

**HEARING TO REVIEW RURAL WATER  
INFRASTRUCTURE**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON RURAL DEVELOPMENT,  
BIOTECHNOLOGY, SPECIALTY CROPS,  
AND FOREIGN AGRICULTURE  
OF THE  
COMMITTEE ON AGRICULTURE  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED ELEVENTH CONGRESS

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# HEARING TO REVIEW RURAL WATER INFRASTRUCTURE

TUESDAY, MARCH 23, 2010

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON RURAL DEVELOPMENT,  
BIOTECHNOLOGY, SPECIALTY CROPS, AND FOREIGN  
AGRICULTURE,  
COMMITTEE ON AGRICULTURE,  
*Washington, D.C.*

The Subcommittee met, pursuant to call, at 10:11 a.m., in Room 1300 of the Longworth House Office Building, Hon. Mike McIntyre [Chairman of the Subcommittee] presiding.

Members present: Representatives McIntyre, Bright, Minnick, Conaway, Thompson, Cassidy, and Herseth Sandlin.

Staff present: Claiborn Crain, Tyler Jameson, Scott Kuschmider, Clark Ogilvie, James Ryder, April Slayton, Patricia Barr, Mike Dunlap, Jamie Mitchell, and Sangina Wright.

## OPENING STATEMENT OF HON. MIKE MCINTYRE, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

The CHAIRMAN. Good morning. Welcome to today's hearing to review the state of water and wastewater disposal infrastructure in rural communities and the needs and challenges that these communities face. I am Mike McIntyre from the State of North Carolina. Thank you for your indulgence this morning. We usually are very prompt on starting, and I apologize for the unusual delays I had today. But I want to thank you for your patience and will make up for the time. I will shorten my opening statement so we can get right back to where we would have been in terms of time today.

I do want to welcome back to this Subcommittee Mr. Jonathan Adelstein of the Rural Utilities Service. RUS is one of the several Federal agencies that administers water and wastewater programs, and they are the only one whose funding is directed entirely to rural communities. I also want to extend a special welcome to Ms. Rhonda Locklear, who will be testifying on our second panel today. Ms. Locklear is the Water and Wastewater Director of the Town of Pembroke, North Carolina, in my home county of Robeson County. So, Rhonda, we especially welcome you to come up here and join us today here in Washington.

We are here today to examine the infrastructure needs and investment in rural areas and the long-term health of our water systems, which are so important. With that, I will cut short the other

4 to 5 minutes of remarks to keep us on time, and I will call on the Ranking Member, Mr. Conaway.

[The prepared statement of Mr. McIntyre follows:]

PREPARED STATEMENT OF HON. MIKE MCINTYRE, A REPRESENTATIVE IN CONGRESS  
FROM NORTH CAROLINA

Good morning, and welcome to today's hearing to review the state of water and waste disposal infrastructure in rural communities and the needs and challenges these communities must meet. As Chairman of the Subcommittee, I want to thank all of you for being here, and I want to especially thank our witnesses who will be testifying before us today.

I want to welcome back to this Subcommittee Mr. Jonathan Adelstein of the Rural Utilities Service. RUS is one of several Federal agencies that administers water and wastewater programs, but they are the only one whose funding is directed entirely to rural communities. I also want to welcome Ms. Ronda Locklear, who will be testifying on our second panel today. Ms. Locklear is the Water and Wastewater Director of the Town of Pembroke, North Carolina, which is in my Congressional district.

We are here today to examine the water infrastructure needs and investment in rural areas. The long-term health of water systems is important to those of us who represent rural constituencies since the overwhelming majority of community water systems in America serve populations of fewer than 10,000 people according to EPA statistics.

Rural communities that fit in this category have the same responsibility to provide safe, sustainable and affordable public drinking water and wastewater services to their citizens as urban and suburban cities do. Yet many of these communities are challenged by a small tax base and limited or no ability to issue bonds to finance such services or make timely system improvements when they are needed. And some of these smaller systems serve areas of extreme poverty whose citizens are at great risk from not having access to safe and sanitary water, particularly in communities along the southern border.

At the same time, they must meet the same regulatory requirements for safe and sanitary drinking water and wastewater treatment as larger, well-capitalized systems.

There are a number of programs across several Federal agencies that are in place to help bridge this gap and allow small communities to benefit from new or refurbished water systems. USDA's Rural Utilities Service provides loans, grants, and loan guarantees to build and maintain systems, and provide technical assistance to meet water quality standards. Like many programs in Rural Development, RUS water and waste disposal funds fill the void that is not provided through private financing.

RUS programs have been rated among the best in the Federal Government with regard to its low delinquency rate and overall effectiveness in serving its mission. RUS systems have been in existence for many years, with personnel in place both nationally and in the states to help provide effective oversight.

The need for assistance in rural America is so great that they have dealt with a significant application backlog for many years. I am pleased that the Recovery Act provided \$1.38 billion in grants and loans to reduce the backlog, and I look forward to hearing Administrator Adelstein's assessment of his agency's oversight of obligating Recovery Act funds alongside FY10 program dollars.

Whether a rural community utilizes RUS to meet their water infrastructure needs or uses another tool in its financing toolbox, all of them know what having reliable water and waste systems mean to their standard of living. The availability of safe, clean water is the most basic of human needs, regardless of where you live. But in addition to that, I hope our second panel today can stress to this Committee the importance of these systems to the growth of their communities. The things many of us in Congress have prioritized when it comes to rural development: new housing, health and education facilities, the creation and growth of small businesses—none of that takes place without strong water infrastructure.

I believe that all of us here want make sure the investments made in rural America return the highest value for every taxpayer dollar spent. Today's hearing is one more examination of the rural development funding that is our responsibility. I look forward to hearing from today's witnesses and get their perspective on how we can make sure that every dollar that is spent in rural America is one that improves the quality of life for rural citizens.

**OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A  
REPRESENTATIVE IN CONGRESS FROM TEXAS**

Mr. CONAWAY. Thank you, Mr. Chairman. I too want to thank our witnesses today, and thank you for holding this hearing. There are 16 Federal agencies involved in administering more than 88 programs that target rural development. It is most important that we maintain a close watch on how the Administration implements these programs and safeguards taxpayer dollars. In particular, we want to know that the funds are helping rural localities comply with Federal mandates during one of the most significant economic downturns we have had. Almost 1 year ago, this Subcommittee received testimony addressing innovative approaches to rural development. Since that time, USDA has continued to implement the 2008 Farm Bill, as well as had the opportunity to begin disbursing the funds and implementing the new programs provided for in the stimulus bill.

I was interested to hear Secretary Vilsack continue to talk about a Regional Innovation Initiative in Rural Development during his testimony before the Appropriations Committee last month. I hope that Mr. Adelstein will be able to provide additional details on this particular initiative. Specifically, the Committee would be interested to know who will lead the regional coordination efforts and how the USDA has embarked on a concerted effort to leverage resources from the many other agencies involved in rural development.

Ensuring the coordination of the many agencies involved in rural development activities is important. It is the duty of our Committee to ensure that the Administration's efforts are additive and not duplicative. This morning we will be focusing on the acute infrastructure needs throughout small towns in the United States. As environmental regulations become more stringent and the cost of constructing facilities rise, small communities are finding it increasingly difficult to finance new systems. The enormous capital outlays needed to finance even modest water infrastructure projects are beyond the reaches of most rural communities. It is important to remember above all that these programs are not social programs or welfare programs but a tool to enable small communities to comply with costly Federal mandates.

While the stimulus bill provided an additional \$1.3 billion for water and wastewater projects, that funding came with strings attached. In response to questions from this Subcommittee last year, USDA confirmed that the Davis-Bacon provisions and the Buy American provisions mandated in the stimulus bill would add significant cost to any project funded with stimulus dollars. In fact, the USDA estimated that the stimulus projects would cost 10–20 percent more under the Davis-Bacon and Buy American programs than if we had not had those artificial restrictions in place.

We are concerned that this will significantly slow USDA's progress in addressing the backlog in water and wastewater applications. Even though USDA has been obligating available funds according to the deadlines laid out in the stimulus bill, less than ½ of 1 percent of the stimulus funds have actually gone out the door for water and wastewater projects. This includes both direct loans and grants listed in the latest activities report. I hope the testi-

mony this morning will help the Subcommittee better understand how USDA's initiatives are prioritizing applications, when projects will be actually completed, and how much the backlog has been addressed. Again, I would like to thank our witnesses for taking the time to be with us today and giving us this update on how they are assisting rural communities in the ever-expanding list of mandates and requirements passed down from the ivory towers of Washington. Thank you, Mr. Chairman.

[The prepared statement of Mr. Conaway follows:]

PREPARED STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN  
CONGRESS FROM TEXAS

I thank the Chairman for holding this hearing today.

With 16 Federal agencies involved in administering more than 88 programs that target rural development, it is important to maintain a close watch on how the Administration implements these programs and safeguards taxpayer dollars. In particular, we want to know that the funds are helping rural localities comply with Federal mandates during one of the most significant economic downturns we have had.

Almost one year ago, this Subcommittee received testimony addressing innovative approaches to rural development. Since that time, USDA has continued to implement the 2008 Farm Bill, as well as had an opportunity to begin disbursing the funds and implementing the new programs provided for in the stimulus bill. I was interested to hear Secretary Vilsack continue to talk about a regional innovation initiative in rural development during his testimony before the Appropriations Committee last month. I hope that Mr. Adelstein will be able to provide additional details on this initiative.

Specifically, the Committee would be interested to know who will lead the regional coordination efforts and how USDA has embarked on a concerted effort to leverage resources from the many other agencies involved in rural development. Ensuring the coordination of the many agencies involved in rural development activities is important. It is the duty of this Committee to ensure that the Administration's efforts are additive and not duplicative.

This morning we will be focusing on the acute infrastructure needs throughout small towns in the United States. As environmental regulations become more stringent and the costs of constructing facilities rise, small communities are finding it increasingly difficult to finance new systems. The enormous capital outlays needed to finance even modest water infrastructure projects are beyond the reaches of most rural communities. It is important we remember above all, that these programs are not social programs or welfare programs, but a tool to enable small communities to comply with costly Federal mandates.

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Even though USDA has begun obligating available funds according to the deadlines laid out in the stimulus bill, less than 1/2 of one percent of the stimulus funds have actually gone out the door for water and wastewater projects. This includes both direct loans and grants listed in the latest activity report available. I hope that testimony this morning will help this Subcommittee better understand how USDA's initiatives are prioritizing applications, when projects will actually be completed, and how much of the backlog has been addressed.

I would like to thank the witnesses for taking time to be with us today and give us an update on their work to assist rural communities in meeting the ever-expanding list of mandates and requirements passed down from Washington.

Thank you Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Conaway. Indeed, the availability of safe clean water is the most basic of human needs, and so we do take this very seriously. We appreciate your work. It is

easy to get caught up in the bureaucracy and the paperwork and the applications, but in the end we can't have good health clinics, schools, attract businesses, have a good economic development atmosphere or a good quality of life for families if we don't get in the clean water and get rid of the dirty water. It is that simple and basic and that much of a necessity in the daily routine of life. So thank you for coming to share how you are improving the quality of life today and, indeed, how what you do will make a difference in the quality of lives throughout this country.

I would encourage witnesses to use the 5 minutes provided for their statement to highlight the most important parts of your statement, and if you need additional time to summarize, then please go ahead and prepare to do that at this moment. Your full written statement will be submitted in its entirety to the Committee record. Also, with regard to other statements that other members of the panel would like to give in terms of an opening, those can be submitted for the record and will be made part of the record. The chair would expect that any other Members that may come in may also be allowed to put forth their statements into the record as well.

[The prepared statements of Mr. Peterson and Mr. Walz follow:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN  
CONGRESS FROM MINNESOTA

Thank you, Chairman McIntyre, for holding this hearing today to focus on efforts to ensure that rural communities can meet the water and waste disposal infrastructure needs for their citizens.

Depending on where you live in the United States, the challenges facing water infrastructure systems vary greatly. While my colleagues from California are dealing with the impact of severe drought on their water systems, in my part of the world, the Red River often brings so much water that it threatens to inundate many of the communities along its banks. The river crested over the weekend, and it looks like it won't be as bad as it has been in past years, but the impact of the floods on our rural water systems can be overwhelming.

USDA's Rural Utility Service provides a tremendous service, identifying and responding to the unique water needs of rural communities. Because many rural towns have low tax bases and limited resources to maintain and upgrade water systems, RUS is often the only option out there to help them get safe drinking water into their homes.

These programs are some of the best in Rural Development, not only because safe and sanitary water is a basic need, but because these programs are generally managed well, with historically low default rates. As a result, RUS receives a large number of applications every year.

The Recovery Act included significant funds to address the backlog of applications for RUS water and wastewater grants and loans. I hope that today, we will hear about the progress being made to address the backlog with that additional funding.

Again, thank you Chairman McIntyre for holding this hearing today. I want to thank all of the witnesses for joining us, and I look forward to their testimony.

PREPARED STATEMENT OF HON. TIMOTHY J. WALZ, A REPRESENTATIVE IN CONGRESS  
FROM MINNESOTA

Chairman McIntyre and Ranking Member Conaway:

I understand that Mr. Troy Larson, Executive Director of the Lewis & Clark Regional Water System, will be testifying before you today. I would like to express my strong support for the Lewis & Clark Regional Water Project and my great appreciation for the work that Troy, Chairman Red Arndt and the many others involved with Lewis & Clark do.

A region cannot grow without reliable access to safe and clean water. When completed, the Lewis & Clark Regional Water System will provide protected and reli-

able drinking water to over 300,000 people in Minnesota, South Dakota, and Iowa. This vital pipeline will distribute safe water to members in a 5,000 square mile area; roughly the size of the State of Connecticut. The project will improve the quality of life of area residents by addressing water quality, supply and infrastructure problems.

The system will also serve as a catalyst for regional economic growth in both the short and long terms. The economic impact to the region from construction of the project will be significant and will include the creation of 3,730 construction related jobs. The direct, indirect and induced impact of the operation and maintenance of the facilities after construction is estimated to be over \$7 million annually for the region, creating 74 permanent positions.

States and members of the project annually allocate 20% of the funding needed for completion of the project. With the U.S. Government responsible for 80% of the project, Lewis & Clark is dependent upon Federal funding for the amount of construction it is able to complete each year. Currently the project is scheduled for completion in 2019, but the project received \$27 million in FY 2009 only to have its appropriations cut to \$10 million in FY 2010. At this level, cities in Minnesota will not be connected to the pipeline until 2030. The residents of our state should not have to wait this long for safe water and economic progress.

In order to properly plan and achieve its objectives, for a project of this scale, the system needs a stable funding source which is allocated annually and according to its capability. I strongly support the important work that Lewis & Clark is doing to better the lives of those in rural communities.

The CHAIRMAN. We would like to welcome now the witness on our first panel to the table, Mr. Jonathan Adelstein, Administrator, Rural Utilities Service, U.S. Department of Agriculture. Thank you for your service, and please begin.

**STATEMENT OF HON. JONATHAN ADELSTEIN,  
ADMINISTRATOR, RURAL UTILITIES SERVICE, U.S.  
DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.**

Mr. ADELSTEIN. Thank you, Mr. Chairman, for holding this critical hearing. Ranking Member Conaway and Members of the Subcommittee, thank you for the opportunity to testify. It is good to see my own Congresswoman is here, Congresswoman Stephanie Herseth Sandlin. Thank you for coming. We have, since 1940 under the water program, worked steadily to help communities improve their environment and the quality of life for rural residents, as you said, Mr. Chairman. Our job is never done though. We thank you on the Subcommittee for your ongoing support of our water programs. This hearing really draws a critical highlight to such great work that we look forward to continuing to do together with this Subcommittee.

For most of us, clean drinking water is available at the turn of the faucet, but for too many rural residents unsanitary drinking water, aging infrastructure, and daily trips to community wells are too often a grim reality. President Obama, Secretary Vilsack, our Under Secretary Dallas Tonsager, and I are committed to addressing this in every way we can. USDA is working to build a stronger, more sustainable rural America that is repopulating and thriving economically. Ensuring that rural communities are equipped with modern water and wastewater infrastructure is a fundamental necessity to making that possible.

RUS is proud to be the vehicle through which rural communities can access affordable water services. In the past 8 years, RUS has provided over \$13 billion to rural communities for rural water and waste infrastructure. In Fiscal Year 2009 additional funding through the Recovery Act helped us to reach a new milestone, in-

vesting a total of \$2.5 billion in new and improved rural water systems. In Fiscal Year 2010 we continued to fund projects with the remaining Recovery Act funds, as well as the \$1.3 billion provided through the Fiscal Year 2010 appropriations. We do anticipate that we will be able to commit all those funds by the end of the fiscal year.

Through ARRA our water program received \$1.38 billion in budget authority, which we expect will translate into \$3.3 billion in investments in rural water projects. To date, we have announced over 642 ARRA projects across the country totaling more than \$2.3 billion. Nearly  $\frac{1}{3}$  of that has gone to communities with over ten percent unemployment, and over \$230 million has gone to areas of persistent poverty.

We are well on our way to obligating all ARRA funds by September 30, and there are three factors that have contributed to our success so far. First, our interest rates are at their lowest in program history. We offer three rate tiers: market, intermediate, and poverty rate. The farm bill assured that those rates fluctuated with the market rate.

This change was especially beneficial to low-income communities that are facing very tight credit markets. Lower interest rates enable us to offer lower-cost loans to more communities and target our grant funding to communities that need it most. Second, we are partnering with other agencies to share in the funding of these projects. The \$2.3 billion approved has been combined with \$558 million contributed by other government agencies and by the applicants themselves. Third, we have leveraged the local relationships of our technical assistance providers, some of whom are represented here today. Through ARRA, RUS provided \$14.2 million to supplement the existing RD Circuit Rider contract. This allowed the National Rural Water Association to increase its staff through 2010 to help communities identify their needs and to help them apply for ARRA funding.

Further, we awarded a \$5 million Technical Assistance and Training Grant to the Rural Community Assistance Partnership. Their field teams help us identify communities with needs, particularly those in persistent poverty areas. Recipients such as the Yuma County Improvement District have benefited from these kind of efforts. Through ARRA, the district received \$18.2 million in funding to bring affordable sewer service to over 1,000 residences in their Colonias community, and leveraging funds from other agencies made this \$23 million project a reality. The ARRA projects have funded to date a diverse array of projects; as diverse as rural America itself.

For many communities the funding has provided an opportunity to replace aging infrastructure. In Union Springs, Alabama, for example, the local water authority couldn't afford the cost of repairing leaking, aging water lines. Thanks to a \$1.7 million loan from RUS, upgrades to their water lines would mean increased water pressure and that will provide sufficient fire protection for the community. In other cases, funding allows the extension of service to previously unserved areas. In Wythe County, Virginia, RUS funding will extend public water service to 178 homes. Residents there are currently served by wells, many of which have tested positive

for coliform, so the \$5.3 million in funding means safe, clean water for county residents.

