



"Improving the quality of life in rural communities"

Testimony to the
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Biotechnology, and Foreign Agriculture
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Thank you, Chairman Johnson, Ranking Member Costa, and members of the subcommittee, for this opportunity to address the importance of USDA Rural Development (RD) programs to rural America. In my over 25 years of work in the rural utility field, first in my home state of Texas, and now managing a nation-wide rural community development organization, I have experienced firsthand the vital role that RD's water and sewer and community facilities programs play in improving the quality of life in the rural communities that form the backbone of our heartland.

My name is Robert Stewart, and I am the Executive Director of the Rural Community Assistance Partnership (RCAP). RCAP is a non-profit national network of regional service providers that for nearly 40 years has helped small, low-income, rural communities address water, wastewater, and other community development needs in all 50 states, Puerto Rico, and the Virgin Islands. Our staff of assistance providers delivers onsite training and technical assistance to small water and wastewater systems to help them meet regulatory requirements, finance and manage capital improvement projects and to develop and sustain technical, managerial, and financial capacities.

For many years, the RCAP network has partnered with USDA to bridge the gap between RD and the communities they serve. RCAP assists rural communities with funding applications and every phase of the project planning and development process, as well as providing training and technical assistance after construction is complete, helping communities understand how to properly manage and operate their system in a fiscally sustainable manner. We work to ensure that RD borrowers are able to meet the terms of their Letters of Condition and that they are able to repay their loans on time. Every year, the RCAP network helps roughly 2,000 rural communities address their water and wastewater needs.

Providing these basic services is a challenge for many rural communities. Rural residents are three times more likely than their urban counterparts to lack water and sanitation; they also typically pay nearly three times the amount for water and sewer services. Due to their limited customer base, small utilities lack the economies of scale that reduce the costs of infrastructure construction, operation, and maintenance to levels that are affordable to low-income residents. Few rural communities can access the municipal bond market or find banks that are willing to invest in such long-term, low-yield transactions. So, many turn to RD as their lender of last resort.

USDA-RD Water and Wastewater Programs Have Been Enormously Successful

RD's water and wastewater programs are a key component of economic development in rural America. Every water and wastewater construction dollar generates nearly \$15 of private investment and adds \$14 to the local property tax base. Without the basic infrastructure funded by RD—clean drinking water for household needs, sufficient quantities of water to support local industry, and sanitary sewers to remove sewage and industrial byproducts to protect public health—local employers will relocate or close factories and small businesses will decline and eventually disappear. The entrepreneurs and small business owners who are the engines of our economy won't open new businesses, shops or restaurants on Main Street without basic services. Infrastructure is the foundation of economic development, and to promote economic growth in rural America, you need to ensure that businesses' and residents' basic needs—like water and sewer services—are met. Opportunities for continued economic growth in rural communities are substantial. Agricultural production, oil and gas development, mining operations, alternative energy pursuits, and tourism are all vibrant economic sectors that depend on sustainable rural

communities. RD programs play a part in making available to rural communities water and wastewater utilities, essential community facilities, affordable housing, and broadband.

The Water and Environment Programs at RD have enjoyed tremendous success over the past few decades. The agency boasts a portfolio of more than 18,000 active water/sewer loans, more than 19 million rural residents served, and a delinquency rate of just 0.18%.¹ This success is partly attributable to the field presence RD has historically maintained in rural areas. With staff in field offices throughout the country, RD is uniquely positioned to evaluate the credit-worthiness of small utilities and can distribute federal funds quickly and efficiently to areas of need. In drought years, or after natural disasters, community leaders benefit from being able to turn to a local RD staffer whom they know and trust and who is familiar with their system and its needs, though recent staff reductions in RD offices nationally have started to hinder the ability of RD to serve rural communities with these critical services. To build on the past successes of the Water and Environment Programs, the Farm Bill should reauthorize the water and wastewater loan and grant programs, the technical assistance and training grant program, and the water infrastructure revolving loan fund program at or near the levels in the previous Farm Bill.

Technical Assistance is Key to Ensuring RD's and Rural Communities' Success

Despite RD's many successes, a substantial number of small, low-income towns and counties have difficulty accessing RD programs. The application process and eligibility requirements for each program are slightly different, and each poses unique challenges. Local leaders are most often volunteers who lack professional staff and the resources to find out what funding sources are available or the requirements for funding eligibility. Their first look at the

¹ United States. Dept. of Agriculture. Rural Development. *Water and Environmental Programs Annual Activity Report, Fiscal Year 2011*. Washington, DC: USDA, 2012.

