

State of Illinois
Public Water Supply Loan Program
Supplemental Intended Use Plan Pursuant to the
American Recovery and Reinvestment Act of 2009
Final Intended Use Plan

A. Introduction

The purpose of this Intended Use Plan (IUP) is to fulfill the requirements of Section 1452(b) of the federal Safe Drinking Water Act of 1996 (SDWA) and the American Recovery and Reinvestment Act of 2009 (ARRA) as a prerequisite for award of a federal grant to the Illinois Environmental Protection Agency (Agency) for capitalization of the State Revolving Fund from funds provided under the ARRA for use in the Public Water Supply Loan Program (PWSLP).

The required contents of an IUP are as follows:

- 1) A list of the projects proposed for construction on the State Priority List, including a description of the project, the expected terms of financial assistance, and the size of the community served;
- 2) The criteria and methods established for the distribution of funds; and
- 3) A description of the financial status of State loan funds and the short term and long term goals associated with ARRA funding, existing loan funds and the PWSLP.

In addition, the ARRA provides that “notwithstanding the priority they would otherwise receive.....priority for funds appropriated...shall be given to projects on a State priority list that are ready to proceed to construction within 12 months of the date of enactment of this Act.” In practice, projects on the State Priority List will be further and primarily prioritized based on readiness to proceed to construction, with factors influencing the Green Project Reserve and the provisions included in Section 1452 (b) (3) of the SDWA considered to the maximum extent practicable.

B. Long Term Goals (5-Year Timeframe)

1. To provide a stable and perpetual financing source for eligible public water supply systems within the State;
2. To provide this financial assistance at interest rates significantly below those available on the open market;
3. 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;

4. To explore the expansion of eligibility to address issues of water efficiency, energy efficiency and green infrastructure and to develop new eligibility requirements to accommodate expanded eligibilities in the base SRF program; and
5. To contribute to the long-term recovery of the economy by creating and preserving sustainable jobs in communities across the state.

C. Short Term Goals (ARRA/FY2009)

1. To provide funding to all eligible projects, to the extent that applications are completed and funds are available;
2. To commit all available loan resources to eligible loan applicants;
3. To provide total additional loan subsidization to loan recipients in an amount not less than 50% of total supplemental funds provided under the ARRA;
4. To provide support for projects or project components focused on “green infrastructure, water or energy efficiency improvements or other environmentally innovative activities”, and to commit not less than 20% of supplemental funds provided under the ARRA to projects meeting the definitions developed there under; and
5. To manage a program that provides applicants with a streamlined approach to financing public water supply projects, consistent with time constraints imposed for the use of ARRA funds.
6. To provide funding to projects that will maximize job creation and economic benefit in communities across Illinois.

D. Program Characteristics

1. Public Water Supply Loan Program – The Illinois program will continue to consist of loans to units of local government and to those classes of privately owned community water supplies determined by the Illinois General Assembly to be acting as water utilities. These include not-for-profit and co-operative water utilities, and commercial water utilities regulated by the Illinois Commerce Commission.

Monies available through supplemental appropriations provided under the ARRA will be managed separately as a “program within a program” under emergency rules established to govern the distribution of those funds. Loan recipients shall repay loans provided at a fixed loan rate of 0.0%, and 50% of the principal disbursed under the respective loan agreements will be forgiven, pursuant to additional subsidization requirements contained in the ARRA. The funding provided under the ARRA to any single entity will be limited to 50% of eligible project costs, or \$5,000,000, whichever is less.

Available PWSLP loan funds for FY2009 will be utilized in conjunction with loans provided under the ARRA to provide additional financing opportunities, subject to the

availability of funds, for projects limited by funding eligibility caps established for ARRA program funds. These existing loan funds will be directed to ARRA projects for costs over and above ARRA cap levels: (50% of costs up to \$5,000,000). Loan recipients shall repay PWSLP loans committed separate from, or in conjunction with, an ARRA loan agreement at a fixed loan rate of 0.0% until such time as supplemental funds provided under the ARRA are exhausted. The IEPA intends to commit all ARRA funding by September 30, 2009 and expects a transition back to standard interest rates in the FY 2010 program. There will be no midstream interest rate adjustments in the ARRA/PWSLP program.

