

**Testimony of Mark Rounsavall
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**Before the Subcommittee on Water Resources and the Environment
House Transportation and Infrastructure Committee**

**Meeting the Nation's Wastewater Infrastructure Needs
March 19, 2003**

Chairman Duncan, Ranking Member Costello, thank you for the opportunity to testify before you today on the need for wastewater infrastructure for rural communities. My name is Mark Rounsavall and I am the Director of the Southern Rural Community Assistance Program (RCAP) operated by the Community Resource Group Inc., (a private non-profit organization with headquarters in Fayetteville, Arkansas). Our RCAP operates in seven southern and southwestern states, including Tennessee, Arkansas, Alabama, Louisiana, Mississippi, Oklahoma and Texas. I am pleased to be here today in support of your efforts to secure more assistance to communities throughout the country to help meet their wastewater infrastructure needs.

The RCAP mission is to help rural Americans improve their quality of life through ensuring the availability of safe and clean water. Since its' founding in 1969, RCAP has worked with the federal and state agencies to help people living in small communities address their drinking water and wastewater treatment problems. The RCAP network includes field staff in all states and Puerto Rico, six regional offices with multi-state service areas, and a national office located in Washington, D.C.

Communities in greatest need of assistance in meeting their wastewater infrastructure needs are typically very small communities with fewer than 3,500 people and found in very remote rural areas. Several problems confront them, including being geographically remote from easy access to equipment, lack of staff capacity to deal with regulatory compliance issues, and lack of financial resources to install and operate systems. The RCAP program works in every State to provide technical assistance to small, rural communities to help them meet their wastewater infrastructure needs.

Mr. Chairman, we applaud your efforts during the 107th Congress in introducing HR 3930, Water Quality Financing Act of 2002 and including in it a \$75 million annual authorization for a comprehensive technical assistance program to assist rural communities with their wastewater infrastructure needs. This authorization would provide rural communities greater access to the type of technical assistance RCAP and others provide. Technical assistance is desperately needed by these communities and is the key to solving the wastewater needs in rural areas. We hope this provision is reintroduced in this year's legislation.

RCAPs help small communities and small wastewater treatment utilities in many ways. RCAP staff provides technical assistance to assess wastewater treatment needs, we help them prioritize these needs, and help develop and implement a plan of action including steps necessary for compliance with the Clean Water Act. RCAP's on-site technical assistance and training focuses on: facilities development, management and finance, operations and maintenance, planning and development, capacity building, education and training, source protection, and funding for small and very small systems.

With funding from a range of public and private sources, RCAPs delivered services to more than 2,100 rural communities last year. Ninety percent of these communities had populations of 2,500 fewer. Leveraging approximately \$25 of additional funding for every \$1 dollar received by RCAP, the RCAPs direct public investments to produce lasting results.

During this past year in Tennessee, RCAP assisted over 12, 000 households in 14 communities address their water and wastewater needs.

Wastewater Needs in Rural Communities Are Great

The need for greater federal assistance for wastewater infrastructure in America's small rural communities is indeed great. Consider these statistics:

- Nearly 1 million rural households do not have indoor plumbing
- More than 70% of our nation's housing units that lack complete plumbing are in small communities
- Water systems in communities serving fewer than 10,000 residents are more than twice as likely to violate drinking water standards for microbes and chemicals than systems serving more than 10,000.

The Environmental Protection Agency estimates that \$13.8 billion is required to meet clean water needs of small communities of 10,000 or fewer nationwide. In 1996, the State of Tennessee and the EPA estimated that in Tennessee alone \$311 million will be needed through 2016 to just meet the wastewater treatment needs of systems serving 10,000 people or less. For systems serving fewer than 3,500 people, the estimated cost is \$220 million.

These numbers are indeed daunting. The numbers become even more daunting when one considers the disproportional burden small communities carry compared to larger systems: households in small communities bare four times the costs of installing and maintaining water and wastewater systems than do households located in larger communities. Small communities simply do not have the taxpayer base to support the amount of resources that will be required over the next twenty years.

