INVESTOR OWNED & GOVERNMENT OWNED
Water Utilities

AMERICAN WATER

Water is a natural resource, generally owned in common by all the people of a state and regulated by a unit of state government. Water utilities, whether investor-owned or government-owned, have rights to use the water to serve their customers subject to state laws and court precedents.

Government owned water utilities may be owned by a city, county, or a water district. Like investor owned water utilities, they may serve a small township or a major metropolis.

Investor owned water utilities are owned by one or more investors and regulated by a unit of state government. About 16% of Americans receive their water from an investor owned water utility. Frequently, investor owned water utilities provide service to multiple communities serving as a regional water provider.

Similarities and differences

Regardless of who owns a water utility, the same federal, state, and local rules control water quality and purity. The three largest differences between these ownership models are:

Economic oversight. Water rates for investor owned water utilities are set by a state public service commission staffed with experts in utility regulation. Government owned water utilities generally are not regulated by the state public service commission.

Full cost pricing. All expenses for investor owned water utilities are disclosed to and reviewed by the public service commission staff and state ratepayer or consumer advocacy group during the consideration of water rate adjustments. The full cost of providing water service is then billed to customers through their water rates. The true cost of water service from government owned water utilities often involves a combination of taxes and water rates, as a result of sharing of municipal resources such as city staff, buildings, and equipment. A simple comparison of water bills can be misleading.

Sources of capital. Government owned water utilities borrow from bondholders and banks to invest in their water system. Investor owned water utilities borrow from bondholders and banks in addition to obtaining equity investments from shareholders. Investor owned water utilities are allowed an opportunity to earn a return on shareholder invested capital. The state public service commission sets the Return On Equity (ROE) that is allowed, but whether the utility is able to achieve the allowed ROE depends upon many factors.

	INVESTOR OWNED	GOVERNMENT OWNED
Setting water rates	Independent state public service commission.	Council or water district board.
Service reliability	Must reliably deliver quality water service as a mandatory condition of utility's certificate to operate.	No certificate to operate is required, but service quality and reliability must meet public expectations.
Taxpayer subsidy	No local tax subsidies.	Varies by locale; many municipal water service costs are subsidized through tax bills as a result of sharing of municipal staff, facilities, and equipment costs. Even where an Enterprise Fund is used to capture costs, the lack of current, detailed allocation studies can allow subsidies to occur. Also, use of General Obligation Bonds results in taxpayer subsidy, not compensated through water rates and not shown on the water bill. The result is consumers pay costs other than those on the water bill.
Total cost of water service	All costs for furnishing water service are calculated using accrual accounting, and are reflected in the water bill.	Non-cash expenses such as depreciation, accrued pension costs, and expenses for post-retirement benefits are often deferred for future recovery, so the water bill does not reflect the full cost of service. Deferred cost must be paid by ratepayers or taxpayers in the future.
Economic contribution	Pay property and sales taxes to local and state governments.	Generally do not pay taxes, thus shifts more tax burden onto other residents and businesses.

AMERICAN WATER Global Water Awards Water Company of the Year 2009

"Charging less than it costs to deliver a safe, reliable water supply is neither good business nor good public policy."

-Richard G. Little, Director, Keston Institute for Public Finance and Infrastructure Policy, University of Southern California in the Wall Street Journal, June 27, 2008.