



May 6, 2022

The Honorable Chris R. Holden
 Chair, Assembly Appropriations Committee
 1021 O Street, Suite 8220
 Sacramento, CA 95814

RE: AB 2142 (Gabriel) – Income taxes: exclusion: turf replacement water conservation program – Support

Dear Chair Holden:

The undersigned organizations are pleased to support AB 2142 (Gabriel). This bill will reinstate an important exemption for turf replacement rebates from gross income in California, aligning it with certain other permanently exempt water efficiency rebates.

California is in its second drought within a decade and it is critical for the state to continue to invest in both immediate conservation and ongoing water efficiency as we adapt to climate change. Water efficiency incentive programs are an effective tool in this effort. For example, since 1990, The Metropolitan Water District of Southern California (MET) has invested more than \$840 million in rebates and other conservation incentives, resulting in an estimated water savings of nearly 3.5 million acre feet, enough to provide water for more than 10 million households.

Further, even when the state is not facing drought conditions, California has made a commitment to “Conservation as a California Way of Life” through the enactment of SB 606 (Hertzberg, 2018) and AB 1668 (Friedman, 2018). As part of that commitment, the Administration is in the process of establishing a water use objective for urban water agencies that will create numeric goals that each agency must meet, and incentive programs will be key to its success.

The Franchise Tax Board has projected minimal General Fund revenue impacts with losses in 2022-23 being \$150,000 and \$100,000 in future years. The significant financial and environmental benefits of these turf replacement programs far outweighs the minimal fiscal impact. Further, low to middle-income households benefit most from these programs. In a 2019 study utilizing census tract data, MET found that 68 percent of their turf replacement rebates went to low to medium-income households; San Diego County Water Authority did a similar study, and found that 55 percent went to low to medium-income families.

The State has permanently exempted other water efficiency rebates, recognizing their effectiveness in advancing efficiency objectives. Rebates for water efficient toilets and clothes washers, certain plumbing for recycled water, and energy conservation are all permanently exempt from both personal and corporate taxes in California. (Cal. Rev. & Tax Code §§ 17138, 17138.1, 24308.1.) Turf replacement programs, like these other rebates, play an important role in continued water efficiency and conservation efforts.

Taxing water efficiency rebates is a disincentive for households to participate in these critical programs. Even with incentives, most households will need to invest a significant amount of their own income to replace lawns with drought-tolerant landscaping. And taxing these rebates is an especially significant barrier for low-income households who participate in these programs.

California Law previously exempted turf rebates from taxable income, but those provisions were allowed to sunset in December 2019. Part of the rationale at that time was that California was not in a drought, but the environment is changing rapidly due to the impacts of climate change and it is important that the State’s public policy reflects this changing reality.

For these reasons, the undersigned organizations respectfully request your “Aye” vote when the bill is heard in the Assembly Committee on Appropriations.

Sincerely,

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CC: The Honorable Jesse Gabriel
Members, Assembly Appropriations Committee