

August 11, 2016

Mr. Ali Zaidi, Associate Director for Natural Resources Christy Goldfuss, Managing Director
Office of Management and Budget Council on Environmental Quality

Jeffrey Zients, Director Dr. John Holdren, Director
National Economic Council Office of Science and Technology Policy

Jerry Abramson, Director
Intergovernmental Affairs

Re: Federal Tax Penalties for Local Water Efficiency Rebates

Dear Mr. Zaidi, Ms. Goldfuss and Mr. Zients,

As members of the National League of Cities and the Arizona Municipal Water Users Association, we ask for your support in resolving a federal issue of great importance to our community. Public water utilities comprise over 80% of U.S. municipal water providers. The City of Tempe's water utility is responsible for the maintenance, quality and security of our municipality's water. Providing a safe, clean and sustainable water supply is our number one priority. Consumer rebates and subsidies are among our most cost-effective and efficient tools for increasing water supply resilience.

In order to promote conservation of water, The City of Tempe offers rebates to residents and businesses for low-flow toilets, converting landscaping over to xeriscaping, and installing greywater infrastructure. Municipalities often examine how we can increase water use efficiency and green infrastructure programs and avoid costlier, and less sustainable, alternatives for our utilities. These efforts are especially important in Arizona and the Colorado River Basin because we are experiencing increasing stress on water supplies due to drought.

These tools work, and as a result the number of communities offering municipal water rebate programs is growing across the country. Unfortunately these water-savings programs face uncertainty as to how the Internal Revenue Service (IRS) will treat these rebates. Water conservation and stormwater management rebates are not specifically excluded from income under the U.S. Internal Code, potentially requiring municipal water utilities to issue 1099s to all participating consumers that receive rebates in excess of \$600 a year. These rebate programs are limited to repayment for out-of-pocket expenses to the consumer, and often do not cover the full cost of the infrastructure or landscaping involved. Taxing these is a disincentive to the millions across the country who may participate in conservation programs, thus undermining their effectiveness.

As local elected officials working to conserve water during the historic drought experienced in the Western United States, we believe it is important that the Administration provides certainty and resolve this issue. We commend President Obama for his commitment to sustainability and improving environmental and energy efficiencies, and

would respectfully ask that the Obama Administration work with Congress to exempt water conservation and stormwater management rebates from taxation.

Sincerely,