ARRA funds are also cultivating regional initiatives all over the country. Consistent with the goals of the Recovery Act, these projects are currently creating urgently-needed jobs. Just as importantly they are providing the foundation for economic development and more jobs for years to come in rural communities. As we approach the 40th anniversary of Earth Day on April 22, our program stands out as an investment in a cleaner environment and needed infrastructure. Our ability to offer these critical programs is a result of your work, so it is an honor to work with you on behalf of the 50 million Americans in our rural communities. I certainly appreciate your continued oversight. I thank you for holding this hearing and look forward to your questions.

[The prepared statement of Mr. Adelstein follows:]

PREPARED STATEMENT OF HON. JONATHAN ADELSTEIN, ADMINISTRATOR, RURAL UTILITIES SERVICE, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Chairman McIntyre, Ranking Member Conaway and distinguished Members of the Subcommittee, thank you for this opportunity to update you on the Water and Wastewater Disposal Loan and Grant Program of the Rural Utilities Service, part of the United States Department of Agriculture's (USDA) Rural Development Mission Area (RD).

Many of us take for granted the ease with which we can turn on our faucets and access clean drinking water. But for many rural residents, unsanitary drinking water, aging or nonexistent infrastructure, and daily trips to a community well present a grim reality. President Obama, Secretary Vilsack, and Rural Development Under Secretary Dallas Tonsager are committed to building a stronger and more sustainable rural America that is repopulating and thriving economically. Ensuring that rural communities are equipped with modern, reliable water and wastewater infrastructure is a fundamental starting point.

The challenge remains the same, providing service in rural areas that are relatively expensive to serve due to low population density or difficult terrain. Poverty rates in rural America remain much higher than national averages. While the recent economic downturn has dramatically impacted all segments of our population, much of rural America has been dealing with increasing unemployment and decreasing population for many years. In the current economy, these challenges have grown even more acute. Our rural residents are aging, and young people, who see no job opportunities for themselves in their rural hometowns, move to the nearest urban centers to seek employment. If we are going to give our young people who want to stay where they grew up that choice, basic water infrastructure is a prerequisite.

Rural Development's RUS is proud to be the vehicle through which rural communities can provide improved access to affordable water and wastewater services to their residents. In just the last 8 years alone, more than \$13 billion in loans and grants has been provided through RUS for rural water and waste infrastructure. In Fiscal Year (FY) 2009, thanks to additional funding made available through the American Recovery and Reinvestment Act (ARRA or Recovery Act), the Water and Waste Disposal Loan and Grant program reached a new milestone, investing a total of \$2.5 billion in new and improved rural water and waste systems, higher than any other year in program history. More than ½ of that funding was made possible by the Recovery Act. In FY 2010, we continue our efforts to fund needed projects with the remaining ARRA funds, as well as the \$1.6 billion provided to the Program through FY 2010 appropriations.

More than 70 years ago, Congress saw a need for improved access to quality water in rural areas and created our program to address that need. Congress understood then, as we do now, that affordable and reliable water and wastewater infrastructure are the building blocks for a healthy and safe community.

Water's impact stretches well beyond basic public health. Modern, reliable water and waste infrastructure also provides the foundation for economic growth for decades to come. Food producers, grocery stores, restaurants, manufacturing plants and even utilities providers rely on water and waste services to support their daily business operations. A rural community with these services can attract new businesses,

creating jobs and opportunities for its rural residents, while a town or rural area lacking these essential services is clearly handicapped, both in its immediate quality of life and in its ability to build for the future.

As we approach the 40th Anniversary of Earth Day on April 22nd, our Water Program funding stands out as an investment in a cleaner, more sustainable environment, as well as an important investment in basic rural infrastructure. Since 1940, USDA programs have been working steadily and quietly to transform communities and enhance the quality of life for rural residents. Still, our job is never done, and we look forward to continuing our work with this Subcommittee to advance our ongoing efforts. Your support has made a key difference in countless lives, and we at RD Rural Utilities Service (RUS) thank you for making it possible for us to establish basic infrastructure in so many parts of Rural America.

### **Recovery Act Update**

Through the ARRA, RD's Water and Environmental Program received \$1.38 billion in budget authority, which we anticipate will translate to a total \$3.3 billion<sup>1</sup> investment in rural water infrastructure. The ARRA funds are being implemented through our existing Water and Waste Disposal program in the form of loans and grants to provide access to clean drinking water and sanitary sewer, solid waste and storm drainage facilities in communities of 10,000 or less. I am pleased to report that the program, to date, has announced over 642 ARRA projects in 49 states and Guam, totaling more than \$2.3 billion. With numerous project announcements lining up for our Earth Day events around the country, we are on track to fully obligate all ARRA funds by September 30th, 2010, as the statute requires.

Our RD offices in the states are working hard to ensure that this critical ARRA funding is reaching the communities that need it most. We are doing so at a pace that enables us to maintain the quality of underwriting that is the cornerstone of our program. Nearly 1/3 of ARRA funding provided to date has gone to communities with unemployment above ten percent. Also, more than \$230 million in ARRA funds has been provided for projects serving areas of persistent poverty. In addition to the dedicated efforts of RD staff in Washington, D.C., and across the country, three factors have contributed to our success to date.

First, our interest rates are currently at their lowest in program history. Depending on a household's income and health risk, our program offers three tiers of interest rates: market, intermediate and poverty rate. The 2008 Farm Bill amended the interest rate structure to ensure that the poverty and intermediate rates fluctuate with the market rate by setting the poverty rate at 60 percent of the market rate and the intermediate rate at 80 percent of the market rate. The market interest rate is based on the 11 Bond Index, published by Bond Buyer for general obligation bonds. Currently, the market rate is four percent, intermediate is 3.25 percent and the poverty rate is 2.375 percent.

The 2008 Farm Bill change in interest rate structure has been positively received by communities across rural America. It is particularly beneficial to communities working to recover from economic challenges and limited credit markets. As these communities seek to provide safe, affordable water and wastewater services to their residents, access to reasonable financing is critical. The lower interest rates allow us to offer lower cost loans to more communities and use grant funding only when necessary. In addition, it has allowed us to target our grant funding to the projects in economically challenged areas that need more grant funding than would be available in a typical funding year. The result is that we have been able to provide grants where needed and maintain a loan to grant ratio of 60 to 40 percent in our ARRA implementation and 70 to 30 percent in our regular program.

Second, we have continued our tradition of partnering with other agencies and organizations to share in the funding of these critical projects. The \$2.3 billion approved has been combined with \$558 million contributed by other Federal and state agencies and by the applicants themselves.

Third, we have leveraged the strong community relationships of our technical assistance providers to implement the Recovery Act. In July 2009, USDA announced \$14.2 million to supplement the existing RD Circuit Rider Program contract in Fiscal Years 2009 and 2010. With this additional funding, the National Rural Water Association increased its capacity to help rural communities identify their water and waste infrastructure needs and prepare the documentation necessary to apply for RD ARRA funding. This much needed assistance is provided at no cost to small rural communities that may not have the resources or expertise to prepare a project proposal.

<sup>1</sup>A final figure will be determined by the final aggregate loan/grant split, on a project-by-project basis.

On top of this, in early March 2010, we awarded a \$5 million Technical Assistance and Training Grant, made possible by ARRA, to the Rural Community Assistance Partnership (RCAP). The RCAP's field teams will continue our efforts to identify communities with water and waste infrastructure needs, particular those in areas of persistent poverty. The technical assistance providers have been a tremendous resource for recipients of RUS funding for rural water and waste infrastructure. Although the funds are being processed through existing programs, the ARRA included reporting and other requirements new to our customers. With the help of circuit riders and other technical assistance providers, communities receiving funding are also offered a helping hand with these reporting requirements. As a result, program recipients have a very high reporting compliance rate.

Recipients, such as the Yuma County Improvement District, have benefited from these factors. Through ARRA funding, the District was awarded a loan of \$2 million and a grant of \$16.2 million to bring public sewer service to more than 1,000 residences in Yuma, Arizona, a Colonia<sup>2</sup> first established in 1900. We worked to bring together various funding partnerships that made this \$23 million wastewater project a reality for the community. Partners included the Arizona Department of Environmental Quality, the Water Infrastructure Finance Authority of Arizona, the Border Environmental Cooperation Commission, the U.S. Environmental Protection Agency, and the North American Development Bank.

### **Community Impact**

The ARRA projects funded, to date, are as diverse as rural America itself. For many communities, the funding provided an opportunity to replace aging infrastructure and invest in a better future for their residents. For example, The Town of Rose Hill, North Carolina will use a \$1.58 million loan and a \$1.7 million grant to construct a new supply well to replace their current well, originally constructed in 1939. In addition, the town will no longer need to rely on their 60 year-old water tank to serve their 670 residents. Instead, the community will use ARRA funds to construct a new 300,000 gallon elevated storage tank and install new water lines and automated meter readers throughout the system.

The Town of St. Johnsbury, Vermont received \$15 million in funding to separate and upgrade its 75 year old water and sewer lines. The town is under a state order to separate the storm water from the sewer lines as raw sewage overflows into three rivers during rain events. Due to the age of the system, the town loses 759,000 gallons per day of water, more than it provides to customers. The modernization of the system will provide clean and safe water and sewer services and protect the environment.

In Union Springs, Alabama, a new tank and upgrades to older, leaking water lines will mean increased water pressure to provide sufficient fire protection for the community. This area of Alabama has experienced severe drought conditions over the last several years, and the local water authority could not afford the high costs of repairing their aging, damaged water lines. Thanks to a low-interest, \$1.75 million loan from RUS, the community will have a reliable water source and sufficient water pressure to protect their residents from fires.

In other cases, funding allows for the extension of service to previously unserved or underserved areas. In Wythe County, Virginia, RUS is providing funding to extend public water service to 178 homes. Residents in this community are currently served by private wells, springs, and cisterns. Many of the wells have become contaminated, testing positive for both total coliform and fecal coliform. A \$5.4 million loan-grant combination will help the county install new water lines, a new storage and a new pump station. In Hand County, South Dakota, the Mid-Dakota Rural Water system received a \$12 million loan to improve their water system, increase the supply of treated water to meet growing demands, and add new users for the first time since 2006. In Hancock County, Tennessee, the 850 residents of Sneedville will soon have a permanent and reliable source of water, thanks to an \$828,000 loan-grant combination which will fund a water treatment system and a clearwell tank. This improved water system will also connect 25 new, unserved customers in the nearby community of Treadway.

The ARRA funds are also cultivating regional initiatives to provide service to unserved and economically challenged areas. A good example is the Ozark Mountain Regional Water Project in Arkansas that was awarded \$19.37 million loan and \$36.36 million grant to construct an intake structure and water treatment plant on

<sup>2</sup>Colonias are small, unincorporated communities found in Arizona, California, New Mexico, and Texas and are generally within 150 miles of the United States and Mexico border. Colonias generally have issues such as lack of a potable water supply, lack of adequate sewage systems, lack of decent, safe and sanitary housing, inadequate roads, and drainage.

Bull Shoals Lake. The project will also include construction of five water storage tanks and over 100 miles of transmission line extending from northern Boone County to Newton and Searcy Counties in Arkansas. The new system will provide a dependable supply of quality water to 19 rural water systems, of which many are facing water quality and/or quantity problems with existing wells. Fifteen of these systems serve persistent poverty communities. Without ARRA funding, it likely would have taken several years to obtain the necessary funding for these much needed projects.

These water and waste disposal projects, made possible by the ARRA, are creating urgently needed jobs building these systems now, and will provide the foundation for economic development and more jobs into the future for rural communities. The ARRA is putting people back to work, like individuals from Berlin, Maryland. The Town of Berlin received a \$5.98 million loan and a \$5.8 million grant to upgrade and expand the wastewater treatment system to comply with more stringent environmental regulations and to prepare the Town for expected growth and development. As a result of the ARRA-funded Berlin project, 65 individuals have now returned to work/who had been let go due to the economy. In addition, the local Berlin economy, from hardware stores to lunch establishments, has benefited from this project. As with many of our projects, USDA partnered with the Maryland Department of the Environment, the Department of Housing and Community Development, and the town of Berlin to make this project happen.

The ARRA water and waste projects are also spurring economic change and development. In Coopersville, Michigan, ARRA funds are being put to work to renovate and expand a wastewater treatment plant. The expansion will facilitate the conversion of an abandoned General Motors/Delphi automotive plant into a milk processing facility by Continental Dairy. Continental Dairy will invest more than \$90 million in plant renovations and plans to create 60 new jobs at the plant initially.

In the Town of Millport, Alabama, funds will be used to make needed repairs to the existing water treatment plant, construct a new well and provide a new storage tank. With these improvements, the system will provide better quality and quantity of water to 452 residences (approximately 1,160 individuals) and 44 large and commercial users in rural Lamar County, Alabama. As a result, a local industry, Steel Dust Recycling, will be able to expand its services, creating 20 new jobs.

These are just some of the many examples of how rural communities are leveraging funds available through the ARRA to reinvest in critical infrastructure and improve the quality of life for current and future residents.

#### **Looking Ahead**

Our priorities for the year ahead are clear. We will continue to seek out and fund critical rural water and waste projects with our remaining Recovery Act funds. We will also work with our borrowers to ensure that the systems funded move to construction quickly to help create jobs and revitalize the rural economy. Construction oversight and loan servicing will be more critical than ever to ensure that ARRA funds result in well-built, sustainable systems that provide quality water and waste services to rural communities for years to come.

The need for clean, safe, reliable water remains high in rural America. After 70 years, even the communities that already were served in the past are coming back as their infrastructure ages and as they outgrow capacity predicted decades ago.

That need is particularly amplified in areas such as the Colonias on our southern border. An estimated 400,000 people along the U.S.-Mexico border lack in-home access to water and must haul water from central watering points or untreated sources. These households face an elevated risk of communicable diseases including Hepatitis A, shigellosis, and Impetigo due to limited hand-washing and bathing. In the months ahead, we will work to improve outreach, coordination and program delivery in the Colonias and other areas with unique needs.

Our ability to offer programs to create economic opportunity and enhance the quality of life in rural America is a result of your work. It is an honor and privilege to work with you on behalf of the 50 million Americans in our rural communities. We look forward to working closely with Congress and our Federal partners throughout the Obama Administration in improving the quantity and quality of affordable water and waste disposal services throughout rural America.

Thank you again for inviting me here to testify and I will be glad to address any questions you have.

The CHAIRMAN. Thank you, sir. Thank you for your timely testimony, and in the interest of time I am going to restrict myself to just one question so our panel can go ahead and ask their questions. I just simply want to ask you, some people have raised the

issue that after the Recovery Act addresses the application backlog, the program may become indeed even more popular than it has been. It could mean that you will end up with an even bigger backlog than when you started, which would be of concern to many more rural communities. Has the combination of the Recovery Act funds and the regular program funds cut into the backlog? What is the current status of the backlog?

Mr. ADELSTEIN. Well, ARRA and the regular appropriations this year, as I said, were unprecedented in their level, and they enabled us to provide a lot of funding to deal with that backlog. And, as you said, new projects and new proposals have poured in. With \$2.5 billion in Fiscal Year 2009 alone it was a record level, but demand remains very high. As you know, the needs are extraordinary in rural communities and new applications are being received every day in our state offices. The rural communities really need this commitment, and they have noted the fact that this is an opportunity to reinvest. They have seized on that opportunity, so we currently have \$3 billion in requests pending and we are going to use our remaining ARRA and appropriations through the regular Fiscal Year 2010 appropriations to fund as many of those as we can.

The CHAIRMAN. Thanks. Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. Mr. Adelstein, we are going to vote on a bill tomorrow, H.R. 4899, that will rescind about \$100 million in rural development programs. Can you give us a quick synopsis of what that would do to your programs—\$100 million for rural development programs will be rescinded tomorrow, money taken away from you that you thought you were going to have?

Mr. ADELSTEIN. I am not sure exactly where those rescissions would be. I am sorry. I could get back to you.

Mr. CONAWAY. So your agency has not been consulted at all? This is just added-on to from on high that says they will take the money away from you, there is no planning on how that money will be taken away from you?

Mr. ADELSTEIN. Well, none of the rescissions, as far as I know, would affect the Rural Utilities Service that I administer.

Mr. CONAWAY. You don't cover rural development programs?

Mr. ADELSTEIN. I really just administer the Rural Utilities Service program that in this case are not—

Mr. CONAWAY. So to your knowledge no one on the—the sponsors of this bill have not contacted your agency to see what impact a \$100 million rescission would have?

Mr. ADELSTEIN. Well, they haven't contacted RUS particularly, but I guess the \$59 million in disaster funding, the budget team is working on this at Rural Development. Certainly, RUS is working on it, Under Secretary Dallas Tonsager, and the Secretary, but not RUS in particular. We are not affected.

Mr. CONAWAY. All right. In your statement, you said we have \$2.3 billion from USDA and it is combined with the \$558 million from other Federal and state agencies. The farm bill authorized funds for nonprofit groups to help communities identify funding opportunities and prepare the applications. We would be interested in knowing USDA's specific role in seeking the \$558 million from other sources and what role applicants and assisting organizations

played in securing the necessary funds. Could you elaborate on which other agencies contributed and exactly how USDA activities led to this collaboration?

Mr. ADELSTEIN. We would, particularly with the EPA, which has a large amount of funding under ARRA for State Revolving Funds that they provided funding to. So, we work very closely with the EPA, and also with HUD. CDBG grants are available for this purpose, and our state offices work closely with them to determine how we can share in certain projects. Sometimes EPA will fund a project and sometimes RUS will fund one. Sometimes we will share funding together in order to leverage all the different Federal resources that are out there, as well as state resources to make sure that we are meeting the needs and also effectively leveraging the funds that we have. We are not the sole source so that folks don't become overly reliant on us.

Mr. CONAWAY. Was there any not-for-profit, non-governmental, not-for-profit organizations that were able to pitch in on this too?

Mr. ADELSTEIN. There is a lot of help from NRWA and from RCAP that we provided funding to for the Circuit Rider and the technical assistance and training programs.

Mr. CONAWAY. As the, your words, unprecedented level of funding in 2009, 2010, can you talk to us about how you relaxed the standards so that you could get more money out, or did you relax standards on your evaluation process? How did the flood of money—when money is scarce we make better decisions than when money is not scarce. Can you talk to us about how you protected the taxpayer dollars from the human nature of spending money that you might not otherwise have spent?

