



"Improving the quality of life in rural communities"

Testimony to the
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Committee on Energy and Commerce
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COMMUNITIES
Unlimited



Summary

Small and rural drinking water systems constitute nearly 85% of the 53,000 community water systems in America. With limited staffing and ongoing issues related to accessing capital for improvements and repairs, these systems continue to have the highest violations of the Safe Drinking Water Act. Small water systems need increased access to USDA Rural Development Water and Environment Programs and for the EPA State Revolving Funds to be better managed to meet small system needs. Facing increasing regulatory demands, the need for planning and asset management programs along with requirements regarding proper financial management (and many others), these small utilities need access to training and technical assistance. The most effective technical assistance programs place an experienced professional at the utility to provide guidance and support on technical, managerial, and financial requirements. Robust training programs are needed to educate operators, managers, and the governing body concerning their responsibilities and how best to operate and manage a small utility under a regulatory environment. Trainings need to be on-site, or within a localized area for easy access by the utility. In addition, more training should be delivered electronically to take advantage of reaching a larger number of systems without requiring expensive and disruptive travel requirements. Alternative service delivery approaches should be considered, such as sharing services, cooperative operations and management, and even full consolidation. Training tools and operational programs must be developed in order to be easily assimilated by small systems. And finally, new approaches to financing small utilities should be considered, noting that the new WIFIA program will not benefit small systems.

Introduction

Thank you, Chairman Shimkus, Ranking Member Tonko, and members of the subcommittee, for this opportunity to address the needs of drinking water systems in rural and smaller communities. In my nearly thirty years of work in the rural utility field, including twenty years in my home State of Texas, and now managing a nation-wide rural community development organization, I have experienced firsthand the many issues that impact the ability of small drinking water systems to meet regulatory requirements while providing their customers with safe and affordable services to promote the quality of life in the thousands of 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 over 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 team of community 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 worked with USDA Rural Development and the Environmental Protection Agency as well as state primacy and infrastructure funding agencies to ensure that critical financing, technical assistance and comprehensive training opportunities are made available to small rural drinking water systems. RCAP not only assists rural communities with funding applications and every phase of the

project planning and development process, but also provides training and technical assistance after construction is complete, helping communities understand how to properly manage and operate their system in a fiscally sustainable manner. 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.

Access to Capital

As with their larger urban counterparts, drinking water systems in rural and smaller communities require access to capital to extend services and maintain treatment and distribution systems that serve their residential and commercial customers. There is no need to recount in detail here the extent of the need for water utility infrastructure investment over the next twenty years; these range from EPA's estimate of nearly \$400 billion to those produced by the American Water Works Association and the American Society of Civil Engineers that place that figure closer to \$1 trillion including over \$59 billion just to meet the needs of drinking water systems serving under 3,300 population. While large utilities can issue municipal bonds for these improvements only about 4% of the 53,000 community water systems are large enough to issue their own bonds. For the

47,000 medium, small, and very small systems, the municipal bond market is not an option. These systems must depend upon federal and state financing sources such as those operated by the USDA Rural Utility Service's Water and Environmental Program (WEP), EPA's State Revolving Funds (SRF), other state specific infrastructure funding programs, or their own resources. Access to this capital is crucial to protect public health and allow for economic development in rural communities. Without this basic infrastructure, 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 remains a primary foundation of economic development, and to promote economic growth in rural America, businesses' and residents' basic needs, like water and sewer services, must be 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.

Small rural communities therefore need the continuation of EPA's and USDA's water infrastructure funding programs and with the extent of the need and the benefits to be derived, consideration should be made to increasing funding levels to these vital programs. EPA's SRF program should be better targeted at small rural communities. That program, created under the Safe Drinking Water Act Amendment of 1996, was to assist utilities in complying with increased regulatory requirements. Approximately 96% of all health based violations occur at systems serving a population of less than 10,000 while less than a third of the SRF outlays are directed at these same small systems. Small

rural systems lack the economies of scale enjoyed by large urban systems resulting in higher user fees and a reduced ability to self-finance improvements. The average water bill in small rural communities funded by RUS is approaching \$50/month (sometimes much higher for surface water systems), while at my home in Fairfax County I pay approximately that amount for water and sewer service combined. Even more important for rural communities has been the Rural Utility Service's WEP. 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%. 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 is able to distribute federal funds quickly and efficiently to areas of great need. Staff reductions in RD offices across every state have started to hinder the ability of RD to serve rural communities with critical services. In drought years, or after natural disasters, community leaders benefit from being able to turn to a local RD staffer that they know and trust and who is familiar with their system and its needs. RCAP supports the continuation and strengthening of the WEP as a primary means to meet drinking water needs in rural communities.

