

Testimony before the Water and Power Subcommittee
House Committee on Resources

July 27, 2006
1334 Longworth House Office Building

Mr. Chairman and Members of the subcommittee, thank you for the opportunity to testify today on the U.S. Department of Agriculture (USDA) Rural Development program for Water and Waste Disposal. My name is Curtis Anderson. I have served as Deputy Administrator of the Rural Development Utilities Programs since my appointment by President Bush on May 6, 2002.

Rural Development is a leader in helping rural America improve the quality of life and increase economic opportunities in rural communities. We administer over 40 programs in three broad mission areas: utilities, housing and community facilities, and business and cooperative services. Indeed, USDA Rural Development can -- as we often remark in passing -- literally build an entire community from the ground up.

Our success is measured by water lines laid, hospitals built, and telecommunications connections made. Success is businesses started and jobs created. It is families moving into new homes, and affordable rental housing in small towns. Whether it is an ethanol plant or industrial park, a day care center, a critical care medical facility, or a main street business, the investments made by USDA Rural Development are building a better future for all rural Americans.

Our Utilities Programs began with the creation of the Rural Electrification Administration in 1935. Since then, they have expanded to include rural telecommunications, water and wastewater, and broadband as well. The water and wastewater programs provide rural communities with both technical assistance and financing to develop safe, abundant, and environmentally sound drinking water and waste disposal systems. This effort is vital not only to public health, but also to the economic vitality of rural America.

Under the provisions of the Consolidated Farm and Rural Development Act, Rural Development Utilities Programs can make direct loans, loan guarantees, and grants to develop water and wastewater systems, including solid waste disposal and storm drainage, in rural areas and to cities and towns with a population of 10,000 or less. Funds are available to public entities, such as municipalities, counties, special-purpose districts, and Indian tribes. In addition, funds may be made available to corporations operated on a not-for-profit basis.

Our water programs have been both effective and efficient. In the President's FY 2007 budget, OMB's Program Assessment Rating Tool was used to evaluate the program's purpose, design, planning, management, results, and accountability to determine its overall effectiveness. Of the 70 programs in USDA that were rated, Water and Environmental Programs is one of four programs with a summary rating of effective.

Funding priority is given to public entities in areas with less than 5,500 people to restore a deteriorating water supply, or to improve, enlarge, or modify a water facility or an inadequate waste facility. Also, preference is given to requests which involve the merging of small facilities and those serving low-income communities. To avoid replacing commercial credit, applicants must be unable to obtain funds from other sources at reasonable rates and terms.

Grants and direct loans, of course, are administered by USDA Rural Development itself. Grants may be made, in some instances, up to 75 percent of eligible project costs. Guaranteed loans are made and serviced by lenders such as banks and savings and loan associations, subject to Rural Development approval. Guarantees are available for up to 90 percent on any loss of interest and principal on the loan.

We place a very high priority on accessibility and customer support. USDA Rural Development's Programs are administered through a small National office staff in Washington, DC, and a larger network of approximately 5,000 field staff. The 47 Rural Development State offices, supported by area and local offices, deliver the Rural Development programs in the states and U.S. territories. We provide technical assistance such as reviewing projects for engineering, environmental, and financial feasibility. The staff works closely with program participants, their project engineers, and state regulatory agencies to ensure that projects are reasonable, affordable, and based on commonly accepted engineering practices. Our state staff also helps communities explore project funding options and technical assistance through other programs.

Applications for funding are taken at any time during the year. We process the requests for loans and grants on an ongoing basis throughout the fiscal year. This makes maximum use of limited staff resources and assures the delivery of the funds. Projects are selected for funding based on a priority system that favors small public bodies that need utility improvements to meet health, system security or sanitary standards. Projects financed must, upon completion, meet all applicable health, security, and sanitary standards.

Information management within Water and Environmental Programs is provided through the Community Program Application Processing system. Features such as data warehousing, interface with Rural Development legacy systems, and standardized templates for loan and grant processing are the highlights of the system. The Community Program Application Processing system was discussed at a conference in May 2006 as one of fourteen “promising practices of Federal financial programs” in the area of managing operational risks.

In FY 2005, Rural Development Utilities Programs funded 1,251 projects for \$1.5 billion. The majority (75 percent) of the projects was funded from the direct loan and grant program. The balance of the projects was funded through several special programs and initiatives.

Of special interest to this Subcommittee, we also administer funds from partner agencies. Through agreements with the Appalachian Regional Commission and the Delta Regional Authority, for example, we provided funding for and/or administered 21 projects in 2005.

Many of the projects we finance also obtain assistance from other federal agencies. To facilitate coordination with other agencies, we commonly meet and exchange information on our programs as we have with the Bureau of Reclamation.