Mr. ADELSTEIN. We have not relaxed the standards at all. Congress, in its great wisdom provided three percent of the funding for administration of the program, and our state staff and our national staff have used that to hire additional folks. The people that we have have worked incredible hours to meet this demand. There are people in the states that really believe in this program and they have never had an opportunity like this. They have seen the unmet needs out in the field and they have always wanted an opportunity like this to deal with the backlog, to deal with the unmet needs, and they have worked very long hours. I think on September 30 a lot of folks are just going to collapse in exhaustion because they have never worked this hard. We have not relaxed the standards.

Mr. CONAWAY. Okay. And the folks that you have hired, they will continue on once this funding is no longer there? If they collapse, will they continue on the taxpayer payrolls even though we don't have those huge funding levels?

Mr. ADELSTEIN. The temporary ones won't be able to continue on. Now there are ways we might find—because they are fully trained, we hate to lose them. We have some holes and openings coming up, and we are trying to find ways to get those people into existing holes or replace people that are retiring. Since they are trained and up and running, we don't want to lose all the skills that we have developed. But some of them we are going to lose because when that funding cuts off on September 30 the temporaries have to leave.

Mr. CONAWAY. I would certainly encourage you to keep the best and brightest for the retirees, but I would also encourage you that continuing to grow government and employee base while it looks like a jobs bill, it is not, so be judicious about your staff levels, and I yield back.

The CHAIRMAN. Thank you, Mr. Conaway. Mr. Bright.

Mr. BRIGHT. Yes, sir. Thank you, Mr. Chairman, and, thank you, Mr. Adelstein, for joining us today as we discuss an issue that is of utmost importance to most, if not all, of the communities we represent here in Congress today. In my district water and wastewater infrastructure rehabilitation is needed in nearly every municipality, and I have 93 municipalities in my 16 counties in Alabama and southeast Alabama. It is not uncommon in southeast Alabama for a community to experience water and wastewater infrastructure so debilitating that water outages are common and clean, uncontaminated drinking water is not always guaranteed. Two towns in my district, Repton and Louisville, which are both in rural areas, have been working on sewer and water rehabilitation projects for some time now.

I have met with the mayors of these towns on multiple occasions to view their sewer infrastructure and can attest to their needs. Unfortunately, there is only so much we can do with STAG grants and the appropriations process. Programs like the water and wastewater disposal loan program at RUS are critical to meeting these needs, but many communities aren't getting help. Too many of the communities in my district are not getting sufficient help. For this reason, I am pleased to have you here testifying today and look forward to working with you and your agency at the local level to get funding for communities like the ones I have just named in my district. You mentioned one, and I do appreciate your help in Union Springs. That was much needed and very much appreciated by the people there, so thank you very much for working with us there.

I only have one question, and that is I am sure you have been exposed to a number of projects similar to the ones I have just mentioned, and would like for you to talk more in detail about what types of projects qualify for funding through the water and waste water disposal loan program at RUS, if you could, this morning.

Mr. ADELSTEIN. We fund a wide array of projects including wastewater treatment, sewer, both sanitary and storm sewer projects. We fund the treatment of it. We fund an array of different projects. We also fund solid waste projects to make sure that they don't pollute the water resources in a community and to make sure that they are properly managed. So we are really broad in ranging from folks that really know how to work with water in the community and make sure that communities can have it treated properly to protect the environment, and also make sure that they have clean water for their own needs.

Mr. BRIGHT. Could you, in more detail, explain to me what we are doing to ensure the communities that we have just identified are taking advantage of these programs that you offer?

Mr. ADELSTEIN. Our state office works closely with the communities themselves. For example, our state office in Alabama has ca-

reer professionals that do this work. We also have enormous help from our Circuit Rider program and our technical assistance and training grants which we are able to expand this year through the Recovery Act. The Circuit Riders, on a 5 year contract, will go out under NRWA and help folks to build operational, managerial, and financial capacity in all 50 states. They really get out in the field and help folks. Technical assistance and training is also available to help multiple entities assist specified regions in helping folks to identify and evaluate water solutions in their communities, and to deal with problems they have for water and waste disposal problems.

To prepare applications, they can help to improve the operation and maintenance of existing programs, so we really work in partnership with our contractors in RCAP and NRWA in the field. Our field staff working together with them will help communities identify solutions to problems they have and to craft applications that can be funded by us for loans and grants to deal with whatever problems they may be facing.

Mr. BRIGHT. Thank you very much, Mr. Adelstein. Mr. Chairman, I yield back the remainder of my time.

The CHAIRMAN. Thank you, Mr. Bright. Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman, and Ranking Member. Mr. Adelstein, thank you so much for being with us today. RUS, I really appreciate you, what your agency does. I think you are uniquely positioned to observe the challenges of rural communities on these infrastructure questions related to aging infrastructure, but also on just trying to comply with the Federal mandates that many of these municipalities and authorities have to comply with. And we talked briefly about that before this session started. Compounded for those communities in my district is the fact that my municipalities, townships, boroughs, the authorities that they form to deal with these infrastructure issues were located in the Chesapeake Bay Watershed, and resources really are very limited to comply. And I want to thank you because your agency actually is one of the only hopes that those municipalities have those authorities to do that. But, we only have so many resources, especially, with all the other priorities that this Administration has showered upon us to fund.

So the other side of it is dealing with how do we reduce those mandates or at least hold them in check, get some more time. Has RUS ever—because you have the documentation obviously. Your field workers are working with these communities all the time. You have the documentation, I would assume. Have you ever used that to weigh in with other parts of the Administration, the agencies, such as the EPA, to say, you know what, we are doing our best but these mandates are going to bankrupt these authorities, the townships, the boroughs. And I am not saying repeal mandates although I would support to have many of them, but have you ever weighed in to say how about a little more time, how about an extension? Give them a little more time in years to comply with these things. I think RUS is just uniquely positioned to be able to be an expert in terms of documenting and demonstrating that need to other parts of the Administration that actually administer these mandates.

Mr. ADELSTEIN. We work very closely with the EPA day in and day out on making sure folks can meet the standards. In my time there, I don't believe there have been any new requirements put on. A lot of them were pre-existing and we have not weighed in with them as far as I know. Our potential borrowers see all kinds of needs, as you said, to improve and upgrade their water treatment facilities to comply with regulations that are imposed on them. Our program can of course finance these projects, but, as you said, the applicant has to be eligible and we have to have funds available. There are a lot of demands to help folks meet those standards.

Mr. THOMPSON. I am glad to hear that you do communicate with folks like EPA and any other agency that has oversight of those. Do they ever listen to what you have to say? Do they ever—is there any hope, that is what I am saying, I guess.

Mr. ADELSTEIN. They are the experts. We do discuss the impact of regulatory action on rural water systems and work with other agencies on the issue of health and the environment. We need to deal with the requirements they come up with, and of course the demands on our program are very large, in order to meet the compliance needs. But our expertise isn't so much on human health effects or knowing exactly what level of coliform might or might not be damaging or what level of—

Mr. THOMPSON. And I understand. And I would just go on to my second question to you. I am just encouraged that where your expertise is, it is identifying how realistic it is that these communities are able to comply, as opposed to penalizing them with tremendous fines and penalties, providing extensions, giving more time for compliance. That buys them quite a bit when we can't provide them the resources to do that. You mentioned that a total of \$2.5 billion in new rural water and waste systems came through the ARRA and the stimulus, and I agree that certainly those funds are very much needed in rural areas. While the funding no doubt is helpful to rural infrastructure projects, have you seen any kind of impact that the money has had on local jobs?

Mr. ADELSTEIN. Yes, we have seen that. When a project is obligated construction activities begin. Over 600 projects have been obligated so far, and the final design, bidding, and construction is ongoing as soon as they do that. We have held 32 groundbreaking so far on ARRA projects. But we are really at the height of the bidding cycle now as spring is coming upon us, faster in some parts of the country than others. We see an increase in bidding and more construction is expected in the spring and summer. We have already seen some. We have already seen a lot of pre-construction activities begun on many of our projects.

Mr. THOMPSON. Thank you, sir. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much. Mr. Cassidy.

Mr. CASSIDY. Thank you very much. Thank you. Mr. Adelstein has already identified himself as a man of rare sensitivities. He loves Cajun music so I appreciate that. A couple questions. I think staff may have answered one but I want to confirm. If you have a community with a population of less than 10,000 but wishes to build capacity because they anticipate growth to a population of 50,000 over the next decade, are they able to use this money not

just for the capacity of where they are now, less than 10,000, but also with the capacity of which they anticipate being, which would be 50,000?

Mr. ADELSTEIN. We really try to keep folks reasonable in the scope of what they are doing. Communities who lack the capacity to complete engineering and environmental components can get help in several ways. We provide technical assistance and offer grants for planning activities. We look at their projections for growth and sometimes communities have very aggressive projections, and we don't necessarily want to use scarce Federal dollars for a projection that may or may not happen. We can't necessarily know what kind of growth there is going to be, so we tend to be fairly modest and conservative in saying that sometimes these communities that want to grow quickly and want to build huge water systems in anticipation of vast population growth, we try to restrain them somewhat and say what are these assumptions? Is this something that you really want to fund and can you finance it because the concern is if they are building a project for 50,000 or 10,000 and that level of population growth doesn't happen, they are not going to be able to pay us back because—

Mr. CASSIDY. So, in a sense you review their business plan?

Mr. ADELSTEIN. Yes, we do a business plan. Exactly. And we look at their assumptions for growth.

Mr. CASSIDY. So if you were on the outskirts of Houston, you would say, yes, it looks pretty good, and if you were on the outskirts of Duwayne Town, you would say think again.

Mr. ADELSTEIN. Yes, if they say they have a certain plant coming in and they know exactly what it is, and their level of certainty—

Mr. CASSIDY. That leads me to my next question. Sorry to cut you off but obviously we have limited time. What is your method—obviously, it is a competitive grant process, and many of the small towns in my community, frankly, don't have the resources in which to hire somebody to shepherd this through the process. What is your method, and I am sure that is a common problem—

Mr. ADELSTEIN. It is.

Mr. CASSIDY. What is your method of ranking in this competitive process? Which application or loan guarantee application takes precedence?

Mr. ADELSTEIN. We look at a couple different factors. First, in terms of the ARRA funds, we looked at the backlog and dealt with that, and then we mandated a priority for shovel-ready projects. We wanted to get those going. And then we set aside ten percent for persistent poverty counties, and on top of that we then allocated according to our regular state allocation formula which takes into account the overall size of the rural population, level of rural unemployment, and level of rural poverty. And we are doing projects as soon as they come in. As soon as they are ready to roll, we are funding them as quickly as we can.

Mr. CASSIDY. And, again, going back to my small communities with the limited—they don't have engineers on staff, for example, so I kept on thinking that shovel-ready project criteria for the community which is most poverty-ridden is almost an oxymoron. They don't have the money to come up with the project, and yet they are

the ones who need it the most, *et cetera, et cetera, et cetera*. Do you follow what I am saying?

Mr. ADELSTEIN. Yes. That is why we set aside ten percent of the ARRA funding for persistent poverty counties, and we have actually exceeded that. We have gotten 11 percent of the funding to persistent poverty counties. The way we deal with those is, first of all, our state staffs really concentrate on that. And, second, our technical assistance and training program has pre-planning grants to help, particularly, those very poverty stricken communities get funds to help prepare to do this. The technical assistance teams will actually help through our contract, help them to develop the application and flush out what it is they need because—

Mr. CASSIDY. So if my Congressional office then took your agent around to all the communities which meet the definition of high poverty, we could begin doing, I use the technical term, pre-planning application.

Mr. ADELSTEIN. You can get a grant for pre-planning through our technical assistance and training program, which is a program we have been operating for many years and it really—

Mr. CASSIDY. Now does this also include—because I am sure the Army Corps at times has to be involved and they have their own grant application process, which I think it is up to the communities to fund typically. Does this grant application also help fund the other agencies' environmental impact statement, *et cetera*?

Mr. ADELSTEIN. Yes, it helps with the overall planning, so it helps people with compliance with EPA requirements. It helps them meet state permitting. In other words, the plan is a comprehensive one. Our technical assistance helps people develop an overall application, which would include all the environmental work, all the state work, all of the engineering.

Mr. CASSIDY. And what is the typical size of these grants? The community back home just had a \$500 thousand bill for an Army Corps study. They couldn't afford it. So what is the typical size of these planning grants?

Mr. ADELSTEIN. Well, in Fiscal Year 2009 we did grants to ten entities, for a total of \$19.5 million, so these are regional entities. They help multiple communities. And on top of that we have the Circuit Riders as well that can help out in training—

Mr. CASSIDY. So, hard cash, roughly about \$500 thousand per grant, \$19 million divided by ten, something like \$490 thousand, correct?

Mr. ADELSTEIN. It would average around \$2 million.

Mr. CASSIDY. Two million dollars?

Mr. ADELSTEIN. With about \$20 million—

Mr. CASSIDY. I am sorry. You are right. Okay. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Cassidy. We welcome today our full Committee Member Stephanie Herseth Sandlin. I have consulted with Ranking Member Conaway, and we agree to have her sit in. Welcome and we are glad to have you ask any questions you would like.

Ms. HERSETH SANDLIN. I appreciate that, Mr. Chairman. Thank you for allowing me to participate in the Subcommittee hearing today. Jonathan, welcome. It is a pleasure to have not just one but

two South Dakotans testifying in today's hearing, and I think that that indicates how important rural water systems are and the projects that you administer under the RUS in states like South Dakota. Again, thank you, Mr. Chairman, for holding this hearing to highlight the importance of rural water systems. It is not only a true life line for citizens, residents, who live in rural communities across the country, but often play a crucial role in supporting local economic development. Jonathan, your written testimony notes that the Recovery Act allowed the water and waste disposal loan and grant program to achieve the highest ever 1 year total investment of \$2.5 billion in new and improved rural water and wastewater systems.

And your testimony notes that in Hand County, South Dakota the Mid-Dakota Rural Water system was allocated a \$12 million loan to make improvements to the system, boost supply of treated water, and to take on new customers for the first time in 3 years. I would appreciate it if you and your office could forward to me the specifics of other South Dakota specific projects that has benefited from this loan and grant program. But if you could just summarize in your opinion the overall effect on rural communities of the USDA rural water and wastewater Recovery Act funding Congress approved last year, some of which have been distributed, others of which you are looking to obligate, just summarize what you believe the overall impact has been and is going to be for these rural communities over the course of the upcoming months and years.

Mr. ADELSTEIN. Thank you. We will get to the details on all the South Dakota projects. There have been quite a few because of the big needs in South Dakota for this, like the example you cited without having additional capacity new people can't move into town, new businesses can't move in. And we see this in community after community that without water resources many of these small rural systems are at capacity, so you can't get another home in there, you can't get another business in there. Rural development comes to a standstill without additional water capacity. That is why I said in my statement that this is really a foundational basis for economic development. Now that is one basis of it, but the other issue is that folks are often drinking water that is just not what we expect in this country.

When I came on this job, I wasn't even aware of how bad the situation is in certain parts of the country, and how really unacceptable some of the conditions are, for example like the Colonias, and some of the more rural parts, the Indian Reservations. It is something that most Americans would object to if they knew—and there has been a series recently in the *New York Times* you might have seen about how bad it can be. This project is a critical project in rural areas that is actually helping these communities deal with urgent health needs that are, literally, making their people sick and their children sick. People are afraid to give their children water, and they can't afford to go out and buy it and treat it themselves. They expect their municipalities to do it, and without the help of the Federal Government, without the help of this program, we wouldn't be able to meet the needs of these communities and the health of our children are profoundly affected.

On top of that there are environmental issues. I mentioned Earth Day is coming up. But it is incredible to see the way that some of these rural areas don't have adequate water treatment facilities or storm facilities. There is all kind of run-off into our critical estuaries, into our water systems, into our ground water, that is causing damage for future generations and that is sometimes rendering the water unusable. The reason people like to live in rural areas often is because of the pristine environment and because it is a wonderful place where there is fresh air, there is room. They prize their environment and they don't like to see what happens with the degradation of their environment, but without help their water systems are contributing to real problems for the wells in the area, the drinking water for the whole community.

And we are helping people deal with open lagoons. We are helping them deal with areas that don't have sewer systems. We are helping them, for the first time, to really protect the environment in profound ways. We are helping the economic development, we are helping the immediate health care, and protecting the environment of our rural communities, so we appreciate your support for this program.

Ms. HERSETH SANDLIN. Thank you. And I would just make the further point that this isn't just an investment in the people who currently reside in these communities. I am convinced that the investment in aging infrastructure in small rural communities across the country is an investment in the future of folks who are going to be looking to move to more rural areas as the other programs you administer with broadband make it increasingly likely that we can have small business and entrepreneurs moving and growing jobs in areas that don't suffer some of the congestion and quality of life issues of those living in urban areas. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, ma'am. Mr. Adelstein, what is the ratio between loans and the loan/grant combinations for water and waste disposal systems, and if I can ask you also how do you decide what the break is between loans and grants?

Mr. ADELSTEIN. Well, the ratio is 70 percent to 30 percent in our regular program. We found it 60:40 in the ARRA program, and that is based on what kind of applications are coming in. It is kind of based on whether or not we are getting folks that are applying for more grants. We found, for example, when you set aside ten percent for persistent poverty that there is more of a need for grant funds than loan funds. And we are targeting funds to smaller, low-income communities. We are seeing larger projects in communities that were formerly held back due to funding not being available, so it is just a higher grant ratio. We held back a ten percent grant in the national office reserves to deal with that, so we are seeing slightly higher grant levels under ARRA than we did under the traditional program.

The CHAIRMAN. Are there any projects that are funded entirely by grants?

Mr. ADELSTEIN. No. Everyone is required to provide a loan to some extent or another. We do provide much higher loan amounts for certain projects, but everybody is going to get some revenue, we presume, from these projects because we know they are going to

have customers. We know they are going to get some revenues so we want them to be able to repay to make it a sustainable project.

The CHAIRMAN. And who would be the point person in your agency, especially for smaller communities that can't afford to have grant writers, do you have somebody that can assist them or direct them in how best to make their applications?

Mr. ADELSTEIN. Yes. Our state office staff on the ground, usually the state director would be the first place for a Member of Congress to contact that would get you to the right person in the state that would be able to help. On top of that the technical assistance and training programs would be able to help a particular community. Our Circuit Rider program also can help communities to deal with their immediate needs, so I would recommend going through our state office staff to find out who could help that particular community.

The CHAIRMAN. Thank you, sir. Mr. Conaway, do you have an additional question?

Mr. CONAWAY. Just a couple things, very quickly. You caught my attention when you said you have held a ten percent national reserve. That is ten percent of what?

Mr. ADELSTEIN. Ten percent of the overall amount that was appropriated for the program under ARRA.