Technical Assistance and Training

Small water utilities need increased access to technical assistance resources and training programs that can enable them to evaluate and obtain capital financing, operate in accordance with regulatory requirements, and cost-effectively manage their utility. Small city council or water district directors 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. Funding application processes and eligibility requirements for each federal and state program are slightly different and each poses unique challenges. 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 apply for and 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 and EPA, 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 causing duplication of effort that produces no tangible benefit to the funders.

Technical assistance and targeted training is critically needed to assist small communities meet increasing regulatory requirements. Small and very small systems (depending on their size) typically employ a single certified water operator who is responsible for all operations, maintenance and repair of the utility's treatment plant and distribution system. These professionals are typically overworked and underpaid and the majority are nearing retirement age. My experience has been that these operators are

extremely dedicated to their work and will do everything possible to ensure that their customers receive uninterrupted water service that meets all requirements. However, new federal rules such as the Revised Total Coliform Rule place additional demands on operators who must learn about this rule and apply it to their utility. On-site technical assistance provides these operators with the guidance and support they need to meet operational requirements and ensure public health. In almost all cases the only way this assistance is provided is through on-site assistance provided by RCAP's Technical Assistance Providers (TAPS) or by state Rural Water Associations' Circuit Riders. On-site assistance is also needed to help the utility manage their business and financial affairs. Preparing budgets, conducting rate studies, developing Operation and Maintenance manuals, preparing customer service policies, and many other similar requirements are extremely difficult for these small utilities. TAPS and circuit riders provide the tools, the expertise, and the guidance to help small utilities with these programs. While both EPA and USDA Rural Development acknowledge the efficacy of on-site technical assistance, funding for these programs has decreased in recent years. Technical assistance funding authorized under Section 1442(a) of the Safe Drinking Water Act (\$15 million a year) is never included in the administration's budget, requiring Congress to add an amount (\$12.7 million in recent years) in their appropriation. This amount authorized nearly 20 years ago is not sufficient to meet the needs of small water utilities and should be increased. In addition, Section 306(a) of Consolidated Farm and Rural Development Act allows USDA to fund technical assistance grants and a circuit rider program (recently at \$19 million and \$15 million a year respectively). An increase

in funding levels to these programs would help better meet the needs of rural water systems.

In order to meet the varied needs of small communities, RCAP in recent years has created a multi-faceted program to deliver a variety of training resources. Oftentimes small utilities cannot afford to have their only operator travel for centralized training classes. As such, much of RCAP's training is conducted on-site, whether it is directed at the operator, the manager, or the governing body of the utility. In addition, RCAP has designed and is presenting a variety of synchronous and asynchronous web-based trainings that allow utility staff and managers to access training from their workplace or home. RCAP places a wealth of information on utility operations, management and financing on our website, available free of charge. These informational materials are prepared specifically to meet the needs of small utilities, are easy to understand and apply to local requirements. RCAP strongly supports the provision of training services through on-site training, local or regional classroom style training, on-line training and the provision of educational materials both in-print and online. Only through this multi-facet approach is there any expectation that small utilities will be able to access the training resources that they need.

Sharing of Services, Cooperative Approaches and Regionalization

Another means to assist rural utilities is to provide guidance, support, assistance, and incentives in the areas of sharing services or using cooperative approaches to deliver services. These can include everything possible up to and including consolidation or regionalization of services. In order to maximize limited resources, communities need to

realistically examine whether operating their own facilities is cost effective. Services such as meter reading, billing, purchasing, or employing a certified operator can be shared among two or more nearby utilities. With respect to water 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 facilities. In areas where communities are too far apart to run pipes, utilities could benefit from shared management, operations, purchasing, and other similar joint service provision. Regionalization may not be feasible in all cases, especially in areas with large distances between communities. However, RCAP recommends that potential borrowers demonstrate to RD and the SRFs 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 their 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. By giving priority to projects in which the applicants can demonstrate that they have weighed the costs and benefits of regionalization, RD and EPA can encourage regional projects where appropriate without disqualifying communities that are geographically isolated. 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.

