



TESTIMONY OF STEVE FLETCHER
ON BEHALF OF THE
WASHINGTON COUNTY WATER COMPANY, ILLINOIS
ILLINOIS RURAL WATER ASSOCIATION
NATIONAL RURAL WATER ASSOCIATION
BEFORE THE
THE UNITED STATES HOUSE REPRESENTATIVES
SUBCOMMITTEE ON THE ENVIRONMENT
MAY 19, 2017
SUBJECT: "DRINKING WATER SYSTEM IMPROVEMENT ACT OF 2017"

Introduction

Good Morning Chairman Shimkus and Ranking Member Tonko and members of the Subcommittee. Rural Illinois, New York and the rest of America thank you for this opportunity to testify on drinking water infrastructure. And I would especially like to thank you, Congressmen Shimkus and Tonko, for your visits to your local communities in your districts to tour and help with specific communities' water issues. This has been very much appreciated in those communities.

I am Steve Fletcher from a very rural part of Illinois in Washington County. I am representing all small and rural community water and wastewater supplies today through my association with both the Illinois and National Rural Water Associations. Our member communities have the very important public responsibility of complying with all applicable regulations and for supplying the public with safe drinking water and sanitation every second of every day. Most all water supplies in the U.S. are small; 92% of the country's 50,366 drinking water supplies serve communities with fewer than 10,000 persons, and 80% of the country's 16,255 wastewater supplies serve fewer than 10,000 persons.

I am the general manager of the Washington County Water Company which is a non-profit rural water district started by a group of farmers in the 1980s. These farmers organized and built the water district using funding from the federal government that allowed these mainly farm families to receive safe, piped drinking water for the first time. Without the financial help from the federal government, we could have never afforded to have safe public water or even a public water utility.

We are governed by elected, volunteer board members that live in our service area. Before the development of the rural water districts, rural households, including mine, relied on cisterns and private wells that were contaminated with nitrates so we couldn't drink the water. We also relied on steel tanks that would catch the rain water off the roof and run it through some rocks to filter out sediment – and some farms were using water from their ponds with only some rudimentary treatment. None of these were good or safe options.

Over the last four decades, our little water district has grown to serve 4700 users through four separate small municipalities that have decided to partner with us for various reasons which I will explain in a bit. We expanded project-by-project by laying new lines when we could secure the funding. Every few years we would extend water lines another 50-100 miles, allowing for an

additional 200-300 homes to get drinking water for the first time. It took us ten years to grow and extend enough to service the president of the water district.

Appropriate Partnerships

We also partner with our neighboring town of Egypt which decided to get out of managing their own small water utility and gave the management responsibilities to us. We assumed all its assets and debts three years ago and now operate and manage Egypt's drinking water system as a satellite and separate public water system under our governance.

I wanted to highlight our various forms of partnerships with our neighboring communities including outright ownership of the town of Egypt, to selling wholesale water to the villages of Okawville and Radom, to providing partial operations to the Village of Ashley, and to our partnership with the Village of DuBois where we provide the operations, maintenance and compliance testing to the Village while it retains full local governmental control.

I note these partnerships to make the point that regionalization and consolidation of small communities' water systems are occurring and there is no current legal or structural impediment for this to occur. We support the concept and encourage these partnerships when it makes local economic sense because growing economies of scale result in lower cost to the consumer than operating independent water utilities. In the 1990s, it became apparent to the villages of Ashly and Okawville that it would be more economical to purchase water from us than what it would cost to upgrade their treatment plants – so they chose to partner with us.

The key ingredient in any successful consolidation is local support for the consolidation – and local control of when and how they choose consolidation. Rural Water has led or assisted in more communities consolidating their water supplies than any program, policy or organization. Again, when communities believe consolidation will benefit them, they eagerly agree with these partnerships. However, if communities are coerced to consolidate, one can almost guarantee future controversy. We urge you to allow local governments the authority to choose when to merge, consolidate or enter into a partnership. If a community is out of compliance with the Safe Drinking Water Act, civil enforcement can drive a community to a compliance solution. However, they should be able to choose their preferred compliance solution whether it be new treatment, regionalization, technical assistance, governmental changes, etc. We would be very concerned if the federal government expanded its regulatory reach into this traditionally local governmental authority.

