



SAFE CLEAN WATER PROGRAM

Credit Trading Program (CTP)

Workshop

October 30, 2024



Workshop Agenda

- Purpose and Intent of Tax Credit Trading Program
- Status and Recent Updates (including feedback received to date)
- Brief Overview – Safe Clean Water Program and Tax Credit Program
- Draft Credit Trading Program Overview
 - Program background and potential
 - Program description, rules, and trading examples
 - Certification, monitoring, and enforcement
 - Additional questions/program elements
- Next Steps / Timeline
- Questions and Discussion



Purpose / Intent

"...allow Parcel owners to purchase and sell credits to satisfy Special Parcel Tax obligations..."

- L.A. County Code, Chapter 16.10.B

"... allow any Parcel owner . . . subject to the Special Parcel Tax to reduce the amount of their Tax by purchasing Tax Credit Trading Units (TCTUs) from a third party based on the third-party's implementation of Stormwater Improvement projects . . . "

- CTP Principles and Guidelines

Why Tax Credit Trading?

- Provide flexibility to taxed landowners
- Incentivize stormwater improvements on non-taxed, non-municipal parcels (i.e. churches, educational, institutional, non-profits, etc.)
- Cost effective use of SCW Program funds to achieve goals



Status / Recent Updates

- ▶ County has received input and questions over the course of three workshops
 - Workshop 1: June 13, 2022
 - Workshop 2: June 22, 2022
 - Workshop 3: August 16, 2023
- ▶ County Counsel conducted legal review
- ▶ County has incorporated and addressed public input as feasible
- ▶ Draft of Credit Trading Procedures & Guidelines (P&Gs) now available for public comment (30-days)

Common Questions Received During Public Comment Period

- ▶ Who is eligible? Can municipalities participate?
- ▶ What is the timing of trades, credits, TCTUs?
- ▶ How will this affect SCW Program funds/revenues?
- ▶ What else could this lead to?



Safe, Clean Water Program

Provides local, dedicated funding to increase our regional water supply, improve water quality, and enhance our communities.

History

- ☞ Measure W passed November 2018
- ☞ Administering the SCWP is ongoing

Funding

- ☞ \$0.025 per sq. ft. of impermeable area
- ☞ First funding became available Fall 2020

Vision

- ☞ Modernize LA County's 100-year-old water system to better protect public health and our environment, and maximize a cleaner, locally controlled water supply

Mission

- ☞ **Capture** more of our stormwater
- ☞ **Clean** our stormwater before it reaches our beaches and coastal waters
- ☞ **Make it Safe** by helping to eliminate pollutants and chemicals that flow into the ocean
- ☞ **Make it for Everyone** by protecting waterways and create green space