Mr. CONAWAY. Okay, but those funds have to be obligated by September 30 of this year. Ten percent is a lot of money. It is what, a billion? How much does ten percent equal?

Mr. ADELSTEIN. Well, budget authority would be about \$130 million.

Mr. CONAWAY. Okay. You have plans to either give that back to the taxpayer or spend it appropriately?

Mr. ADELSTEIN. We have plans to have all of the funds obligated by September 30. We traditionally do set aside a reserve of five to ten percent. This is pretty typical for a program to see where in the end we need to—

Mr. CONAWAY. The *persistent poverty* definition, is that in law some place or is that something that you all developed?

Mr. ADELSTEIN. That is in regulation. I am not sure if it is in law.

Mr. CONAWAY. Okay. So we know what that is. You must need the wisdom of Solomon. You mentioned Colonias and Indian Reservations as being some of the worst places. Did all of those get taken care of first? How do you make that decision between saying no to a community that is on the top of your list as being the worst water to saying yes to someone who is further down the list? How did you come to that?

Mr. ADELSTEIN. Well, as soon as we get a Colonia application in complete, we are funding it if it is eligible. None of them are being held up at all. We are kind of taking them as quickly as we can and getting those funds out the door.

Mr. CONAWAY. Given the old adage from Tip O'Neill that all politics is local, we have a Concho Water Snake that is on the endangered species list. That snake is on the verge of getting off the list, and the problem right now is the bureaucracy at Fish and Wildlife and some lawyers someplace in the system. We have a community that wants to build a multi-million dollar project on cleaning the

river, improving water flow, creating ripples, bank restoration and stabilization, all those projects are going on, which would mean better water for the folks downstream obviously. And yet we can't get anything done. Do you guys ever take positions for or against your sister agencies, in this instance, Fish and Wildlife? Do you ever venture boldly into that particular arena?

Mr. ADELSTEIN. We really don't. We wait for the environmental reviews to be approved before we fund the project so we are kind of at the mercy of the other agencies.

Mr. CONAWAY. Yes, we have a \$350,000 presence or absence study that has to be done on a snake that really is—we will go through that later. I yield back, Mr. Chairman. Thank you.

The CHAIRMAN. Thank you. Mr. Bright, do you have an additional question?

Mr. BRIGHT. I do have a little follow-up, a statement of clarification, and hopefully assistance to my Ranking Member. I have a phobia of snakes so any way I can help you get around that, let me know. You have my vote. Administrator, one follow-up question. You mentioned the ten percent that you set aside—earmarked for these funds. How do you rank the projects within that tenth percentile? It is amazing to me because I have 93 communities out there, and I have traveled through those 93 over the last year, and I am going back to them, and they are continuously submitting to me requests for revenues or help for water systems out there. Out of the 93, I had 16 requests this year for me to help them with a water treatment plant within their community. And many of those, not all 16, would be very similar to what my colleague was describing as small rural communities, probably fewer than a couple thousand people, and they don't have the staff to administer or to even apply for these monies. How do you rank those communities within that tenth percentile?

Mr. ADELSTEIN. We are fortunate this year to have enough funds to fund all of the needed projects within that category. No projects have been denied so far that have been ready to go. I think you hit the nail on the head as far as what the issue is at getting those applications up and in position. And you hit on it as well that these low income communities are struggling to go through all the effort to do this. That is why we have the technical assistance and training. That is why our state staffs work with low income communities to do it. If they can get a project in front of us and get it ready to go with all the permits, we are funding them as they are coming in the door for all of our priority projects.

Mr. BRIGHT. Thank you very much. I yield back the time. Mr. Chairman. Thank you very much.

The CHAIRMAN. Thank you. Any additional questions, Mr. Thompson?

Mr. THOMPSON. I just want to touch briefly on energy. You talked about how RUS works with energy, and I want to see if you can elaborate on that.

Mr. ADELSTEIN. We have a \$6.5 billion energy program financing energy projects in generation, transmission and distribution. We are really proud of a 75 year history of ensuring that rural areas have electricity at affordable rates. We are the old Rural Electrification Administration, and I am a historian by training, so the

first thing I did when I got this job is read this book. And today we are still making sure, and there is an enormous demand, making sure that all of our rural electric co-ops have adequate financing at very reasonable rates at no cost to the taxpayer because they always pay us back. We do that \$6.5 billion loan program for no budget authority because we are able to get paid back. We are very zealous in how we review these applications and we make sure that they are done in a way that is fiscally prudent and financially stable. So that is our energy program in a nutshell.

Mr. THOMPSON. And just a quick follow-up to that. In my district we are home of the heart of the Marcellus Shale natural gas. Is there any money from the stimulus or perhaps within your funding that goes towards water treatment that is specific to dealing with that energy area in terms of the processing of frac water following use with drilling for natural gas?

Mr. ADELSTEIN. Not that I am aware of, no.

Mr. THOMPSON. Okay. Thank you.

The CHAIRMAN. Thank you very much, Mr. Thompson, and thank you so much, Mr. Adelstein. We will welcome the second panel to come forward. Mr. Adelstein, if you have additional comments.

Mr. ADELSTEIN. I just wanted to say something for the record. Apparently, the rescission legislation may affect RUS. I need to look at that. Our budget office has been aware of this and I need to follow up and respond in more detail on exactly what the impact may be, and I can follow up also for the record very quickly with your office as far as what the impact would be on Rural Development overall.

Mr. CONAWAY. Okay. If you wouldn't mind doing that because this thing may be voted on tomorrow or the next day.

Mr. ADELSTEIN. We will get back to you today.

Mr. CONAWAY. Thank you, sir.

The CHAIRMAN. Thank you. And we have been joined by the Chairman of the overall Agriculture Committee, Mr. Peterson. Mr. Peterson, before we conclude this particular panel with Mr. Adelstein, do you have any comments or questions? All right. Well, thank you for joining us and thanks again to Ms. Herseth Sandlin for joining us. That will conclude this first panel. We will ask our second panel to please prepare to come to the table, and you will be introduced momentarily. Thank you, Mr. Adelstein.

Mr. ADELSTEIN. Thank you, Mr. Chairman.

The CHAIRMAN. We would now like to welcome our second panel that has come before us today before the Subcommittee. Ms. Rhonda Locklear, Water and Wastewater Director of the Town of Pembroke, North Carolina, on behalf of the National Rural Water Association. Again, Rhonda, welcome, from our home county of Robeson County in North Carolina. It is good to have you here. Also, we welcome Ms. Christina Fierros, the Chief Operations Officer of the Midwest Assistance Program of the Rural Community Assistance Partnership in Savannah, Missouri. Mr. Michael North, President of the National Association of Development Organizations, an organization that we have long worked with and appreciate the good work that you do through the years in helping smaller communities. He is from Harrison, Arkansas on behalf of the National Association of Counties. We know the county commis-

sioners were just in town in the last couple of weeks. Mr. Troy Larson, Executive Director of the Lewis & Clark Regional Water System of Sioux Falls, South Dakota. And we are glad to have you here today, and Ms. Herseth Sandlin, I know, has welcomed you as well. And Mr. Paul Kahl, the Deputy Director of Public Works for Allegany County in Cumberland, Maryland.

Welcome to each of you. The chair would again like to remind Members that following the full Committee's chair's lead, they will be recognized for questioning in order of seniority. Visiting Members who are not full-time Members of the Subcommittee will be recognized for questioning after all Subcommittee Members have had a chance to do so. We appreciate the Members' understanding. So now we will begin the testimony from the panel. As you recall, you each have 5 minutes. Please highlight your testimony during that 5 minutes so we can make sure we can have your complete and accurate comments. Ms. Locklear, you may begin.

**STATEMENT OF RHONDA LOCKLEAR, WATER AND WASTEWATER DIRECTOR, TOWN OF PEMBROKE, NORTH CAROLINA, PEMBROKE, NC; ON BEHALF OF NATIONAL RURAL WATER ASSOCIATION**

Ms. LOCKLEAR. Thank you, Chairman McIntyre, Ranking Member Conaway for allowing me the opportunity to testify before this Committee. I want to specifically explain how USDA investments have enhanced the quality of life in my hometown of Pembroke, North Carolina. I am Rhonda Locklear, a native of Robeson County, and a member of the Lumbee Tribe. I am currently the Water and Wastewater Director for the Town of Pembroke. I am a graduate of Pembroke State University, now known as the University of North Carolina at Pembroke, and I am also a proud member of the North Carolina Rural Water Association.

USDA investments have drastically improved the economic and public health of Pembroke. We were paralyzed because of the inadequacies of our water and wastewater treatment facility. Excessive inflows and infiltration washed all the microorganisms out of the wastewater treatment plant and into the Lumber River. Essentially no treatment occurred until this population could be regrown. The Division of Water Quality issued a special order of consent which stopped any and all additional flow into the wastewater system. This action halted the growth of our community. Pembroke's economic growth and development catalyzed in 1992 when USDA loaned \$1.4 million to upgrade the wastewater treatment facility. The 5,000 gallon a day facility went to 1.3 million and it included a wastewater certified laboratory.

Storm water is still an issue but the difference is we remove 94 percent of the pollutants. Replacing aged water and sewer lines, as I heard earlier, is a great endeavor and would correct the problem. Small communities like Pembroke would need the continued support and assistance of USDA to accomplish these goals. Due to expanded capacity of the wastewater treatment facility, we have now the fastest growing university in the UNC system. Their population in 1992 was roughly 1,700. It has jumped to 6,800 in 2010. They are the largest employer and the largest water and sewer user in the Town of Pembroke. With property values escalating from \$30

million to \$140 million it is easy to see the impact USDA has had on our community.

Pembroke once again sought to improve infrastructure by increasing their water capacity and improve water quality. State and USDA assistance enabled us to build a new water treatment facility and add a fourth elevated water storage tank. We then met minimum water pressure requirements for fire suppression which kept insurance rates down. It decreased the potential health hazards and also supplied water for new homes and businesses in Pembroke. Thousands of jobs have been created since businesses like Wal-Mart, True Value, McDonald's, and a multitude of health care units have located in Pembroke.

The Lumbee Tribe is building 100 homes. They have plans to build 400 more new homes. Their new tribal complex sits to the right of our 32 acre recreational park, and we also support a 600 acre commerce and technology center. We also have a new hotel that opened in December to accommodate overnight visits in Pembroke, which we hadn't had for quite some time. All these great accomplishments are because of God, sincere officials like yourself, and USDA programs. While USDA has provided funding for rural communities the North Carolina Rural Water Association has provided the training, the financial management, and the on-site technical support to ensure facilities operate at the highest level. Experienced professionals empower operators, board members, and communities with the knowledge to understand their system. They also save millions of dollars that are intended for infrastructure so we don't have to pay expensive consultants.

They also help assist us with aging staff and taking that knowledge into the future. Small communities lack the resources to address large issues that would go without assistance if it were not for USDA programs. Federal and state programs would like to serve large affluent communities, but the USDA Rural Development staff ensures persistent poverty counties like Robeson can prosper. Thank you, Chairman McIntyre, and Ranking Member Conaway and this Committee for your support. And I will be glad to answer any questions that you have.

[The prepared statement of Ms. Locklear follows:]

PREPARED STATEMENT OF RHONDA LOCKLEAR, WATER AND WASTEWATER DIRECTOR, TOWN OF PEMBROKE, NORTH CAROLINA, PEMBROKE, NC; ON BEHALF OF NATIONAL RURAL WATER ASSOCIATION

Thank you Chairman McIntyre and Ranking Member Conaway for allowing me the opportunity to testify before this Committee. I want to specifically speak from a holistic point of view to explain how USDA investments in infrastructure have enhanced the quality of life in my hometown of Pembroke, North Carolina.

I am Rhonda Locklear and I am a native of Robeson County and a member of one of the largest American Indian tribes, known as the Lumbee. I am presently the Water and Wastewater Director for the Town of Pembroke. I am a graduate of Pembroke State University, a university that is drenched in local roots that is now known as the University of North Carolina at Pembroke. I am also a proud member of the North Carolina Rural Water Association, an association committed to providing the highest quality support to the systems across the state through training and on-site technical assistance.

The USDA investments in the Town of Pembroke have delivered tremendous results for both the economic and public health of the entire community. Prior to these investments, the economic growth was paralyzed due to inadequate drinking and wastewater treatment and capacity limitations. Any amount of rain water caused

excessive inflows and infiltrations into our wastewater treatment facility which washed all microorganisms needed for wastewater treatment into the Lumber River. Essentially no treatment occurred for a period of at least 10 days after a significant rain, which is the time required for a community of microorganisms to be re-grown. This scenario was constantly repeated, requiring the North Carolina Department of Environment and Natural Resources Division of Water Quality to issue a Special Order of Consent permit. Facilities with this type of permit cannot accept any additional flow until the facility has been upgraded. This action essentially halted the economic growth of our community.

Existing homes, businesses, and institutions could not expand without the basic services of water and sewer. New businesses would not entertain locating in an area without these services. Our community's economic growth and development catalyzed in 1992 when USDA loaned \$1.4 million to the Town of Pembroke. With this loan, the wastewater treatment facility was upgraded from 500,000 gallons per day to 1.3 million gallons per day. The upgraded facility also included a fully certified laboratory, which is one of two municipal labs in Robeson County. I began my career in the water industry serving as the first Chemist in this lab.

Storm water is still an issue, entering the wastewater facility through an aged collection system of pipes and manholes, yet the plant is consistently removing 94 percent of the pollutants. Repairing and replacing water and sewer lines would eliminate this problem but it is a great endeavor and must be accomplished over a number of years. Pembroke is representative of small rural communities and systems across the nation that will continue to need USDA support and assistance in the future.

Now I would like to address the direct benefits of these investments. Due to the expanded capacity of the wastewater treatment facility, the University of North Carolina at Pembroke (UNCP) was able to expand to become the fastest growing university in the UNC system. The student body was approximately 1,723 in 1992, increasing to 6,433 as of spring 2010. Beginning in 2006, UNCP entered their largest expansion; five new buildings are underway totaling \$33 million in construction cost and the creation of numerous jobs. UNCP Pembroke is currently the largest employer in the Town of Pembroke with 287 instructors and 307 functional staff. With property values escalating from \$30 million in 1992 to \$140 million in 2009, it's easy to see the direct positive financial impact these investments continue to have on our community.

Following that initial investment, Pembroke once again sought to increase their water capacity as well as improve its quality. State and USDA assistance enabled us to build a new water treatment plant. Two new wells supply water to one treatment unit. Prior to this, Pembroke could not remove iron or effectively add chemicals that enhanced water quality and usages. A fourth elevated water storage tank was also added to our distribution system to increase the system's water pressure. This allowed Pembroke to meet the minimum water pressure requirements for fire regulations necessary to keep insurance rates down. At the same time we looped together water lines that were formally dead ends. This prevented iron and other debris from accumulating in dead zones, avoiding potential health hazards.

Combined, water and wastewater are the single most important service required for community health and economic growth. Businesses like Wal-Mart, Pembroke True Value Hardware, various corporate and local restaurants, and a multitude of professional and health care related facilities are now constructed and operating because of this infrastructure development. The majority of these investments were from USDA. All of this growth has contributed to the creation of thousands of jobs.

The Lumbee Tribe has built new homes in this area and at the end of this construction phase, 101 homes will have reached completion with plans to build 400 more in the future. This activity will improve the living conditions of this impoverished community. The Lumbee's continue to grow with the development of a new Tribal Complex and Boys and Girls Club, which debuted in December of 2009. Next to the Tribal Complex is a 32 acre recreational park that was erected in 2008. The Town embarked on a program that will promote healthy activities for kids, teens, and parents, in an effort to improve the quality of life and health for our community.

As of December 2009, a new hotel was constructed allowing for the first time the ability to accommodate overnight visits for athletic events, visitors, and business activities. This same infrastructure supports COMtech, a 600 acre commerce and technology center, currently housing and supporting various business and industry. It is a managed professional complex that promotes economic development through instructional, industrial, and private growth. The goal of Robeson, Hoke, Scotland, and Columbus Counties is to attract pharmaceutical industries with an educated and trained work force, while putting our displaced textile laborers and construction

contractors back to work. All of these opportunities are available only because adequate water and wastewater infrastructure exists due to USDA funding.

While USDA has provided funding for rural communities, the North Carolina Rural Water Association has provided the training, energy audits, certification, financial management, environmental compliance, governance and on-site technical assistance necessary to ensure that facilities operate at the highest level possible. This assistance actually saves money and protects the community and government's investments by ensuring efficient and sustainable practices are followed. This is truly a great combination. I can't say enough about these experienced professionals that empower operators, board members, elected officials and communities with the support and knowledge they need to understand every aspect of their systems and facilities. Because of the important services provided to systems by Rural Water, millions of dollars meant for infrastructure and equipment are actually used for their intended purpose instead of paying for expensive consultants.

All communities have leaders. Some are elected; others are just concerned citizens that want to improve the quality of life in their community. These elected officials and citizens have a vital partner. The USDA Rural Development staff is always there to help—whether it's by providing critical infrastructure, securing affordable housing, providing broadband, securing business assistance or helping obtain essential community facilities. Their field structure and experienced staff are unique. The staff and offices are located throughout these rural communities across the nation which allows them to serve communities that are both small and remote. In many cases communities that lack the capacity and resources to address many of their large issues would go without assistance if it were not for these USDA programs and the employees that make them work. Federal and state agencies would have it much easier if they just served larger and more affluent communities, but the Rural Development mission is different—they are there to ensure rural America is not left behind and that these communities prosper. Robeson County is a perfect example. This county, unfortunately, is listed as a county with persistent poverty. With USDA as our partner and the continued local leadership and vision, we will soon leave that designation behind. We are on track. I would like to thank this Committee and my friends in the Rural Development offices across the State of North Carolina for your continued support.

In summary, the face of Pembroke has significantly improved due to USDA's involvement. Our citizens have a better quality of life because of USDA's investment in our town. Men and women can acquire jobs in retail, construction, health fields, and industry to support their families. UNCP is offering even more educational opportunities to prepare us for tomorrow. We exemplify the fact that no community can grow and improve without the sustaining resources of water and wastewater services.

Thank you Chairman McIntyre and Ranking Member Conaway for allowing me to testify and I would be happy to answer any questions that you may have at this time.

The CHAIRMAN. Thank you, Ms. Locklear, and thank you for your timely testimony. Ms. Christina Fierros.

**STATEMENT OF CHRISTINA FIERROS, CHIEF OPERATIONS OFFICER, MIDWEST ASSISTANCE PROGRAM, RURAL COMMUNITY ASSISTANCE PARTNERSHIP, SAVANNAH, MO**

Ms. FIERROS. Thank you, Chairman McIntyre, and Ranking Member Conaway for the opportunity to address the Subcommittee. USDA Rural Development programs play a vital role in rural America and the RCAP network appreciates your efforts to ensure that they are working as intended, particularly in today's economically challenging times. My name is Christina Fierros. I am the COO for the Midwest Assistance Program based in Minnesota and serving nine upper Midwest states. MAP is part of the national RCAP network which helps small rural communities address their water, wastewater, and other community development needs. We provide technical assistance and training that build the capacity and sustainability of small water and wastewater systems, and we assist them with development of needed facilities.