“Drinking Water System Improvement Act of 2017”

We appreciate the Subcommittee's efforts to make modifications to the Safe Drinking Water Act to assist local governments with drinking water infrastructure funding and other forms of assistance in your legislation, the “Drinking Water System Improvement Act of 2017.” We are pleased to endorse the bill for the following reasons and make some comments if the Subcommittee makes any modifications to the bill:

1. First, small and rural communities support the use of these existing federal infrastructure initiatives as the primary delivery mechanisms for any new federal water infrastructure initiative. These initiatives all have specific authorizing provisions that recognize that most water utilities are small and have more difficulty affording public water service due lack of population density and lack of economies of scale and have some targeting or prioritization of federal water subsidies based on need. The state revolving loans achieve this principled objective by requiring that federal subsidies be targeted to the communities most in need based on their economic challenges combined with the public

health necessity of the project. If rural and small town America is not specifically targeted in the legislation that would authorize and fund new water infrastructure initiatives, the funding will bypass rural America and be absorbed by large metropolitan water developments. The “Drinking Water System Improvement Act of 2017” accomplishes this objective by including targeting to disadvantaged communities and small communities with minimum set-asides, and prioritization of projects with the greatest environmental and economic need.

2. Second, we support the extended maximum loan duration up to 40 years. This extension can make the difference in a community being able to afford a project by lowering the repayment amounts to a level where the community can afford to service the debt. This change also makes the Drinking Water SRF consistent with other maximum loan terms in federal programs.
3. Third, we support the increase to 35 percent of the amount of additional subsidization to include forgiveness of principal that can be used in disadvantaged communities. Commonly, low income or disadvantaged communities do not have the ability to pay back a loan, even with very low interest rates, and require some portion of grant or principal forgiveness funding to make a project affordable to the ratepayers.
4. Fourth, the “Drinking Water System Improvement Act of 2017” includes no additional regulatory burden or new unfunded mandates on small and rural communities. Enhancing drinking water quality in small communities is more of a resource issue than a regulatory problem. Most small community non-compliance with the Safe Drinking Water Act and Clean Water Act can be quickly remedied by on-site technical assistance and education. The current EPA regulatory structure is often misapplied to small and rural communities because every community wants to provide safe water and meet all drinking water standards. After all, local water supplies are operated and governed by people whose families drink the water every day and people who are locally elected.

When Congressman Tonko’s “ASSISTANCE, QUALITY, AND AFFORDABILITY ACT,” or AQUA legislation, was first introduced in 2010, we testified in favor of that legislation. We think some of the positive targeting contained in the AQUA bill has been included in the “Drinking Water System Improvement Act of 2017” and we appreciate that and thank you, Representative Tonko, for your continued efforts to make sure federal water funding is targeted to communities most in need.

We urge you to consider two additional provisions to the legislation that we believe would make it more effective in reaching and assisting communities facing some of the most challenging water infrastructure situations. For the past few years, the Interior Appropriations Subcommittee has been mandating in the EPA appropriations bill that states must use 20 percent of their drinking water SRF grant for making grants to disadvantaged communities. Please consider codifying this policy in the Safe Drinking Water Act to make it permanent and please consider increasing the 20 percent to a higher level to ensure grants are available to make the most necessary water projects in the most economically disadvantaged communities possible. Also, please consider authorizing a technical assistance initiative dedicated to helping under-resourced communities with the application process. Many communities simply have difficulty completing the necessary paperwork and working through the engineering process to successfully obtain funding from the available federal funding sources. Authorizing a technical assistance provision that would fund one person with expertise in grant writing and project completion in each state would allow all communities access to this shared resource that no single community could afford to employ full-time. We think such a program would cost approximately \$6.5 million and should be implemented with similar authority through the Grassroots Rural and Small Community Water Systems Assistance Act.