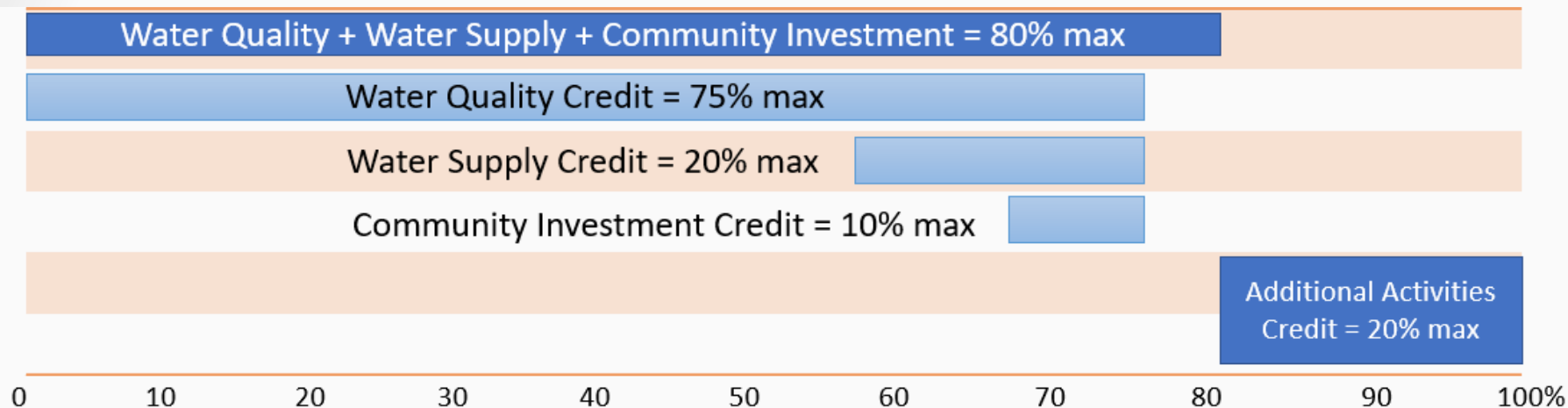
Goals

- ☞ **14 goals** outlined in Chapter 18 of the SCWP Implementation Ordinance
- ☞ <https://safecleanwaterla.org/resources/documents-board-actions/>





Credit Program



- ⚓ Tax credit to parcel owners with qualifying stormwater improvements
- ⚓ Parcel owners complete form and provide pictures to demonstrate operability
- ⚓ Credit calculations and Engineer's Report required





Tax Credit Trading Program

L.A. County Municipal Code

- 🔑 **Section 16.10.B - Credit trading program.** The District shall establish a credit trading program that, **at a minimum, would allow Parcel owners to purchase and sell credits to satisfy Special Parcel Tax obligations.** The program shall be implemented in accordance with the provisions of Section 18.11 of Chapter 18 of this code.
- 🔑 **Section 18.11.A** - The credit trading program...shall be implemented in accordance with **procedures and guidelines** developed and adopted by the Chief Engineer, **in consultation with stakeholders**, and updated from time to time...
- 🔑 **Section 18.11.B** - Credits earned but not applied in the Credit Program will be eligible for trading.



Participants: Eligible Tax Credit Buyers

I want to reduce my SCWP tax but can't build a cost-effective improvement onsite.



- ☂ Parcel owners who **cannot** or **do not want to** build a stormwater improvement on their property to reduce their SCW Program tax.
- ☂ Must be **owners of SCW Program taxed parcels.**

Participants: Eligible Tax Credit Sellers

Owners of **non-municipal tax-exempt** parcels who build stormwater improvements onsite. (e.g., schools, hospitals, faith-based organizations).

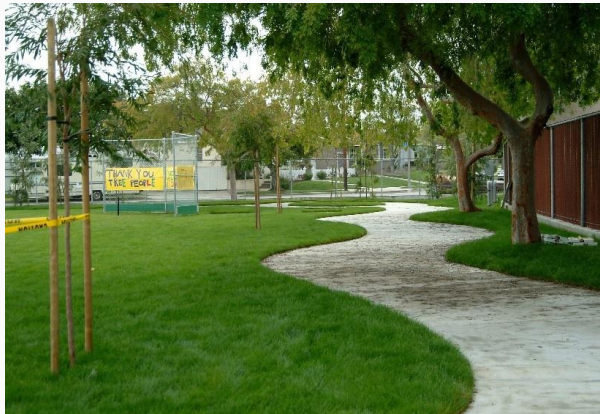


Tax-exempt parcels

We would like to construct a stormwater improvement. I wish we had some additional funding.



How are TCTUs Created?



Stormwater Improvement projects constructed on Tax-Exempt Parcels generate CTUs.



How are TCTUs Created/Calculated?

- ☞ CTUs calculated based on the Special Parcel Tax amount that would be attributable to the parcel if it was not tax-exempt.
 - ☞ Tax based on parcel's total impermeable area
- ☞ Once created, **all TCTUs are considered equal**
 - ☞ Buyers can purchase CTUs without consideration for how they were created (i.e., through WQ, WS, CI credits).
- ☞ Stormwater Improvement project must be fully constructed and operational prior to issuance of TCTUs by Public Works.
- ☞ Sellers can obtain conditional approval of TCTU issuance based on approval of 100% engineering design.