Each year we serve more than 800 communities with funding provided through USDA's water and waste disposal program. For example, the Town of Laporte is a small town of 150 people in north central Minnesota. A number of years ago, the local officials discovered the septic tanks and systems were failing and polluting individual water wells. About that same time, they found a number of the wells were also contaminated with petroleum. The town faced two expensive infrastructure problems at the same time. Local officials contacted MAP for assistance. We worked with them to hire an engineer who would design an affordable community system, prepared funding applications, and completed numerous related requirements and followed the projects to completion of a new community water and wastewater system.

In a town of 150 people, it is rare that the local residents have the time or the capacity to manage this process without assistance. Much of rural America's water and wastewater infrastructure is at or near the end of its useful life. According to the most recent EPA needs assessment surveys, small rural systems need more than \$100 billion for water and wastewater infrastructure improvements over the next 20 years just to maintain their current service levels. Complicating this need is the fact that small utilities have even fewer customers among whom to spread those costs, making it difficult to achieve the economies of scale found in larger systems. As a result, their customers on average pay three times more for water and wastewater services than do urban customers.

In order to make most infrastructure projects affordable, Rural Development provides grant and loan funds. Without them, public health, the environment, and the prospects for future development would suffer. Rural Development staff on the ground does a tremendous job working with the communities that have these water and wastewater funding needs. They provide guidance on funding requirements, process applications, service loans, and steer communities to technical assistance providers such as RCAP when needed. Under the American Recovery and Reinvestment Act, Rural Development is providing more than \$3 billion in additional water and wastewater infrastructure funding. Along with technical assistance to help communities access the funding, Rural Development staff at all levels have worked diligently to make more than 600 funding awards to date, and as we enter the 2010 construction year many rural communities will see the impact of that investment.

One example of this impact is Priest River, Idaho, a community of 2,000 people that needed to upgrade its water system. However, the \$6 million project would have resulted in unaffordable user rates for residents without Federal assistance. Another RCAP partner, the Rural Community Assistance Corporation, worked with Priest River officials to adopt reasonable rates that would cover debt service for the project. As a result, Rural Development awarded \$4.3 million in Recovery Act funding, and other monies were secured through the state to complete the project financing package. When the project is complete, Priest River will have adequate water pressure and fire flows, reduce operating cost and a distribution system that will serve them for decades.

Projects like this one show the impact of rural development programs in small town rural America. While most of its people don't

think about water that comes out of their tap or what happens to the water that goes down the drain, Rural Development and local officials are working to ensure that their drinking water is safe and that their wastewater doesn't pollute the lakes and streams for wildlife in downstream communities. Therefore, we urge you to support robust grant and loan funding for Rural Development's water and wastewater disposal program so that infrastructure projects will be affordable for the communities they are intended to benefit. Thank you for inviting me to testify, and I welcome your questions.

[The prepared statement of Ms. Fierros follows:]

PREPARED STATEMENT OF CHRISTINA FIERROS, CHIEF OPERATIONS OFFICER, MIDWEST ASSISTANCE PROGRAM, RURAL COMMUNITY ASSISTANCE PARTNERSHIP, SAVANNAH, MO

Thank you, Chairman McIntyre and Ranking Member Conaway, for the opportunity to address the Committee. USDA Rural Development programs play a vital role in rural America, and we applaud your efforts to ensure that they are working as intended and having an impact, particularly in today's economically challenging times.

My name is Christina Fierros. I am the Chief Operations Officer of the Midwest Assistance Program (MAP), based in Minnesota and serving the States of Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, North Dakota, South Dakota, and Wyoming. MAP is part of the national RCAP network, whose regional service providers help small, typically low-income, rural communities address water, wastewater, and other community development needs. The RCAP network provides technical assistance and training that build the capacity and sustainability of small systems and assist them with the development of needed facilities. The RCAP network serves more than 800 communities every year with funding provided by USDA's Technical Assistance and Training Grant Program under its Water and Waste Disposal Program.

The RCAP regional partners also make use of other Rural Development programs to support comprehensive community development. As such, we work with Rural Development programs and staff on a daily basis.

The technical assistance that RCAP provides serves as a bridge between Rural Development and communities. RCAP assists not only with funding applications and every phase of the project 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 financially sustainable manner.

One example is Laporte, Minnesota, a town of 150 people, where local officials discovered that septic systems were failing and contaminating individual water wells, and that some of their wells were also contaminated with petroleum. They faced two potentially expensive infrastructure projects simultaneously. The town contacted Midwest Assistance Program for assistance. MAP staff worked with them over a number of years to evaluate alternatives, find an engineer to design an affordable system, prepare funding applications and fulfill the related requirements, and follow the project to completion of new water and sewer systems.

#### **Rural Infrastructure Needs**

The infrastructure needs of rural America are staggering. The most recent needs surveys by EPA estimate small systems and rural areas need \$34 billion for drinking water and \$69 billion for wastewater over the next 20 years.

Nationwide, small systems constitute over 80 percent of all public drinking water systems and 75 percent of public wastewater facilities, though they account for a much smaller share of the total population served. Small utilities face distinct challenges in operating and improving their facilities; they have fewer customers among whom to spread costs—including fewer large volume users—making it difficult to achieve economies of scale found in larger systems. As a result, customers in small systems pay, on average, three times more than their urban counterparts for water and wastewater services, according to EPA data.

RCAP is committed to educating local officials about the importance of sustainability and asset management—maintaining infrastructure investments, encouraging local responsibility, and ensuring that residents pay their fair share for serv-

ices. RCAP provides training to utility boards and staff on topics such as budgeting, rate-setting, and system management. However, there is a point at which an infrastructure project is simply not affordable without Federal assistance. Without grants and subsidized long-term loans, most projects in rural America—many of which are only marginally affordable even with these funds—are simply not feasible.

Consider the case of West Odessa, Texas, an unincorporated area outside Odessa where individual wells have extremely limited production combined with high levels of contaminant from oil field by-products. With the help of Community Resource Group, the Southern RCAP, residents formed a legal district to tackle the problem and developed a plan to construct a community system and purchase water from a nearby system. The West Odessa Water Supply Corporation secured funding from USDA, but construction bids came in more than double the estimated cost, so they have struggled to obtain additional funding and keep the project affordable for residents.

#### **USDA Rural Development**

USDA Rural Development, through the Water and Waste Disposal Loan and Grant Program, is the “lender of last resort” for rural water and sewer systems. The program enables communities to complete infrastructure projects that are critical to public health, the environment, and future development.

Rural Development staff on the ground do a tremendous job working with communities and unincorporated areas that have water or wastewater funding needs. They provide guidance on application and funding requirements, process applications, service loans, and steer communities to technical assistance providers such as RCAP, when needed. Together, these services provide crucial support to rural communities constrained by limited resources.

#### **The American Recovery and Reinvestment Act**

USDA’s ARRA funding has provided a vital boost to rural America to meet infrastructure needs. Over \$3 billion is being made available under the Water and Waste Disposal Program alone. Rural Development staff has worked diligently to process applications and award loans and grants, and as we enter the 2010 construction year, many rural communities will see the positive impact of that investment.

For example, Priest River, Idaho, with a population of about 2,000, was working to upgrade its water system, including new distribution lines, an elevated storage tank, and drilling a well to eventually replace a surface water source. However, the nearly \$6 million project would result in unaffordable user rates for residents unless Federal assistance was provided. Rural Community Assistance Corporation, the Western RCAP, worked with local officials to establish water rates that would be reasonable, yet cover debt service for the project. As a result, USDA Rural Development awarded \$4.3 million in ARRA grant and loan funds and the state committed \$600,000 of CDBG monies to complete the project. When the new system is operational, Priest River will have adequate fire flows and water pressure, reduced operating costs (because ground water is cheaper to treat than surface water), and a distribution system that will serve them for decades.

#### **Recommendations**

Solving the problems facing rural communities requires a multi-pronged approach that includes adequate funding, along with steps to ensure that grant funding is available only to the neediest communities and that technical assistance is available to ensure that the funds are distributed where they are most needed. Specifically, RCAP offers the following recommendations:

- (1) **Increase annual appropriations for Rural Development programs.** Since 2003, funding has been reduced by 25% for the Water and Waste Disposal Program (excluding ARRA). While it may be unrealistic to annually fund programs at ARRA levels, funding should be restored to pre-2003 levels.
- (2) **Improve the grant-to-loan ratio in the Water and Waste Disposal Program.** Grant funding for water and sewer projects, as a percentage of the overall allocation, declined from 39% in 2003 to 26% as of 2006. As previously noted, grant funds are critical to help defray the enormous infrastructure costs for the smallest and lowest-income communities. The 2008 Farm Bill authorized lower interest rates, which helps make projects more affordable for communities. However, the additional loan subsidy further reduces available grant funding, and many low-income communities simply cannot develop feasible projects without grants. If the trend of reducing the grant-to-loan ratio continues, the program will cease to be a viable option for most small communities, especially those serving low-income populations.

**(3) Increase technical assistance funding to allow RCAP and other providers to keep pace with growing demand.** There is far more demand for assistance than can be met with existing funding. These projects tend to be time and labor-intensive, as they are typically the smallest and, hence, the most difficult to fund, communities.

In addition, stagnant administrative budget levels in recent years have resulted in fewer Rural Development field staff. Though the agency has done an impressive job in compensating for these losses, it has done so, in part, by relying more heavily on technical assistance providers to work with applicants to complete the myriad paperwork and other funding requirements.

Thank you for considering my testimony on Rural Development water programs and the ARRA and thank you for your commitment to meeting the needs of rural America's communities.

The CHAIRMAN. Thank you so much. Mr. Norton.

**STATEMENT OF J. MICHAEL NORTON, EXECUTIVE DIRECTOR, NORTHWEST ARKANSAS ECONOMIC DEVELOPMENT DISTRICT; PRESIDENT, NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS, HARRISON, AR; ON BEHALF OF NATIONAL ASSOCIATION OF COUNTIES**

Mr. NORTON. Good morning, Chairman McIntyre, Ranking Member Conaway, and Members of the Subcommittee. My name is Michael Norton. I currently serve as the President of the National Association of Development Organizations and Executive Director of the Northwest Arkansas Economic Development District located in Harrison, Arkansas. Today, I have the opportunity to represent NADO, as well as the National Association of Counties. I thank you for the opportunity to testify on the status of rural water infrastructure programs operated by the U.S. Department of Agriculture, and the status of the American Recovery and Reinvestment Act funds for these programs. This morning I will limit my remarks to three main points. First, Recovery Act funding coupled with the yearly appropriations for USDA's vital water and sewer infrastructure programs through the Rural Utilities Service have been essential resources for rural communities as they strive to create economic opportunities to improve the quality of life for their citizens.

One example of access to safe, reliable sources of water being an essential catalyst for economic development is taking place in my state and region. The Ozark Mountain Regional Public Water Authority in north central Arkansas will receive \$55.7 million in grant and loan funding from USDA Recovery Act dollars to develop and build a long-term regional water supply in four counties in rural Arkansas. USDA funds will be used to build a new water treatment facility to deliver treated water to approximately 20 water associations in some of the most rugged and difficult terrain in north central Arkansas. Ultimately, the project will provide a safe and reliable source of water for 22,000 local residents. The project will also facilitate economic growth in the region. Due to unsafe and limited water supply two counties have never had the opportunity to solicit or obtain industry or commercial development.

This project aims to reverse that trend and attract much needed economic opportunity to this rural region of our state. Without USDA Recovery Act investments, the project would remain unrealized. Second, Mr. Chairman, the lack of adequate water and waste-

water infrastructure remains one of the most significant roadblocks to economic development in a small town in rural America. USDA Rural Development is effective at helping communities overcome rural water and wastewater infrastructure challenges, but additional resources will be needed in the coming years to meet the mounting demand for these programs.

While state and local governments are making major contributions to public infrastructure enhancement efforts this immense job will never be completed without the resources of the Federal Government. Basic public infrastructure facilities are the core of sustaining existing business, nurturing new companies, and improving the quality of life in rural counties and communities. The private sector expects that counties and local communities provide and maintain these services and infrastructures. Businesses and industries will locate wherever these critical facilities exist be it here in the United States or abroad. Finally, Mr. Chairman, the Administration's proposed Rural Innovation Initiative will make USDA's infrastructure investment more effective and efficient by rewarding regional approaches to rural development.

The Initiative will allocate funds competitively among innovative regional economic development projects tailored to local needs and opportunities. The Initiative's new approach will lead to increased efficiency as rural communities' capacity is enhanced through greater coordination and leveraging of regional funding. NADO and NACo support the goal of moving Rural Development toward a commitment to regional strategies designated by local leaders. We urge the Subcommittee to support the promising Initiative. Mr. Chairman, and Members of the Committee, thank you again for the opportunity to testify today. I will be more than happy to answer any questions or comments.

[The prepared statement of Mr. Norton follows:]

PREPARED STATEMENT OF J. MICHAEL NORTON, EXECUTIVE DIRECTOR, NORTHWEST ARKANSAS ECONOMIC DEVELOPMENT DISTRICT; PRESIDENT, NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS, HARRISON, AR; ON BEHALF OF NATIONAL ASSOCIATION OF COUNTIES

Thank you, Chairman McIntyre, Ranking Member Conaway and Members of the Subcommittee for the opportunity to testify today on the status of rural water infrastructure programs operated by the U.S. Department of Agriculture (USDA) and the status of American Recovery and Reinvestment Act (the Recovery Act) funds for these programs. Most importantly, I want to thank you, Mr. Chairman, for your leadership in ensuring that USDA Rural Development funding was included in the Recovery Act. The roundtable you held during the Recovery Act debate was instrumental in educating Members of Congress and their staff about the vital role USDA Rural Development programs could play and are now playing in our nation's recovery efforts.

My name is Michael Norton. I am Executive Director of the Northwest Arkansas Economic Development District, headquartered in Harrison. I also currently serve as President of the National Association of Development Organizations (NADO). My professional background includes more than 3 decades in regional and local community and economic development, including 20 years in my current position.

Today, I have the opportunity to represent NADO as well as the National Association of Counties (NACo).

My goal today in covering this important topic is to offer some concrete examples about the effectiveness of USDA's rural water infrastructure programs and to provide suggestions as you look toward the next farm bill. As debate begins on the rewrite of the farm bill, I strongly encourage Members of this Subcommittee to make rural water infrastructure and rural development programs in general, a central theme of the proposal. These programs are critical to economic expansion in rural

America and are needed more than ever as our nation struggles to recover from the recent economic downturn.

#### **About the National Association of Development Organizations**

**The National Association of Development Organizations (NADO) provides advocacy, education, research and training for a national network of 520 regional development organizations.** NADO members—known locally as councils of governments, economic development districts, local development districts, planning and development districts, regional councils and regional planning commissions—are focused on strengthening local government, communities and economies through regional solutions, partnerships and strategies.

#### **About the National Association of Counties**

**The National Association of Counties (NACo) is the only national organization that represents county governments in the United States.** Founded in 1935, NACo provides essential services to the nation's 3,068 counties. NACo advances issues with a unified voice before the Federal Government, improves the public's understanding of county government, assists counties in finding and sharing innovative solutions through education and research, and provides value-added services to save counties and taxpayers money. NACo's membership totals more than 2,000 counties, representing over 85 percent of the nation's population.

This morning, I would like to focus my remarks on three key points.

1. **Recovery Act funding, coupled with yearly appropriations for USDA's vital water and sewer infrastructure programs through the Rural Utilities Service, have been essential resources for rural communities as they strive to create economic opportunities and improve the quality of life for their citizens.**
2. **The lack of adequate water and wastewater infrastructure still remains one of the most significant roadblocks to economic development in small town and rural America.** USDA Rural Development is effective at helping communities overcome rural water and wastewater infrastructure challenges. However, the mission area still needs additional resources, especially grant funding, in the coming fiscal years to meet the mounting demands for these programs.
3. **The Administration's newly proposed Rural Innovation Initiative will make USDA's infrastructure investments more efficient and effective by rewarding regional strategic approaches to rural development.** This reflects the reality of today's marketplace where rural counties and communities are not only competing statewide and nationally, but more likely, internationally. The Rural Innovation Initiative will provide incentives and resources for the enrichment of rural development strategies on a regional and local basis to implement area wide priority projects and initiatives. NADO and NACo urge the Subcommittee to support this promising Initiative.

**First, Mr. Chairman, Recovery Act funding, coupled with yearly appropriations for USDA's vital water and sewer infrastructure programs through the Rural Utilities Service, have been an essential resource for rural communities as they strive to create economic opportunities and improve the quality of life for their citizens.**

For many small communities with aging, substandard water supply systems that are expensive to maintain or communities with no or limited public water supply systems, USDA Rural Development is an invaluable partner.

One example of access to safe and reliable sources of water being an essential catalyst for economic development, job creation and business development is taking place in my state and region. The **Ozark Mountain Regional Public Water Authority (Diamond City, Arkansas)** will receive \$55.7 million in grant and loan funding from USDA Recovery Act dollars to develop and build a long-term regional water supply for four counties in rural Arkansas.

Currently, the citizens of Newton, Searcy, and portions of Boone and Marion counties have limited water resources available. Lack of water is a constant concern for these communities. According to the Arkansas Department of Health, the water that is available to residents contains excessive and dangerous levels of Radium 226, Radium 228, Fluoride and Hydrogen Sulfide. The U.S. Environmental Protection Agency (EPA) has certified that many of these water sources are unsafe for human consumption.

USDA funds will be used to build a water treatment facility, drainage basin and intake structure to deliver treated water via transmission lines, a booster pumping station and water storage tanks to approximately 20 water systems in some of the

most rugged and difficult terrain in North Central Arkansas. Ultimately, the project will provide a safe and reliable source of water for 22,000 local residents.

It will also provide a plentiful source of water for the region in order to facilitate economic growth. Due to the unsafe and limited water supply available from existing springs, these counties have never had the opportunity to solicit or obtain industrial or commercial development. A contributing factor to low income levels in state. This project, which has been in the making for 25 years, aims to reverse that trend and attract much needed economic opportunities to this very rural region of our state.

Without USDA Recovery Act investments, this project would remain unrealized, and the citizens of the region would continue to struggle with unsafe water and little hope for future job creation and business development.

But, my region is not the only one benefiting from USDA's critical assistance.

