prepared by
Illinois Environmental Protection Agency

For
U.S. EPA Region 5

September, 2007
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I. Introduction

In accordance with Title XIV of the 1996 Safe Drinking Water Act as amended (SDWA); the Public Water Supply Loan Program (PWSLP) and Loan Support Program (LSP); and Operating Agreement (OA) between the Illinois Environmental Protection Agency (IEPA) and the United States Environmental Protection Agency (U.S. EPA), this Annual Report addresses the activities and goals of the PWSLP which were achieved during the 12 month period from July 1, 2006 to June 30, 2007 which is considered the State of Illinois fiscal year for 2007.

II. Abstract

During this reporting period, the U.S. EPA awarded a federal capitalization grant (CG) for $33,566,500 on September 22, 2006. After $1,342,660 was reserved for set-asides (administration), $32,223,840 was available for binding commitments.

On May 22, 2006, the Governor signed P.A. 94-0798 into law, thereby making appropriations available for state matching funds and thereby making all awarded capitalization grant money available to make binding commitments.

During this reporting period, the Illinois EPA was able to enter into 14 binding commitments totaling $35,776,960, which are summarized in Attachment A. In addition, there were 18 amendments totaling $7,020,277 which are listed in Attachment B. During this period, the Illinois EPA also received $12,662,701 in repayment principal, $4,591,316 in repayment interest, and $5,384,829 from interest on cash in banks.

III. Goals and Accomplishments

A. Conditions of the Capitalization Grant Agreement

The Illinois EPA has agreed to administer the PWSLP in accordance with the special conditions of each capitalization grant agreement awarded by the U.S. EPA, and the grant application, which includes the Intended Use Plan (IUP) and the Operating Agreement. 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 and changes to the IUP. Proportionality will be maintained not only on deposits into the PWSLP but also on expenditures out of the PWSLP.

For each capitalization grant received, the Illinois EPA has provided the necessary certification from the Illinois Attorney General that the Illinois EPA can legally bind itself to the terms of the capitalization grant. 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 that it will comply with the requirements of the new Anti-Lobbying Act. In short, the Illinois EPA has established a program that will lead to the adherence to all objectives and conditions of each capitalization grant received.

B. Goals and Accomplishments of the IUP

1. Short Term Goals
   
a. To provide funding to all eligible compliance projects, to the extent that applications are completed and funds are available;

b. To commit all available loan resources to eligible loan applicants;

c. To manage a program that provides applicants with as simple an approach as possible to financing water supply projects, consistent with federal and state statutory requirements;

d. To leverage the fund through the sale of bonds secured by the loan program to the extent necessary to fund all completed loan applications during the fiscal year or to provide a source of state matching funds for federal capitalization grants. Note: A leveraged bond sale did not occur in FY2007. The State was able to fund all completed applications with available fund resources. However, the legislative authority to leverage has been carried over to FY2008 and a bond sale may occur during that fiscal year; and

e. To establish and implement wellhead protection programs and develop a process to enhance the State’s ability to make wellhead information available to the public in an electronic format.

2. Long Term Goals
   
a. To provide a stable and perpetual financing source for eligible public water supply systems within the state;

b. To provide this financial assistance at interest rates significantly below those available on the open market;

c. To utilize the Fund as a major financial vehicle for bringing qualifying public water supplies into compliance with the requirements of the SDWA and the Illinois Environmental Protection Act, and thereafter as a vehicle for maintaining compliance; and
d. To continue the development and implementation of source water protection programs within the state:

- 45% of the community water systems in the State will have source water protection programs in place by 2010, and;

- 89% of the community water systems in the State will have source water protection programs in place and being implemented by 2010.

IV. Program Funding

A. Source of Funds

1. Capitalization Grants

During this period, the U.S. EPA issued one federal capitalization grant on September 22, 2006 in the amount of $33,566,500. Letter of credit increase was achieved for the first quarter of FFY 2007.

The Illinois EPA realizes that federal draw-downs must be proportional to state match draw downs. The Illinois EPA draws 100 percent of the administrative costs and the wellhead protection set-aside from the federal letters of credit and offsets this by drawing down less for project construction costs. The Illinois EPA monitors this activity on a monthly basis to ensure proportionality.

2. State Matching Funds

During this reporting period, the Governor signed P.A. 94-0798 on May 22, 2006, providing adequate appropriations for state match and making all awarded capitalization grant money available for binding commitments.

3. Repayments

During this reporting period, the Illinois EPA committed $10,000,000 in repayment funds for the purpose of making binding commitments.

