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Resources, Community, and
Economic Development Division

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June 6, 1994

The Honorable Dale L. Bumpers
Chairman
The Honorable Thad Cochran
Ranking Minority Member
Subcommittee on Agriculture, Rural
Development and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Richard J. Durbin
Chairman
The Honorable Joe Skeen
Ranking Minority Member
Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
House of Representatives

In the Conference Report for the fiscal year 1994 U.S. Department of Agriculture (USDA) appropriations act, we were asked to review USDA's Water and Waste Disposal Grant Program. The program, administered by USDA's Rural Development Administration (RDA), provides funds to rural areas for constructing or modifying water and waste disposal systems. This correspondence provides information on (1) how different areas of the country benefit from the program; (2) what the program's matching requirements entail, as far as the portion of project funding that the applicant must provide; and (3) how the program has been implemented for the Colonias¹ and rural Alaskan villages.

¹Colonias are rural, unincorporated subdivisions that are generally (1) located along the U.S.-Mexican border in Texas, New Mexico, Arizona, and California and (2) which have one or more of the following characteristics: substandard housing, inadequate roads and drainage, and substandard or no water and sewer facilities.

In summary, we found that:

- Most states have benefited from the program--all but one have used at least some of the water and waste disposal grants that RDA allocated to them between fiscal years 1992 and 1994. Some states used the program more actively than others.
- Under federal authorizing legislation, RDA grants generally may not exceed 75 percent of a water or waste disposal project's development costs; rural communities must fund the remaining costs using local funds or funds from other federal or state programs. However, RDA may fund up to 100 percent of eligible costs for projects in communities whose residents face significant health risks, including the Colonias. In contrast, fiscal year 1994 appropriations restricted certain grants targeted for rural Alaskan villages to 50 percent of a project's cost.
- As of April 30, 1994, RDA has obligated about \$25 million of the \$50 million in appropriated water and waste disposal grant funds that the Congress specifically targeted for the Colonias for fiscal years 1993 and 1994. These funds were allocated among 10 projects. In addition, RDA anticipates that it will soon begin obligating portions of the \$15 million fiscal year 1994 grant funds targeted for rural Alaskan villages.

BACKGROUND

RDA's Water and Waste Disposal (WWD) Division administers both loan and grant programs to assist rural communities with populations of 10,000 or fewer in solving water and waste disposal problems. In general, RDA offers loans as the primary means of funding water and waste disposal system proposals. However, if a community cannot absorb the costs of a loan, RDA will use grants to the extent needed. To determine the appropriate funding combination, RDA examines the impact that the use of a loan or grant would have on a community's utility rates and charges. RDA tries to ensure that the funding option chosen does not raise average utility rates beyond a resident's ability to pay nor reduce them so low as to constitute an undue "subsidy."

To fund the grant portion of the WWD program, the Congress appropriated \$375 million, \$425 million, and \$500 million for fiscal years 1992, 1993, and 1994, respectively. Funds

are distributed to communities through the Farmers Home Administration's (FmHA) state offices,² which are also responsible for reviewing and approving proposed projects. State offices receive an annual allocation that is based on a formula that considers three factors: the state's (1) percentage of the nation's rural population, (2) percentage of rural population with incomes below the poverty level, and (3) level of nonmetropolitan population that is unemployed. While each state office initially receives its full allocation of grant funds, RDA withdraws funds that are not obligated by a specific date each year. These funds are then "pooled" with reserve funds and made available to states that have depleted their allocations.³ Some states are, therefore, able to receive funds beyond their initial allocations, while others lose part of their allocations.

MOST STATES BENEFITED FROM THE GRANT PROGRAM

During the last 2-1/2 fiscal years, almost all states benefited from the Water and Waste Disposal Grant Program. All states, except Hawaii, used a portion of their program allocation. However, program use has varied among the states, with some using considerably more than their initial allocation and others less. Specifically, 21 states received grants exceeding their initial allocation in fiscal years 1992 and 1993, while 5 received less. In some cases, variations from initial allocations were substantial. For example, in fiscal year 1993, Arkansas received more than 4 times its initial allocation, while Rhode Island received less than 70 percent of its allocation. Enclosures I and II provide data on the dollar amounts each state used and the percentage of the initial allocations each state used, respectively.

RDA officials attributed the differences in state use to a number of factors, including (1) the availability of state-funded loan programs offering more attractive interest rates and less complicated application procedures, (2) variations in the extent to which USDA field staff

²FmHA personnel administer the program at the local level because RDA has no field offices.

³RDA reserves 10 percent from each year's WWD loan and grant appropriations for flexibility in meeting situations of unexpected or justifiable need occurring during the fiscal year. States are allocated reserve funds on the basis of these needs.

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"promote" the programs in different states, and (3) the need and/or demand for grant funds.