Tools to Improve Operations and Management

One strong point for EPA in particular has been its development of a variety of tools that can be used by small utilities, such as the Simple Tools for Effective Performance (STEP) guides or the Check-Up Program for Small Systems (CUPSS), which is an asset management program (there are many others). In addition, EPA and RD have been working together to produce a variety of tools that address effective utility management and planning. This is one role that the two agencies can effectively assume to help small systems. RCAP would encourage the agencies to continue to seek out and incorporate advice from RCAP and the National Rural Water Association. Both of our organizations have the means and experience to ensure that these tools meet the needs of the small communities and the ability to deliver these tools on-site in rural communities. Other tools and programs needed by small communities that have been developed or used by RCAP include, ones that address vulnerability assessments, emergency response plans, contingency plans for drought and storm-related events, use of GIS systems to map utility components, energy audit programs, and leak detection programs. Most of these tools have widespread applicability so that the initial investment in the tool, process, or program can be repaid many times over through multiple uses in rural communities across America.

Operator Training

This is a specific training issue that I wanted to briefly address as it impacts all small systems. All water operators must receive training and pass certification exams in order to operate public water systems. Continuing training is required in order to keep

operator licenses current. For small systems, paying for this training and allowing the operator to leave the utility site is problematic. As a result of the 1996 Amendments to the SDWA the Operator Certification Expense Reimbursement Grant Program was created to fund training needs for systems of fewer than 3,300 populations. Funding for this program expired several years ago. RCAP would recommend that consideration be made to reauthorizing a similar program that would assist small systems in operator certification requirements. Any renewal of this program should emphasize on-site, hands-on and experiential training that is most needed and most effective for small water system operators.

The Water Infrastructure Finance and Innovation Act (WIFIA) and Other Options

WIFIA

WIFIA was included as part of last year's Water Resources Development Act (WRDA), as a means to provide an alternative funding source for water infrastructure. RCAP is concerned that WIFIA could have a detrimental impact on the State Revolving Funds (SRFs) if states are allowed to divert SRF funds to meet WIFIA's 49% non-federal matching requirement. WIFIA must not impair the ability of the SRFs to provide critical support that our nation's rural water and wastewater systems need. As mentioned earlier, due to their small customer bases and difficulty in accessing the bond market, these rural systems rely on the availability of SRF funds to fund the upgrades necessary to comply with the requirements of the Safe Drinking Water Act and Clean Water Act. It is therefore imperative that WIFIA be implemented in a manner that does not infringe upon the SRFs, and that ensures that rural communities are able to meet their obligations to provide their residents with safe drinking water and sanitary wastewater services.

WIFIA’s authorization language is unambiguous: Congress clearly intended to have WIFIA serve as an additional tool for water infrastructure financing, and not as a replacement for the SRFs. The Senate Environment and Public Works Committee’s report states that WIFIA “offers the sponsors of these water infrastructure projects a new tool to...stimulate additional investment in our Nation’s water resources infrastructure” (Senate Report 113-13, emphasis added). Further, WRRDA §5028(a)(6) requires EPA to notify the applicable SRF when a WIFIA application is received, and gives the SRF the right of first refusal. Together, these provisions clearly demonstrate that Congress intended for WIFIA to supplement, not to replace, the SRFs. Even WIFIA’s proponents never advocated for WIFIA to be a substitute for the SRFs. Mr. Matthew Millea, testifying before the Interior, Environment, and Related Agencies Subcommittee of the House Appropriations Committee on behalf of the Water Environment Federation said “WIFIA must be designed to complement—not replace—the SRFs.” Mr. David Weihrauch, testifying before the Water Resources and Environment Subcommittee of the House Transportation and Infrastructure Committee on behalf of the American Water Works Association said “WIFIA is designed to supplement the SRF by addressing needs that are not well addressed, if at all, by the SRFs.” Taking money out of the SRFs to pay for WIFIA projects would therefore contradict the clear intent of the authorizing legislation.