Letter of Conditions on an RD loan can make the process seem overwhelming and discourage worthy applications. With help from an experienced technical assistance provider, however, even communities with no staff and limited planning resources can develop the local leadership capacity to manage needed infrastructure projects. Technical assistance plays a vital role in ensuring that the programs serve the communities they were designed to benefit in a cost-effective manner.

While there are many calls for reducing the requirements associated with obtaining water and wastewater financing from RD, RCAP's opinion is that these requirements are for the most part necessary to ensure that the federal government is making financial support available to the neediest communities while ensuring the security of the federal investment. The extremely low default rate on these loans is a testament to the efficacy of existing requirements. Common environmental review requirements among all federal and state infrastructure programs would be one area for improvement. Oftentimes projects have multiple funding sources with varying environmental review/assessment requirements, and standardizing them across federal programs would reduce the burden on applicants to conduct multiple separate reviews.

Overall, the water and wastewater Technical Assistance and Training Grant Program has been so successful that many state RD offices and local community officials have asked the RCAP network to assist with other, non-water-related RD-funded projects. While we try to work with as many communities as we can by relying on non-federal resources, Congress can help by authorizing changes to existing Farm Bill programs, specifically Rural Housing Service's Essential Community Facilities (CF) Program, to allow for set-asides to fund technical assistance. State RD Offices have repeatedly asked RCAP for assistance with borrowers under the CF program. A CF technical assistance and training program can provide much-needed

support for the CF program as has been the case with the water and wastewater programs. Under current and projected economic environments, essential community facilities constitute an important foundation for rural community growth. Having a dedicated technical assistance program in this area will ensure that these facilities are planned for, constructed, operated and managed in an efficient manner that benefits the entire community and promotes economic development opportunities.

As the success of the water and wastewater programs has shown, technical assistance benefits both rural communities and the agency by improving access to the programs and ensuring a positive return on federal investments. By expanding technical assistance to other programs at RD, taxpayer dollars can go further while still providing necessary services to rural communities. In addition, a broader technical assistance program would help ensure a more coordinated approach to economic development in rural communities. Experienced planners who are familiar with the application processes for federal and state programs could help communities better coordinate the timing of their development projects. This would help prevent communities from tearing up Main Street one year to replace sewer pipes, then tearing it up again the following year to install fiber optic cables, simply because that's when the funding was available. A comprehensive federal approach to technical assistance among all RD programs would allow local leaders to better plan and coordinate their construction activities and eliminate such inefficiencies.

Regionalization Issues

Another way Congress can improve existing RD programs is to encourage applicants to look for opportunities to regionalize. In order to maximize limited resources, communities need

to realistically examine whether operating their own facilities is cost effective. With respect to water and sewer infrastructure, at times clusters of small towns can better and more affordably be served by having one large treatment plant with pipes running to each town than by having a separate treatment facility in each town. In areas where communities are too far apart to run pipes, utilities could benefit from shared management, operations, purchasing and other similar joint service provisions. Regionalization may not be feasible in all cases, especially in areas with long distances between communities. However, RCAP recommends that potential borrowers demonstrate to RD their efforts to employ regionalized service provision as part of the application process.

Most states now require that new or expanding utilities provide documentation regarding their efforts to regionalize prior to being granted a license or certificate to serve an area. Priority should be given to applications for regional service provision, especially in cases where smaller or non-compliant systems are being consolidated to more efficiently serve their customers. By giving a small priority to projects in which the applicants can demonstrate that they have weighed the costs and benefits of regionalization, RD can encourage regional projects where appropriate without disqualifying communities that are geographically isolated. Furthermore, RCAP's experience has been that regionalization is most often successful when a technical assistance provider is able to spend time with all entities involved to offer alternative approaches, assist in the evaluation of costs and benefits, identify funding sources, prepare necessary documentation, and assist with public education and outreach.

Some consideration should also be paid to the current language contained in 7 U.S.C. §1926(b) "Curtailed or limitation of service prohibited" that allows water districts that are USDA borrowers to veto any activity that impacts service provision in their area. The need to

protect the federal investment is necessary and was the basis for this provision. However, should Congress decide that regionalized approaches to service delivery are appropriate in some cases, then a re-examination of this provision is necessary to allow for a more comprehensive and planned approach to regional development. As this currently stands, the federal protection afforded under 1926(b) can prevent state and local governments from making their own decisions on how best to provide utility services in local areas.