4. Leverage Funds

The Illinois EPA did not undertake leveraging during this reporting period (FY2007). The leveraging program is structured as a hybrid cash flow/reserve fund that utilizes a 50% reserve fund from equity of the State Revolving Fund programs.
B. Binding Commitments

The Illinois EPA has entered into binding commitments and amendments totaling $42,797,237 for this reporting period, as identified in Attachments A and B.

C. Disbursements

Disbursements made to loan recipients during this reporting period amounted to $52,514,339.

A total of $993,210 was expended for administrative costs during this reporting period. Also, $166,360 was expended for the wellhead protection program.

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 C, Financial Statements). The Illinois EPA has established operating procedures and management tools that will assure that the program is capable of operating in perpetuity. Most projects receiving loans from the PWSLP will require a semi-annual repayment of principal and/or interest over a maximum term of 20 years. Loans made to “private” utilities are required to make repayments on a quarterly basis over the life of the loan.

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 Reports

The Illinois EPA has submitted a completed Standard Form 334 within 30 days after each quarter.

C. Single Audit Act

The Illinois EPA has complied with the requirements of the Single Audit Act and the resulting audit report contained no material findings related to the PWSLP.

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 required to comply with Generally Accepted Accounting Principles (GAAP).
## Summary of All Loan Projects

**From 07/01/2006 through 06/30/2007**

**For Drinking Water**

<table>
<thead>
<tr>
<th>PROJECT/L17</th>
<th>BORROWER</th>
<th>INTEREST RATE</th>
<th>LOAN COMMITMENT AMOUNT ($) &amp; DATE</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>2626</td>
<td>Akin Water District</td>
<td>2.50%</td>
<td>$603,906 09/29/06</td>
<td>Construction of the following:</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td>- A new drinking water pump station, 90 feet of 6-inch water main, 8,340 feet of 4-inch water main, 18,580 feet of 3-inch water main, SCADA system and an emergency electrical generator to replace the existing pump station which has reached the end of its design life, replace undersized mains and complete loops in the system.</td>
</tr>
<tr>
<td>2429</td>
<td>East Peoria</td>
<td>2.50%</td>
<td>$3,767,987 09/15/06</td>
<td>Construction of the following:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- A new 2.3 million gallons per day (MGD) capacity drinking water treatment plant and two new water supply wells to provide adequate supply to meet community needs</td>
</tr>
<tr>
<td>2851</td>
<td>Geneva</td>
<td>2.50%</td>
<td>$8,617,559 06/13/07</td>
<td>Construction of the following:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- A new 8.0 MGD membrane softening water treatment plant, a finished water reservoir, chemical feed system and several pumps to meet the radium compliance standard.</td>
</tr>
<tr>
<td>PROJECT/L17</td>
<td>BORROWER</td>
<td>INTEREST RATE</td>
<td>LOAN COMMITMENT AMOUNT ($) &amp; DATE</td>
<td>DESCRIPTION</td>
</tr>
<tr>
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<td>---------------------------------</td>
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</tr>
</tbody>
</table>
| 2483       | Kinmundy | 2.50%         | $173,075 09/30/06               | Construction of the following:  
- The rehabilitation of existing water treatment plant equipment to make necessary repairs and upgrades to improve efficiency and provide adequate supply and quality to meet community needs. |
| 2610       | Lebanon  | 2.50%         | $1,100,000 09/28/06             | Construction of the following:  
- A new 300,000 gallon elevated storage tank, 1,225 feet of 12-inch water main, three pressure reducing stations, two pumps and an emergency generator to provide an adequate supply and maintain required system pressure. |
| 2338       | Litchfield | 2.50%     | $12,750,000 09/29/06            | Construction of the following:  
- A new raw water pumping station and water treatment plant to replace the existing water plant that was near the end of its useful life. |
| 2622       | Mapleton | 2.50%         | $52,300 07/13/06                | Construction of the following:  
- 3,500 feet of 6-inch water main to replace undersized main and correct pressure problems in the system. |
<table>
<thead>
<tr>
<th>PROJECT/L17</th>
<th>BORROWER</th>
<th>INTEREST RATE</th>
<th>LOAN COMMITMENT AMOUNT ($) &amp; DATE</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>2620</td>
<td>Marissa</td>
<td>2.50%</td>
<td>$1,711,945 03/27/07</td>
<td>Construction of the following: - A new 500,000 gallon elevated storage tank, 8,400 feet of 10-inch water main, chlorine feed system and pump station to provide adequate water storage capacity and increase system water pressure.</td>
</tr>
<tr>
<td>2501</td>
<td>Nauvoo</td>
<td>2.50%</td>
<td>$2,000,000 06/22/07</td>
<td>Construction of the following: - A new baffled clear well, turbidity monitoring and recording equipment and supplemental filter cells to upgrade the water treatment plant and provide adequate quality to meet community needs.</td>
</tr>
<tr>
<td>2500</td>
<td>Port Byron</td>
<td>2.50%</td>
<td>$173,434 08/21/06</td>
<td>Construction of the following: - A new water supply well, 5,170 feet of 12-inch water main and 28 feet of 6-inch water main to meet current and future water production needs.</td>
</tr>
<tr>
<td>2633</td>
<td>Saline Valley</td>
<td>2.50%</td>
<td>$750,000 09/30/06</td>
<td>Construction of the following: - 27,500 feet of 8-inch water main, a master meter, a pump and appurtenances to hook on to the Saline Valley Conservancy District system to provide an adequate water supply and abandon their current well and treatment plant.</td>
</tr>
<tr>
<td>PROJECT/L17</td>
<td>BORROWER</td>
<td>INTEREST RATE</td>
<td>LOAN COMMITMENT AMOUNT ($) &amp; DATE</td>
<td>DESCRIPTION</td>
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</tr>
</tbody>
</table>
| 2034       | South Highway Water District | 2.50% | $442,784 08/29/06 | Construction of the following:  
- A new pump station to replace the existing Wall Street pump station which has reached the end of its useful lifespan.  
- 6,943 feet of 10-inch water main to replace cast iron mains on Wall Street that have numerous breaks. |
| 2781       | Villa Park | 2.50% | $2,130,000 04/25/07 | Construction of the following:  
- 10,323 feet of 8-inch water main, 1,755 feet of 10-inch water main, fire hydrants, valves, appurtenances and associated restoration to correct distribution system deficiencies due to age and poor condition. |
| 1600       | Waterloo | 2.50% | $1,503,970 04/30/07 | Construction of the following:  
- A new 1.0 million ground storage tank, booster pump, chemical feed systems, emergency electrical generator, 219 feet of 12-inch water main, 95 feet of 8-inch water main and appurtenances to provide adequate storage capacity. |
## Attachment B

