

ILLINOIS

Drinking Water State Revolving Fund Toolkit

Fiscal Year July 1, 2022 through June 30, 2023

This toolkit is a resource to quickly reference four key aspects of the state's current Drinking Water State Revolving Fund, known as the **Public Water Supply Loan Program (PWSLP)**, which was authorized under the Safe Drinking Water Act (SDWA). A regularly updated compilation, it includes the policies, regulations, and laws that define the state's [application processes](#), [disadvantaged community definition](#), [scoring criteria](#), and [lead service line replacement program](#). Advocacy is especially needed on these highlighted topics to ensure that the application and allocation processes are equitable and incorporate environmental justice.

DWSRF Application Process¹

The Wastewater and Drinking Water loan programs provide low-interest loans through the State Revolving Fund (SRF). The SRF includes the Public Water Supply Loan Program (PWSLP) for drinking water projects.

- These programs are annually the recipients of federal capitalization funding.
- This is combined with state matching funds, interest earnings, repayment money, and the sale of bonds to form a source of financing for infrastructure projects.
- The term “Revolving Fund” means that interest earned, and money repaid, is put back into the program to fund additional projects.

Our programs provide financial assistance to eligible public or private applicants for the design and construction of a wide variety of projects that protect or improve the quality of Illinois’ water resources.

- We assist applicants with projects that address human health and failing water infrastructure.
- Eligible projects include new drinking water or wastewater infrastructure construction; upgrading or rehabilitating existing infrastructure; and a variety of other projects.
- Our historical list of borrowers includes the state’s largest city, as well as many small communities and water districts with populations less than 1,000 people.

Program Implementation

Prior to receiving a loan, a “full and complete loan application,” including approved planning, a complete financial package, approved design and bid packages, and a variety of executed legal documents necessary are required.

- Approval of a complete loan application includes an enforceable water or sewer ordinance, a user charge ordinance, a certified local debt authorization ordinance, and a dedicated revenue stream that is adequate to assure loan repayment.

Funding Cycle & Availability of Funds

The State Revolving Fund (SRF) yearly cycle is based on the State of Illinois fiscal year, which starts July 1st and ends June 30th.

- Because funding is limited, projects with approved planning are scored and ranked to prioritize which ones will receive loan program resources during a specific fiscal year.
- The Intended Funding List (IFL) period is the first one-half of the fiscal year (July 1st to December 31st).
- To qualify for inclusion on the IFL, a project must have submitted a funding nomination form (FNF) and obtained planning approval by March 31st.
- To start construction during the IFL period and utilize reserved funding, the project must be on the IFL. Once a project is listed in the IFL, funding is reserved for it during that fiscal year; however, delays may cause projects to be “bypassed”.

The bypass period is the second one-half of the fiscal year (January 1st to June 30th).

- If any money reserved for the IFL projects is not used by December 31st, it may become available for other projects that are ready to proceed.
- During the bypass period, funding is not guaranteed to be available or reserved for a project, unless a letter of commitment (LOC) is received from IEPA.
- To receive a LOC, the loan applicant must have completed all program requirements except for bidding.
- After a LOC is obtained for a project, funds are reserved and bidding may occur.
- If a project is unable to obtain a loan agreement during the bypass period (January 1st to June 30th), it may qualify for funding that will be available during the next IFL period, that starts July 1st.

For more information regarding the funding cycle, see the [Funding Cycle Explanation Document](#). This document includes significant loan program dates and pertinent IEPA loan program regulatory sections.

Funding Nominations²

Funding Nomination Forms must be received by the Agency on or before March 31st preceding the fiscal year for which assistance is requested.

- To appear on the Agency's Project Priority List, a loan applicant must submit a Funding Nomination Form each year prior to March 31st.
- To be eligible for the annual Intended Funding List, a Project Plan must be approved by March 31st.
- A separate form is needed for each loan.

Disadvantaged Community Definition

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**.³

Section 662.210 Fixed Loan Rate⁴

The interest rate of the loan agreement shall be a fixed loan rate and shall be established as follows:

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 percentage points 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.

(Source: Amended at 43 Ill. Reg. 11209, effective October 1, 2019)

Principal Forgiveness⁵

The PWSLP offers reduction to the amount of principal that applicants would otherwise need to repay for projects. This reduction is called “principal forgiveness” per federal statute and functions much like a grant. This means eligible capital costs are reduced by the principal forgiveness amount, eliminating a **portion** of the principal and interest that must be repaid. One of three options offered for principal forgiveness is for Disadvantaged Communities.

Disadvantaged Community Principal Forgiveness – section 1452 of the federal SDWA requires states to provide a minimum of 6% and a maximum of 35% (\$14,526,750) 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”.