BENEFIT	CREDIT PROGRAM (% Discount on SCW Program Tax)	
		Taxed Parcels
WATER QUALITY	UP to 75%	} Max 80%
WATER SUPPLY	UP TO 20%	
COMMUNITY INVESTMENT	UP TO 10%	
ADDITIONAL ACTIVITIES	UP TO 20%	



What is the Market Currency?

Tax Credit Trading Unit (TCTU):
Equivalent to \$1 in SCW Program Tax Credit Per Year

- For every TCTU purchased, buyer receives \$1 in credit on SCW Program tax.
- Buyers can purchase TCTUs up to an amount that is equivalent to their full tax.
- Buyers will theoretically pay up to \$0.99 minus transaction costs per TCTU
- Buyers can purchase TCTUs from multiple sellers to receive full tax credit (and vice versa).
- Buyer is only purchasing tax credit, not “compliance credit”

What is the timing of Trades/TCTUs?

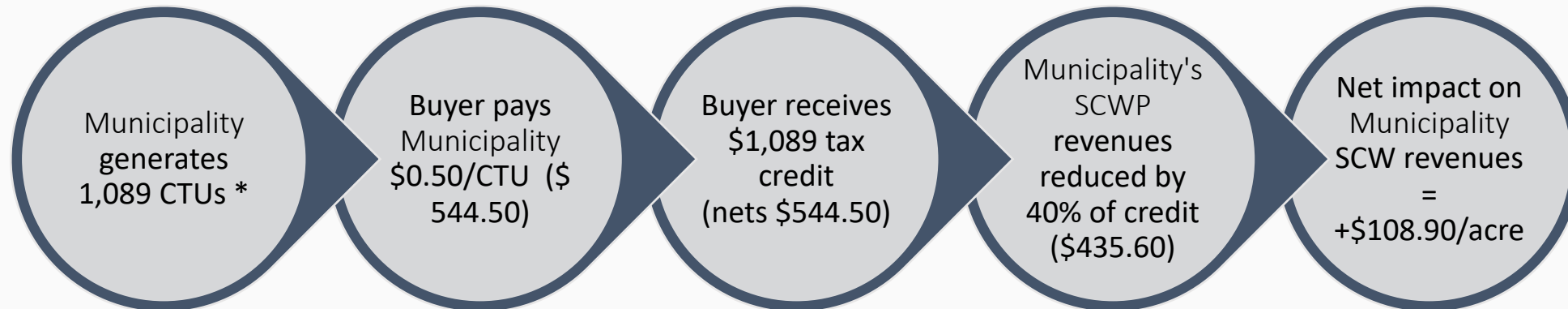
- Sellers can receive certification for TCTUs for two years at a time
 - A seller who generates 1,000 TCTUs per year, will receive 2,000 TCTU's at the start of certification cycle. These may be sold one time and then are retired.
 - After two years, they must recertify their improvement.
- Buyers can purchase TCTUs in an amount up to 100% of the amount of their Special Parcel Tax for up to 2 years.
 - Each TCTU purchased is used to reduce a Parcel's Special Parcel Tax amount for one fiscal year.
 - TCTUs will be applied to the Buyer's Special Parcel Tax obligation in each fiscal year for which TCTUs have been purchased.
 - After this time, buyers no longer receive credit on their tax unless they purchase additional TCTUs

Additional Eligibility Requirements

- Municipalities are excluded from participation in the TCTP as buyers or sellers (more on next slide)
- No SCW Program funding may be used for Stormwater Improvement projects that generate Tax Credit Trading Units (TCTUs)
- Public Works will consider Stormwater Improvement projects funded by other municipal sources on a case-by-case basis.
- Stormwater Improvement projects completed after November 6, 2018, may be eligible for TCTU certification.

Can Municipalities Generate TCTUs?

- 🚰 Municipalities **cannot** generate TCTUs
 - 🚰 Municipalities already receive Safe Clean Water funding
 - 🚰 Buyer pays municipality, municipality credits buyer (circular)
 - 🚰 Circumvents WASC process
 - 🚰 Tracking SCWP funds by project is difficult



*1 acre = 43,560 square feet x 0.025 = 1,089 CTUs



How Are Trades Made?