Commissioner F.D. Rivenbark of **Pender County, North Carolina** testified before this Subcommittee in June 2009 on behalf of NACo regarding USDA Recovery Act projects and has a very positive update on the success of USDA Rural Development funding in his county. The original Pender County Water Treatment Plant Project, mentioned in his testimony, was not going to be cost effective as the region's high population growth would render the plant obsolete in just a few years. USDA worked with local leaders to allow the construction of a larger project, thus saving millions down the road for facility upgrades.

The project cost of \$32.3 million was made up of \$22.5 million in low interest loans, \$7.6 million in grant funding and \$2.3 million in local funds. The plant and transmission facility is on target to bid in the next 90 days. This plant will provide water for a new industrial park, and a major industrial corridor where there is no development at this time. Industrial client interest is increasing significantly at this site due to the plant coming online soon.

Due to the new water treatment plant, a new business is considering investing \$80 million and creating 1,200 jobs at the new industrial park. With over 11 percent unemployment in Pender County, this would be a tremendous boost to the local economy. The project would not have been possible without the funding and excellent technical assistance from USDA field staff in North Carolina. Without the grant funds in particular, which represent 23 percent of the total project cost, Pender County and its water users would struggle to make the plant financially viable.

As part of the regional water strategy provided by the **Greenville Utilities Commission (Greenville, North Carolina)** to help local water providers meet the mandated reduction of groundwater withdrawal, USDA Rural Development provided \$17.4 million in combined loan and grant funding for a joint transmission line and internal improvements to serve the Pitt and Greene County water systems. This investment will help water systems reduce the volume of water they withdraw by a total of 75 percent by 2018.

The **Lower Jackson River Regional Wastewater Treatment Plant in Alleghany County, Virginia** is an antiquated facility that overflows at several points in the county. USDA provided a \$2.5 million loan and a \$2 million grant towards construction of a new regional wastewater treatment plant that will serve **Alleghany County** and the Towns of **Clifton Forge** and **Iron Gate**. Once completed, the plant will bring the county wastewater treatment efforts back into compliance with environmental regulations and will open all of Eastern Alleghany County for economic development, resulting in an untold number of new jobs.

The **Sandy Township Municipal Authority (DuBois, Pennsylvania)** received a \$5.8 million Rural Development loan to extend its present water system. The extension of the system's water lines will allow the authority to supply additional water and fire protection to 260 new users in the area. The funds were made available through the Recovery Act.

The **Northeastern Vermont Development Association (St. Johnsbury, Vermont)** provided technical assistance to help several communities in its region access Rural Development water and sewer funding. Because of this assistance, the Towns of Troy and Jay were awarded more than \$1.1 million in grant funds and \$1.4 million in loan funding to expand their wastewater treatment center and install larger waste water collection lines. The funds will allow these two communities to meet the expansion needs of a nearby ski resort in this tourist dependent region and to pursue other economic development opportunities.

**Second, Mr. Chairman, the lack of adequate water and wastewater infrastructure still remains one of the most significant roadblocks to economic development in small town and rural America.**

Despite the dramatic gains made with funding provided in the Recovery Act for USDA rural water and wastewater infrastructure programs, the nationwide funding

backlog remains significant. USDA Rural Development is effective at helping communities overcome rural water and wastewater infrastructure challenges, but additional resources will be needed in the coming years to meet the mounting demand for these programs.

According to a 2009 report by the American Society of Civil Engineers (ASCE), of the nearly 53,000 community water systems, approximately 83 percent serve 3,300 or fewer people. These smaller systems face huge financial, technological, and managerial challenges in meeting a growing number of Federal drinking-water regulations. Overall, ASCE estimates that nearly \$1 trillion in critical drinking water and wastewater investments will be needed over the next 2 decades across the United States. Not meeting the investment needs of the next 20 years, risks reversing public health, environmental and economic gains of the past 3 decades.

While state and local governments, industry and nonprofit organizations are making major contributions to our public infrastructure enhancement efforts, this immense job will never be completed without sustained aggressive leadership, participation and resources of the Federal Government. More than 98 percent of the nation's investment in water infrastructure has been made at the local level, according to the American Water Works Association. Local governments stand ready to be a key partner in economic recovery and are willing to pay our fair share for infrastructure needs, but we will not be able to afford all the needed investments needed without an enhanced Federal partnership.

In addition to the health and social benefits of this long-term and on-going process, infrastructure development is vital to the nation's ability to maintain and sustain a world-class economy. This will be particularly critical as the nation works to expand the renewable fuels industry. The transport of raw and finished products is already placing new and growing demands on our infrastructure and transportation systems.

As proven by USDA Rural Development investments over the years, the role of basic public infrastructure and facilities are at the core of both sustaining existing businesses, nurturing new companies and improving the quality of life in rural counties and communities. The private sector relies, expects and demands that counties and local communities provide and maintain these services and infrastructure. Business and industry will locate wherever these critical facilities exist. Be it here in the United States, or more often, abroad.

As the Subcommittee works to evaluate USDA rural water and wastewater infrastructure programs, we encourage you to help make the application process for new and existing programs more user-friendly and streamlined. Navigating the extensive USDA program portfolio and application process can be a burdensome and time consuming endeavor. This is especially important considering that over 33,000 of the nation's 39,000 units of local government have populations below 3,000 and 11,500 employ no full-time professional employees, according to U.S. Census Bureau data. We support USDA Rural Development's stated goal of implementing a community development component specifically geared toward smaller communities that lack have sufficient capacity. One way to assist localities with limited resources will be to increase USDA field staff's knowledge about community development and ensure that regional development organizations remain eligible to help plan and implement projects similar to those outlined earlier in my testimony.

**Finally, Mr. Chairman, the Administration's proposed Rural Innovation Initiative will make USDA's infrastructure investments more efficient and effective by rewarding regional approaches to rural development.**

The Rural Innovation Initiative is designed to provide a new framework for USDA to promote economic development and job creation in rural communities. To support this regionally-based, locally-driven approach, USDA requested a set-aside in the FY 2011 Budget of more than \$280 million of existing program funds, roughly five percent of the funding from approximately 20 existing USDA programs, including USDA's Water and Waste Program.

The Initiative will allocate funds competitively among innovative regional economic development projects tailored to local needs and opportunities. We encourage Congress to adopt provisions included in the President's FY 2011 Budget request, which will give USDA authority to set aside funding needed to begin this Initiative.

The Initiative's new approach will lead to increased efficiency as rural community capacity is enhanced through greater coordination and leveraging of regional funding. We strongly support the goal of moving rural development towards a commitment to regional rural development strategies designed by local leaders. The Initiative will help address one of the most important but under-funded parts of rural community and economic development-rural development strategies and institutional capacity to implement priorities.

Most rural local governments simply lack the financial resources to hire professional economic development practitioners and few Federal programs are specifically designed for their needs. Our rural regions are lagging behind in economic development, job creation and growth, but not because they lack the assets or willingness needed to strengthen their communities. Whether through the timber, agricultural, natural resources, energy or manufacturing industries, rural regions truly are key drivers of America's economic and national security. What they lack are the resources to successfully leverage those assets into economic growth opportunities for their own citizens.

The Rural Innovation Initiative will provide these regions with resources and a framework to examine their strengths, move beyond current program stovepipes, and develop a structure leveraging those assets to addresses challenges in their local economies. The Initiative also recognizes the value of working regionally. No community will have to "go it alone" but by the same account, no community can thrive alone. In order to benefit from this new Initiative, communities will have to work together to address their common priorities and goals.

Ultimately, the Initiative will provide rural regions with the resources necessary to build their workforce and strengthen their existing community infrastructure, creating prosperous rural communities where people want to live and raise families.

We see examples of the Rural Innovation Initiative being implemented throughout the country. Recognizing that his state's economic development efforts focused on competition for business and jobs among its own cities, towns and regions instead of focusing on how the state as a whole could better compete in the global economy, Governor John Baldacci announced the creation of a new statewide economic development effort: *Mobilize Maine*. The initiative changed the model for rural economic development in Maine by addressing a disconnected, fragmented and, often times, ineffective system to improve the personal income of Maine workers.

Facilitated and coordinated by Maine's six Economic Development Districts (EDDs), *Mobilize Maine* creates a framework to identify and develop strategies addressing Maine's unique assets that have market-leverage in the global economy, but may not have been previously recognized. The plan also sets concrete actions, timelines and benchmarks to utilize those assets to transform Maine's regional economies and business climate. In the long term, *Mobilize Maine* is self sustaining as its strategies for growth are designed to span successive state Administrations and be sustained by local, private, public and nonprofit sector leaders and citizen volunteers.

On a nationwide scale, the Rural Innovation Initiative will provide much needed incentives and resources for the enrichment and implementation of regional rural development strategies. NADO and NACo urge the Subcommittee to support this promising initiative.

**In closing, I commend you for supporting USDA Rural Development programs, especially the vital water and sewer infrastructure programs of the Rural Utilities Service.** The additional funding provided in the Recovery Act is spurring economic development in communities across rural America. I also urge you to support enhanced funding for USDA Rural Development programs in the next farm bill and increased emphasis on regional development strategies through initiatives such as the Rural Innovation Initiative.

Thank you again, Mr. Chairman and Members of the Subcommittee for the opportunity to testify today on the views of NADO, NACo and our members. I welcome any questions.

The CHAIRMAN. Thank you so much. And it is the Chairman's prerogative, Ms. Herseth Sandlin, would you like to introduce our next panelist?

Ms. HERSETH SANDLIN. I appreciate it, Mr. Chairman. Troy Larson, I have known Troy for many years. Both of us were graduates in the 1980's. I won't go any further. That is the same high school in northeastern South Dakota, Groton High School. He has served a Member of our Congressional delegation, Senator Thune, when he was here in the House on the Agriculture Committee, and has been working with the Lewis & Clark Regional Water System for so many years now. We have watched the ground being broken, the pipes being laid, the jobs it has created, and servicing the communities across three states who have become a partner on that effort. The states that they have obligated, the communities that

they have obligated, and the annual challenges and fights we have had regardless of Administration of making sure that the funding is available to move this important project for economic development in southeastern South Dakota and again Minnesota and Iowa as well.

I have been pleased to work with colleagues on this Committee, Mr. Walz of Minnesota, Mr. King of Iowa, working closely with Troy Larson and his board of directors. I am very pleased that you included him in today's hearing. While a project not a part of the RUS authority, a very important project that identifies what you have articulated in terms of the importance of this hearing and the types of water projects that serve communities and in this case three different states. So I appreciate the opportunity to introduce Troy Larson to you, Mr. Chairman, to our Ranking Member, and to my colleagues on the Subcommittee.

The CHAIRMAN. Thank you. Thank you so much. Mr. Larson, you may proceed.

**STATEMENT OF TROY LARSON, EXECUTIVE DIRECTOR, LEWIS & CLARK REGIONAL WATER SYSTEM, SIOUX FALLS, SD**

Mr. LARSON. Congresswoman Herseth Sandlin, thank you very much for that introduction. It is always good to see a Groton Tiger alumnus. Mr. Chairman, Ranking Member Conaway, Members of the Subcommittee, my name is Troy Larson. For the last 7 years, I have served as Executive Director of the Lewis & Clark Regional Water System, and thank you very much for the opportunity to share with you the critical importance of rural water to sustaining and expanding economic development, particularly in rural America. First, some brief background on the Lewis & Clark Regional Water System. Lewis & Clark consists of 20 member-cities and rural water systems in southeastern South Dakota, northwestern Iowa, and southwestern Minnesota. The project represents a unique regional approach involving the Federal Government, three states, and 29 local members to address common water problems, common problems with area water resources in a more effective and cost efficient way than each member could do alone.

Regional water problems include shallow wells and aquifers prone to contamination and drought, compliance with new Federal drinking water standards, population and economic growth stifled due to inadequate water supplies, and insufficient resources to replace aging facilities. When completed, Lewis & Clark will provide a desperately needed reliable source of quality drinking water to over 300,000 people in South Dakota, Iowa, and Minnesota in a service area the size of Connecticut. The source of water will be a series of wells along the banks of the Missouri River. Lewis & Clark was authorized by Congress in 2000 and construction began in earnest in 2004. The project is currently in its 7th year of construction. Roughly half of the construction is completed or under contract.

The system is scheduled to begin operation in 2012, and depending on Federal funding levels all 20 members should be connected some time between 2017 and 2020. Having access to quality, reliable water is critically important to the tri-state region from both a quality of life standpoint and economic development. Water truly

is the backbone of economic development. Talking about water may not be flashy, but it is the first factor considered when it comes to attracting new businesses or industries or expanding existing ones.

Here are a few examples. The JBS Swift pork processing plant in Worthington, Minnesota is one of the largest pork processors in the nation. It is a very important value-added industry. However, it is also very water intensive. For several years, Swift, which currently employs over 2,000 workers, has wanted to expand production. However, their plans are always hindered because the City of Worthington is not able to provide them with additional water. The first question Worthington's economic development director asks when a prospective business reaches out to him is whether they need any water to process their product. If the answer is yes, the director tells them they will unfortunately need to look elsewhere.

In other examples, both Worthington and Lincoln-Pipestone Rural Water System, which is in Chairman Peterson's district, who was here earlier, in southwestern Minnesota have turned away prospective ethanol plants because they do not have enough water. Rock County Rural Water District, also in southwestern Minnesota, has turned down requests to open dairy operations because they do not have enough water. The lost economic value to the farmers and regional economy is immeasurable. A prime example of the positive economic impact water can have in rural areas has happened in Hull, Iowa. In 2008, a cheese factory opened in the small town of Hull, Iowa, a town of just over 2,000 people. This was not a plant that relocated from somewhere else, it is a brand new venture that produces bulk cheese that is delivered to Wisconsin and sold throughout the nation. The plant uses 300,000 gallons of milk a day, which is purchased from dairies in the area.

Without the water Lewis & Clark is providing to Hull in the short-term by buying it from another community and running it through our pipes, as well as the promise of a permanent water source from Lewis & Clark when the System is completed, city officials have indicated there is no way the plant could have located in Hull. The plant, which created approximately 85 jobs when it first opened, has recently expanded its staff and currently employs 90 people. It plans to double its cheese production by early next year, which will increase the number of jobs to around 130. For the economy of this town of just over 2,000 people, as well as the dairy farmers in the area, it is not difficult to see the obvious and direct benefit of reliable water when it comes to rural development. The addition of this cheese plant has been like a direct injection of adrenaline into the system.

When it comes to infrastructure, it cannot get more basic than water. For those trying to plan for and expand access to rural water throughout the nation it is hoped that the Federal Government can appreciate the necessary and regional approach played by water resources, of which Lewis & Clark is an example in terms of both need and a solution. As water becomes more and more scarce in both rural areas and urban areas of our country, a new motto has emerged, water is the new oil. Although it is often taken for granted, water truly is the oil that runs the engine of economic development. To help ensure the sustainability of rural America and remain competitive in the industrial market, access to quality,

reliable water is job number one. Thank you again for the opportunity to reinforce to you the critical importance of rural water to economic development. I welcome any questions you may have.

[The prepared statement of Mr. Larson follows:]

PREPARED STATEMENT OF TROY LARSON, EXECUTIVE DIRECTOR, LEWIS & CLARK  
REGIONAL WATER SYSTEM, SIOUX FALLS, SD

Mr. Chairman, Ranking Member Conaway and Members of the Subcommittee,

My name is Troy Larson. For the last 7 years I have served as Executive Director of the Lewis & Clark Regional Water System. Thank you for the opportunity to share with you the critical importance of rural water to sustaining and expanding economic development, particularly in rural America.

First, some brief background on the Lewis & Clark Regional Water System. Lewis & Clark consists of 20 member-cities and rural water systems in southeastern South Dakota, northwestern Iowa and southwestern Minnesota. The project represents a unique regional approach involving the Federal Government, three states and 20 local members to address common problems with area water resources in a more effective and cost-efficient way than each member could do alone. Regional water problems include shallow wells and aquifers prone to contamination and drought, compliance with new Federal drinking water standards, population and economic growth stifled due to inadequate water supplies, and insufficient resources to replace aging facilities. When completed, Lewis & Clark will provide a desperately needed reliable source of quality drinking water to over 300,000 people in South Dakota, Iowa and Minnesota, in a service area the size of Connecticut. The source of water will be a series of wells along the banks of the Missouri River.

Lewis & Clark was authorized by Congress in 2000 and construction began in earnest in 2004. The project is currently in its seventh year of construction. Roughly half of the construction is completed or under contract. The System is scheduled to begin operating in 2012, and depending on Federal funding levels all 20 members should be connected sometime between 2017 and 2020.

Having access to quality, reliable water is critically important to the tri-state region from both a quality of life and economic development standpoint. Water truly is the backbone of economic development. Talking about water may not be flashy, but it is the first factor considered when it comes to attracting new businesses or industries or expanding existing ones.

Here are a few examples. The JBS Swift Pork Processing plant in Worthington, Minnesota is one of the largest pork processors in the nation. It is a very important value-added industry. However, it is also very water intensive. For several years, Swift, which employs over 2,000 workers, has wanted to expand production. However, their plans are always hindered because the City of Worthington is not able to provide them with additional water. The first question Worthington's economic development director asks when a prospective business reaches out to him is whether they need any water to process their product. If the answer is yes, the director tells them they will unfortunately need to look elsewhere.

In other examples, both Worthington and Lincoln-Pipestone Rural Water System in southwestern Minnesota have turned away prospective ethanol plants because they do not have enough water. Rock County Rural Water District, also in southwestern Minnesota, has turned down requests to open dairy operations because they do not have enough water. The lost economic value to the farmers and regional economy is immeasurable.

A prime example of the positive economic impact water can have in rural areas has happened in Hull, Iowa. In 2008, a cheese factory opened in the small town of Hull, Iowa, a town of just over 2,000 people. This was not a plant that relocated from somewhere else, it is a brand new venture that produces bulk cheese that is delivered to Wisconsin and sold throughout the nation. The plant uses 300,000 gallons of milk a day, which is purchased from dairies in the area.

Without the water Lewis & Clark is providing to Hull in the short-term by buying it from another community and running it through our pipes, as well as the promise of a permanent water source from Lewis & Clark when the System is operational, City officials have indicated there is no way the plant could have located in Hull. The plant, which created approximately 85 jobs when it first opened, has recently expanded its staff and currently employs 90 people. It plans to double its cheese production by early next year, which will increase the number of jobs to around 130. For the economy of this town of just over 2,000 people, as well as the dairy farmers in the area, it is not difficult to see the obvious and direct benefit of reliable water

when it comes to rural development. The addition of this cheese plant has been like a direct injection of adrenaline into the system.

When it comes to infrastructure, it cannot get more basic than water. For those trying to plan for and expand access to rural water throughout the nation it is hoped that the Federal Government can appreciate the necessary and regional role played by water resources, of which Lewis & Clark is an example in terms of both need and a solution.

