

**REPORT OF THE
CHIEF LEGISLATIVE ANALYST**

DATE: May 5, 2025

TO: Honorable Members of the Rules, Elections, and Intergovernmental Relations Committee

FROM: Sharon M. Tso
Chief Legislative Analyst



Council File No. 25-0002-S23
Assignment No: 25-04-0285

SUBJECT: Resolution to Support the Water Conservation Rebate Tax Parity Act

CLA RECOMMENDATION: Adopt Resolution (Nazarian – Hernandez) to include in the City’s 2025-2026 Federal Legislative Program, support for the Water Conservation Rebate Tax Parity Act and similar state or federal legislation that provides tax exclusions for financial incentives issued by a local water agency for participation in water conservation, water use efficiency, and/or storm water runoff improvement programs.

SUMMARY

The Resolution (Nazarian – Hernandez), introduced March 28, 2025, states that the Los Angeles Department of Water and Power exists to support the growth and vitality of the City by providing safe, reliable, and cost-effective water and power in a customer focused and environmentally responsible manner. The Resolution states that the Water Conservation Rebate Tax Parity Act (“Act”), which is currently pending in Congress, would exclude from gross income, under personal income and corporation tax laws, amounts received as a rebate, voucher, or other financial incentive issued by a local water agency for participation in water conservation, water use efficiency, storm water runoff improvement programs, and wastewater management programs.

The Resolution notes that the State of California (“State”) is currently facing significant water challenges. The tax exclusion provided by the Act increases the value of incentive programs for water use efficiency, storm water management, and wastewater management, as well as the attractiveness of water-efficient projects and devices. The Act would thereby support the City’s efforts to reach sustainability goals, meet State mandates, and reduce reliance on imported water.

Therefore, the Resolution requests that the City support the Water Conservation Rebate Tax Parity Act and any similar state or federal legislation that provides tax exclusions for financial incentives issued by a local water agency for participation in water conservation, water use efficiency and/or storm water runoff improvement programs.

BACKGROUND

The Water Conservation Rebate Tax Parity Act (“Act”) is proposed federal legislation introduced in both chambers of Congress, designed to amend federal tax law so that homeowners and businesses are not required to pay federal income tax on rebates received from water utilities or public agencies for water conservation, efficiency, stormwater management, or wastewater management improvements. Currently, these rebates are treated as taxable income, which creates a financial disincentive for participation and adds administrative burdens for both recipients and agencies.

California Assembly Bill 2142 was signed into law by Governor Gavin Newsom in September 2022 which reinstated the California tax exemption which excludes from gross income any rebates for participation in turf replacement programs issued by public water systems, local governments, or state agencies. This exemption applies to both personal and corporate income taxes under California law, and covers taxable years from January 1, 2022, to January 1, 2027.

The Los Angeles Department of Water and Power (“LADWP”) is currently working to achieve the City’s sustainability goals and State water use reduction requirements signed into law in 2018 in response to California’s more frequent prolonged droughts. Programs that provide customers with rebates, subsidies, and financial incentives for water-saving devices, appliances, and projects are valuable tools to promote water use efficiency and conservation. LADWP offers customers a variety of rebates and subsidies:

- **Turf Replacement Program:** Provides rebates per square foot (sq. ft.) for replacing turf with drought-tolerant landscaping (minimum 250 sq. ft. requirement). For residential projects, it is \$5 per sq. ft. for projects between 250-5,000 sq. ft., with a maximum rebate of \$25,000. For commercial projects, it is \$5 per sq. ft. for projects between 250-50,000 sq. ft.; or \$3 per sq. ft. for projects of 50,001 sq. ft. to 7 acres. Also related to the Program, the LADWP provides the following:
 - \$50 rebate per rain barrel (max two).
 - Up to \$200 rebate for weather-based irrigation controllers.
 - \$300-\$500 rebate for cisterns.
- **Water-Efficient Appliances:** Provides up to \$500 in rebates for high-efficiency clothes washers; and provides \$250 rebates for every premium high-efficiency toilets.
- **Free Water Conservation Items:** LADWP provides showerheads, faucet aerators, and rotating sprinklers at no cost.
- **Commercial/Multi-Family Rebates:** LADWP, through the SoCal WaterSmart Rebate Program, provides a suite of rebates on top of the aforementioned rebates and subsidies. This includes rebates for various irrigation upgrades, and for installing specific plumbing fixtures and food service equipment. LADWP also offers free trees through City Plants for qualifying projects.