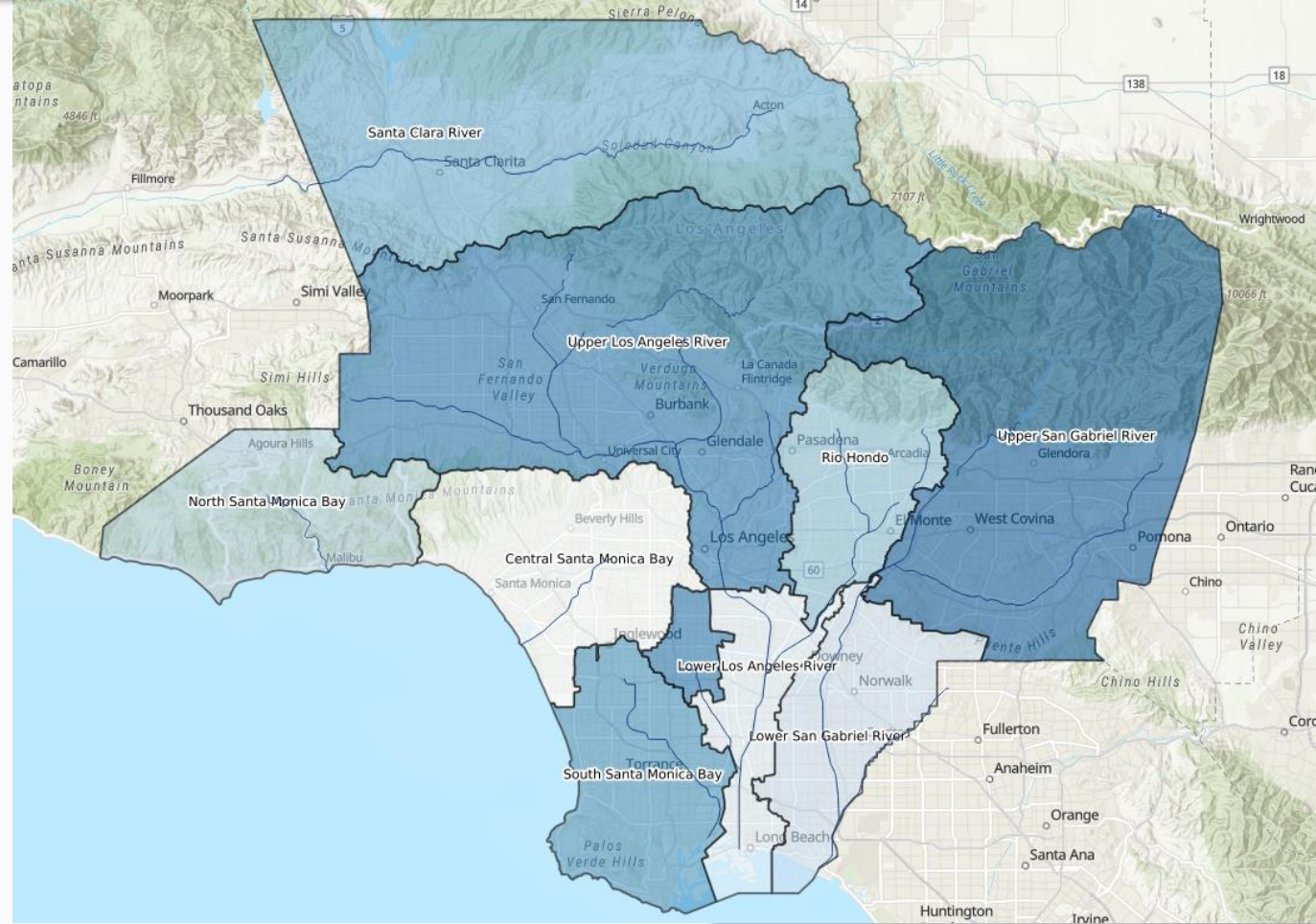
1. Seller lists available TCTUs online at desired sale price.
2. Buyers submit request to Seller to purchase TCTUs via CTP website.
3. Buyer/Seller agree on purchase price.
4. Seller submits sale request to Public Works.
5. Public Works reviews proposed transaction.
6. Buyer and Seller agree on a payment method.
7. Once payment is received, Seller issues Buyer and Public Works receipt in the form of a signed TCTU Purchase Agreement.
8. Public Works credits Buyer's account with the TCTUs and applies associated Special Parcel Tax credits to first subsequent tax year.
9. TCTU transactions must be completed by May 1st to be credited to the Buyer's account for the following tax year.