Loan awards have a maximum term of 20 years from the initiation of operation, with initial repayments of principal to commence within one year of the initiation of operation as determined by the terms of each Loan Agreement.

2. Leveraged Bond Proceeds – The resources of the PWSLP may be utilized as security for the sale of bonds, the proceeds of which would be deposited into the Fund to supplement State and federal capitalization funds and repayment funds, or to serve as the source for State matching funds for federal capitalization grants in future years.

E. Assurance of Specific Proposals

Pursuant to Section 1452 of the Safe Drinking Water Act (SDWA) Amendments of 1996, the IEPA has provided the necessary assurances and certifications as part of the official Operating Agreement between the IEPA and USEPA and as part of the FY 2009 Intended Use Plan.

Pursuant to the American Recovery and Reinvestment Act of 2009 (ARRA), the IEPA provides additional certification as follows:

1. The IEPA will enter into binding commitments equal to 100% of the amount of funds provided under the ARRA within one year of the date of enactment of the ARRA (February 17, 2010). Binding commitments will be executed at such times as to assure that projects funded are under contract or construction within 12 months from the date of enactment of the ARRA (February 17, 2010).
2. The IEPA will utilize not less than 50% of supplemental funds provided under the ARRA to provide additional loan subsidization, in the form of principal forgiveness terms, to loan recipients and hereby certifies that State legislation passed by the Illinois General Assembly on April 28, 2009 (Public Act 96-8), in conjunction with emergency administrative rules filed by the IEPA and effective on June 2, 2009 (35 IAC, Part 664), will provide adequate authority to execute such principal forgiveness terms within a timeframe adequate to implement the terms of assistance under the WPCLP.
3. To the extent that there are sufficient eligible applications, the IEPA will utilize not less than 20% of supplemental funds provided under the ARRA for the “Green Project Reserve” as required by the Act, and will provide binding loan commitments to projects or project components focused on “green infrastructure,

water or energy efficiency improvements or other environmentally innovative activities” under definitions developed for this purpose by the USEPA. The IEPA is currently evaluating projects on the State Priority List (Attachment A) and other projects that may gain eligibility for inclusion on the State Priority List to determine which ones qualify, in whole or in part, to be included in the Green Project Reserve. This includes the evaluation of stand-alone applications that have been received to determine eligibility. If the 20% reserve cannot be accommodated by eligible applications received, the IEPA will continue to solicit additional applications, as necessary, until the 20% target for the Green Project Reserve is met.

4. The IEPA will comply with all statutory requirements of the ARRA and with requirements promulgated through guidance or regulations issued by the USEPA, including wage requirements and procurement requirements specifying the use of goods produced in the United States for infrastructure projects financed through the ARRA.
5. The IEPA will expend all monies available under the ARRA and PWSLP in an expeditious and timely manner.

F. Criteria and Method for Distribution of Funds

1. Financial Assistance Limitation – Under emergency rules established to govern the distribution of ARRA funding amounts, the State of Illinois will restrict the amount of ARRA financial assistance provided to any single entity to a maximum of 50% of eligible project costs, or \$5,000,000, whichever is less. This regulation reflects the intent of the State to fund as many worthwhile projects as practicable from the limited available resources.

Notwithstanding financial assistance limitations imposed under ARRA regulations, project costs above those limitations will be eligible for assistance under the existing PWSLP as funds are available. In those instances where total project needs exceed the limitation, applicants will be encouraged to break a project into multiple segments for phased loan assistance, constructing first those project elements most significant in attaining or maintaining compliance objectives.

2. State Priority List Development - The State Priority List (Attachment A) identifying eligible applicants for assistance under this Intended Use Plan and the ARRA is submitted as a component of this IUP. The List is based on and includes all projects that appear on the previously established FY2009 Project Priority List (PPL), plus any project with approved project planning that was added to the FY2009 PPL pursuant to State rules. All projects currently appearing on the State Priority List have been ranked and scored in accordance with the provisions of 35 Illinois Administrative Code Part 663, “Procedures and Requirements for Determining Loan Priorities of Projects in the Public Water Supply Loan Program”.

