

Testimony to the Committee on Agriculture, Nutrition, and Forestry of the United States Senate

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October 22, 2008, Steubenville, Ohio

Thank you, Chairman Harkin and Ranking Member Chambliss, for the opportunity to address the committee. Today's hearing to explore the impact of the economic crisis in rural America and the role of the federal government's USDA rural development programs to address these issues is particularly timely.

My name is Debra Martin, and I am the director of the Great Lakes Rural Community Assistance Program (RCAP) serving the states of Ohio, Illinois, Indiana, Kentucky, Michigan, West Virginia, and Wisconsin. The Great Lakes RCAP is part of a national network of six regional service providers that work to help small, rural communities address water, wastewater, and other community development needs. The Great Lakes regional RCAP is administered by WSOS Community Action, based in Fremont, Ohio. The RCAP network provides training and technical assistance to build the capacity and sustainability of small systems, and to assist small communities with the development of needed water and wastewater facilities. The Great Lakes RCAP serves over 100 communities in Ohio every year with its direct technical assistance and provides training to more than 500 local officials annually. Throughout the Great Lakes region, we provide assistance to more than 400 communities every year.

Mr. Chairman, we applaud the efforts of you and your colleagues to examine the impact of the current financial crisis on rural communities and businesses,

and to ensure that they are not overlooked in the rush to find solutions to address the critical issues our nation faces today.

The infrastructure needs alone in this country are staggering, with 2005 estimates from the American Society of Civil Engineers placing the total pricetag at \$1.6 trillion. Of the total infrastructure reviewed in its Infrastructure Report Card, the lowest grades issued were for drinking water and wastewater, both of which received a score of D-. The most recent needs surveys by EPA estimate the funding needs in small systems and rural areas at \$34 billion for drinking water and nearly \$69 billion for wastewater over the next 20 years.

Small systems nationwide comprise approximately 83% of all public drinking water systems and 70% of public wastewater facilities, though they account for a much smaller share of the total population served. Small communities face unique challenges in developing, upgrading, and operating their water and wastewater facilities. They serve significantly smaller numbers of users to spread their capital and operating costs among, and typically serve fewer customers per mile of pipe than larger systems, making it impossible to achieve the economies of scale found in larger systems. In addition, they generally lack the larger commercial, industrial, and institutional users that help spread the costs in more urban and suburban areas.

As a result, users in small systems pay, on average, three to four times more than their urban counterparts for water and wastewater services according to EPA data. To cite one example, the Appalachian Ohio community of Corning, with a population of 593 and a median income of \$27, 868 recently developed a new sewer system. Despite utilizing RCAP assistance to obtain every possible source

of federal and state grant funding available, village residents are paying approximately \$65 per month for their sewer service. Coupled with the \$45 per month average bill for public water service, community residents are paying nearly 5% of their income for these utilities. According to Ohio EPA's most recent water and sewer rate survey, there are virtually no major cities in the state whose residents are paying comparable rates.

Great Lakes RCAP is committed to educating local officials about the importance of maintaining infrastructure investments, encouraging local responsibility, and ensuring that residents are paying their fair share for these services. RCAP offers training to utility boards on topics such as financial management, budgeting, asset management and rate-setting. However, there is a point at which the cost of projects is simply beyond the ability of local residents to bear. Assistance from the federal government is vital to these small communities in developing needed infrastructure. Without federal grants and subsidized, long-term loan funds, the vast majority of projects in rural America, many of which are only marginally affordable even with these grants, are simply unaffordable.

While it is difficult to speculate on how the current credit crisis will impact future infrastructure funding, it is not difficult to envision a scenario in which small communities are at a more pronounced disadvantage. With infrastructure crumbling in our nation's cities, credit tightening, and state and local government revenues and budgets shrinking, cities may be more likely to turn to government sources of infrastructure funding, making these sources even more competitive. In such an environment, it could become very difficult for small communities to

compete. We have recently heard that some state agencies in Ohio are having difficulty selling bonds, even those that carry AAA ratings. While it is hoped that this situation will be temporary, it further complicates the issue of allocating limited resources.

Moreover, in light of the many competing priorities in the federal budget, the pressure to cut existing federal programs will be greater, which could have a detrimental impact on small communities. In the development of infrastructure projects, most small communities must rely on multiple sources of funding, both federal and state, in order to make their projects financially feasible. Some of these sources may disappear or face severe cuts as the federal government and states seek to cut spending. Already, the State of Virginia has indicated its intent to eliminate a \$1.5 million annual program designed to help install indoor plumbing in low-income households and help them connect to public water systems.

For many years, USDA Rural Development has served as the “lender of last resort” for rural communities. The USDA’s Water and Waste Disposal Loan and Grant Program is one of the few programs that funds water and sewer facilities that is available exclusively for small communities. Rural Development is also the lead federal agency for improving housing, community facilities, and providing economic opportunity in rural areas. Thus, it is imperative that Rural Development be adequately funded if small communities are going to have any opportunity to develop the projects that are critical to public health, the environment, and their future development.

For the past several years, Rural Development has seen its funding for rural water and wastewater, business, community facilities and housing steadily decrease, as shown in Figure 1 below. Since 2003, funding has been reduced by 25% for water and sewer, 35% for rural business funding, 28% for rural community facilities, and 33% for rural housing loans and grants.