114th CONGRESS, 2d Session, H. R. 5538, AN ACT, Making appropriations for the Department of the Interior, environment, and related agencies for the fiscal year ending September 30, 2017.

TITLE II – ENVIRONMENTAL PROTECTION AGENCY

State And Tribal Assistance Grants

Provided further, ...20 percent of the funds made available under this title to each State for Drinking Water State Revolving Fund capitalization grants shall be used by the State to provide additional subsidy to eligible recipients in the form of forgiveness of principal, negative interest loans, or grants (or any combination of these), and shall be so used by the State only where such funds are provided as initial financing for an eligible recipient or to buy, refinance, or restructure the debt obligations of eligible recipients where such debt was incurred on or after the date of enactment of this Act...

Example of Challenging Water Infrastructure Situation

The Village of Neponset in Bureau County, Illinois, only has a population of 473 persons. It was already carrying a lot of debt for its water utility infrastructure when it was mandated to upgrade its wastewater utility, install new treatment to comply with the federal drinking water standard for radium, and finance the refurbishing of their water tower (approximately \$1.5 million). The community had to raise their rates by \$15 a month to approximately a total of \$100 monthly. Community leaders are concerned the high cost of water service will result in more empty homes. All of the main three federal water funding sources have been very helpful in assisting the community and we are hopeful this assistance will keep the community viable. In addition to refinancing their existing debt to a longer loan duration of 30 years, the drinking water SRF funds has provided two loans to Neponset (one each for water and sewer), USDA has provided an additional loan for their sewer upgrade, and they were also able to qualify for a grant from the Community Development Block Grant program. This is a good example of all the various funding agencies working cooperatively to address a small community in dire need.

Unfortunately, we don't have the magic solution for how to adequately fund the SRFs, increase funding for national water infrastructure, or find feasible ideas for new funding streams other than the traditional federal discretionary appropriations process. However, we are grateful for this committee's continued advocacy for appropriations for the SRFs each year and continued attention to water infrastructure challenges. We also will be relying on this committee to ensure that any new national infrastructure initiative does not bypass rural and small town America as it progresses in Congress.

Technical Assistance

I want to especially thank Congressman Harper, Tonko, and the Subcommittee for passing the Grassroots Rural and Small Community Water Systems Assistance Act into law in the last Congress. Small and rural communities want to provide safe water and meet all drinking water standards – and on-site technical assistance gives them the shared technical resource to achieve it. Most small community non-compliance with the Safe Drinking Water Act and Clean Water Act can be quickly remedied by on-site technical assistance and education. However, the assistance must come from someone they trust (a peer) who is willing to travel directly to the community, has technical expertise to remedy that specific community's issue with their specific treatment and infrastructure, and be available on-site at any time (nights, weekends, middle of winter, etc.). We have not been able to have that legislation, Public Law 114-98, control all the technical assistance funding in the Environmental Protection Agency (EPA) appropriations bill which is preventing that

technical assistance funding from reaching rural Illinois, New York, and other states. Any assistance you can provide to correct this issue with the EPA Appropriations Subcommittee is greatly appreciated. The reason why this authorization and the similar drinking water authorization need to be specifically cited in the appropriations bill is because they contain a critical mandate that the EPA must follow Congressional intent and give preference to the type of technical assistance that small communities find to be most beneficial. Again, we would be grateful for any help in getting this message to the EPA Appropriations Subcommittee.

