



To: State Tax Panel

From: Elizabeth Gara  
Connecticut Water Works Association

Date: September 16, 2015

Re: **Restoration of Sales Tax Exemption – Private Water Companies**

Thank you for the opportunity to comment on issues relating to state taxation.

The Connecticut Water Works Association (CWNA), which represents municipal, private, and regional water utilities, is very concerned about provisions in the adopted state budget and tax package which eliminated the sales tax exemption for private water companies under Section 12-412 (90), creating additional disparities in the water rates paid by water customers throughout Connecticut.

Private water companies, like other businesses in the state, are subject to the Connecticut Corporation Business Tax (CBT), the 20% surcharge on the CBT, as well as local property taxes. Many water companies are also impacted by the change in the budget to limit the use of tax credits earned from donations of open space land to local communities. These additional costs are reflected in customer rates, increasing costs for water service in certain communities.

By way of background, the legislature's Program Review & Investigations Committee conducted a study of water company regulation in 1993, including issues related to rate variability between private utilities and municipal and regional water utilities. The study concluded that, "In general, private water companies have additional costs that public suppliers do not...Private water companies pay local, state and federal taxes not paid by their municipal counterparts."

Private water companies are also subject to a number of legal and operational requirements that are not applicable to municipal and regional water companies, such as permit and other fees imposed by state agencies and local boards and commissions. These additional costs are reflected in customer rates, contributing to the disparities between the rates paid by private water customers and other water customers.

In response to the findings outlined in the Program Review study and additional discussions about how to minimize rate disparities following the release of the report, the legislature adopted legislation exempting private water companies from the sales tax in 1994. This legislation recognized that imposing sales taxes on private water companies places an unfair burden on customers of private water companies and exacerbates rate disparities.



Unfortunately, in an effort to address ongoing budget challenges, the legislature repealed the sales tax exemption for private water companies. It is estimated that this change will generate approximately \$4 million in additional revenues. Water companies are authorized to seek a limited reopener before the Public Utilities Regulatory Authority (PURA) to recover these additional costs in customers' rates. As such, this will have the effect of driving up costs for water service for customers in the more than 90 communities that are served, in whole or in part by a private water company, see attached.

In addition, water companies may still be eligible for sales tax exemptions for specific aspects of their operations under other provisions of the statutes. This has created issues regarding the implementation, administration and audit of sales taxes for these utilities and the regulatory agencies.

Connecticut's water utilities strive to provide public water supplies to customers at reasonable rates, recognizing that safe supplies of quality water are fundamental to meet the public health, safety, fire protection, and economic development needs of the communities they serve. Restoring the sales tax exemption for private water utilities will help ensure that private water customers are not burdened with additional costs that drive up water rates. CWVA urges the tax panel to include restoring the sales tax exemption for private water companies in its recommendations.

We would be happy to provide additional information to the Tax Panel regarding this issue.

Thank you for your consideration.

*The Connecticut Water Works Association, Inc. (CWVA) is an association of private, regional and municipal water supply utilities serving more than 1,000,000 customers or about 3 million people, located throughout Connecticut. As purveyors of public water supplies, our members have an obligation to provide sufficient quantities of high-quality water at a reasonable cost to consumers of the communities served.*

## Repealing the Water Company Sales Tax Exemption will Drive Up Costs

Businesses and residents in 95 towns will be impacted by the proposed elimination of the sales tax exemption for private water companies. Customers served by municipal or regional water authorities will not be affected by this change, resulting in a disparate impact. The additional tax will be passed on to customers in the form of a rate increase as the statutes provide for a limited reopener of rates to recover such increased tax obligations.

Among the towns where all or part of the community is served by a private water company that would be subject to this new tax obligation are:

Ashford	Granby	Prospect
Avon	Greenwich	Redding
Beacon Falls	Groton	Ridgefield
Bethany	Guilford	Salisbury
Bethel	Hebron	Seymour
Bolton	Kent	Shelton
Bridgeport	Killingly	Sherman
Bridgewater	Killingworth	Simsbury
Brookfield	Lebanon	Somers
Brooklyn	Lisbon	Southbury
Burlington	Litchfield	Southington
Canton	Madison	South Windsor
Chester	Manchester	Stafford
Clinton	Mansfield	Stamford
Columbia	Marlborough	Stonington
Cornwall	Middlebury	Stratford
Coventry	Middlefield	Suffield
Darien	Monroe	Thomaston
Deep River	Naugatuck	Thompson
East Granby	New Canaan	Tolland
East Haddam	New Fairfield	Torrington
East Hampton	New Milford	Trumbull
Easton	Newtown	Union
East Windsor	Norfolk	Vernon
Ellington	North Canaan	Voluntown
Enfield	Norwalk	Westbrook
Essex	Old Lyme	Weston
Fairfield	Old Saybrook	Windsor Locks
Farmington	Oxford	Woodbury
Goshen	Plainfield	Woodstock
Griswold	Plainville	
	Plymouth	