Unique Challenges Faced By Small Communities

Small communities face several unique challenges in meeting water and wastewater needs compared to larger communities. Small communities often rely on government loan funds and grants as the sole revenue available to meet infrastructure needs. As stated by the Small Town Task Force, established by Congress in 1992 to advise EPA on

how to work better with small communities to improve environmental compliance, “Small towns are different from large towns – not just smaller.”

The Small Town Task Force found that technical and administrative capacity is severely limited in small towns:

- Small towns, as a general rule, have no full time officials and little or no professional staff
- Small towns, as a general rule, cannot attract or support private technical businesses, and
- There are few, if any, training opportunities for the staff or town council members of small towns.

Financial resources are severely limited for small towns:

- Almost by definition, small towns have severely limited tax bases
- Because of limited opportunities for young people, small towns tend to have disproportionately older populations and thus incur higher social service costs
- Small towns tend to have fragile, heavily concentrated economic bases
- Infrastructure costs fall disproportionately on small towns because entry-level costs must be distributed over a smaller base, and
- Limited tax bases mean limited budgets.

Finally, small communities often lack the political clout on the state and national levels to leverage greater government focus on their infrastructure needs.

Small Communities Cannot Shoulder the Burden Alone

For all these reasons, small communities cannot be asked to shoulder the burden alone in trying to raise the capital necessary to meet the current and future drinking clean water needs of their communities. While State Revolving Loan Funds (SRF), the United States Department of Agriculture (USDA) Rural Utility Services Loan and Grant programs and CDBG funds provide some support, the funding for them are inadequate.

A recent analysis conducted on behalf of the RCAPs indicates that while most States distributed Clean Water SRF funds to very small communities under 3,500 over the past five years in proportion to the demonstrated need, nearly 30% do not. The study found that if those States were to have distributed funds according to the demonstrated need, very small communities would have received approximately \$240 million more than they actually did to help them obtain adequate wastewater infrastructure. The data was based on the 1996 EPA needs assessment survey and many States that were assessed did not include Separate State Estimates that track wastewater needs in non-sewered communities. Many small rural communities are non-sewered and therefore are not counted by many States, or by EPA.

The Rural Community Assistance Program does not dispute the numbers that EPA has identified as to what small communities need to meet their wastewater infrastructure

needs. Our staff has countless of anecdotal stories to back-up these statistics. It is clear, small community wastewater treatment systems are in need of help.

Recommendations

HR 3930 went a long way toward recognizing the unique needs of small and very small communities and RCAP applauds these efforts and continues to support them. Both the technical assistance provision and the simplified procedures provision would provide a great deal of assistance to rural communities.

In addition to the provisions mentioned above, RCAP would like to offer three measures that we believe would further strengthen the Clean Water SRF program.

1. Revolving Fund Program for Small Systems: The first recommendation addresses a very real financing gap that exists for small communities in their efforts to secure adequate wastewater infrastructure. Small communities often cannot afford costs associated with planning and developing systems, such as engineering studies, feasibility studies, environmental assessments, test wells, infiltration and inflow studies, etc., which prevent them from submitting SRF applications in the first instance. Pre-development items can cost a community upwards to \$50,000 or more and for very small communities these figures are cost-prohibitive. While under the SRF, reimbursement is available for these expenses, communities do not have this cash on hand nor can they wait several years for a project to be approved before being reimbursed.

Another financing gap exists for small communities that experience emergency situations, such as a broken pump, a water line or sewer line break, a tank rehabilitation and painting, or that need of a simple line-extension or other small capital improvement. While large systems typically have reserve accounts to address these situations, small systems typically do not. The costs of these repairs or line extensions are often no more than \$50,000 or \$70,000 dollars, however for small communities the figure might as well be \$1,000,000. The Clean Water SRF does not provide financing in these situations: the average SRF loan is larger than \$3 million and the transaction costs of administering several dozen small requests from rural areas are just too high.

RCAP recommends that a small revolving fund program be established as part of the Clean Water SRF to assist communities with pre-development costs and small system upgrades and critical capital improvements. The revolving funds would be capitalized by an EPA administered grant program and would provide up to \$100,000 in financing for pre-development costs and small system repairs to small communities at below market rates and with a relatively short repayment term. Non-profit intermediaries would administer these funds.