Additionally, the federal Capitalization Grant requires that 14% (\$5,810,700) of the available funds be used to provide additional subsidization for eligible loan recipients in the form of principal forgiveness. Illinois EPA is dividing this into two segments, making an additional \$44,810,700 available for Disadvantaged Community principal forgiveness.

- These funds will be available in FY22 until the maximum amount, \$19,337,450 is spent.
- No loan recipient will receive more than \$400,000 in disadvantaged community principal forgiveness in FY22.

Loan Rates⁶

July 1, 2022 through June 30, 2023

Wastewater Loan Interest Rate: 1.24%

Drinking Water Loan Interest Rate: 1.24%

Scoring Process^{7,8}

Section 662.345 Loan Priority Score

- a) Projects will be scored and ranked for inclusion on the Project Priority List using the loan priority score methodology set forth in this Section.
- b) The Agency will calculate the loan priority score by totaling the points awarded in subsections (e) through (k).
- c) Applicants with a higher loan priority score will be ranked above applicants with a lower loan priority score on the Project Priority List.
- d) Only projects that have submitted a Funding Nomination Form and have a project plan approved by the Agency will be scored pursuant to this Section.
- e) Compliance and Water Quality
 - 1) A maximum of 475 points may be awarded under this subsection (e).
 - 2) 150 points will be awarded if the project will remedy an acute violation or health hazard, as those terms are defined in Section 662.110.
 - 3) 100 points will be awarded if the project will remedy a chronic violation, as defined in Section 662.110.
 - 4) 75 points will be awarded if the project is expected to result in the applicant's removal from the Restricted Status List established in 35 Ill. Adm. Code 602.106 or Critical Review List established in 35 Ill. Adm. Code 602.107.
 - 5) 75 points will be awarded if the project consolidates two or more community water supplies into a single community water supply.
 - 6) 50 points will be awarded if the project will replace lead service lines.
 - 7) 25 points will be awarded if the project will result in the applicant's compliance with secondary maximum contaminant levels as set forth in 40 CFR 143.3 (2018).
- f) Protection of Water Source
 - 1) A maximum of 150 points may be awarded under this subsection (f).
 - 2) 150 points will be awarded if the applicant has implemented a Source Water Protection Plan as provided in 35 Ill. Adm. Code 604.
 - 3) 75 points will be awarded if the applicant has not implemented, but has obtained Agency approval of, its Source Water Protection Plan as provided in 35 Ill. Adm. Code 604.335.

g) Protection of Assets

- 1) A maximum of 75 points may be awarded under this subsection (g).
- 2) 75 points will be awarded if the applicant is implementing an asset management plan as defined in Section 662.110.
- 3) 25 points will be awarded if the applicant is developing an asset management plan as defined in Section 662.110.

h) Conservation and Green Infrastructure

- 1) A maximum of 70 points may be awarded under this subsection (h).
- 2) 15 points will be awarded if the project includes or is based upon completion of a system-wide water audit (e.g., water loss accounting), or contains other quantifiable water conservation or efficiency measures, including, but not limited to, metering and water reuse.
- 3) 10 points will be awarded if the utility rate structuring promotes water conservation.
- 4) 10 points will be awarded if the project utilizes:
 - A) improved technologies and practices to reduce energy consumption or uses energy in a more efficient way; or renewable energy to reduce water system expenditures or produces renewable energy through measures including, but not limited to, solar panels or wind turbines.
 - B) renewable energy to reduce water system expenditures or produces renewable energy through measures including, but not limited to, solar panels or wind turbines.
- 5) 20 points will be awarded if the project contains resiliency components, including facilities built for redundancy, or if the project assists a loan applicant with planning for potential service disruptions, natural or manmade.
- 6) 15 points will be awarded if the project implements green infrastructure including, but not limited to, green roofs, pervious pavement, rainwater harvesting or cisterns, sustainable landscaping, constructed wetlands, LEED certified buildings, and riparian buffers.

i) Readiness to Proceed

- 1) A maximum of 120 points may be awarded under this subsection (i).
- 2) 20 points will be awarded if the loan application required by Section 662.350(a) has been submitted to the Agency.
- 3) 20 points will be awarded if the applicant has obtained necessary permits to begin construction of the project or the Agency determines that no permit is required for the project.
- 4) 40 points will be awarded if the requirements of Section 662.350(a) through (d) have been satisfied.
- 5) 40 points will be awarded if the requirement of Section 662.350(e) has been satisfied.

j) Economic Factors

- 1) A maximum of 135 points may be awarded under this subsection (j).
- 2) Median Household Income (MHI). The following points will be awarded based on the MHI of the applicant's service population as a percentage of the statewide average MHI:

Points	MHI as % of Statewide MHI
50	Below 70%
40	70 - 79.99%
30	80 - 89.99%
20	90 - 99.99%
0	At or above 100%

3) User Rates. The following points will be awarded based on the average annual residential user fees after the project is constructed as a percentage of MHI of the applicant's service population (i.e., average annual user fees/MHI) x 100).