We are careful stewards of taxpayers’ dollars. The total portfolio of Water and Environmental Programs as of September 30, 2005, included 8,003 borrowers, 17,122 loans, and \$8,096,394,240 in outstanding principal. Of the over 40,000 loan obligations made since the inception of the program in 1943, a total of 52 loans have been written off at a loss of \$23,422,737 to the Government. This figure amounts to approximately one-tenth of 1 percent of the total principal loaned of \$ 21.8billion. In other words, our repayment rate is approximately 99.9%.

At the end of May 31, 2006, none of our guaranteed borrowers were delinquent. For our direct loan program we had 30 accounts, representing \$28,212,154 of principal, which were delinquent by at least on year. This represents a very low delinquency rate of 0.33 percent of outstanding principal.

This is a highly successful track record of loan repayment, and it is achieved through careful planning and administration. It is important to note that, for many rural systems, the projects financed through Rural Development may be the first experience board members or town councils have with financing and managing a public utility. Credit advice and assistance is provided to the applicants and borrowers throughout the loan making, construction, and system management and maintenance processes. In recent years, supervised credit assistance has been expanded through the use of service providers. A contract with the National Rural Water Association provides rural water circuit riders. Additional service to applicants and borrowers is provided under a grant to the Rural Community Assistance Partnership (RCAP) and a grant to West Virginia University Research Foundation for the National Drinking Water Clearinghouse.

The Rural Development Mission Area’s experience with guaranteed programs is quite extensive. We offer guaranteed programs in housing, rural business, and community facilities. However, to date the guaranteed loan program for water utilities has not been used extensively because the tax code prohibits Federal guarantees of tax-exempt debt instruments. If Rural Development guarantees a loan secured by tax exempt bonds, they lose their tax exempt status; therefore, communities can only participate in the guarantee program when their source of financing is commercial credit. However, the terms for obtaining a Water and Wastewater guarantee include a requirement that the commercial lender would not make the loan without a guarantee. There is only a small set of communities that cannot get credit without the guarantee, do not qualify for the direct loan program, and do not plan to use tax-exempt financing. So while, on an annual basis, Rural Development is authorized to guarantee \$75 million worth of loans, we regularly do significantly less than that.

The structure and rules governing the water and wastewater loan guarantees is similar to all of Rural Development’s guarantee programs. Specifically, Rural Development water and wastewater loan guarantees are made by private lenders to public bodies, nonprofit corporations, and Indian tribes for the purpose of improving rural living standards and for other purposes that create safe and affordable drinking water and waste disposal facilities located in rural areas or towns with a population not exceeding 10,000 inhabitants. These loans can be made to construct or improve drinking water or waste disposal facilities serving the most financially needy communities.

The rates and terms of the loan are negotiated between the borrower and the lender. Under the guaranteed program, the lender is responsible for ensuring that all loan requirements are met, the loan is properly secured, documents are duly executed and binding, and all necessary certifications are furnished. The lender negotiates interest rates and incremental increases and caps for each loan. This gives the lender more flexibility to fit the guaranteed loan program into its lending policies and procedures.

The lender does not have to be a local lender provided it can demonstrate the ability to adequately service the loan. This allows eligible lenders to include such organizations as State bond banks, Co-Bank, the National Rural Utilities Cooperative Finance Corporation, and other lenders that are subject to credit examination and supervision by a State or Federal entity that supervises and regulates credit institutions.

When a lender sells the guaranteed portion of a loan to a holder, the holder shall have all rights of the lender under the Loan Note Guarantee. The lender will remain bound by all the obligations under the Loan Note Guarantee, Lender's Agreement, and Agency program regulations. The lender may retain the entire unguaranteed portion of the loan or may sell part of the unguaranteed portion of the loan through participation. However, the lender is required to retain 5 percent of the loan amount from the unguaranteed portion in their portfolio.

A one-time guarantee fee is paid when the Loan Note Guarantee is issued. The fee is paid to the Agency by the lender and is nonrefundable. The lender may pass the fee onto the borrower. Our current fee is 1 percent. At this time there is no annual fee.

At the end of construction, the lender will provide the Agency with a written certification that all funds were utilized for authorized purposes. The borrower and the lender will authorize designs and plans based upon the preliminary architectural and engineering reports or plans approved by the lender and concurred in by the Agency. The borrower will take into consideration any lender or Agency comments when the facility is being designed.

The expertise Rural Development has in making and managing loan guarantees is a resource for any other agency to tap into when designing their own guarantee program, and Rural Development is happy to work with any agency to shepherd them through that process.

Thank you again for the opportunity to testify today. I will try to answer any questions you may have about the operation of our program.