What are the Market Boundaries?

- Trades can only be made between buyers and sellers within **same Watershed Area and Municipality**
- Prevents stormwater improvements created in one area from depleting SCW Program funding in another.

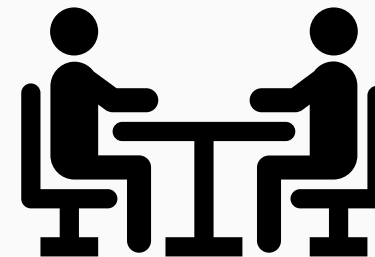




How is the TCTU Price Set?

- Seller and Buyer agree on TCTU price
- TCTU price set at less than \$1 to provide benefit to buyer and seller.
- Price not related to cost of improvement
- Buyer can purchase up to two-year's worth of TCTUs at one time.

Buyer pays seller
\$0.70/CTU



Seller benefit = \$0.70/CTU in revenue

Buyer benefit = \$1 in tax credit from County for every CTU purchased (net gain of \$0.30/CTU)

Scenario 1: Tax-exempt Parcel Generating TCTUs, No Additional Activities



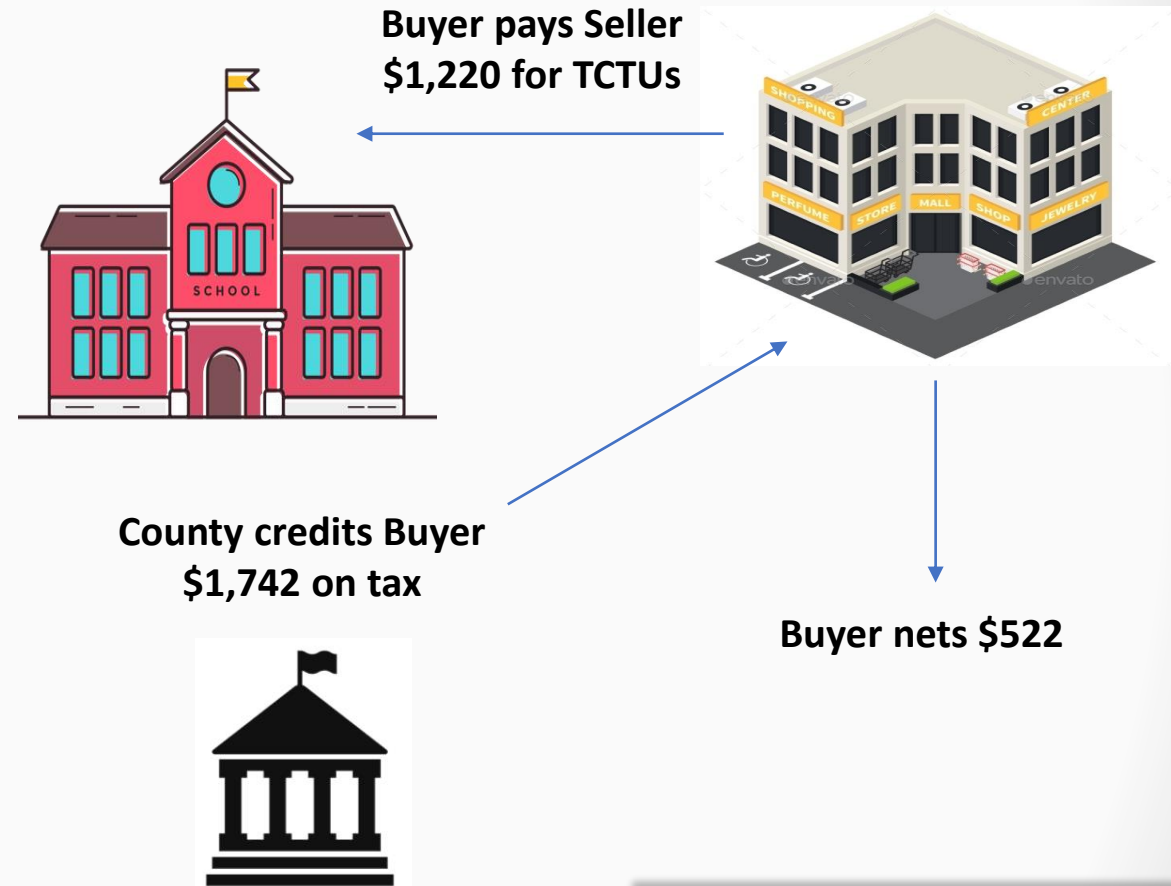
OUTCOME:

- If Parcel was not tax-exempt, SCW Program Special Parcel Tax would equal \$1,089/year (\$0.025/sq. ft.)
- Parcel owner generates TCTUs by implementing a Stormwater Improvement project that provides Water Quality (WQ), Water Supply (WS), and Community Investment (CI) Benefits.
- Maximum TCTUs = 80% of Parcel's hypothetical tax
$$= 80\% * \$1,089 = \textbf{\$871.20 per year}$$

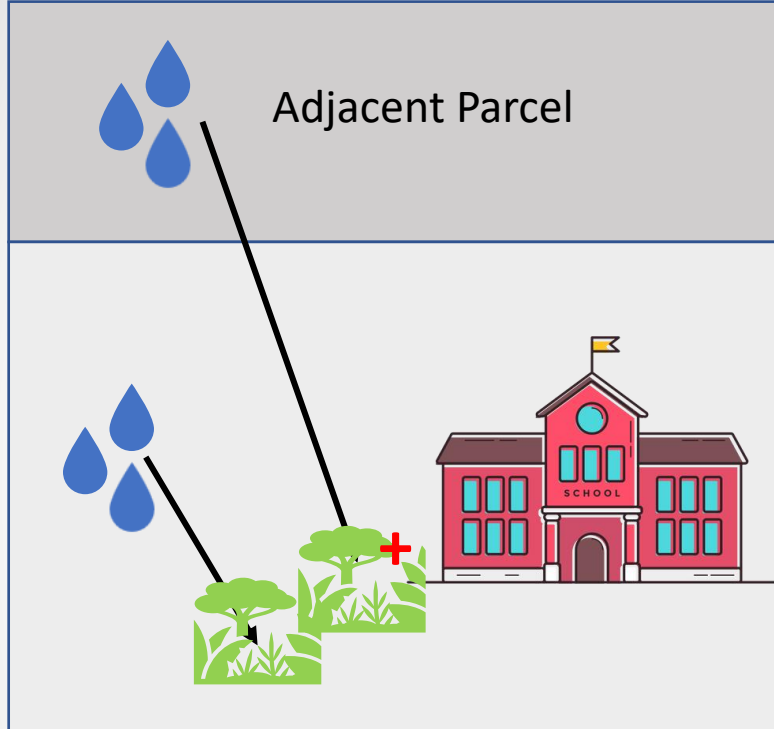
In this scenario, Stormwater Improvement on Seller's Parcel receives maximum credit for WQ, WS, and CI benefits but does not meet criteria for Additional Activities credit.

