NLC RESOLUTION #2010-10

IN SUPPORT OF AMENDING 7 U.S.C. 1926(b) TO PROMOTE MUNICIPAL ECONOMIC DEVELOPMENT AND IMPROVED WATER-RELATED SERVICES TO CITIZENS IN DEVELOPING AREAS

WHEREAS, the Consolidated and Rural Development Act was passed in 1961 to enable the Secretary of Agriculture, through the Rural Utilities Service, to make and insure loans to associations providing water to rural residents in sparsely populated areas; and

WHEREAS, urban growth since 1961 has allowed full service municipal governments which often can provide water and other municipal services more economically for the residents, to grow into area served by such associations; and

WHEREAS, even though the federal loan must be fully collateralized by the customers to be served at the time of the loan, the provisions of 7 U.S.C. 1926(b) that were designed to assure repayment of federal loans, have been used for purposes unrelated to the protection of loan collateral; and

WHEREAS, rural water districts are not required to provide sewer, fire protection or other water-related services to areas within their water systems; and

WHEREAS, municipalities are increasingly frustrated in their efforts to promote economic development on their borders when rural water districts gird municipalities with monopolies on water service; and

WHEREAS, municipalities have been denied the right to purchase such loans from the Department of Agriculture and when municipalities grow into natural areas of expansion, the federally-created monopoly prohibits them from providing services to new customers in the areas with rural water districts with 1926(b) loans within their boundaries; and

WHEREAS, municipalities are concerned that the statute interferes with economic development and growth because the statute permits a rural association to challenge a municipality’s intent to annex or extend services to new areas; and

WHEREAS, 7 U.S.C. 1926(b) is a disincentive for rural water districts to negotiate service arrangements with municipalities while such loans increasingly limit customer choice, quality of life and public safety by restricting citizens within developing areas from improved water services, fire protection, and lower costs; and

NOW, THEREFORE, BE IT RESOLVED that the National League of Cities urges the Congress of the United States to amend Title 7 U.S.C. Section 1926(b) to:

A) authorize municipalities to purchase and retire loans made under the Consolidated and Rural Development Act and, thus, permit the municipality to provide a full range of services to its residents; and
B) provide that collateral for Title 7 U.S.C. Section 1926(b) loans be based on the customers of the portion of the system that is identified in the loan documents as collateral for the loan and is either (1) in existence at the time of the loan or (2) financed by the loan.