**Summary of All Loan Amendments**  
From 07/01/2006 through 06/30/2007  
For Drinking Water

<table>
<thead>
<tr>
<th>PROJECT/L17</th>
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<th>LOAN COMMITMENT AMOUNT ($)</th>
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<tr>
<td>2231</td>
<td>Argenta</td>
<td>$(6,155)</td>
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<tr>
<td>1848</td>
<td>Bellwood</td>
<td>$(158,991)</td>
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<tr>
<td>1270</td>
<td>Bloomington</td>
<td>$(21,359)</td>
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<tr>
<td>2053</td>
<td>Bradford</td>
<td>$(18,122)</td>
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<td>2233</td>
<td>Carlinville</td>
<td>$(172,786)</td>
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<tr>
<td>1733</td>
<td>Caseyville</td>
<td>$252,571</td>
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<tr>
<td>1733</td>
<td>Caseyville</td>
<td>$59,683</td>
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<tr>
<td>2223</td>
<td>Caseyville</td>
<td>$(29,739)</td>
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<tr>
<td>1308</td>
<td>Caterpillar Trail Public Water District</td>
<td>$1,979,588</td>
</tr>
<tr>
<td>2617</td>
<td>Croppers Subdivision Association, Inc.</td>
<td>$(7,501)</td>
</tr>
<tr>
<td>2085</td>
<td>Forrest</td>
<td>$(4,097)</td>
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<tr>
<td>PROJECT/L17</td>
<td>BORROWER</td>
<td>LOAN COMMITMENT AMOUNT ($)</td>
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<tr>
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<td>-------------------------</td>
<td>----------------------------</td>
</tr>
<tr>
<td>2104</td>
<td>Geneva</td>
<td>$6,000,000</td>
</tr>
<tr>
<td>1278</td>
<td>Hamilton</td>
<td>$(23,600)</td>
</tr>
<tr>
<td>1784</td>
<td>Lockport</td>
<td>$(641,931)</td>
</tr>
<tr>
<td>2328</td>
<td>Murdale Water District</td>
<td>$(123,452)</td>
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<tr>
<td>1624</td>
<td>Pierron</td>
<td>$(29,164)</td>
</tr>
<tr>
<td>2473</td>
<td>Sycamore</td>
<td>$(33,194)</td>
</tr>
<tr>
<td>2475</td>
<td>Sycamore</td>
<td>$(1,474)</td>
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</tbody>
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