

## Regionalization: RCAP's Recommendations for Water and Wastewater Policy

Regionalization is a spectrum of collaborative activities, ranging from the most informal to the most formal of partnerships between communities in the same geographic area. Water and wastewater regionalization may range from an informal mutual aid agreement to help a neighbor in an emergency, or to share heavy equipment, to more formal partnerships such as the formation of a joint powers authority to develop a new water source or a full physical and/or managerial consolidation. Systems are using regionalization to build economies of scale, reach or maintain compliance with federal and state regulations, and build needed technical, managerial, and financial capacity.

The Rural Community Assistance Partnership (RCAP)<sup>®</sup> sees water and wastewater regionalization as a key tool to help communities become more sustainable and resilient, which can be especially important in a crisis such as a pandemic or natural disaster. Policies at the local, state, and federal level can help or hinder regionalization efforts. RCAP conducted comprehensive research to analyze existing examples and came up with policy recommendations for all levels of government to better support successful regional solutions.

**Key takeaways** from RCAP's research, especially to help small, rural, and tribal communities, are:

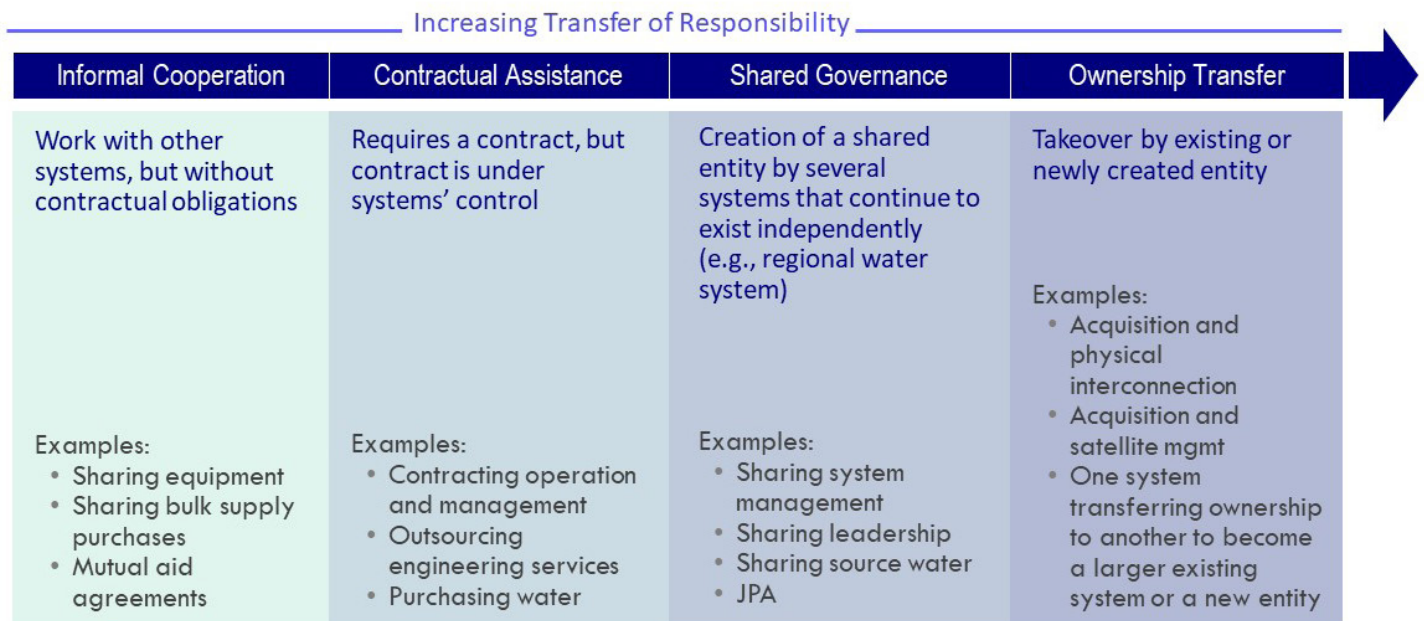
- 1) **The need for flexibility.** Policy at the federal, state, and local levels should allow for as many ways of implementing, encouraging, and incentivizing regionalization as possible. This should be paired with capacity building opportunities for communities to understand and access those options. Each community can then find the right solution that fits their unique needs.
- 2) **The need for more funding for regionalization efforts** across the spectrum of informal-formal regionalization that is supported by all levels of government.