Figure 1. USDA Rural Community Development and Housing Budget Authority FY 03 - FY08 Final, FY 09 Budget (\$ in millions)

PROGRAM	FY03	FY04	FY05	FY06	FY07	FY 08	FY 09
<i>Rural Development</i>							
- Water/Sewer	723.2	605	552.1	530.1	554	539	269
-Business	87.7	76.5	74.1	89.2	51	57	44
-Community Facilities	96.8	75.9	89.1	82.6	77	69	23
<i>Rural Housing</i>							
Direct 502	202.3	126.1	133.1	129	113	105	0
Guaranteed 502	32.6	46	33.6	41	41	50	13#
515	54	50.1	47.1	45	45	29	0
538	4.5	5.9	3.5	5	7	12	2
504	10.9	9.6	10	10	11	10	5
Others	1.2	.7	.7	.7	.7	0	0
Rental Assistance	726	580.5	592	653.1	616	479	997

Balance financed by fees

During this same period, Rural Development grant funding for water and sewer projects, as a percentage of overall loan-grant allocations, has declined from 39% in 2003 to 26% as of 2006. As previously indicated, these grant funds are critical to small communities to help defray the enormous costs of their infrastructure development.

Recommendations to assist rural America

Solving the problems facing rural communities will require a multi-pronged approach that includes adequate funding, along with steps to ensure that grant funding is available only to the most needy communities, that there is sufficient technical assistance available to ensure that the funds are distributed where they are most needed, and that alternative approaches to solving their problems are explored.

Specifically, RCAP offers the following recommendations:

- 1) Overall funding for Rural Development programs needs to be increased. There is currently still a backlog of nearly \$2 billion in the water and wastewater program, even after the additional \$120 million allocated by the most recent Farm Bill. As previously noted, funding for other Rural Development programs that support rural businesses, community facilities and housing has decreased significantly and needs to be restored.**
- 2) Improve the grant-to-loan ratio in Rural Development's Water and Waste Disposal Program. The new Farm Bill approved lower interest rates for Rural Development, which will indeed help make projects affordable for many communities while requiring a smaller federal investment. However, these reduced interest rates will further reduce grant funding to cover the additional loan subsidy, and many communities simply cannot develop feasible projects without these grants, as previously noted.**
- 3) Consider eliminating the "similar systems rule" in the Water and Waste Disposal Program. Currently, Rural Development can only invest grant funding in systems to the extent necessary to subsidize user rates to a "reasonable" level.**

This generally is based on user rates as a percentage of median household income. However, the similar systems rule is essentially a loophole that allows consideration of the rates paid by similar systems in the same geographic area instead of rates as a percentage of income. This rule allows some systems to maintain rates that are too low, based simply on what nearby systems are paying (who often have resisted raising rates despite the ability and the need), thereby allowing already-limited grant funds to be spent in areas where low-interest loans might have worked. The idea of rates as a percentage of median income is one that is equitable and should be the sole means of determining grant funding.

3) Strengthen provisions that require communities to consider regionalization/collaboration. Too often, these options are given a cursory examination and dismissed because of a lack of support by the community. In order to stretch limited resources, communities need to realistically examine whether operating their own facilities is cost effective. Many state and local offices have not forced communities to consider these alternatives because they are not politically popular. Therefore, such a provision should be part of the law. While there are often legitimate reasons for communities not to consider regionalization, the burden of proof should be on the community.

4) Increase technical assistance funding that will allow RCAP and other providers to keep pace with the growing demand. Currently, in Ohio and other Great Lakes RCAP states, there is far more demand for assistance, particularly with new sewer projects, than can be met with existing technical assistance funding. These projects tend to be very time and labor-intensive, as they are typically the smallest (hence most difficult to fund) communities.

In addition to technical assistance for water and wastewater, a broader technical assistance program to help rural communities access needed funds for community facilities, safety and security, park improvements, community planning, and economic development should be considered. During the course of our water and wastewater work, we are frequently approached to provide this assistance by rural communities because they have nowhere else to turn for help and have no full-time staff or expertise to access funds that might be available to them. In the last two years, we have received over 60 requests for such assistance in the Great Lakes region alone.

5) Expand the Household Water Well Program under USDA to include the replacement of septic systems or other similar on-lot sewage treatment options as an eligible activity. As Ohio and other states update their outdated home sewage treatment rules, many rural residents will be hard-pressed to comply due to the cost of upgrading these systems, many of which were poorly sited or installed at a time when standards were far more lax than today, and many of which have not been properly maintained. Funding is needed for the education of homeowners, contractors and installers, and septage haulers.

6) We strongly recommend that any new economic stimulus bill under consideration should contain provisions for critical water and sewer infrastructure, and further, that such a package include funding specifically available to rural communities. The logical vehicle for such funding is USDA Rural Development. Many leading economists have called for additional government spending on infrastructure as a means of stimulating our economy, and statistics show that every \$1 billion invested in infrastructure creates approximately 30,000

jobs. Thus, we can invest in our future by providing critically needed funding while providing jobs in rural areas.

We thank the Committee for considering our testimony on these issues and thank you for your commitment to meeting the needs of rural America's communities.

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