Points	Rate as % of MHI
50	At or Above 2%
25	1 - 1.99%
0	Below 1%

4) Unemployment Rate. The following points will be awarded when the applicant's unemployment rate is greater than the statewide average:

Points	Unemployment Rate Percentage Points Greater than Statewide Average
35	3 percentage points or more
25	1.5 - 2.99 percentage points
15	0.1 - 1.49 percentage points

k) Population

1) A maximum of 50 points may be awarded under this subsection (k).

2) Population. The following points will be awarded based on the applicant's service population.

Points	Service Population
50	Less than 10,000
25	10,000 - 34,999
10	35,000 - 74,999
0	At or Above 75,000

(Source: Added at 43 Ill. Reg. 11209, effective October 1, 2019)

Lead Service Line Replacement Program⁹

One of three options offered for principal forgiveness is LSLR.

Lead Service Line Replacement (LSLR) Principal Forgiveness – Illinois EPA will provide principal forgiveness for PWSLP funded projects directly related to projects that reduce or eliminate lead from potable water by replacing lead service lines.

- To qualify, a community water system must document that lead service lines are connected to its system.
- Funding will be available in FY22 and FY23 until allotted funds are expended.
- Principal forgiveness monies are available up to a maximum amount of \$4 million in FY22 for any one loan recipient.
- Total project costs include engineering, administrative, legal, and construction costs.
- LSLR work will be funded in separate loan agreements and excluded from any calculations pertaining to disadvantaged community or small system compliance principal forgiveness.
- The LSLR principal forgiveness is a finite amount, and not enough to pay for the replacement of even a small portion of the total amount of LSLs in the state.

The maximum amount of LSLR principal forgiveness one loan recipient can receive in a fiscal year may be reduced in future years to make available funds go to as many eligible applicants as possible.

References

- 1 Illinois Environmental Protection Agency. Wastewater/Stormwater and Drinking Water Loans. <https://www2.illinois.gov/epa/topics/grants-loans/state-revolving-fund/Pages/default.aspx>
- 2 Illinois Environmental Protection Agency, Funding Nomination Form <https://www2.illinois.gov/epa/Documents/epa-forms/water/financial-assistance/drinking-water/funding-nomination-for-pws-loan.pdf>
- 3 TITLE 35: ENVIRONMENTAL PROTECTION, SUBTITLE F: PUBLIC WATER SUPPLIES, CHAPTER II: ENVIRONMENTAL PROTECTION AGENCY, PART 662 PROCEDURES FOR ISSUING LOANS FROM THE PUBLIC WATER SUPPLY LOAN PROGRAM, SECTION 662.110 **DEFINITIONS** <https://www.ilga.gov/commission/jcar/admincode/035/035006620A01100R.html>
- 4 TITLE 35: ENVIRONMENTAL PROTECTION SUBTITLE F: PUBLIC WATER SUPPLIES CHAPTER II: ENVIRONMENTAL PROTECTION AGENCY, PART 662 PROCEDURES FOR ISSUING LOANS FROM THE PUBLIC WATER SUPPLY LOAN PROGRAM, **SECTION 662.210** FIXED LOAN RATE <https://www.ilga.gov/commission/jcar/admincode/035/035006620B02100R.html>
- 5 Public Water Supply Loan Program (PWSLP), 2022 **Intended Use Plan**, Final – July 1, 2021, Illinois EPA Bureau of Water, Infrastructure Financial Assistance Section, p. 10. <https://swefcsrfsitchboard.unm.edu/srf/illinois-state-revolving-fund-resources/>
- 6 Illinois Environmental Protection Agency, Wastewater/Stormwater and Drinking Water Loans website, <https://www2.illinois.gov/epa/topics/grants-loans/state-revolving-fund/Pages/default.aspx>
- 7 Illinois State Revolving Fund Resources, <https://swefcsrfsitchboard.unm.edu/srf/illinois-state-revolving-fund-resources/>
- 8 TITLE 35: ENVIRONMENTAL PROTECTION, SUBTITLE F: PUBLIC WATER SUPPLIES, CHAPTER II: ENVIRONMENTAL PROTECTION AGENCY, PART 662, PROCEDURES FOR ISSUING LOANS FROM THE PUBLIC WATER SUPPLY LOAN PROGRAM, SECTION 662.345 LOAN PRIORITY SCORE, pp 1-4. <https://swefcsrfsitchboard.unm.edu/resources/illinois/Illinois%20DW%20loan%20ranking%20criteria.pdf>
- 9 Public Water Supply Loan Program (PWSLP), 2022 Intended Use Plan, Final – July 1, 2021, Illinois EPA Bureau of Water, Infrastructure Financial Assistance Section, p. 10. <https://swefcsrfsitchboard.unm.edu/srf/illinois-state-revolving-fund-resources/>