# Partnerships Take Many Forms

An array of partnerships and cooperation fall under the broad umbrella of regionalization, from informal collaboration to ownership and governance restructuring. See the chart below for a visual explanation of the spectrum of regional approaches.

## *Types of regional collaboration*



Graphic adapted by RCAP and RCAC from U.S. Environmental Protection Agency resources

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Authors and contributors: Laura Landes, Eric LaRose, Sarah Buck, Nathan Ohle, Ted Stiger, Glenn Barnes, Malini Sekhar, and Coye Gerald

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# Recommendations that apply to Federal, State and Local governments

1

Coordinate and communicate with other governmental entities (at the same level and at different levels) to understand what gaps and opportunities exist.



Many successful RCAP regionalization projects have depended on multiple sources of funding from different levels of government. It is important for communities to be able to access different kinds of funding, whether that is simultaneous or over the course of the project. Leaving funding to the state or local level, rather than federal, can solve some regionalization needs. However, it leaves a gap in places where funding is less readily available because of geographically disproportionate distribution of funds. For example, the government of a low-income county or town will be less likely to be able to help fund a large infrastructure investment to improve drinking water or wastewater quality/access. Over time this can cause inequities for the communities that need the assistance the most because of deteriorating infrastructure and/or disinvestment.

Grants that make technical assistance possible come from different places as well, such as various federal agencies and states agencies. These grants tend to focus on different needs and can be used to target specific gaps as seen by those agencies.

2

Incentivize regionalization efforts through intentional, targeted, and more favorable funding terms. This could include increasing grant funding, increasing grant/loan ratios, reducing match requirements, capping interest rates, and/or increasing the availability of principal forgiveness.

It is important to remember that the smallest, most rural communities, including tribal communities, often struggle with a ratepayer base that cannot support increased rates that result from debt service payments by the utility. Grant funds are essential to communities with the greatest need for infrastructure improvements and basic access to services. With a little help, those communities could get on the path to success. State revolving funds (SRFs) should place more emphasis on principal forgiveness for projects that include regionalization. This will be easier than developing new grant opportunities but have much the same effect.

The federal government's spending on water infrastructure has decreased dramatically in recent decades while state and local governments' share of spending on water and wastewater utilities steadily increased. The federal government especially should consider this history when making decisions about future funding allocations to water and wastewater projects.



Photo Credit: Coye Gerald

3

The federal government should work with state and local governments to administer funds to those communities and systems which most need the assistance and encourage (or require) regionalization studies in those communities. It should also provide funding specifically for technical assistance to rural and tribal communities and colonias to help them through the regionalization process.

The federal government should prioritize funding for water and wastewater infrastructure, especially in rural and low-income communities, which lack a rate-payer base capable of taking on the costs to update and maintain the infrastructure necessary to meet these most basic needs. Within that, it is critical to provide ample resources for regionalization activities.

Regionalization studies may be required without requiring that regionalization take place. It is important for communities to have all the information about their options to make the right choice for themselves. On a similar note, feasibility studies should incorporate managerial and financial capacity as well as technical capacity, to create a more holistic and realistic picture of options.

4

Anyone encouraging feasibility studies (such as by providing grants to perform them) should also consider supporting capacity-building training (such as board trainings), third-party facilitators, and technical assistance, as well as setting requirements for transparency.

Transparency is key to any regionalization effort. Feasibility studies should include cost estimates for all possible solutions and options. Again, **communities cannot make the best decision for themselves (which may or may not involve regionalization) without all the relevant information.**

5

Recognize the importance of and provide for planning and capacity-building as well as actual project construction.

Before any large infrastructure effort can begin, significant planning must take place. Capacity (technical, managerial, and financial) must be in place or be built to allow for infrastructure updates, expansion, etc. to be successful and effective.