As water becomes more and more scarce in both rural and urban areas of the country, a new motto has emerged—"water is the new oil." Although it is often taken for granted, water truly is the oil that runs the engine of economic development. To help ensure the sustainability of rural America and remain competitive in the industrial market, access to quality, reliable water is job number one.

Thank you again for the opportunity to reinforce to you the critical importance of rural water to economic development. I welcome any questions you may have.

The CHAIRMAN. Thank you, sir. Mr. Kahl.

**STATEMENT OF PAUL F. KAHL, P.E., DEPUTY DIRECTOR OF  
PUBLIC WORKS, ALLEGANY COUNTY, MARYLAND,  
CUMBERLAND, MD**

Mr. KAHL. Thank you, Chairman McIntyre, Ranking Member Conaway, and Members of the Subcommittee for allowing me to testify today. Based on your previous comments, I feel like I am talking to friends that understand our problem that we have in rural communities, and it is refreshing to hear your comments. I think you foresee a lot of the problems we are facing in rural development. My name is Paul Kahl, and I am the Deputy Director of Public Works for Allegany County, Maryland. It is a small county of 75,000 people, about 2½ hours from here. Similar to many rural areas in the United States, many of our communities have old and inadequate infrastructure with a limited number of people to pay for the improvements.

With the assistance from USDA Rural Development, we have been able to provide drinking water to our communities. Providing safe drinking water to the communities in our area provides probably the most personal satisfaction to me besides my family. We have been able to improve sewage systems, improve the quality of streams by reducing sewer overflows, build a new high school, stimulate economic growth, and plan for new projects. I will provide a brief description of our problems, but first I would like to point out two important facts. For each of the projects we have done with USDA Rural Development money alone is a component of that project. What that means is our community is making a commitment towards that project.

Usually what we see is small communities that are paying little or nothing for water. We are shooting for \$550 to \$600 a year for the average user. The medium household income in Allegany County is around \$35,000 so you see it is a significant part of our income. Second, we have not received funding from one project that is not currently still in use, and I point that out. Earlier, you had talked about future and longevity. When we build a project, it is there to stay, and USDA has worked with us to make sure these projects are viable and sustainable. They do not allow us to build a project that we are not going to be able to provide. We show the rate structure. We are showing that that system will remain forever and the county—what has occurred with us is Allegany Coun-

ty is an older community, and what has occurred, we had a lot of private water companies.

Allegany County goes back to Revolutionary War days. A lot of these communities develop from coal towns, and what happened was they developed a small water system. A lot of these water systems, we still have a couple of them but they are run by private water companies, and when I say a private water company, I mean like a volunteer organization like Little League. What happens is with all the regulations it is impossible for them to keep up with what is going on. They can't provide the proper water. They can't keep up with today's requirements.

So what happens when we take over these water systems, Allegany County takes over these water systems, and we do not go in there and tell the people we are going to take them over. They want us because they are not getting the proper water pressure and water quality. So when these problems are solved, Allegany County takes over these systems, and we have a utilities division that runs water and wastewater in Allegany County, so it is an important point to realize that when we take over these communities with private water companies and/or wells that people have bad water, we are there to stay. Generally, when we solve the water problems we don't have to go back into that community and hopefully we will never have to go back in that community for years to come. And USDA has worked with us to make sure we have enough money to keep that system going. That is a very important component when working with USDA.

We talked earlier about what is more important than providing water, a basic human need, to the public, and it is one of our main goals in Allegany County. Another big problem we are facing is we have sewer systems that were built in the 1960s, and currently we have six of our jurisdictions working around consent orders, and what they require us to do is to solve the problem to prevent the sewer overflows, and, more importantly, what they are doing is they are limiting growth in those areas. Essentially, each consent order allows us 5,000 gallons per day for the next 10 years until we solve the problem.

So what happens if we have development that occurs in that area, we can only pick off a small development. If we had an industry in that area, we cannot build it unless we have the problem solved. I will mention it is not part of USDA—it is USDA but the loan isn't—we did build our first new high school in Allegany County in over 15 years with a loan from USDA. It was a low interest loan that allowed us to afford to be able to do that. We built an industrial park and within 2 months after the industrial park was built, we brought in an industry that hires about 200 or 300 people and we helped to fill the remaining part of that park. We talked about the preliminary planning grants, and they are a very important component because what they allow us to do, the engineers in my department, we run operations. I am Deputy Director of Public Works. We run our transit and water, sewer, roads, bridges, so what we do is 90 percent of our time is spent on operations, so these planning grants allow us to get a consultant to do some of the planning so we can foresee ahead.

I see I am getting short on time here, but I would like to mention, you had mentioned earlier, Mr. Conaway, about the requirements. The requirements didn't change for USDA. They require an environmental assessment, and they also require a preliminary engineering report. It involved a tremendous investment on the time of my staff to get these projects done. We worked a lot of overtime, a lot of evenings. But I would like to thank USDA because I know that they turned around in the same time. We currently have four applications in there, and we have been on the phone with them, I would say, or e-mail probably at least two or three times a week. So I would really like to thank them for all the support. And I know that every day you guys are facing decisions, facing funding problems, but I would like to point out we are solving basic human needs, and I would invite you, being 2½ hours from Washington, to visit our communities and see exactly what your money is doing. Thank you very much.

[The prepared statement of Mr. Kahl follows:]

PREPARED STATEMENT OF PAUL F. KAHL, P.E., DEPUTY DIRECTOR OF PUBLIC WORKS,  
ALLEGANY COUNTY, MARYLAND, CUMBERLAND, MD

Thank you, Chairman McIntyre, Ranking Member Conaway, and Members of the Subcommittee for providing me the opportunity to testify today on USDA Rural Development programs. I shudder to think of the impact on our County, without the assistance we have received from USDA Rural Development. USDA Rural Development has been the most significant funding partner in helping us solve our basic infrastructure problems.

My name is Paul Kahl, and I am the Deputy Director of Public Works for Allegany County, Maryland. Allegany County is a small, rural county in western Maryland with a population of approximately 75,000 people. Similar to many rural areas in the United States, many of our communities have old and inadequate infrastructure, with a limited amount of people to pay for improvements. With assistance from USDA Rural Development, we have been able to:

- Provide safe drinking water.
- Improve sewage systems.
- Improve the quality of streams, by reducing sewer overflows.
- Build a new high school.
- Stimulate economic growth.
- Plan for new projects.

I will provide a brief description of the problems we are attempting to solve with USDA Rural Development assistance, but before I do, I would like to point out two very important facts:

1. For each of our projects for which we have received USDA Rural Development funding, a component of the funding is a USDA loan, and sometimes the funding is all loan. I point this out to show that a substantial commitment is required from our County for every project.
2. Second, we have not received funding for one project from USDA that is not currently still in use.

Allegany County experiences two problem areas regarding drinking water. The first is, many communities are served by private water companies, who provide unfiltered water and experience periods without water. The second area of concern, is in communities that have private wells that are contaminated and/or suffer times without water. Providing adequate, safe drinking water to our citizens has been one of the main priorities of our County and with USDA Rural Development assistance, many of residents are now drinking safe, reliable, water. We continue the task to provide safe drinking water, a fundamental human need, to the remaining problem areas in our County. We will be unable to complete this task without USDA Rural Development assistance.

Most of Allegany County's sewage systems were built in the 1960s, and these aging systems are experiencing large amounts of infiltration and inflow, thereby

causing these systems to overflow into our streams. Allegany County is currently under six (6) Consent Orders that require us to eliminate our sewer overflows, and limit the amount of development in these systems, until the problem is corrected. We are currently working with USDA Rural Development to replace/rehabilitate a number of these areas to eliminate sewer overflows into our streams, and to provide reliable sewer service to our residents.

Recently, through a number funding sources, including USDA Rural Development, Allegany County was able to build the first new high school in our County in fifty years. The project required Allegany County to commit \$10 million in local funding. USDA Rural Development provided a 40 year low interest loan, thereby making the project affordable for us.

With a USDA Rural Development loan, Allegany County was able to construct a new water line to new Industrial Park. Soon after the park was built, we were able bring in a new industry to our County. We hope to fill the remaining areas in the park in the near future.

Another important USDA Rural Development Program that our County has utilized is the Preliminary Planning Grant Program. With funding from this program, we have been able to determine the cost and hurdles we will encounter to solve some of our existing water and sewer problems and to plan for economic development. This program, which utilizes consultant services, allows us to complete planning to solve longer range problems, and allows our staff to concentrate on solving current problems.

Rural Development funding has resulted in the employment of hundreds of construction workers and the facilities constructed have not only served a public need, but also provide permanent employment of dozens of operations personnel in the County.

I can not adequately express my appreciation for the cooperation and hard work that USDA Rural Development personnel provide to Allegany County. Allegany County has a close partnership with them that enables us to work in a very productive manner. I have worked with many organizations, and I considered none equal to USDA Rural Development in their effectiveness. The only improvement that we would request, is for the funding to increase, so Allegany County, along with other rural communities, can continue to solve rural problems.

I know that everyday, you face decisions regarding what funding programs, should be provided by the Federal Government and to one degree or another, every person that appears before you, has legitimate needs. However, I want to take this last opportunity to point out, the programs that USDA Rural Development provides Allegany County and others, are helping us to provide basic human needs. Thank you for the opportunity to testify today and being located only 2½ hours from Washington, we would welcome you to our County anytime to view the positive effects of USDA Rural Development.

The CHAIRMAN. Thank you, sir. Ms. Locklear, thank you for your very direct and specific testimony. Can you talk to us about the approximate length of time it takes to put a water or waste project application together?

Ms. LOCKLEAR. Yes, sir. It takes roughly about 11 months, and I can testify to rural communities having some difficulty in doing that. We have to gather the resources and Pembroke is using the North Carolina Rural Water Association to help build that material, and then we have to come up with the funds to do the engineering assessments. Rural communities usually don't have in-house engineers and we have to assume that cost until it can be refunded later.

The CHAIRMAN. You mentioned the North Carolina Rural Water Association and the technical assistance that it provides in other small community rural water projects. Can you tell us exactly what kind of help they provide in the operation of the system?

Ms. LOCKLEAR. Yes, sir. We recently put together an application in 2009, and we were not able to submit the application without meeting the draft bill provisions, and they assisted us with the working of that and the lending of equipment. That required about \$15,000 of detection equipment that we did not have and was not

budgeted for and would not use on a regular basis, so that allowed us to submit the application and meet the requirements for the application.

The CHAIRMAN. Thank you, ma'am. Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. And, panelists, thank you all for coming to D.C. to visit with us. Ms. Fierros, you mentioned West Odessa, which is west of my hometown of Odessa, Texas, and their water issues, they received a grant or I guess whatever the grant or combination of grant and loans, but that the construction costs that were estimated in the loan processing when they actually bid it out for construction—the construction costs came in at double what they had thought it was going to be. How did that happen and what has been the result?

Ms. FIERROS. Mr. Conaway, I am sorry, but that is actually one of my sister organization's projects with Community Resource Group. It is part of the national RCAP. I don't know that I have the specifics on exactly what caused—

Mr. CONAWAY. Okay. Would you mind for the record asking your sister organization to give us a paper on that as to what happened and why?

Ms. FIERROS. Yes.

Mr. CONAWAY. And how they are struggling to make that work out if it has, but thank you very much. Mr. Norton, how many communities in your organization have applications pending and how long have they been pending, any sense of that?

Mr. NORTON. Well, we collected for the American Recovery and Reinvestment Act about 14 various projects that we considered that were shovel-ready projects that we collected. This project and the one I mentioned, the Ozark Mountain Regional Public Water Authority, was of course the largest. It collected 20 different water associations together so it was the biggest one by far.

Mr. CONAWAY. But applications still pending, any sense of applications that are still pending at USDA?

Mr. NORTON. We have some that are still pending, yes.

Mr. CONAWAY. How many of those? Any sense of how many?

Mr. NORTON. About a half dozen.

Mr. CONAWAY. And how long have they been pending?

Mr. NORTON. Just 4 or 5 years probably in this particular case. Trying to get, as I think everyone on this panel has mentioned, trying to get the engineering reports where small rural communities can't afford, to get those engineering reports to a position where those projects are ready to go is a real stumbling block for all of us.

Mr. CONAWAY. All right. Mr. Larson, the regional program that you put in place, where is the crossover in your analysis between where it makes sense to continue to regionalize like that *versus* Iowa building its own facility and being able to afford that? Is there an economic crossover where that happens?

Mr. LARSON. That is a good question. When each member joined Lewis & Clark, they had to analyze both economically and politically, and other considerations, what was the best way for them to address their water needs. Each community has their own tipping point. For Hull, the wells needed to be capped. The water was so poor they really had no other choice but to look elsewhere. And so

each member has essentially analyzed on their own what is the most economic way to pursue this to address their water needs. In the 20 members case, they chose Lewis & Clark as their cheapest and most efficient way to address their water needs.

Mr. CONAWAY. Where is your source water for Lewis & Clark?

Mr. LARSON. It is the Missouri River, a series of wells. We don't actually pull out of the Missouri River directly but a series of wells adjacent to the Missouri River.

Mr. CONAWAY. And were these wells contributed by the members or how—somebody had rights to that water. How did you get—

Mr. LARSON. The water rights are through the State of South Dakota. It actually goes back to the Oglala—the Pick-Sloan irrigation project way back in the 1950s that irrigation was supposed to be the result of damming the Missouri River. Irrigation never really happened and so rural water is the spin-off of the Pick-Sloan project.

Mr. CONAWAY. Thank you. Mr. Kahl, you mentioned thanking us for the money that we spend. Actually it is the taxpayers' money that we need to come to your community and see how it is being spent well. Those of us on this panel anyway, we never forget that it is not our money. It is the taxpayers' money, and so thank you for that comment and the invitation. With that, Mr. Chairman, I yield back.

Mr. KAHL. I can assure you when we do our projects, we are very cognizant of that fact and we make sure that taxpayers monies are put to good use.

The CHAIRMAN. Thank you. Mr. Minnick.

Mr. MINNICK. I come from the rural State of Idaho and it is full of communities like yours. I apologize for the quality of my voice, Mr. Chairman. The bulk of their water projects are as a result of EPA requirements which are by any objective analysis very marginal and extreme, but nevertheless these small communities have to come up with very large amounts of money in order to—if they don't have tax base in order to come up with projects to meet these EPA standards. I am going to have a panel of community leaders like you from these communities who have projects pending mostly for RUS funding that we will be talking to the EPA about.

I want to ask each of you, what would be the one single thing in the RUS' approval process that would make it easier or cheaper and faster for you to get through their process to come up with projects which would help meet EPA or other third party water quality standards. What one thing could the RUS change that would most help you get through the kind of process my communities are having to go through as we speak? Maybe, to start with—maybe a few seconds from each of our five panelists.

Ms. LOCKLEAR. Sir, I would say time. We do want to protect the water and the environment, so if we had time to get the plan in, this is our plan, we are going to need a little bit more time to budget these monies if they were not included. So, time would be a great effort as I have heard earlier as long as we have the plan in place to meet those regulations because they all come with some type of money attached with them whether it be a staff or analysis or assessments. They all do come with some funding requirements.

Mr. MINNICK. Thank you.

Ms. FIERROS. I guess the one thing that would make it easier is if they all—if USDA had the regulations in place to streamline the funding process. A lot of the communities that we work with in the upper Midwest, they have a tendency to have to go to two or three different places to put the funding package together that makes it affordable. They all have different requirements. Some forms don't transfer over to the other ones, those kind of things. If it was just one application process, it would help tremendously.

Mr. MINNICK. Mr. Norton.

Mr. NORTON. I think the Rural Innovation Initiative would help because it would allow us to plan ahead of time and develop and get some of it out of the way. The more you can get done prior to the project being awarded the less time it restricts and takes away from the development of the project.

Mr. MINNICK. Mr. Larson.

Mr. LARSON. Mr. Congressman, we are a little different animal in that our funding is through the Bureau of Reclamation, and so we do not utilize the loan programs through Rural Development, so I cannot speak to that question.

Mr. MINNICK. Mr. Kahl.

Mr. KAHL. One of the biggest things, Mr. Thompson has mentioned, I think the process works very well and they work very—the best agency we work with bar none is state or Federal agency. Mr. Thompson mentioned that EPA may be working with Rural Utilities Service. Our biggest problem right now is sewer overflows, and we are given deadlines that we can't possibly meet. We have two jurisdictions with 1,000 people, sanitary districts, each of them with 1,000 people, and the estimate to repair the problem is \$30 million so you do the math. So you do the math, 1,000 people, 1,000 users for \$30 million, so if EPA would work with Rural Utilities Service and try to extend our deadlines, we most certainly will invest and we will try to protect the environment, but it is just too much too quick. But Rural Utilities Service, Rural Development is a great agency to work with, and the process seemed to work pretty well for us.

Mr. MINNICK. Thank you. I yield back.

The CHAIRMAN. Thank you, Mr. Minnick. Clarification, Mr. Kahl, you said sewer overflows?

Mr. KAHL. Yes, sanitary sewer overflows are the biggest—I know Baltimore City has a problem and the City of Cumberland has a problem in our jurisdiction.

The CHAIRMAN. Okay. I just wanted to understand the word sewer.

Mr. KAHL. Yes, it is sanitary sewer. What happens is when we get a lot of rain we put sewage into streams.

The CHAIRMAN. Okay. Thank you for clarifying. Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman. I also want to encourage my really good friend from Idaho to go see a doctor before the Senate finishes their work on this health care bill. We need you on this Committee. Actually if we can just stick with that theme a little bit and ask all the panel, those who kind of reflected on the need for extensions, which is kind of what I have in mind. I mean I would like to see repeal on some of these mandates, the unfunded ones, but let us just make it realistic and say extensions, more time

to be able to cope and adjust. What specific current regs do you see that you need extensions for that would be helpful for—I made a list. I have sanitary overflows starting that list out. Are there other specific—I just open that up to any of the panel that has input.

Ms. LOCKLEAR. There is also leakages. Trying to find those leakages requires water audits to be done. You also have to change out water meters and specifically the wastewater treatment plant is a user because we do clean the water up, but we do need fresh water to do analysis or clean water. So we have to put in vaults and meters, huge meters that cost like \$3,000 not including the contractor, and the vault itself, so those type issues.

Mr. THOMPSON. That is very helpful. Any other ones from any other panel member that you have identified that if we could achieve an extension somehow?

Mr. KAHL. Again, I go back to my original concern. What happens is we are spending probably millions of dollars to solve the sanitary sewer. It is a big issue with us because we have three or four communities that are not drinking safe drinking water. They are drinking unfiltered drinking water that basically comes straight from the reservoir into their systems without any filter or anything. Basically they just get some chlorine. And we have to spend millions of dollars trying to solve some sanitary overflows that are going to the streams that we don't consider as significant and we need to solve them, but we would most certainly like to solve our water problems first and then go to that next step.