Among the statutory objectives of the Safe Drinking Water Act provisions creating the Drinking Water SRFs is that the funds “assist systems most in need on a per household basis according to State affordability criteria.” The systems that are most in need on a per household basis are most often small, rural systems. Many factors

contribute to this reality, including persistent rural poverty, limited water resource availability, lack of population density (requiring longer segments of pipe between connections), and lack of economies of scale. In addition, most rural systems, unlike their urban and suburban counterparts, are unable to obtain credit ratings necessary to access the municipal bond market, thereby eliminating one potential source of affordable financing. As noted earlier, a recent Johnson Foundation study estimated that only 2.8-3.8% of water systems are large enough to issue their own bonds. These factors and others create severe affordability challenges in rural areas that the SRFs help to address. The WIFIA program, by its very nature, exists to serve large-scale projects that can attract private investment. In order to attract private capital, the projects are likely to serve more affluent areas and areas with large numbers of ratepayers because those areas are considered to be less of a credit risk. By definition, however, those areas are also those that have the fewest affordability concerns (more ability to repay equals less credit risk). Using SRF funds for WIFIA projects would therefore subvert the intent of the SRFs by taking funding from those communities that most need it to provide affordable services and diverting it to those who least need the assistance. This is consistent with neither the statutory objectives of the organic statutes that created the SRFs nor the clear Congressional intent to have WIFIA serve as an additional tool to attract new investment to water and wastewater infrastructure.

As such, WIFIA should be implemented in a way that compliments the SRFs by providing an additional funding mechanism for those communities that do not have affordability issues and are able to attract private investment, as envisioned by the law's proponents. The focus of WIFIA should be to attract additional investment to our nation's

water and wastewater infrastructure, not reallocate the limited existing funds that help make compliance with federal and state regulations affordable for many smaller systems. The SRFs are effective programs that have a proven record of success. They have provided billions of dollars in affordable financing for communities that could not otherwise afford the costs of compliance with water and wastewater regulations. They are essential tools in the protection of public health and the environment in rural areas and should not be undermined by the implementation of WIFIA.

Drinking Water SRF

Application requirements should be simplified for small communities seeking to be listed on the state's Intended Use Plan in order to minimize costs to the community and to allow them to be considered for funding. States could require just a simple statement of water deficiencies, a reasonable proposal to correct them and a practical estimate of costs. Along with data already collected by the state, especially regarding water quality issues, the state should be able to properly list in a prioritized manner those small systems eligible for SRF funding. More detailed information could be obtained after a community has been approved for the intended use plan. In addition, once a small community project is set for inclusion on the Intended Use Plan, the state should provide small communities with technical assistance to work through the complete application process. USDA offers technical assistance for this purpose resulting in an increased ability for small systems to meet application requirements in a timely manner.

The SDWA permits states to set aside 15 percent of the DWSRF to finance projects in small communities. As has been reported the unmet needs of small communities are great and financing unavailable. Congress should consider a

requirement that 25% (or more) of the DWSRF must be set aside for use by small communities.

A portion of the DWSRF should be dedicated to providing capitalization grants to qualified nationwide nonprofit intermediaries to establish revolving loan funds to help small communities finance pre-development costs and system repairs up to \$150,000. While small communities may receive reimbursement for pre-development costs once SRF finances a project, they often do not have the resources to undertake these activities. A program that provides assistance for activities such as preliminary engineering studies or site acquisition would reduce this barrier to funding. A similar financing gap exists for small repairs needed by rural water systems. As a result of high transaction costs most state SRF programs do not accept (or will not end up funding) applications for projects under \$200,000. Small utilities typically do not have the credit history to access these funds from local financial institutions. Currently, a USDA program allows for a small amount of their funds to be used to capitalize such revolving loan funds, currently \$1 million a year. Both RCAP and NRWA operate their own revolving loan funds, but need additional capitalization to meet the tremendous need from small communities for this type of alternative funding arrangement.

Common Application Requirements

While some states have established uniform application requirements more work is needed in order to standardize applications for federal funding assistance. USDA and EPA have worked together to establish common requirements for preliminary engineering reports. This was an important first step, however, environmental reviews and other federal requirement should be common to all drinking water applications so

that small systems are not required to understand and comply with different requirements from federal funders.

Final Thought

There has been a considerable amount of time and effort expended to develop and enact the WIFIA program. While this program can be effective in providing additional financial resources to large water systems, its ability to do so for small systems is highly problematic. What is needed is an approach that targets the capital and financing needs of small communities. This could come from changes made to existing programs, additional funding for these existing programs or even consideration of new programs such as a Water Trust Fund similar to that in place for transportation. What is certain is that small utilities are undercapitalized, struggle to meet the costs of new regulations, and suffer from diseconomies of scale. Small water systems pride themselves on being self-sufficient, a reflection of American values still dominant in rural America. However, as summarized in this discussion, there are many approaches that can be taken to provide support and assistance to these small water utilities; community based, community operated, managed and governed organizations that are an indispensable foundation to rural life and the rural economy so crucial for America.