The State Priority List is heavily weighted to rank projects in order of their relative public health significance based on violations of state public health criteria and the federal Safe Drinking Water Act. The primary factor for prioritizing projects is the “A2”, or Project Need factor that awards points for known and specific compliance needs. Other major factors considered in the scoring process include the existence of potential public health threats from existing violations of State standards related to pressure, transmission, and storage, and needs associated with the extension of water service to rural areas served by defective private wells. A variety of income and population demographic data are then employed to further differentiate projects within the major compliance needs categories. At the bottom of the list are those projects which do not correct existing compliance or public health problems but are still necessary and desirable to maintain an adequate and safe public water supply.

3. A subset of the State Priority List (Attachment A) is incorporated as the “IUP List” (Attachment B) for purposes of this Intended Use Plan. Projects included on the IUP List are simply those that have the highest priority rank relative to other projects within the limits of available funds and currently qualifying pre-applications. In accordance with the provisions of 35 Illinois Administrative Code Part 662, “Procedures for Issuing Loans from the Public Water Supply Loan Program”, and the emergency rules established to govern the implementation of ARRA programs in Illinois (35 IAC, Part 664), loan funds will not be reserved for projects included on the State Priority List (Attachment A) or the IUP List (Attachment B) after April 1, 2009 until they are ready to proceed to construction based on the completion of all applicable loan applicant elements. Funds may be awarded to any project on the State Priority List that accomplishes a full and complete loan application, and projects will be funded in the order in which applications are completed, with factors influencing the Green Project Reserve and provisions included in Section 1452(b)(3) of the SDWA considered to the maximum extent practicable in cases where funding availability may be limited. The IEPA reserves the right to bypass eligible projects as required to meet the 20% Green Project Reserve requirement as set forth in federal law.

4. Per State rule (35 IAC, Part 663) projects may be added to the State Priority List at any time during the year upon obtaining Agency approval of its Project Plan, provided a pre-application was submitted for the project on or before April 2, 2009 that indicates a construction start date in calendar year 2009. Eligible projects with approved Project Plans will be scored and ranked for priority and added to the State Priority List (Attachment A) from time to time, with up-to-date copies of the priority list posted to the IEPA website at: <http://www.epa.state.il.us/water/financial-assistance/economic-stimulus/index.html> and available upon request throughout the year. These belated additions will be eligible for assistance under the ARRA and the PWSLP and funds may be awarded to any project on the State Priority List that accomplishes a full and complete loan application, subject to the availability of funds. Factors influencing the Green Project Reserve and provisions included in Section 1452(b)(3) of the SDWA will be considered to the maximum extent practicable in cases where funding availability may be limited. The IEPA

reserves the right to bypass eligible projects as required to meet the 20% Green Project Reserve requirement as set forth in federal law.

5. The IEPA's "PWSLP ARRA Comprehensive State Funding List" is included for informational purposes as Attachment C to this IUP. The Comprehensive State Funding List was developed on the basis of pre-applications submitted to the Agency prior to April 2, 2009 and as such represents a listing of those entities that have overtly identified themselves as being potential loan applicants for ARRA and Public Water Supply funds in federal fiscal years 2009 and 2010. It is important to note that projects included on the Comprehensive List will not be eligible for ARRA or PWSLP funding until such time as they have achieved Project Plan approval and have been scored and ranked for priority in accordance with the requirements of those programs. At that time they will be added to the State Priority List (Attachment A), with all projects securing funding drawn from the State Priority List upon completion of all loan application elements.
6. Set-Asides – The Agency plans no use of elective set-asides in the 12-month period designated for loan activity pursuant to the ARRA. However, in a guidance memorandum dated February 9, 1999, USEPA announced that states have an option of "banking" certain set-asides for possible use in future years by announcing that possibility in the IUP. This "banking" does not impact the availability or use of loan funds in the current year, but does give the State the flexibility to utilize set-aside funds for other eligible purposes for the present and past fiscal years (FY1997-2009). In accordance with this federal policy identified above, the Agency is hereby announcing that it reserves the right to "bank" and utilize to the maximum extent deemed necessary the full amount of authorized ARRA set-asides for the purposes outlined in Section 1452(g)(2) of the Safe Drinking Water Act, including 4% of the capitalization grant for direct loan program administration and 2% of the capitalization grant for small systems technical assistance). The extent to which this reserved authority may or may not be used by the State shall be at the discretion of the IEPA.
7. Letters of Commitment – When an application for loan assistance is completed to the satisfaction of the IEPA, the IEPA may issue a Letter of Commitment to reserve existing or anticipated available funds for a project pending completion of the bidding process by the loan applicant. Letters of Commitment for projects funded from the State Priority List pursuant to the ARRA shall not extend beyond February 2, 2010.
8. Binding Commitments – Binding commitments for loan awards are entered into at the time a loan applicant accepts a loan offer and issues a Notice to Proceed on a construction contract identified in the Loan Agreement. Binding commitments for projects equal to 100% of the ARRA funds provided will be made in such a way as to assure that all projects funded are either under contract or have initiated construction prior to February 17, 2010.