MATCHING FUND REQUIREMENTS

Federal authorizing legislation generally allows RDA to provide grants up to 75 percent of a project's development cost; the applicant is required to contribute the remaining costs from locally raised funds or from other federal or state programs. According to program officials, most applicants have had little difficulty in meeting the matching fund requirement. According to these officials, RDA can, and often does, provide loans as part of, or all of, the local share. Furthermore, according to the officials, most projects do not receive the full 75-percent grant funding permitted. The officials noted that for fiscal year 1992, the average grant represented about 42 percent of total project costs, while in fiscal year 1993 the grant represented about 45 percent of such costs.

Other matching fund requirements apply to certain grants. For example, under authorizing legislation governing grants for water and waste disposal facilities and services to low-income rural communities--including the Colonias--RDA has discretion to fund up to 100 percent of eligible project costs. Conversely, language in fiscal year 1994 appropriations limited RDA grants to rural Alaskan villages to 50 percent of the development cost of each project.

RDA ACTIONS FOR COLONIAS AND RURAL ALASKAN VILLAGES

In recent years, the Congress has targeted rural communities in the Colonias and rural Alaskan villages for additional water and waste disposal grant funds. In particular, the Congress required that from its regular appropriations, RDA set aside \$25 million in each of fiscal years 1993 and 1994 for the Colonias and \$15 million of fiscal year 1994 funds for rural Alaskan villages. Furthermore, in its fiscal year 1995 budget request, RDA included \$25 million in grant funds for the Colonias.

RDA had obligated about \$24.5 million of the \$50 million appropriated for the Colonias, as of April 30, 1994. Of this amount, almost \$20.3 million was obligated for projects in Texas and about \$4.2 million for projects in New Mexico; no funds had as yet been obligated for Arizona or California. In total, these funds were allocated among 10 different projects. As of the same date, RDA had received 26 Colonias-related applications totaling almost

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\$35 million for which funds have not yet been obligated. There are 7 projects in Texas, 16 in New Mexico, 2 in California, and 1 in Arizona.

Most of the grants provided to the Colonias were used for constructing water and waste disposal systems. However, in fiscal year 1993, RDA transferred \$2 million of its program funds to FmHA's low-income housing improvement program. This transfer provided Colonias residents with funds to install plumbing in individual homes. These home improvements were needed to utilize newly constructed water and waste disposal systems. RDA transferred \$4 million to FmHA for the same purpose during fiscal year 1994. Enclosure III provides more details on the projects funded in the Colonias.

With respect to rural Alaskan villages, RDA has not yet obligated any of the targeted funds. However, according to agency officials, RDA is working closely with the Alaska State government to identify those rural villages that can make the most effective use of grant funds. At the time of our review, the agency was reviewing a list of potential projects; about \$1 million had been transferred to FmHA's state office in Alaska for a project that was close to approval, as of April 30, 1994. Program officials expect that most projects will use the full 50-percent WWD grant funding permitted, with the remaining matching funds generally coming from grants made by the Alaskan State government.

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In obtaining this information, we interviewed the Director and Chief, Program Development Branch, Water and Waste Disposal Division, and spoke with USDA officials in Texas, New Mexico, and Alaska. We also spoke with an Alaska government official, who is working with RDA to identify target rural villages for grant funding. We did not independently verify the financial data USDA provided to us. In addition, we reviewed several studies and reports relating to water and waste water issues. We conducted our review in April and May 1994.

We discussed the information in this correspondence with the Director and Branch Chief of RDA's Water and Waste Disposal Division, and they generally agreed with the facts presented in this correspondence, and we have incorporated their comments where necessary.

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Please contact me at (202) 512-5138, or Bob Robinson, Associate Director, at (202) 512-9894, if you or your staff have any further questions about the information in this correspondence.

for Robert C. Harman
John W. Harman
Director, Food and
Agriculture Issues

WWD GRANT FUNDING OBLIGATED BY THE STATESFOR FISCAL YEARS 1992 THROUGH 1994

Dollars in thousands

State	Fiscal year 1992	Fiscal year 1993	Fiscal year 1994
Alabama	\$ 8,756	\$ 9,463	\$ 9,801
Alaska	1,900	4,000	0
Arizona	4,023	2,870	559
Arkansas	8,059	29,308	8,657
California	9,863	8,209	4,153
Colorado	2,915	3,405	2,390
Connecticut	3,408	2,691	2,731
Delaware	642	2,530	1,338
Florida	8,173	8,007	9,629
Georgia	9,672	12,026	10,973
Hawaii	0	0	0
Idaho	1,603	2,635	2,409
Illinois	9,035	10,758	8,339
Indiana	8,527	9,062	7,353
Iowa	6,172	7,907	3,510
Kansas	7,160	5,927	1,706
Kentucky	13,217	16,725	9,382
Louisiana	7,905	8,059	9,834
Maine	10,284	9,914	4,158
Maryland	3,618	4,565	2,127
Massachusetts	3,674	5,387	3,692
Michigan	11,988	11,968	14,536
Minnesota	12,303	8,532	5,200
Mississippi	9,313	10,397	10,362
Missouri	7,565	6,200	8,927
Montana	871	1,237	1,666