6

All levels of government, but especially states, should make specific funds available for areas of greatest need to work towards regionalization. These may include colonias, tribal communities, communities of color, low-income communities, and/or communities that have had a history of non-compliance, have trouble accessing sufficient quality or quantity of source water, experience source water contamination from failing septic systems, or have experienced a history of inadequate service.

Regionalization can help make utilities more sustainable and resilient, especially in a crisis such as a pandemic or natural disaster. We should ensure that communities with fewer resources are provided opportunities to improve their quality of life, such as by facilitating regionalization to provide basic water and wastewater services.

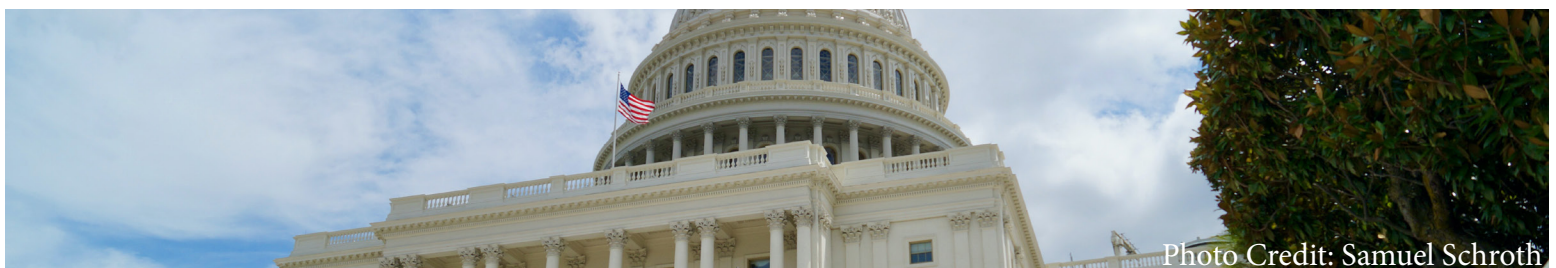


Photo Credit: Samuel Schroth



## Recommendations for State Governments

7

Use the state Water and Wastewater Agency Response Network (WARN) to its full potential.



Photo Credit: RCAP Solutions

Most states have a WARN, but if it is not being used to its full potential or does not exist, this is a low-hanging fruit. RCAP recommends water and wastewater systems consider mutual aid agreements as part of their toolbox. However, states can make this easier by maintaining an active and well-organized WARN.

WARNs have proven to be effective during crises such as natural disasters and the COVID-19 pandemic.

8

Provide funding for technical assistance to help small systems sign up for the WARN (including educating them on the benefits), preferably before a disaster hits.

Very small, rural communities sometimes get lost in the shuffle during a crisis event. The smallest of the small, both public and private systems, should not be left out of cooperative activities and assistance within the WARN. They should be targeted specifically for inclusion because they have the least capacity to solve problems without assistance in an emergency.



Gator Guard, Nome, Texas

9

Extend funding prioritization in SRFs beyond consolidation to all types of partnerships.

Several SRFs already provide prioritization for consolidation projects but consolidation is not the only type of regionalization that requires infrastructure funding. For example, an agreement between communities to provide emergency water services requires an interconnection, even though the utilities are not being managerially combined in any way. In another example, a joint powers authority formed to build and operate a new water treatment plant requires a large financial investment even though the communities are not consolidating their distribution systems or individual system management and finances. Other types of regionalization less formal than consolidation can achieve major economies of scale and provide other benefits to communities. Access to funds, especially grants or principal forgiveness, can provide that final push that communities need to get a project underway and set them up for success in the future.



Photo Credit: Communities Unlimited

## 10

Use DWSRF set-asides to place more emphasis on regionalization.

States may set aside up to 31% of their annual capitalization grant in the Drinking Water State Revolving Fund (DWSRF) for non-infrastructure efforts towards capacity development, operator certification, source water protection, and technical assistance and training. Fewer than half of states use set-asides for eligible partnership activities.

RCAP believes more emphasis should be placed on regionalization within these set-asides, whether through direct funding to systems or technical assistance programs focused on regional collaboration. Regionalization can be a great boon for system capacity and resilience.

