

Utilities are capital intensive industries. Historically, they have received the capital for the construction of a utility extension directly from new customers—typically through the developer or small municipality. The customer contributes this property, or a cash equivalent, equaling the cost of the extension to the utility. In this manner, existing customers will not face rate increases every time the utility gains new customers.

Prior to enactment of the Tax Reform Act of 1986, CIAC were not included in the gross income of an investor-owned utility and therefore were not subject to Federal income tax. On the other hand, utilities could not take tax depreciation or investment tax credits on CIAC.

The 1986 act repealed Internal Revenue Code section 118(b) and thus forced utilities to include CIAC in gross income and pay Federal income tax on them. Removing the exclusion from gross income of CIAC was intended as a tax on utilities. In practice and by regulation in most States, the CIAC tax is not a tax on utilities, but a tax on utility customers, primarily developers, home buyers, small municipalities, and even the Federal Government.

State utility regulatory bodies, referred to as PUC's, generally require utilities to pass tax costs onto their customers. This is done in one of two ways. The most common approach is to require the new customer to pay the cost of the tax, plus the tax on the tax known as the gross-up. Depending on the State, a gross-up can add as much as 70 percent to a customer's cost of the contribution. Alternatively, the PUC's may allow the utility to recover the tax cost over a period of time from the new rate base.

Whichever method is chosen, utilities do not pay the tax, they pass it on. But passing the tax on has detrimental effects, not only on the utility's ability to bring in new business, but on the environment and—most significantly—on the price of new housing.

A developer ultimately will pass the cost of the CIAC and the gross-up on to the new home buyer. The National Association of Home Builders has estimated that the CIAC tax can increase the cost of new housing by as much as \$2,000 per unit. This additional cost is enough to end the dream of homeownership for a young couple.

The CIAC tax also has some important environmental effects. New customers can avoid paying the CIAC tax by building their own independent water systems. This leads to a proliferation of systems that may not have the financial, technical, or managerial ability to comply with the rigorous requirements of the Safe Drinking Water Act. Such systems are referred to as nonviable. According to the EPA, in fiscal year 1990, over 90 percent of the violations of Safe Drinking Water Act were made by systems serving fewer than 3,300 individuals. By encouraging the proliferation of nonviable systems, the CIAC tax frustrates the environmental policy goal of consolidating these systems into exiting, professionally managed systems.

Mr. Speaker, repeal of the tax on CIAC for water and wastewater utilities will have a noticeable effect on both housing prices and environmental policy. It is supported by the National Association of Water Companies, the National Association of Regulatory Utility Commissioners, and the National Association of

Home Builders. I urge my colleagues to co-sponsor this important legislation.

50TH ANNIVERSARY OF THE
BATTLE OF IWO JIMA

HON. BENJAMIN A. GILMAN

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Wednesday, February 15, 1995

Mr. GILMAN. Mr. Speaker, I want to take this opportunity to call to the attention of my colleagues the upcoming 50th Anniversary of the Battle of Iwo Jima.

Fifty years ago this month, our American Marines from the Third, Fourth, and Fifth United States Marine Divisions courageously battled in a struggle which lasted 30 days, to capture the Japanese occupied island of Iwo Jima. With over 25,000 American casualties, including over 6,000 killed, the Battle of Iwo Jima was one of the bloodiest battles in all of American history. This Pacific island later provided bases for fighter support for raids over Japan, as well as an emergency landing field for damaged aircraft. It was planned that Iwo Jima would be used as a major launching facility for the Allied invasion of Japan. The invasion, of course, never took place because the atomic bomb brought about a rapid surrender of Japan prior to any invasion being necessary.

However, I can attest from my own personal experience that the capture of Iwo Jima, although extremely dear, resulted in the saving of countless American lives and hastened the end of the war.

Joe Rosenthal's Pulitzer Prize winning photograph of five men raising the American flag on Suribachi summarizes the spirit of the battle. Some authorities believe that this is the most duplicated photograph in all of history. In the classic words of Fleet Admiral Chester Nimitz: "Uncommon Valor Was a Common Virtue".

As a World War II staff sergeant stationed at Guam, I flew many missions over Tokyo. On several of these missions our aircraft was hit by enemy fire. We were forced on several occasions to make emergency landings, and were extremely grateful that the base on Iwo Jima was available to use. If these courageous Marines had not captured this island from Japan, myself and thousands of other American Marines would not have survived.

The capture of Iwo Jima made it possible for the United States to successfully protect bombers flying from Saipan, Tinian, Guam and other points to Japan. The airfields at Iwo Jima provided an important emergency landing field for 2,251 damaged Superforts carrying 24,761 crewmen. Thousands of American veterans, including myself, owe our lives to those who courageously captured the island of Iwo Jima.

Few battles in our history have captured the imagination of the public as has Iwo Jima. Immortalized in movies, novels, and other productions, all Americans are well aware that the name of Iwo Jima is emblazoned forever in the pantheon of glory. Unfortunately, few Americans are aware of why the courage of the Iwo Jima heroes was so significant to all of us.

It is in the spirit of gratitude and patriotism, Mr. Speaker, that I would like to call to the at-

ention of my colleagues a Reunion of Honor for the 50th Anniversary of Iwo Jima. The reunion will take place March 10–16, 1995. The surviving veterans of Iwo Jima, among the greatest heroes in our history, will be returning to Iwo Jima, Guam, and Saipan.

Mr. Speaker, this is an appropriate time to salute the brave dedicated men who fought in the Battle of Iwo Jima.

OPEN FOREIGN CAPITAL MARKETS
TO U.S. AIRLINES

HON. WILLIAM F. CLINGER, JR.

OF PENNSYLVANIA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, February 15, 1995

Mr. CLINGER. Mr. Speaker, during the three previous Congresses I served as the ranking member of the Aviation Subcommittee. While in that role it became very clear to me that U.S. carriers had tremendous difficulty raising capital to sustain their operations as well as meeting the high cost of acquiring expensive new equipment. Over the past 5 years the commercial air carrier industry has lost \$12.5 billion. That number far exceeds all profits earned by the industry since the Wright Brothers first flew.

High taxes, fare wars, burdensome regulations have all taken their toll. A lingering aftereffect of this bloodletting has been an inability on the part of most carriers to attract new capital. One of the biggest problems now facing the airlines is the dearth of available capital. This is a capital intensive industry. One step we can take to help assure their future is to address this capital crisis.

Under current law, foreign investors cannot hold more than a 25 percent stake in the voting stock of a U.S. carrier. The bill I am introducing today would be more favorable to foreign investment while retaining enough discretion with the Secretary of Transportation so that deals that were clearly not in the public interest could still be blocked.

Under my bill, foreign investments below the current 25 percent threshold could continue as before without restriction. Investments above 25 percent would be permitted as long as: first, the key officers and two-thirds of the airline's board of directors would still be U.S. citizens; second, U.S. citizens would still control at least 51 percent of the airline's stock; and third, the Secretary found that the investment would be in the public interest.

The first two requirements are objective standards that should be easy to apply in specific cases and would give some assurance of continued U.S. control. The third requirement, the public interest test, is intended to give continued discretion to the DOT Secretary.

In applying the public interest test, the Secretary is directed to consider seven factors. No one factor is meant to be an absolute bar to the transaction. Rather, the Secretary is to give the proper weight to each factor in each individual case in deciding whether the deal should be consummated.

Under the bill, the Secretary would be expected to look favorably upon an investment that would help a weak carrier survive and effectively compete, that would help preserve U.S. jobs, or that would enhance domestic or international competition.