Reauthorize Revolving Funds for Financing Water and Wastewater Projects

7 U.S.C. §1926(a)(2)(B) authorizes a program for non-profit entities to capitalize revolving loan funds for the purposes of financing eligible borrowers with pre-development or other short-term capital costs (such as site acquisition or engineering costs or for equipment replacement, small service extensions or emergency repairs). RCAP would recommend that this program be maintained at currently authorized levels and the maximum for eligible loans to small-system borrowers be increased from \$100,000 to \$150,000, as costs for even the smallest repairs have increased significantly. Both RCAP and the National Rural Water Association have utilized this program to capitalize revolving loan fund programs that have assisted small communities to extend services, meet regulatory requirements, make emergency repairs and fund pre-development costs associated with major capital construction projects. These types of loans are typically not available from RD or the State Revolving Funds, nor do small communities have much hope of securing these loans from private sources. Demand for these loans far surpasses amounts authorized and appropriated for this purpose.

Changing the Definition of “Rural”

There are some proposals being discussed to standardize the definition of “rural” in all RD programs. While it might seem reasonable to have a single definition of rural that encompasses the utility, community facilities and business programs, any effort to increase the size of eligible borrowers under the Water and Environmental Programs above 10,000 would severely jeopardize what is basically the only source of federal funding for small, rural community infrastructure needs. If the definition is expanded to, say, 50,000 and under, many of our nation’s smallest communities will be unable to compete for RD water and sewer infrastructure funds with much larger towns that have departments of full-time staff, engineers and grant writers. The sheer number of community water systems serving populations under 10,000—over 90% of the 53,000 community water systems in this country—requires that limited RD funded be targeted to those communities with the greatest need, and the greatest need is in these smaller, rural communities.

Larger communities—even those in the 10,000-50,000 population range—have access to the bond market, other state-funded programs and/or bank financing at reasonable rates and terms. Larger communities also benefit from greater numbers of customers over which to apportion debt service costs. This allows larger systems to afford treatment and service options, and to keep costs to customers reasonable, while accessing non-federal financing sources. If allowed access to RD funding, many of these larger communities will instead turn to lower-interest RD loans, which will leave the small communities that have no other options out of the mix. Smaller rural communities should not be placed at a competitive disadvantage for the one program that was designed specifically to meet their unique needs. Many smaller, economically distressed communities require the kind of grant/loan packages provided by RD in order to make

customer costs reasonable, even if these costs are still typically much higher than what is found in their larger or more urbanized neighboring communities.

Household Water Well Program: 7 USC §1926(E)

This section allows RD to make grants to non-profit organizations to loan money to individuals to finance the construction, refurbishing and servicing of individually owned household water well systems in rural areas. While this program, combined at times with state housing programs, has benefited low-income families in isolated rural areas that would otherwise be unable to obtain water except through a household well, the Farm Bill should require that none of these loans go to residences in areas where RD has funded or is considering funding a community water system. Funding individual homeowner loans can adversely impact small customer bases within areas funded by RD's community water loans by reducing the potential number of customers who are ultimately responsible for servicing the federal debt. Furthermore, encouraging multiple wells into potentially sensitive and increasingly depleted aquifers can negatively impact other users from both a water quality and water quantity perspective.

Conclusion

Solving the challenges facing rural communities requires a multi-pronged approach that includes adequate funding, along with steps to ensure that funding is available to all communities that truly need it, and a comprehensive approach to technical assistance to maximize the efficiency and effectiveness of RD's programs. It also includes an emphasis on regional economic development and cost-effective investments in infrastructure that provide maximum return on scarce federal, state, and local resources. The Farm Bill reauthorization is an

opportunity to replicate the success of the water/wastewater technical assistance program and modify existing programs, such as Essential Community Facilities, to encourage a regional approach to rural development, while protecting taxpayer investment in our nation's water and sewer infrastructure.

Thank you for considering my testimony on the importance of Rural Development as you prepare for your Farm Bill deliberations. I welcome any questions you may have at this time.

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Robert has served as RCAP's Executive Director since January 2006. He has 25 years of experience in the rural utility field, including the provision of technical and training assistance to water and wastewater systems, water quality management, regulatory compliance, financial and managerial capacity development, training for managers and Boards of rural utilities, utility financing, contract management and consulting for local government entities. Formerly, Robert was the Executive Director for the Texas Water Utilities Association (TWUA), a 9,000-member professional association of water and wastewater operators. Prior to TWUA, he was employed at the Texas Rural Water Association (TRWA), where he served in several capacities including State Contract Manager, Professional Development and Training Director, and Associate Executive Director. Prior to his employment with TRWA, Stewart served as Texas Director for Community Resource Group, the Southern RCAP, where he oversaw a statewide program that provided direct, on-site technical assistance and training for small, low-income rural communities in the areas of water and wastewater utilities and affordable housing. In addition, he has held positions with the Texas Public Utility Commission, the Texas Department of Agriculture and at the University of Texas. Robert also served in the U.S. Navy for six years as a Surface Warfare Officer. He holds a B.A. and a Master of Public Affairs from The University of Texas at Austin.