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## FACT SHEET

### RURAL WATER AND WASTE DISPOSAL PROGRAM REFORMS

#### I. BACKGROUND

The Farmers Home Administration's Water and Waste Disposal Program, more commonly known as the "water and sewer" program, is the primary source of financing for constructing and upgrading the water and sewer systems of small, rural communities. Under the program, communities may receive grants, loans, or a combination grant/loan, for the purpose of improving water treatment and/or distribution systems, sewage collection and/or treatment systems, and solid waste collection and disposal systems.

Critics have taken the program to task, however, for its failure to properly target scarce funding to the smallest and poorest communities which are least able to pay for unsubsidized facilities. Among the most vocal of these critics is the Ad Hoc Task Force for Rural Water-Sewer Program Reform, a group of organizations, including the National Council of La Raza, that is associated with the Rural Coalition. The Ad Hoc Task Force has identified several major deficiencies in the water-sewer program, including:

- The absence of a rational project selection system. At present, projects are selected roughly on a "first-come, first-served" basis;
- Poor targeting of grant funds and affordable loans to the smallest and poorest communities, and, conversely, the concentration of resources in relatively wealthy suburban communities; and,
- The lack of "predevelopment" funding or technical assistance. Many small communities are unable to take advantage of the program because they lack the technical or financial resources to prepare fundable packages, which require engineering reports and a relatively high degree of "grantsmanship" skills.

As a response to the repeated criticism of the water-sewer program, the Reagan Administration introduced several important program changes last year, including an increase in the interest rates charged on loans, and a revision of the grant allocation system. These changes have been ineffective in improving the accessibility to water and sewer program funds by small and low-income communities. According to the House Agriculture Committee:

The current FmHA rules siphon off grant funds to subsidize the interest rates charged on loans for projects in higher income communities..... Lower income communities were effectively forced out of the program altogether [after the Administration's program changes], since the interest rates charged on loans made their projects unfeasible.

## II. PROPOSED PROGRAM REFORMS

After repeated requests to the Administration for meaningful reform of the FmHA water-sewer program were not accommodated, the House Agriculture Committee this year directed FmHA to:

- Establish a rational, objective project selection system which assures the proper targeted of program funds to small and poor communities;
- Revise the grant rate structure to ensure that small and poor communities are given the highest priority for grant funds;
- Impose interest rate ceilings of five percent on loans made to communities whose median income does not exceed 80% of the statewide average and seven percent for communities whose median income does not exceed 100% of the statewide average;
- Make available loan funds to offset "predevelopment" costs; and,
- Provide grants to nonprofit organizations for the purpose of delivering training and technical assistance to communities and organizations likely to receive financial assistance for water and waste disposal facilities.

The Senate version of the bill (S. 2314), includes the grant and loan rate reforms, although it is expected that the project selection reform may be added on the Senate floor.

The National Council of La Raza strongly supports the proposed reforms, since they would establish a rational funding mechanism that is likely to benefit Hispanic residents of small, low-income communities. For more information about the water-sewer program reforms, contact either Norm DeWeaver of the Ad Hoc Task Force at (202) 338-4804 or Charles Kamasaki of the National Council of La Raza at (202) 293-4680.