DEPARTMENTS NOTIFIED

LADWP

BILL STATUS

03/05/25

Referred to the House Committee on Ways and Means

CD Fields

Christopher Fields
Analyst

Attachment: 1. Resolution (Nazarian – Hernandez)
2. H.R. 1871, the Water Conservation Rebate Tax Parity Act

RESOLUTION

WHEREAS, any official position of the City of Los Angeles (City) with respect to legislation, rules, regulations, or policies proposed to or pending before a local, state, or federal government body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, the Los Angeles Department of Water and Power (LADWP) is the largest municipal utility in the United States. Established in 1902, LADWP exists to support the growth and vitality of the City of Los Angeles, its residents, businesses, and the communities it serves, by providing safe, reliable, and cost-effective water and power in a customer focused and environmentally responsible manner; and

WHEREAS, the "Water Conservation Rebate Tax Parity Act" would exclude from gross income, under personal income and corporation tax laws, amounts received as a rebate, voucher, or other financial incentive issued by a local water agency for participation in water conservation, water use efficiency, storm water runoff improvement programs, and wastewater management programs; and

WHEREAS, the State of California (State) is currently facing some of the most significant water challenges seen in the last half-century, including aging critical water infrastructure, intermittent, multi-year periods of dry conditions, and water shortages, impacting water reserves and the State's ability to meet public demand during a major disruption to its water delivery system; and

WHEREAS, it is imperative that the State focus on creating a sustainable water future through the effective management of surface waters and groundwater, together with enhanced water use efficiency and conservation, water reuse, and stormwater capture and utilization; and

WHEREAS, Assembly Bill 2142 was signed into law by Governor Gavin Newsom in September of 2022 which reinstated the California personal tax exemption for turf replacement rebates and helped incentivize participation in these important water saving programs; and

WHEREAS, LADWP is currently working to achieve the City of Los Angeles' sustainability goals and State water use reduction requirements signed into law in 2018 in response to California's more frequent and prolonged droughts. Programs that provide customers with rebates, subsidies, and financial incentives for water-saving devices, appliances, and projects are valuable tools to promote water use efficiency and conservation; and

WHEREAS, the LADWP offers customers a variety of rebates and subsidies for water-efficient appliances, turf replacement with California Friendly landscaping, and other water-saving projects that can lead to significant cost savings, in addition to promoting conservation as a way of life; and

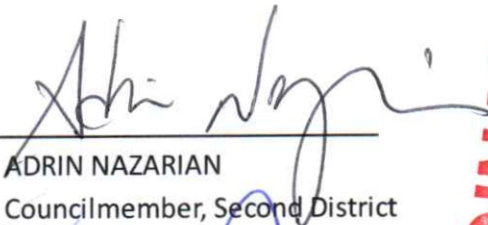
WHEREAS, the tax exclusion provided by The Water Conservation Rebate Tax Parity Act increases the value of water use efficiency incentive programs, storm water management incentive programs, and wastewater management incentive programs and the attractiveness of water-efficient projects and devices. As such, this bill would also support the City's efforts to reach its sustainability goals, meet State mandates, and reduce its reliance on purchased, imported water:

NOW, THEREFORE, BE IT RESOLVED, that by adoption of this Resolution, with the concurrence of the Mayor, the City of Los Angeles hereby includes in its 2025-2026 Federal Legislative Program SUPPORT for the Water Conservation Rebate Tax Parity Act and similar state or federal legislation that provides tax exclusions for financial incentives issued by a local water agency for participation in water conservation,


MAR 28 2025

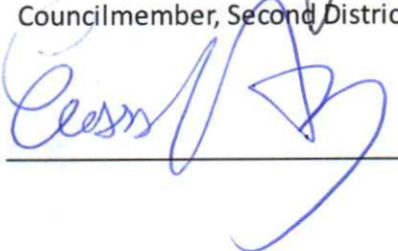
water use efficiency and/or storm water runoff improvement programs.

PRESENTED BY:


ADRIN NAZARIAN

Councilmember, Second District

SECONDED BY:



ORIGINAL

119TH CONGRESS
1ST SESSION

H. R. 1871

To amend the Internal Revenue Code of 1986 to expand the exclusion for certain conservation subsidies to include subsidies for water conservation or efficiency measures, storm water management measures, and wastewater management measures.

IN THE HOUSE OF REPRESENTATIVES

MARCH 5, 2025

Mr. HUFFMAN (for himself, Mr. MOORE of Utah, and Ms. CHU) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to expand the exclusion for certain conservation subsidies to include subsidies for water conservation or efficiency measures, storm water management measures, and wastewater management measures.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Water Conservation
5 Rebate Tax Parity Act”.