G. Available Loan Resources

The American Recovery and Reinvestment Act of 2009 (ARRA) contains a supplemental appropriation of \$2.0 billion in federal funds as the national allocation for the Drinking Water State Revolving Fund (DWSRF). The State of Illinois share of that amount based on the allocation formula applied by Congress is \$79,538,000. The standard 20% State match requirement for the DWSRF is waived by the ARRA, making the total of new capitalization funds available the State's funding share of \$79,538,000.

In addition, the IEPA will target funds available for FY2009 under the existing PWSLP program to provide additional funding opportunities for projects limited in FY 2009 by funding caps established for the purpose of managing project demand under the ARRA. These available funds include prospective capitalization grant funding for FY2009, loan program repayments and funds carried over as uncommitted from the FY2008 PWSLP funding period. A summary of total available funding is as follows:

Anticipated Funds Available for ARRA Projects

FY2008 Carry-Over Funds	\$30,932,892
FY2009 Capitalization Funds*	\$33,226,000
FY2009 State Match*	\$ 6,645,200
FY2009 Loan Repayments	\$20,000,000
Less 4%: FY2009 Administration	(\$1,329,040)
Less 5%: For Cost Increases on Subtotal	<u>(\$4,473,752)</u>
SUBTOTAL	\$85,001,300
ARRA Capitalization Funds	<u>\$79,538,000</u>
TOTAL	\$164,539,300

*Prospective

The demand for loan funds from supplemental funds provided under the ARRA will exceed the capitalization funds available and the IEPA will establish restrictions on the amount of ARRA financial assistance available to any single entity: a maximum of 50% of eligible project costs, or \$5,000,000, whichever is less. This restriction reflects the intent of the State to fund as many worthwhile projects as practicable from the limited available resources. In those instances where total project needs exceed the limitation, applicants will be encouraged to break a project into multiple segments for phased loan assistance, constructing first those project elements most significant in attaining or maintaining compliance objectives.

All available PWSLP loan funds for FY2009 will be utilized in conjunction with loans provided under the ARRA to provide additional financing opportunities, subject to the availability of funds, for projects limited by the funding eligibility caps established for ARRA program funds. Loan recipients shall repay PWSLP loans committed separate from, or in conjunction with, an ARRA loan agreement at a fixed loan rate of 0.0% until such time as supplemental funds provided under the ARRA are exhausted. The total of PWSLP loan funds available for FY2009 was \$50,932,892 effective October 1, 2008. In addition, the IEPA expects to access available capitalization funds totaling \$33,226,000

for FY2009 prior to the end of the fiscal year, providing an additional \$39,871,200 (includes state match) for loans and loan program administration in FY2009 and future years. An application for those capitalization funds will be submitted following the approval of state bond authorization increases and state matching fund appropriations required to access those funds. That approval is widely anticipated for July 13, 2009. The IEPA intends to commit all ARRA funding by September 30, 2009 and expects a transition back to standard interest rates in the FY 2010 program. There will be no midstream interest rate adjustments in the ARRA/PWSLP program.

H. Output/Outcome Measures

In accordance with the requirements of EPA Order 5700.7, the following are the output/outcome measures for ARRA funds:

1. Output: There will be 8 to 10 projects financed to replace and/or rehabilitate drinking water treatment facilities throughout the State.

