

## **NAWC PERSPECTIVE ON FEDERAL TAX REFORM**

The National Association of Water Companies (NAWC) represents the private water utility industry, which consists of water service providers – the regulated drinking and waste water utilities – that drive innovation and resourcefully manage water systems to add value through efficient and innovative operations. The private water industry serves more than 73 million Americans. Water companies produce 4.6 billion gallons of water every day, 1.7 trillion gallons per year, and maintain 100,000 miles of pipe to serve their customers.

The private water companies that comprise NAWC membership are highly capital-intensive businesses, regulated by state public utility commissions, continually investing in costly new and upgraded water systems. The capital-intensive nature of our sector supports many jobs. We are proud of our history of providing high quality water and service for over 200 years.

The private water utility sector stands able, ready, and willing to partner with local and state governments, as well as the federal government, to help meet the challenges our nation's water infrastructure will face for years to come.

Private water utility companies are often capitalized with substantial amounts of debt to keep water rates low and comply with regulatory requirements and goals. The companies typically pay steady, reliable dividends to shareholders. To operate on a more-nearly level playing field with municipally owned water systems, private water companies depend on tax-exempt finance known as private activity bonds (PABs). Finally, private water companies must operate under the dual requirements of state regulatory accounting and federal tax accounting.

Given these characteristics of private water companies, NAWC will evaluate any tax reform measure in Congress under the following principles:

### **Cost of capital**

Tax reform should maintain a favorable environment for domestic business investment by private water companies, to enable companies to continue to provide customers with reliable, high-quality water and wastewater services at reasonable and sustainable rates. Because water companies are regulated by public utility commissions, tax changes that would increase the cost of capital of water companies would translate inevitably into higher rates for customers. Specifically:

- Congress should preserve the deductibility of interest.
- Congress should preserve reduced tax rates for dividends and capital gains.
- Congress should preserve the access of private water companies to tax-exempt finance.
- Congress should preserve the business deduction for state and local taxes.

- Congress should preserve a stable, long-term system of acceleration of investment-cost recovery, together with related normalization requirements.

### **Excess deferred taxes**

In any tax reform measure that reduces the corporate tax rate, Congress must address the transition from the higher rate to the lower rate for regulated private water companies and other utilities. As in the Tax Reform Act of 1986, Congress should ensure that the tax savings from a tax-rate reduction will flow to customers ratably over the depreciable life of the company's assets and thereby help water companies provide water and wastewater services to customers at sustainably lower rates into the future.