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**Before the Subcommittee on Rural Development, Biotechnology,  
Specialty Crops and Foreign Agriculture  
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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 one half 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 40<sup>th</sup> 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

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

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 30<sup>th</sup>, 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 one-third of ARRA funding provided to date has gone to communities with unemployment above 10 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, DC 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 4 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.

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.

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<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.

## **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 Bull Shoals Lake. The project will also include construction of 5 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 US-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.