## 11

State laws should incentivize but most importantly should not prohibit regionalization – they should expressly allow regional authorities to operate water/wastewater services.

RCAP has seen groups of communities put a lot of effort into exploring and discussing regionalization only to give up on the idea after experiencing legal barriers. For example, it may not be possible within existing legal frameworks to form the specific type of regional authority they want, and it may be very difficult to combine their financial assets.

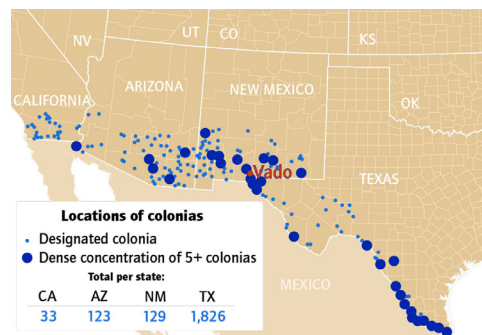


Photo Credit: Matthew Osborne

## 12

Southern border states should consider emphasizing technical assistance and feasibility studies for regionalization under CDBG colonias set-asides.

Community Development Block Grants (CDBG), funded by the U.S. Department of Housing and Urban Development and administered by states, can be used for regionalization efforts. In RCAP's experience, CDBG funds are often the only funding option for low-income communities that is 100% grant based. Regionalization projects should be emphasized within colonias set-asides in the CDBG program in New Mexico, California, Arizona, and Texas.



Source: U.S. Dept. of Agriculture and U.S. Dept. of Housing and Urban Development, Robert Peterson, 2010



# 13

All states should allow and encourage CDBG to be used for water and wastewater needs and should consider emphasizing regionalization projects under CDBG in ways that some states prioritize regionalization under SRFs.

Not all states designate a specific program within CDBG for water/wastewater projects, but they could. Doing so might encourage more water and wastewater projects under CDBG. As CDBG funds are designed for county and municipal governments, the most rural places often have trouble accessing them. States should help rural and unincorporated areas access the funds as needed, prioritizing smaller communities which are often left out of many federal funding opportunities, especially much-needed grant funds.

Photo Credit: Andy He



## Recommendations for Federal Government



## RECOMMENDATIONS THAT APPLY TO THE FEDERAL GOVERNMENT

14

USDA should allocate funds intentionally focused on helping small water and wastewater systems achieve regionalization and annual appropriations by Congress should prioritize regionalization projects and technical assistance for regionalization efforts.

The U.S. Department of Agriculture (USDA) does have funding programs for rural water and wastewater facilities. While regionalization-related activities are permissible under some of them, none of the loan or grant programs are intended specifically for regionalization or particularly incentivize it. Note also that size requirements for USDA Rural Development's Rural Utilities Service assistance can sometimes preclude a regional project from receiving assistance. There should be allowances for small communities coming together to be eligible – the requirements should not be black and white. They should offer special consideration for the size of individual communities within a project.

15

USDA should prioritize regionalization projects within scoring criteria. USDA should also allow for a higher grant to loan ratio for regionalization projects based on said scoring criteria.

Within programs that use a scoring mechanism to determine funding levels and prioritization of projects, the addition of priority points for regionalization projects, or points per utility, or community involved in the project, would encourage more regionalization solutions and make it easier for existing regionalization efforts to access funds. USDA can look at DWSRF programs in many states (see Appendix A) for examples of prioritizing regionalization projects.

Appendix A is a spreadsheet containing several tables of information and sources, gathered as part of this research, on policies which encourage regionalization in every state, for both drinking water and wastewater. Appendix A is available on [RCAP's website](#).

16

USDA should consider regionalization activities as progress towards financial sustainability.

USDA programs require projects to be financially sustainable. Regionalization is a time-tested path towards utility resilience and sustainability and allows for economies of scale. See [RCAP's first research report](#) for an overview of the benefits and drivers of regionalization for small systems, which include cost savings from removal of redundancies, broader customer bases, access to lower-cost capital, and of course, economies of scale.