State	Fiscal year 1992	Fiscal year 1993	Fiscal year 1994
Nebraska	2,607	2,442	2,120
Nevada	1,714	1,116	440
New Hampshire	1,066	6,814	2,175
New Jersey	6,335	7,472	9,295
New Mexico	2,551	3,105	4,860
New York	16,503	13,478	7,214
North Carolina	15,988	21,117	18,342
North Dakota	1,634	1,741	1,565
Ohio	12,866	14,175	17,144
Oklahoma	7,550	10,493	6,311
Oregon	4,160	4,532	5,334
Pennsylvania	20,079	14,165	13,745
Rhode Island	59	357	660
South Carolina	7,809	9,819	7,128
South Dakota	2,990	2,471	7,630
Tennessee	11,444	10,657	7,655
Texas	15,228	15,464	15,884
Utah	1,267	2,248	526
Vermont	1,715	1,214	1,302
Virginia	8,445	14,143	9,959
Washington	4,870	4,666	5,901
West Virginia	6,540	7,607	7,663
Wisconsin	6,429	4,871	5,350
Wyoming	2,300	1,879	4,996
Puerto Rico	16,148	21,489	14,260
Total	\$348,939	\$399,319	\$320,887

Note: Fiscal year 1994 data are through April 30, 1994. Figures do not total due to rounding.

PERCENTAGE OF INITIAL WWD GRANT ALLOCATION RECEIVED
BY STATES FOR FISCAL YEARS 1992 THROUGH 1994

State	Fiscal year 1992	Fiscal year 1993	Fiscal year 1994
Alabama	96.7	118.9	85.5
Alaska	304.0	647.2	0.0
Arizona	190.1	137.2	14.8
Arkansas	122.2	449.6	99.5
California	104.0	87.5	34.2
Colorado	118.0	139.4	64.9
Connecticut	125.2	100.0	90.5
Delaware	77.9	310.4	139.3
Florida	108.4	107.4	89.6
Georgia	84.8	106.7	73.0
Hawaii	0	0	0
Idaho	75.9	126.1	72.5
Illinois	100.0	120.5	70.3
Indiana	100.0	107.5	66.9
Iowa	120.0	155.5	50.1
Kansas	206.2	172.6	35.1
Kentucky	124.2	159.0	68.6
Louisiana	100.0	103.1	103.2
Maine	355.1	346.3	98.4
Maryland	100.0	127.6	50.2
Massachusetts	91.2	135.2	100.0
Michigan	96.7	97.6	90.3
Minnesota	214.3	150.3	61.7
Mississippi	100.0	112.9	84.4
Missouri	100.3	83.2	81.9
Montana	48.9	70.2	54.8
Nebraska	100.0	94.7	71.4
Nevada	355.6	234.5	48.0

State	Fiscal year 1992	Fiscal year 1993	Fiscal year 1994
New Hampshire	58.5	378.3	75.2
New Jersey	181.6	216.6	311.0
New Mexico	123.6	152.1	128.4
New York	121.1	100.0	52.4
North Carolina	100.4	134.1	98.7
North Dakota	100.0	107.8	77.8
Ohio	100.0	111.4	105.1
Oklahoma	153.2	215.4	84.9
Oregon	106.8	117.7	93.3
Pennsylvania	123.3	88.0	71.2
Rhode Island	10.8	66.2	93.4
South Carolina	100.0	127.2	74.0
South Dakota	147.3	123.1	317.8
Tennessee	111.4	104.9	60.6
Texas	100.0	102.7	79.5
Utah	123.3	221.5	32.8
Vermont	109.4	78.3	57.0
Virginia	100.0	169.4	88.1
Washington	101.1	98.0	86.3
West Virginia	101.2	119.0	86.5
Wisconsin	93.0	71.3	55.6
Wyoming	328.1	271.2	382.5
Puerto Rico	98.6	132.7	71.4

Note: Fiscal year 1994 data are through April 30, 1994.

PROJECTS FUNDED FROM WWD GRANT FUNDS TARGETED
FOR THE COLONIAS FOR FISCAL YEARS 1993 AND 1994

State	Project name	Grant amount
New Mexico	Anthony WSD	\$1,632,500
New Mexico	Garfield MDWCA	1,917,000
New Mexico	Picacho MDWCA	94,000
New Mexico	Rincon WCC	600,000
Texas	El Paso Lower Valley WDA	2,343,740
Texas	North Alamo WSC--San Carlos	2,164,500
Texas	Military Highway WSC	8,950,000
Texas	North Alamo WSC--Hargill	1,991,000
Texas	Webb County	4,333,600
Texas	Rincon WSC	490,000
Total		\$24,516,340

Notes: Fiscal year 1994 data are through April 30, 1994.

Water and Sanitation District (WSD), Mutual Domestic Water Consumers Association (MDWCA), Water Consumers Cooperative (WCC), Water District Authority (WDA), Water Supply Corporation (WSC).