Mr. THOMPSON. And the order of priorities, obviously there is—

Mr. KAHL. Absolutely. What happens is sanitary overflow bad and most certainly they are, but we consider it a priority to serve drinking water to our public before we solve these other problems.

Mr. THOMPSON. I appreciate you having that perspective on it. Any others before I move on to another question?

Ms. LOCKLEAR. Mr. Thompson, I have one other comment. Just in the month of February due to the snow and the rainfall, we exceeded permitted flows, not exceeding any other thing other than permits, other pollutant parameters, and you do get fined for those type of things even though the pollutants are not significant. If the pollutants were not even there it is just overflow due to dilution, but they still see that as over the permitted limit. Things like that would be helpful if there was no monetary fines associated with those type things, along with the sanitary sewer overflows.

Mr. THOMPSON. Okay. Thank you. Mr. Kahl, you highlighted development of a business park and what it means to your county. With economic development from the industrial park you mentioned in your statement how much additional residential load did that development bring to the systems that you built? I am assuming this is a situation where you build it and they will come.

Mr. KAHL. What occurred was we actually knew we were building an industrial park so one of the industries said to get the industrial park we were on a tight time limit. We will come into it. It was a wood cabinet business, and they came in right away. Soon thereafter, a developer bought approximately 200 acres across from the industrial park because we had the water capacity. They have developed, both water and sewer and roads. They have only sold a couple lots. Unfortunately the economy in the last—this occurred

2 years ago, so they have sold some lots, and we think it will rebound soon but the economy has kind of slowed things down. But you are absolutely right. Every place that we have put a water line and sewer line, we provided that service in our county, and in most cases, a very high percentage, we got development soon thereafter.

Mr. THOMPSON. And just to follow up, in your view then how should communities manage future ratcheting up of demand for services?

Mr. KAHL. I am not sure I understand.

Mr. THOMPSON. In terms of demand for that type of growth of preparing for the water infrastructure to having the infrastructure in place to meet those demands for new development.

Mr. KAHL. Unfortunately, that is not a problem—I haven't had to deal with that problem. Our county has 75,000 people. We used to have over 100,000 people, so what has happened is we haven't had to deal with that problem. Unlike Maryland, Montgomery County, Howard County, Anne Arundel County, they have to deal with that problem you are talking about. We have not had to deal with that problem. We welcome development into our areas that we have water and sewer right now.

Mr. THOMPSON. Okay. I just want to thank the panel for all of your input today. And I am out of time. Thanks, Mr. Chairman.

The CHAIRMAN. Thank you. One additional question. Ms. Locklear, if you can tell us how you came to work in the water and wastewater industry. As we know, there is an expected shortfall in staffing levels, and it is often hard to be able to attract younger folks to come into this type of career or position. How do you think we can attract a young, diverse workforce to the water and wastewater industry?

Ms. LOCKLEAR. Yes, sir. I came to Pembroke in its expansion as their chemist, their certified laboratory chemist, so that is how I entered in. And most of our staff or 50 percent of our staff either have 30 years in, 37 years in, and they can actually retire at any time, so we are trying to get their knowledge; either it is mapping the water and sewer lines and all those problems associated with infrastructure through new people. We don't have the money as some facilities do that are paying for engineers to kind of bridge that gap, and we are using rural water to help us to do that.

The CHAIRMAN. Thank you. Any other questions from the panelists? If not, I would like to thank all of you for your attendance today at this important hearing. Under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any question posed by a Member. This hearing of the Subcommittee on Rural Development, Biotechnology, Specialty Crops, and Foreign Agriculture is now adjourned. God bless you. Thank you, and I hope you travel safely.

[Whereupon, at 11:47 a.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUPPLEMENTARY MATERIAL SUBMITTED BY THE U.S. DEPARTMENT OF AGRICULTURE

**Insert 1**

Mr. THOMPSON. I am glad to hear that you do communicate with folks like EPA and any other agency that has oversight of those. Do they ever listen to what you have to say? Do they ever—is there any hope, that is what I am saying, I guess.

Rural Development does discuss the impact of regulatory action on rural water systems with its counterparts in EPA. Rural Development also works with other agencies on a project-specific basis to address environmental concerns and try to find resolutions that allow critical infrastructure projects to be constructed and the environment protected.

**Insert 2**

Mr. CASSIDY. And, again, going back to my small communities with the limited—they don't have engineers on staff, for example, so I kept on thinking that shovel-ready project criteria for the community which is most poverty-ridden is almost an oxymoron. They don't have the money to come up with the project, and yet they are the ones who need it the most, *et cetera, et cetera, et cetera*. Do you follow what I am saying?

Communities who lack the capacity to complete engineering and environmental components of RUS applications can get assistance in several ways. First, communities may seek assistance from RUS-funded Circuit Riders and technical assistance providers. These resources are available across the country and can be located by contacting the local Rural Development Office. In addition, the RUS Water and Waste Loan and Grant Program does have limited grant funding available for planning activities, such as preparation of engineering and environmental reports. The pre-planning grants are limited to \$25,000 and can only be used to fund up to 75% of the proposed cost of the eligible activities. For more information, communities should contact their local Rural Development Office ([www.rurdev.usda.gov](http://www.rurdev.usda.gov)) Finally, other funders, such as the Community Development Block Grant (CDBG) program, Economic Development Agency (EDA) and state governments may have funds available to rural communities for these activities.

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SUBMITTED QUESTIONS

**Response from Hon. Jonathan Adelstein, Administrator, Rural Utilities Service, U.S. Department of Agriculture**

*Question Submitted by Hon. David P. Roe, a Representative in Congress from Tennessee*

*Question 1.* Mr. Adelstein, can you describe the loan protection afforded Rural Development under 7 U.S.C. § 1926(b)?

*Answer.* Seven U.S.C. § 1926(b) safeguards a loan secured through the Rural Utilities Service to an eligible rural water system by protecting the rural water system from the expansion of nearby cities and towns during the term of such loan. This protection ensures the viability and financial security of rural water systems by encouraging rural water development, expanding the number of potential users of such systems, and, in so doing, decreasing the per-user cost.

*Question 1a.* If 7 U.S.C. § 1926(b) is amended to allow municipalities to serve customers inside a rural utility district's area during the term of a loan secured through USDA, what affect might this have on the district's ability to repay the loan and what impact might it have on USDA's ability to lend in the future?

*Answer.* In areas where a borrower is currently providing service, a change in 1926(b) that would allow municipalities to serve customers inside a rural utility district's area could lead to a loss of revenue, depending on the number of users lost, and impact that borrower's ability to repay its debt to USDA and operate in the long-term. It could also lead to increased risk of default and potentially impact the program's subsidy rate and program level, potentially reducing USDA's ability to provide assistance in the future to many rural communities.

*Question Submitted by Hon. Bill Cassidy, a Representative in Congress from Louisiana*

*Question.* Mr. Adelstein, you mentioned in your testimony that ten technical assistance grants worth \$20 million has been awarded to assist communities plan and apply for funding for water and wastewater systems. Can you provide for the Sub-

committee how many applications were made under those technical assistance grants, and how many of those applications were ultimately funded for construction?

*Answer.* Technical Assistance and Training (TAT) Grants are awarded to private, nonprofit organizations to assist rural communities in identifying and evaluating solutions to water and waste disposal problems in rural areas, preparing applications for water and waste loans and grants and improving operation and maintenance of existing water and waste disposal facilities in rural areas. These are 1 year grants. In FY 2009, the program awarded a total of \$19.5 million in TAT grants to ten entities. The grants were issued for a variety of purposes. A full listing of grantees and the grant purposes is attached to this response. Although the grants can be used for the purpose of assisting with application preparation, the grants issued in 2009 were for other purposes.

The agency did award Recovery Act funds, separate from the TAT grants funded with regular appropriated funds, for the purpose of assisting applicants with application preparation and reporting compliance under the Recovery Act. In 2009, \$4.1 million in Recovery Act funds were obligated toward the Water and Waste Circuit Rider contract. In 2010, \$10.2 million was obligated to this contract. Information on the number of applications submitted and funded as a result of assistance provided by circuit riders funded through the Recovery Act is currently being compiled and will be available in May.

In March 2010, \$5 million in Recovery Act funds were awarded to Rural Community Assistance Partnership, LLS in the form of a TAT grant to provide additional assistance to rural communities on applying for and complying with the Recovery Act funding. As the grant was recently awarded, no information is available at this time on the number of applications resulting from the assistance.

#### **FY 2009 Technical Assistance and Training Grant Recipients**

##### ***Alaska Forum Inc. (AK)***

*\$175,000*

Alaska Forum Inc. will provide targeted technical assistance to reduce health risks in communities of extreme need; provide small equipment and supplies for Villages to implement solid waste best management practices; provide collaborative opportunities among solid waste providers; and participate in statewide environmental conferences.

##### ***Missouri InuTech Foundation (MO)***

*\$80,000*

The proposed project is to provide technical assistance and training to improve management, operation and maintenance of water and waste facilities. The project will also provide technical assistance and training to reduce the solid waste stream through reduction, recycling and reuse.

##### ***National Rural Water Association (OK)***

*\$9,100,000*

National Rural Water Association will provide training and on-site technical assistance to wastewater systems in the contiguous 48 states, Alaska, Puerto Rico, and Hawaii. The training provided will help to reduce exposure to waste related health and safety hazards and enhance the sustainability of wastewater systems in rural and small communities.

##### ***National Tribal Environmental Council (NM)***

*\$850,000*

NTEC will enhance and expand the drinking water technical assistance and training program designed to assist tribes in the safe and effective operation and maintenance of their community drinking water systems.

##### ***Native American Water Association (NV)***

*\$280,000*

Native American Water Association will: (1) develop and deliver instructional training course workshops to Tribal Drinking water and wastewater systems; (2) build a Tribal Water and Wastewater systems network group coalition; and (3) provide on-site Tribal Water and Wastewater training program follow-up activities.

**Rural Community Assistance Partnership (D.C.)***\$7,000,000*

RCAP will continue to address the growing infrastructure needs and federally mandated security requirements for rural communities. The combination of these factors has resulted in a greater demand for vulnerability assessments (VAs) and emergency response plans (ERPs) for Rural Utility borrowers. The proposed Technitrain project will provide on-site technical assistance and community specific training to address water and waste disposal issues in eligible, rural areas in 48 to 50 states and Puerto Rico during the 12 month period from September 1, 2009, through August 31, 2010. A total of approximately 800 communities or projects will be served under Technitrain. Within the number of projects proposed, RCAP will also continue to provide technical assistance to Native American communities.

**Syracuse University (NY)***\$190,000*

Syracuse University will facilitate partnerships and collaborations among the technical assistance community; provide public outreach and education for projects that lead to environmental improvements; and provide training to local government officials, operators, engineers, and technical assistance providers.

**Tanana Chiefs Conference (AK)***\$150,000*

Tanana Chiefs Conference will provide technical assistance and training project aimed at developing the capacity of villages in interior Alaska and rural communities throughout Alaska to operate and maintain village water treatment and wastewater disposal facilities.

**West Virginia University—NDWC (WV)***\$1,207,828*

West Virginia University will continue the National Drinking Water Clearing-house program. The program provides quality information for regulatory compliance; information for sustainable water services; and information for improving small system security and emergency response plans.

*Question Submitted by Hon. Henry Cuellar, a Representative in Congress from Texas*

*Question 1.* Mr. Adelstein, in your testimony, you mention the Colonia project in Yuma, Arizona, and your experience partnering with five different agencies and organizations to make the project possible. However, a recent GAO report on rural water infrastructure in this region concludes that a lack of coordination between agencies is a reason why border regions suffer from lack of access to clean water. Do you agree with this assessment?

*Answer.* No. Border regions suffer from lack of access to clean water because of the development patterns that have occurred along the U.S. and Mexico border.

*Question 2.* Could you elaborate on some of your work in Colonias along the U.S.-Mexico border, and what steps you might be taking to improve our service to these areas?

*Answer.* USDA obligated \$23,383,934 in grants in Fiscal Year 2008 and \$24,246,968 in grants in Fiscal Year 2009 to eligible entities proposing to provide water or waste disposal services to the residents of rural subdivisions in the region along the U.S. and Mexico border. Steps to improve service in the border region being explored by USDA include technical assistance and training, outreach, and collaboration with local governments. USDA is deeply committed to addressing the urgent water needs of Colonias.

*Question 3.* Some Members have introduced a bill to implement GAO's recommendations by creating a Southwest Border Region Water Task Force, which would involve USDA. What are your thoughts on this legislation?

*Answer.* The legislation addresses an important issue to the Members who have introduced the proposed bill and represent districts that are located along the U.S. and Mexico border. It signals to us the priority its sponsors place on addressing the pressing needs in the Colonias region.

**Response from Rhonda Locklear, Water and Wastewater Director, Town of  
Pembroke, North Carolina, Pembroke, NC; on behalf of National Rural  
Water Association**

*Question Submitted by Hon. David P. Roe, a Representative in Congress from Tennessee*

*Question.* Ms. Locklear, in your view what would be the effect of amending 7 U.S.C. § 1926(b) to allow municipalities the ability to serve customers inside a rural utility district, and what impact might that have on the utility district's ability to fulfill its obligations?

*Answer.* I have never had any experience with 7 U.S.C. § 1926(b) in my current position as the Water and Wastewater Director for the Town of Pembroke and I don't feel I can adequately answer the question. As a member of the North Carolina Rural Water Association which is a member of the National Rural Water Association, I have asked for their position on this matter which is as follows:

To ensure that small and rural communities would be able to repay loans, Congress included a provision [7 U.S.C. § 1926(b)] in the Consolidated Farm and Rural Development Act. The purpose of 7 U.S.C. § 1926(b) is to protect the integrity of the federal government's outstanding loans by preventing any portion of a water system to be "forcibly" annexed or "cherry picked" by another system or municipality. Such annexation would result in the remaining customers being solely responsible for repayment of the loan, with fewer customers to share the burden—resulting in a higher cost (hardship) per customer and greater risk of default. This dilemma is of special concern because USDA loans are only made available to low and moderate-income rural communities based on household per capita income that cannot obtain commercial credit. It is also important to remember that USDA provides both loan and grant to systems based on their financial situation and proposed rate structure at the time the application is processed. Any loss of projected revenue caused by loss of territory jeopardizes this carefully constructed financial arrangement. The 7 U.S.C. § 1926(b) provision is an essential stabilizing element and is one of the reasons that the program works so well. It assures loan repayment, it protects the results of the hard work of rural communities in creating and operating rural systems, and it protects the national priority of providing safe drinking water to all of rural America—especially in our most economically vulnerable areas. These rural water systems provide service to areas when others will not and assume the risk associated with servicing the debt and maintaining the system. To allow others to then take customers from the most desirable portions of the system provides a disincentive for rural systems to continue to reach out to the most unserved areas. The USDA program respects all state planning laws. Every rural water system plan is filed with the state authority and every USDA rural water system is prohibited from unilaterally crossing any state's political subdivisions. Rural water systems were initially built in the outlying rural areas that no public system wanted to serve. When municipalities and large private water systems attempt to lay water lines parallel or lay lines in an area already served by the USDA water system there is always a discussion on who should serve the area. At stake is the alignment of the most profitable area of the USDA system—that is generally why the larger system now wants to take over after many years of sustained disinterest. 7 U.S.C. § 1926(b) requires the predatory system to work out an arrangement of mutual interest to both water systems as well as for the customers. The alternative would be to allow larger systems to unilaterally move into the low cost/high revenue portion of the USDA system and jeopardize the viability and future growth of the rural system.

**7 U.S.C. § 1926(b) Should Be the Solution of Last Resort**

Most systems are working constructively and cooperatively to resolve local conflicts. Some states have legislation requiring equitable payment agreements and methods of determining the actual value of annexed populations. Numerous neighboring water systems have worked out "good neighbor" relationships through cooperative agreement that provide the highest quality of service to all customers. Rural water systems should only utilize 7 U.S.C. § 1926(b) in extreme cases where expanding systems attempt to unilaterally, without discussion, acquire service areas. Often old political disagreements and local rivalries fuel these arguments. 7 U.S.C. § 1926(b) has allowed these disagreements to be resolved.

**Court History**

In the mid-1980's the City of Madison, Mississippi tried to acquire land and facilities from Bear Creek Water Association (rural water utility) through eminent domain proceedings (condemnation). Bear Creek counter-sued to restrain Madison. The Court in *City of Madison, Miss v. Bear Creek Water Assn, Inc.*, 816 F.2d 1057

(5th. Cir.1987) created the “bright line rule” that “prohibits condemnation through the FmHA loan term”. Madison had hoped to defeat 1926(b) protection. The Court responded: “To read a loophole into this absolute prohibition, as Madison would have us do, and allow the city to do via condemnation what is forbidden by other means would render nugatory the clear purpose of 1926(b)”. The 5th Circuit showed great insight into the underlying purpose in Madison’s attempt to gain territory, facilities, and money from customers. The Court of Appeals stated:

“The case at bar exemplifies the evil Congress wished to avoid. Bear Creek’s affidavits showed that Madison desired to condemn 60% of its facilities and 40% of its customers, including the most densely populated (and thus most profitable) territory now served by Bear Creek. Even if fair value is paid for the lost facilities, such an action would inevitably have an adverse effect on the remaining customers of Bear Creek, in the form of lost economies of scale and resulting higher per-user costs. To allow expanding municipalities to ‘skim the cream’ by annexing and condemning those parts of a water association with the highest population density (and thus the lowest per-user cost) would undermine Congress’s purpose of facilitating inexpensive water supplies for farmers and other rural residents and protecting those associations’ ability to repay their FmHA debts.”

In the 1996 decision of *North Alamo Water Supply Corporation v. City of San Juan, Texas*, 90 F.3d 910, (5th Cir.1996), the Court held “the service area of a federally indebted water association is sacrosanct”—“the law gives the Utility (water district) the exclusive right to provide water service to and within the disputed areas.” The court ordered the facilities constructed inside the water district’s territory surrendered to the water district for the reasons stated by the Court: “The infrastructures are indispensable to providing water service to the residents of the subdivision now that the development is complete. Thus, unless the infrastructures are transferred, the Utility (water district) would not be able to provide efficient and economical water service, and the rights of the Utility that are validated here would be useless.”

In conclusion, the North Carolina Rural Water Association as a member of the National Rural Water Association supports the existing 1926(b) protection and believes changes to repeal or weaken this provision will create higher utility fees, reduce a rural district’s ability to serve more remote and lower-income individuals and jeopardize the district’s ability to operate and debt service USDA loans.