Small and Rural Community Issues

When thinking about national water infrastructure proposals, please remember that most water utilities are small and have more difficulty affording public water service due to lack of population density and corresponding lack of economies of scale. The small community paradox in federal water policy is that while we supply water to a minority of the country's population, small and rural communities often have more difficulty providing safe, affordable drinking water and sanitation due to these very limited economies of scale and lack of technical expertise. Also, while we have fewer resources, we are regulated in the exact same manner as a large community; we outnumber large communities by a magnitude of 10-fold, and federal compliance and water service is often a much higher cost per household. In 2017, there are rural communities in the country that still do not have access to safe drinking water or sanitation due to the lack of population density or lack of funding – some exist in my own county.

Small community water infrastructure projects are more difficult to fund because they are smaller in scale – meaning numerous, very complicated applications have to be completed and approved compared to one large project. This is compounded by the reality that small communities lack the administrative expertise to complete the necessary application process – and perhaps lack the political appeal of some large cities as well.

Because water infrastructure is often less affordable (i.e. a much greater cost per household) in rural America, a water infrastructure project poses a greater financial risk compared to a metropolitan project and, very importantly, requires some portion of a grant, not just a loan, to make the project feasible. The higher the percentage of grants required to make a project work results in less money repaid to the infrastructure funding agency and a correlating diminution of the corpus fund.

State Revolving Loan Funds (SRFs)

There is a current misconception among some stakeholders that the SRFs have a limitation on size or scope of a water project and don't leverage federal dollars. States can currently leverage a smaller amount of water funding to create a much larger available loan portfolio. Similarly, states can use their federal SRF grants to leverage larger loan portfolios. According to the EPA, State SRF programs can increase funds through different types of leveraging such as:

- Using fund assets as collateral to issue tax-exempt revenue bonds;
- Using funds from one SRF program to secure the other SRF program against default through cross-collateralization;
- Using funds from one SRF program to help cure a default in the other SRF program through a short-term cross-investment; and
- Increasing disbursements to incrementally fund multiple projects within a capital improvement plan.

A 2015, Government Accountability Office (GAO) report on the state revolving funds found: "EPA tracks the amount of additional loans that are made because of leveraged bonds. States'

Clean Water SRF programs have issued approximately \$31.8 billion in loans with leveraged bonds, and states' Drinking Water SRF programs have made approximately \$5.3 billion in additional loans with leveraged bonds..." [Source: State Revolving Funds, August 2015 GAO- 15-567]

Regarding the misconception some stakeholders are advancing that the SRFs have a limitation on size or scope of a water project, there is no size or scope limitation for water projects under the state revolving funds. According to EPA, most SRF funding is allocated to large communities:

- Approximately 72 percent of clean water SRF funding is awarded to large communities (EPA Clean Water State Revolving Fund Annual Review).
- Approximately 62 percent of drinking water SRF funding is awarded to large communities (<http://www.epa.gov/ogwdw/dwsrf/nims1/dwcsizes.pdf>).

A simple review of projects funded by the SRFs show numerous projects that cost over 50 million dollars. It appears that the SRFs are used in every large water project in the country. This assertion should be verified by the EPA. The state of New York lists multiple projects funded by the drinking water SRF that cost over one billion dollars.

Clean Water Financing Proposed Priority System (FY2016) New Jersey Department of Environmental Protection ([link](#)).

CAMDEN CITY \$58,648,000	MIDDLESEX COUNTY \$111,313,000
CAMDEN COUNTY \$50,664,000	PASSAIC VALLEY SC \$132,505,000
MIDDLESEX COUNTY \$363,247,000	PASSAIC VALLEY \$63,223,000
JERSEY CITY MUA \$47,046,000	BELLMAWR BOROUGH \$66,350,000
BAYSHORE RSA \$5,894,000	EDISON TOWNSHIP \$55,475,000
PASSAIC VALLEY SC \$134,646,000	CAMDEN RED AGENCY \$172,309,000
PASSAIC VALLEY SC \$58,205,000	KEARNY TOWN \$107,557,000
PASSAIC VALLEY SC \$60,117,000	PENNSAUKEN TWNP \$55,431,000
BERGEN COUNTY UA \$54,172,000	SAYREVILLE ERA \$50,664,000
PASSAIC VALLEY SC \$63,223,000	

State Revolving Fund for Water Pollution Control Federal Fiscal Year 2016 New York State Department of Environmental Conservation ([link](#)).