The Southern RCAP has operated a loan fund for these purposes since 1992 and has had a great deal of success. We saw that there existed a “credit gap” for smaller dollar needs in small utilities. It appeared to us that it might well be easier for a utility to get a million dollars, than it would be to find a loan of \$75,000. Community Resource Group borrowed the money to capitalize a small loan fund, with a \$2 million loan from the Ford

Foundation (which we are about to begin to repay), and a \$1 million dollar loan from the USDA/Rural Development Intermediary Re-lending Program. Since the loan fund began, CRG has provided over small 140 loans to utilities and small communities- the average size is \$57,000 – and cover everything from engineering design cost, lines extensions, test wells and smoke testing, to replacing pumps and lift stations. We can get a loan approved and money out the door in as little as two weeks. This is very advantageous, particularly in the case of an emergency. Last year we were fortunate enough to be certified by the Treasury Department as a Community Development Financial Institution, and we were lucky enough to be awarded a \$1 million dollar equity grant to obtain additional capitalization for this fund. We've had only 1 community default in the ten years since we began operating the loan fund. Three other RCAPs operate similar funds with the same degree of success.

An example of the type of situation a small systems loan fund could address is illustrated by a recent loan we made in Tennessee. We made a loan for \$125,000 to the North Rhea County Utility District in Tennessee in October of 2000. There were about twenty-five homes near the Rhea County system that were on private wells. During the summer, most of those homes had their wells go dry. At others, the private wells serving some of the homes were found to contain dangerous levels of heavy metals in the water. With the \$120,000 loan from CRG and RCAP, the Rhea County Utility District was able to extend their water lines to each of these homes and provide them with first-time public water service. While this example illustrates a drinking water project, situations arise with wastewater systems that require similar small infusions of cash.

In 2002, we provided the Town of Lake Providence \$575,000 in interim financing to begin preliminary work including engineering, surveying and television inspection of the sewer system in preparation for a major wastewater project. This system provides water and wastewater services to approximately 2300 very low and moderate income families in the Lake Providence and East Carrol Parishes.

2. Definition of system sizes: The second recommendation is that statutory definitions be established for small and very small systems. We recommend that a size definition for small systems is established for systems serving 10,000 or fewer population, and that a definition for very small systems is established for systems serving 3,500 or fewer population. We believe that establishing statutorily defined size definitions provide policy makers greater clarity when setting policy for these systems and would minimize confusion that exists when discussing the needs of a particular size of system.

3. State SRF distribution formula: Require that States demonstrate that 5 years from date of enactment of legislation and every five years thereafter States distribute funding to small community systems in proportion to the need documented in the latest needs assessment survey required under sec. 516, with a minimum of 15% set aside for small and very small communities. Currently there are no requirements, however States receive SRF allocations based on needs assessment formula.

Based on 1996 needs assessment data, CW SRF programs fell short of meeting the need for very small rural communities in 14 States during the course of the past five years. This shortfall amounts to nearly \$240 million in additional dollars that very small communities should have received had State allocations been distributed to them according to their need. The needs assessments form the basis by which States receive SRF capitalization grants. Small systems serving populations of less than 10,000 account for 85% of all public systems and carry four times the household ratepayer burden for operating and maintaining their wastewater treatment systems.

Conclusion

It is clear that small communities serving fewer than 10,000 people have critical water and wastewater needs that must be met. Communities in greatest need for water and wastewater assistance are typically very small communities with fewer than 3,500 people and found in very remote rural areas. Several problems confront them, including geographical remoteness from easy access to equipment, lack of staff capacity to deal with regulatory compliance issues, and lack of financial resources to install and operate systems.

These communities cannot meet their wastewater needs alone. We must take advantage of the current focus on our nation's water supply to provide sufficient resources to small communities to ensure that their water supplies are clean, safe and affordable.

But money is not enough. Small communities need technical assistance and other mechanisms to work through the myriad of financial, technical and regulatory issues they must deal with in order to address their wastewater infrastructure needs. We hope that Rural Community Assistance Programs and other similar technical assistance programs can be a part of the solution Congress enacts to deal with these issues.