17

USDA should consider changing its policies and regulations to allow refinancing of debt, as well as to provide debt forgiveness and principal forgiveness in select circumstances to make these flexibilities available when appropriate. If this is infeasible, legislative action should be taken to ensure statutory clarity and make it allowable for projects that involve system regionalization.

RCAP has seen the major need for flexibility in funding opportunities to manage existing debt when a financially stable or successful utility in one community agrees to regionalize with a utility that is not in compliance or is financially stressed. Without flexible funding options, communities can get trapped in a cycle of disenfranchisement and inability to improve their water and wastewater systems.

A change without legislation is theoretically possible. United States Code (7 USC 1981 (b)) lays out the Secretary of Agriculture's broad authority to service loans. This recommendation may be possible without doing so, but it may become necessary to transition into a legislative effort.



18

USDA should create stronger requirements around the quality, breadth, and depth of the required analysis of regional alternatives within a Preliminary Engineering Report (PER). It would be beneficial for USDA to enforce this so that analyses are comprehensive and unbiased and so communities have all the information at hand to make the decision that is in their best interest.



Photo Credit: Masarath Alkhaili

USDA requires an analysis of regional alternatives as part of a PER, which is required for all water and wastewater infrastructure projects funded by USDA, but it is not always a comprehensive process. It also focuses mostly on the technical project aspects and does not consider all possible managerial and financial aspects and arrangements. There may be a disincentive for an engineer proposing a project for USDA funding to do a thorough and unbiased analysis of regional alternatives, especially if the engineer has an investment in a specific outcome. These analyses should be performed by a neutral third party or by qualified USDA staff themselves.

19

EPA should require states to condition SRF funding on an analysis of regional alternatives.

The Environmental Protection Agency (EPA) should require states go a step further in the support SRFs provide to regionalization efforts. As stated elsewhere, communities need all the information about their options available to them to make the right decision. Regional alternatives analyses, done by a neutral party, will help ensure that communities have the opportunity to make the best decision, as they consider what investments and improvements they need to make to their water or wastewater system. This will likely increase the number of regionalization efforts moving forward.

20

Federal laws should encourage regionalization to the greatest extent possible without requiring or mandating it.

An example of this includes a bill initially introduced to the 116th Congress as the “Voluntary Water Partnership for Distressed Communities Act of 2019.” Another example is a piece of legislation which passed Congress and was signed into law in 2018 called America’s Water Infrastructure Act of 2018 (AWIA) (sections 2009 “Contractual Agreements” and 2010 “Additional Considerations for Compliance”). These do not force communities to undertake regionalization activities. They simply require systems to explore opportunities and provide flexibility and an easier path to implementation of regionalization activities.



Photo Credit: Maarten van den Heuvel

## 21

Strengthen safe harbor provisions for compliant systems involved in managerial consolidation/ownership transfer.

An important piece of encouraging regionalization is allowing for temporary “safe harbor” provisions when ownership transfer of a noncompliant system takes place. Safe harbor provisions are designed to shield the compliant system from monitoring and rule violations of noncompliant systems undergoing regionalization. Noncompliant systems would still be held legally liable for any public health violations occurring before the transfer of ownership.

## 22

The federal government should create a program to fund technical assistance for small, distressed communities to help them access federal resources, including technical assistance to work towards regionalization during a nationally declared emergency.

The recent COVID-19 pandemic has showcased the challenges rural places can face in accessing supplies and needed assistance in emergencies. Rural areas are more likely to lack access to healthcare, and rural utilities have smaller rate-payer bases to rely on to keep up their infrastructure, and pay for operations and supplies. Tribal communities and other communities of color have been especially impacted by the pandemic due to systemic inequalities.

Disaster relief funding programs already exist. However, these are more focused on fixing infrastructure that is broken rather than building or improving capacity for resiliency. Current relief programs are also very difficult for small, rural, and tribal systems to access, as the agencies and application systems are not designed to reach small, low-capacity communities. Applications and other processes to access this funding are often very complex. Regionalization is an important way to build and improve resiliency and capacity for future emergencies of any type, whether natural disasters, pandemics, economic crises, etc.