Outcome: The funding of these projects will stimulate the economy, promote jobs growth for new and sustainable jobs, and result in higher quality drinking water for thousands of people throughout the State.

2. Output: There will be 15 to 20 projects financed to construct/rehabilitate/upgrade drinking water transmission and distribution systems throughout the State.

Outcome: The funding of these projects will stimulate the economy, promote jobs growth for new and sustainable jobs and result in improved access to drinking water from existing water treatment systems throughout the State.

3. Output: There will be 10 to 12 projects financed to construct/rehabilitate/upgrade drinking water storage facilities throughout the State.

Outcome: The funding of these projects will stimulate the economy, promote jobs growth for new and sustainable jobs and result in improved access to drinking water, better distribution system pressures and improved aesthetics for communities and people around the State.

4. Output: There will be 3 to 6 projects financed to provide new/additional source water for public water supplies throughout the State.

Outcome: The funding of these projects will stimulate the economy, promote jobs growth for new and sustainable jobs and result in improved community access to public water supplies meeting all applicable permit and SDWA requirements.

I. Reporting Requirements

The IEPA will provide the USEPA on an annual basis with information on units of local government that receive loans in accordance with SDWA requirements. In addition, the IEPA will report the data required by the USEPA into the DWSRF benefits reporting system for each ARRA project.

J. Administrative Costs

As noted previously, 4% of the capitalization grant amount from supplemental funds provided under the ARRA will be reserved or “banked” for program administration costs that may occur in future years.

K. Public Review and Comment on the Intended Use Plan

The IEPA has sought public participation in the development of ARRA program plans from the moment it was clear that Congress would pass some form of economic stimulus package during the 2009 session. Agency technical and financial assistance personnel have spoken on the provisions of the ARRA and the State’s intent to implement emergency rules and ARRA procedures at a variety of statewide and local conferences involving local government leaders and public water supply administrators, and have invited suggestions from the public. Representatives of professional, governmental, and trade associations involved in public water supplies in Illinois have been very instrumental in formulating proposed State policies regarding this loan assistance program.

This Intended Use Plan and the accompanying State Priority List, IUP List and PWSLP ARRA Comprehensive State Funding List were made available on April 6, 2009 on the IEPA website for public comment through a public notification process, followed by a 21 day comment period. The IEPA website can be accessed through the following link:

<http://www.epa.state.il.us/water/financial-assistance/economic-stimulus/index.html>

List of Attachments

- Attachment A – State Priority List in Rank Order for ARRA/PWSLP projects
- Attachment B – IUP List in Rank Order for ARRA/PWSLP projects
- Attachment C - PWSLP ARRA Comprehensive State Funding List in Alpha Order
- Attachment D - Glossary of Terms for ARRA/PWSLP State Priority List

Attachment D

Glossary of Terms for ARRA/PWSLP State Priority List

The public water supply loans are intended to solve existing drinking water needs. There are several general types of projects that appear on the State Funding List:

- Compliance projects to correct a drinking water quality problem, including projects that address Maximum Contaminant Level violations, projects that address Treatment Technique Requirements, projects that address violations of the Agency's Technical Policies, 35 Ill. Adm. Code Part 653, as they relate to adequate pressure, transmission and storage of drinking water.
- Projects that provide drinking water service to an existing population that has no community water service;
- Projects that satisfy existing drinking water needs and serve existing populations. They include water treatment plant renovation, rehabilitation, replacement and upgrade of facilities. Additionally, this category includes the rehabilitation or replacement of watermains, construction of loop lines, addition or rehabilitation of storage or distribution capacity to ensure adequate storage volumes and system pressure.

Glossary of Drinking Water Standard Abbreviations

- WTP - Water Treatment Plant
- PS - Pump Station
- Ext - Extension
- Rehab - Rehabilitation
- Exp - Expansion
- Ba - Barium
- Fe - Iron
- NO₃ - Nitrate
- Ra - Radium
- TTHM - Total Trihalomethane
- Twp - Township
- TP - Technical Policies
- PbCu - Lead and Copper
- TT - Treatment Technique
- As - Arsenic