GREENWOOD LAKE, VILLAGE OF \$62,021,000	ONEIDA COUNTY PHASE 5B \$117,000,000
SOUTHAMPTON, VILLAGE \$30,552,000	ONEIDA COUNTY PHASE 6A \$110,600,000
CHEEKTOWAGA, TOWN OF \$50,000,000	SUFFOLK COUNTY SW SD #3 \$88,572,000
NASSAU COUNTY BAY PARK \$50,951,925	SUFFOLK COUNTY RT 25 \$76,230,000
NASSAU COUNTY BAY PARK \$524,750,000	UTICA, CITY OF \$105,304,000
ONEIDA COUNTY PHASE 2B \$59,500,000	

Projects for New York City (NYCMWFA)

WARDS ISLAND BRONX \$64,091,406	NEWTOWN CREEK STP UP \$112,331,279
WARDS ISLAND STP REHAB \$102,655,400	NEWTOWN CREEK STP UP \$169,975,528
BOWERY BAY STP MOD \$50,412,000	NEWTOWN CREEK STP UP \$140,983,576
BOWERY BAY STP UP \$204,301,784	NEWTOWN CREEK STP UP \$42,212,389
TALLMAN ISLAND STP UP \$280,322,476	NEWTOWN CREEK STP UP \$361,199,252
JAMAICA STP IMP JA-179 \$57,267,070	NEWTOWN CREEK STP UP \$589,360,645
26TH WARD, BB, TI, WI, \$93,802,596	PUMP STATIONS CSO [CSO \$183,867,577
26TH WARD STP IMP \$51,101,400	CONEY ISLAND CREEK CSO \$69,107,016
26TH WARD STP IMP \$100,595,678	CONEY ISLAND CREEK CSO \$48,351,415
NEWTOWN CREEK STP UP \$45,933,272	NYC-WATERSHED NPS 319 \$116,225,648

Final Intended Use Plan Drinking Water State Revolving Fund October 1, 2015- September 30, 2016 ([link](#)). NEW YORK CITY

Croton Filtration Plant (Phase 11 of 16479), \$1,200,000,000
3rd City tunnel and shafts, dist press, \$470,000,000
Catskill& Delaware UV Disinfection, Treatment Plant \$1,400,000,000

CALIFORNIA, FISCAL YEAR 2015-2016 Clean Water Revolving Fund Intended Use Plan ([link](#)).

Sacramento Regional County Sanitation District Echo Water Project \$174,380,875
Sacramento Regional County Sanitation District Echo Water Project \$65,426,778
South Coast Water District Tunnel Stabilization & Sewer Rehabilitation \$102,560,000
Hi-Desert Water District Wastewater Treatment and Water Reclamation \$142,349,314
City of Malibu Civic Center Wastewater Treatment & Recycling Facility \$41,900,000
Santa Margarita Water District Trampas Canyon Recycled Water \$47,450,000
City of North Valley Regional Recycled Water Program \$96,617,856
Monterey Regional Water Pollution Control Agency Groundwater \$82,000,000
Eastern Municipal Water District Recycled Water Supply Optimization \$114,031,280
Los Angeles, Advanced Water Purification Facility \$451,000,000
Sacramento Regional County Sanitation District Echo Water Project \$59,408,652
Sacramento Regional County Sanitation District Echo Water Project \$711,032,393
City of San Luis Obispo Water Resource Recovery Facility Expansion \$68,000,000
Ventura County Waterworks District No. 1 \$50,000,000
San Jose, City of Digester and Thickener Facilities \$86,350,000
Water Replenishment District of Southern California Groundwater \$80,000,000
Upper San Gabriel Valley Municipal Water District Indirect Reuse \$65,000,000
Los Angeles, City of Hyperion Treatment Plant Membrane \$460,000,000
Palmdale Water District Palmdale Regional Groundwater Recharge \$130,000,000
Sacramento Regional County Sanitation District Echo Water Project \$484,585,422