Photo Credit: RCAP Solutions

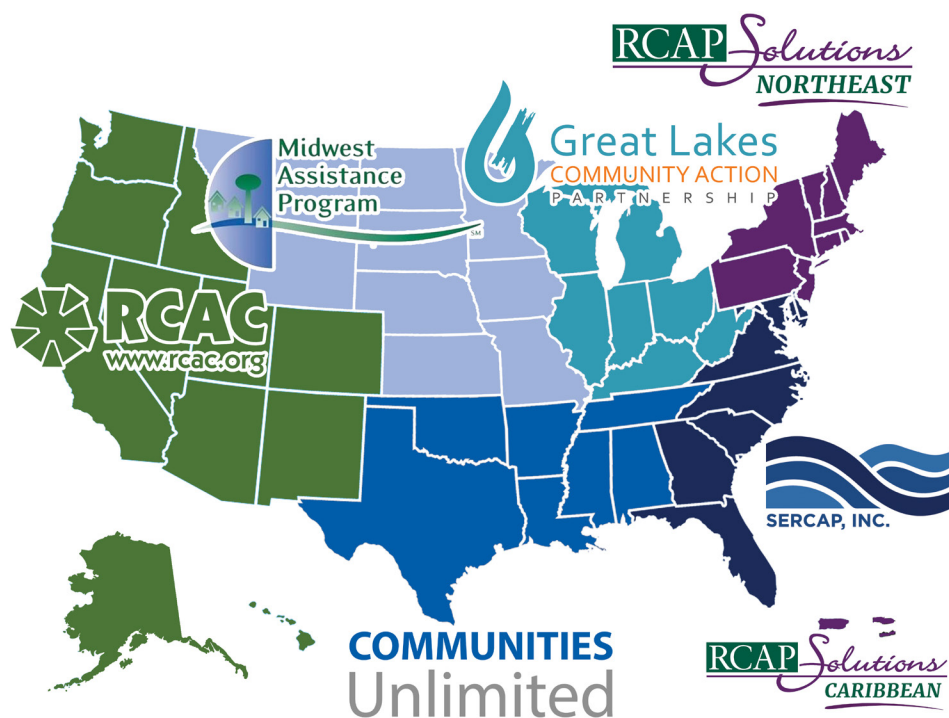


Photo Credit: RCAP Solutions



# Rural Community Assistance Partnership

A national network of nonprofit partners reaching small, rural and tribal communities in all 50 states and the U.S. territories to improve quality of life by starting at the [tap](#).



## Western RCAP

Rural Community Assistance Corporation (RCAC)  
3120 Freeboard Drive, Suite 201  
West Sacramento, CA 95691  
(916) 447-2854  
[www.rcac.org](http://www.rcac.org)

## Midwest RCAP

Midwest Assistance Program (MAP)  
303 N. Market St., Suite 2  
Maryville, MO 64468  
(660) 562-2575  
[www.map-inc.org](http://www.map-inc.org)

## Southern RCAP

Communities Unlimited (CU)  
3 East Colt Square Drive  
Fayetteville, AR 72703  
(479) 443-2700  
[www.communitiesu.org](http://www.communitiesu.org)

## Northeast & Caribbean RCAP

RCAP Solutions (RSOL)  
191 May St.  
Worcester, MA 01602  
(800) 488-1969  
[www.rcapsolutions.org](http://www.rcapsolutions.org)

## Great Lakes RCAP

Great Lakes Community Action Partnership (GLCAP)  
P.O. Box 590 | 127 S. Front St., 2nd Floor  
Fremont, OH 43420  
(800) 775-9767  
[www.glcap.org](http://www.glcap.org)

## Southeast RCAP

Southeast Rural Community Assistance Project (SERCAP)  
347 Campbell Ave. SW  
Roanoke, VA 24016  
(866) 928-3731  
[www.sercap.org](http://www.sercap.org)

## RCAP National Office

1725 I Street NW, Suite 225 | Washington, DC 20006 | (202) 408-1273  
[www.rcap.org](http://www.rcap.org)

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[www.rcap.org](http://www.rcap.org)