1 **SEC. 2. MODIFICATIONS TO INCOME EXCLUSION FOR CON-**
2 **SERVATION SUBSIDIES.**

3 (a) IN GENERAL.—Subsection (a) of section 136 of
4 the Internal Revenue Code of 1986 is amended—

5 (1) by striking “any subsidy provided” and in-
6 serting “any subsidy—

7 “(1) provided”,

8 (2) by striking the period at the end and insert-
9 ing a comma, and

10 (3) by adding at the end the following new
11 paragraphs:

12 “(2) provided (directly or indirectly) by a public
13 utility to a customer, or by a State or local govern-
14 ment to a resident of such State or locality, for the
15 purchase or installation of any water conservation or
16 efficiency measure,

17 “(3) provided (directly or indirectly) by a storm
18 water management provider to a customer, or by a
19 State or local government to a resident of such State
20 or locality, for the purchase or installation of any
21 storm water management measure, or

22 “(4) provided (directly or indirectly) by a State
23 or local government to a resident of such State or
24 locality for the purchase or installation of any waste-
25 water management measure, but only if such meas-

1 ure is with respect to the taxpayer's principal resi-
2 dence.”.

3 (b) CONFORMING AMENDMENTS.—

4 (1) DEFINITION OF WATER CONSERVATION OR
5 EFFICIENCY MEASURE AND STORM WATER MANAGE-
6 MENT MEASURE.—Section 136(c) of the Internal
7 Revenue Code of 1986 is amended—

8 (A) by striking “ENERGY CONSERVATION
9 MEASURE” in the heading thereof and inserting
10 “DEFINITIONS”,

11 (B) by striking “IN GENERAL” in the
12 heading of paragraph (1) and inserting “EN-
13 ERGY CONSERVATION MEASURE”, and

14 (C) by redesignating paragraph (2) as
15 paragraph (5) and by inserting after paragraph
16 (1) the following:

17 “(2) WATER CONSERVATION OR EFFICIENCY
18 MEASURE.—For purposes of this section, the term
19 ‘water conservation or efficiency measure’ means any
20 evaluation of water use, or any installation or modi-
21 fication of property, the primary purpose of which is
22 to reduce consumption of water or to improve the
23 management of water demand with respect to one or
24 more dwelling units.

1 “(3) STORM WATER MANAGEMENT MEASURE.—

2 For purposes of this section, the term ‘storm water
3 management measure’ means any installation or
4 modification of property primarily designed to re-
5 duce or manage amounts of storm water with re-
6 spect to one or more dwelling units, including an in-
7 stallation or modification to prevent or reduce the
8 impacts of storm water-caused flooding to such
9 property.

10 “(4) WASTEWATER MANAGEMENT MEASURE.—

11 For purposes of this section, the term ‘wastewater
12 management measure’ means any installation or
13 modification of property primarily designed to man-
14 age wastewater (including septic tanks and cess-
15 pools) with respect to one or more dwelling units.”.

16 (2) DEFINITION OF PUBLIC UTILITY.—Section
17 136(c)(5) of such Code (as redesignated by para-
18 graph (1)(C)) is amended by striking subparagraph
19 (B) and inserting the following:

20 “(B) PUBLIC UTILITY.—The term ‘public
21 utility’ means a person engaged in the sale of
22 electricity, natural gas, or water to residential,
23 commercial, or industrial customers for use by
24 such customers.

“(C) STORM WATER MANAGEMENT PROVIDER.—The term ‘storm water management provider’ means a person engaged in the provision of storm water management measures to the public.

“(D) PERSON.—For purposes of subparagraphs (B) and (C), the term ‘person’ includes the Federal Government, a State or local government or any political subdivision thereof, or any instrumentality of any of the foregoing.”.

(3) CLERICAL AMENDMENTS.—

(A) The heading of section 136 of such Code is amended—

(i) by inserting “**AND WATER**” after “**ENERGY**”, and

(ii) by striking “**PROVIDED BY PUBLIC UTILITIES**”.

(B) The item relating to section 136 in the table of sections of part III of subchapter B of chapter 1 of such Code is amended—

(i) by inserting “and water” after “energy”, and

(ii) by striking “provided by public utilities”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to amounts received after Decem-
3 ber 31, 2021.

4 (d) NO INFERENCE.—Nothing in this Act or the
5 amendments made by this Act shall be construed to create
6 any inference with respect to the proper tax treatment of
7 any subsidy received directly or indirectly from a public
8 utility, a storm water management provider, or a State
9 or local government for any water conservation or effi-
10 ciency measure, storm water management measure, or
11 wastewater management measure before January 1,
12 2022.

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