Privatization

NRWA has not opposed water supply privatization in principle. However, corporate water (profit generating companies or companies paying profits to shareholders/investors) should not be eligible for federal taxpayer subsidies. Private companies argue that they have to comply with the same regulations. However, the distinction in mission between public and private is the core principle that should be considered. Public water utilities were and are created to provide for public welfare (the reason why public water continues to expand to underserved and non-profitable populations). Any federal subsidy that is provided to a corporate water utility should be separated from subsidizing that company's profits.

Regarding EPA's suggestion that public-private partnerships may be a solution for small and rural water utility "challenges," we urge EPA to limit its policy and initiatives to compliance rather than promote water utility privatization. EPA should leave any decisions regarding privatization to the local citizens' discretion. The decision for any local governmental to privatize, including incremental privatization, should be determined at the discretion of local citizens. There is nothing inherently more efficient or more economical in the operation of a private water utility versus a public-governmental water utility. As the Government Accountability Office concluded in 2008, "There is no 'free' money in public-private partnerships." This observation is self-evident, along with the observation that private water utilities are inherently no more efficient than public water utilities. While we believe that maximizing profit is a noble virtue, we do not think that federal policy and initiatives should promote privatization of water utilities.

Regarding private or commercial funding as a source for investment in the country's water infrastructure, please know that there is currently no limitation on private or commercial investments in water utility infrastructure projects. Many water utilities currently rely on commercial or private investors (i.e. a local bank) for certain projects. However, many water infrastructure water projects would become unaffordable, like the communities cited earlier in my testimony, if they were to rely solely on commercial or private financing. This means that the ratepayers would not be able to afford their water bills if the total cost of the project were financed by the ratepayers. This dynamic is especially acute in low-income communities with expensive water utility infrastructure needs.

Congress has determined that there is a federal interest in subsidizing some of these water infrastructure projects based on need – the community's lack of ability to afford the project combined with the public health or environmental urgency of the project. Congress appropriates finite water funding subsidies and communities compete based on need for these limited federal subsidies.

Under the Clean Water Act and the Safe Drinking Water Act, the state revolving funds' (SRFs) application processes require the prioritization of funding awards based on a meritorious needs-based evaluation conducted by the states. Under the U.S. Department of Agriculture's (USDA) water infrastructure funding program, communities must demonstrate they don't have the ability to obtain commercial credit (the "credit elsewhere" test) and then they are only subsidized by the amount to make the project affordable to that specific community based on a ratio of water rates and local median household income. There are never enough federal subsidies to fund every project.

We have concerns with proposals to extend new subsidies or tax preferences to the private investment sector to support a new national infrastructure initiative:

- For private or commercial funding instruments to be able make projects more affordable by lowering interest rates, the federal government would have to offer some type of subsidy or tax-break to the private sector. This will have a cost to the federal government in decreased tax revenue or direct appropriations. If this cost is used to support the private sector, it will result in a transfer or circumvention of public (taxpayer) subsidies from the public (local governments under the SRFs, USDA, etc.) to the commercial or corporate sector. We believe that federal water project subsidies should be used for the public/governmental sector water infrastructure projects determined to be a federal priority worthy of public subsidy.
- Private infrastructure financing does not require the prioritization of projects based on need (economical and environmental) like the current government water programs. It is in the interest of the private financing sector to fund the projects that would have the highest return on investments. Therefore, if additional federal subsidies were used to subsidize the private sector, it would have the effect of redirecting federal subsidies from the projects with the greatest need (economical, public health and environmental) to the projects with least need.

Again, there is currently no limitation of commercial or private investment in water infrastructure; our concern is limited to providing a new subsidy to the private or commercial sector that could remain in a public sector dedicated to accomplishing federally identified priorities.