Scenario 1 (cont'): Buying TCTUs

- ▶ Seller generates \$871 worth of TCTUs per year (previous slide)
- ▶ Certifies \$1,742 of TCTUs (two year's worth)
- ▶ Buyer pays Seller \$0.70 per TCTU (total of \$1,220 = $\$0.70 * \1742)
- ▶ Buyer receives \$1,742 in tax credits
- ▶ Buyer nets \$522 (= $\$1742 - \$1,220$ paid to Seller)



Scenario 2: Tax-exempt Parcel Generates TCTUs by Managing Onsite and Offsite Runoff



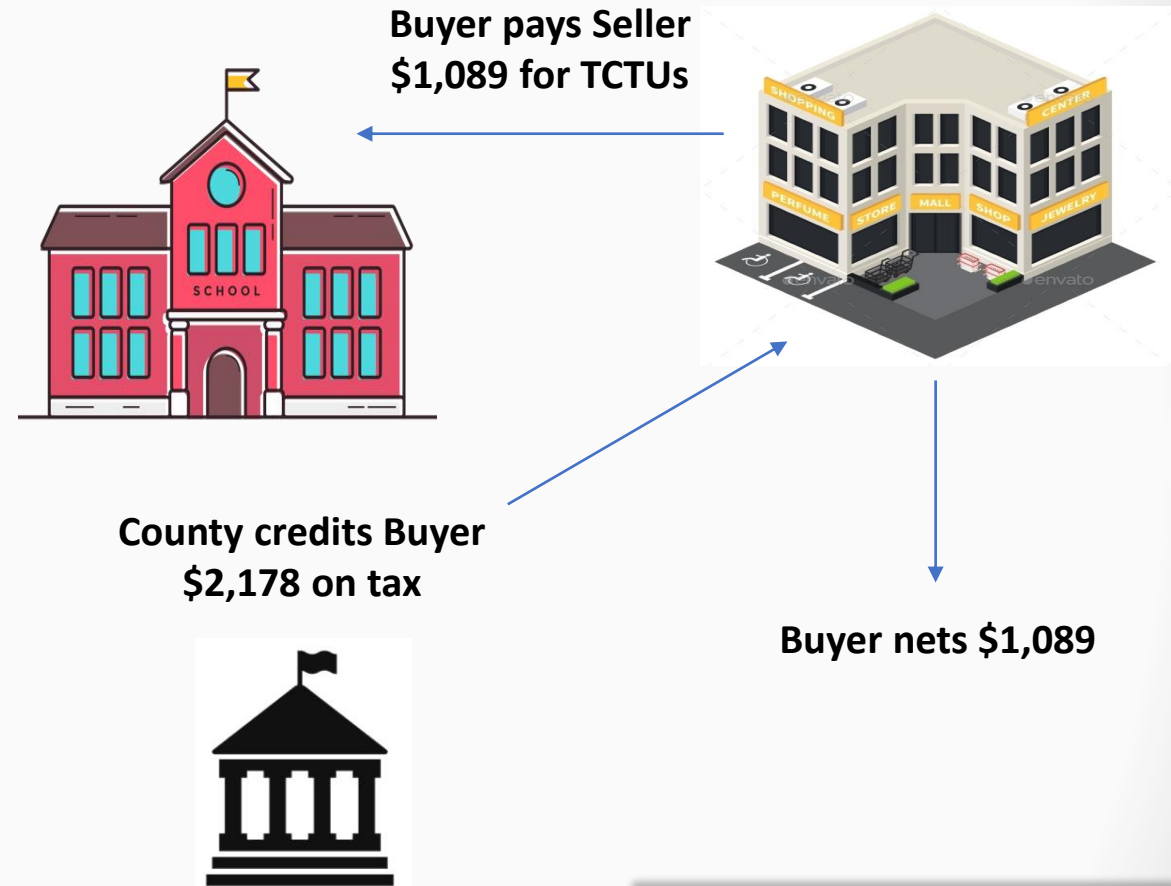
OUTCOME:

- If Parcel was not tax-exempt, SCW Program Special Parcel Tax would equal \$1,089/year (\$0.025/sq. ft.)
- Parcel owner/eligible entity generates TCTUs by implementing a Stormwater Improvement project that provides WQ, WS, and CI Benefits.
- Parcel owner/eligible entity manages runoff from offsite.
- Maximum TCTUs = 80% of Parcel's hypothetical tax (for WQ, WS, CI Benefits)
+ 20% of Parcel's hypothetical tax (for Additional Activities)
= **100% * \$1,089 = \$1,089 per year**

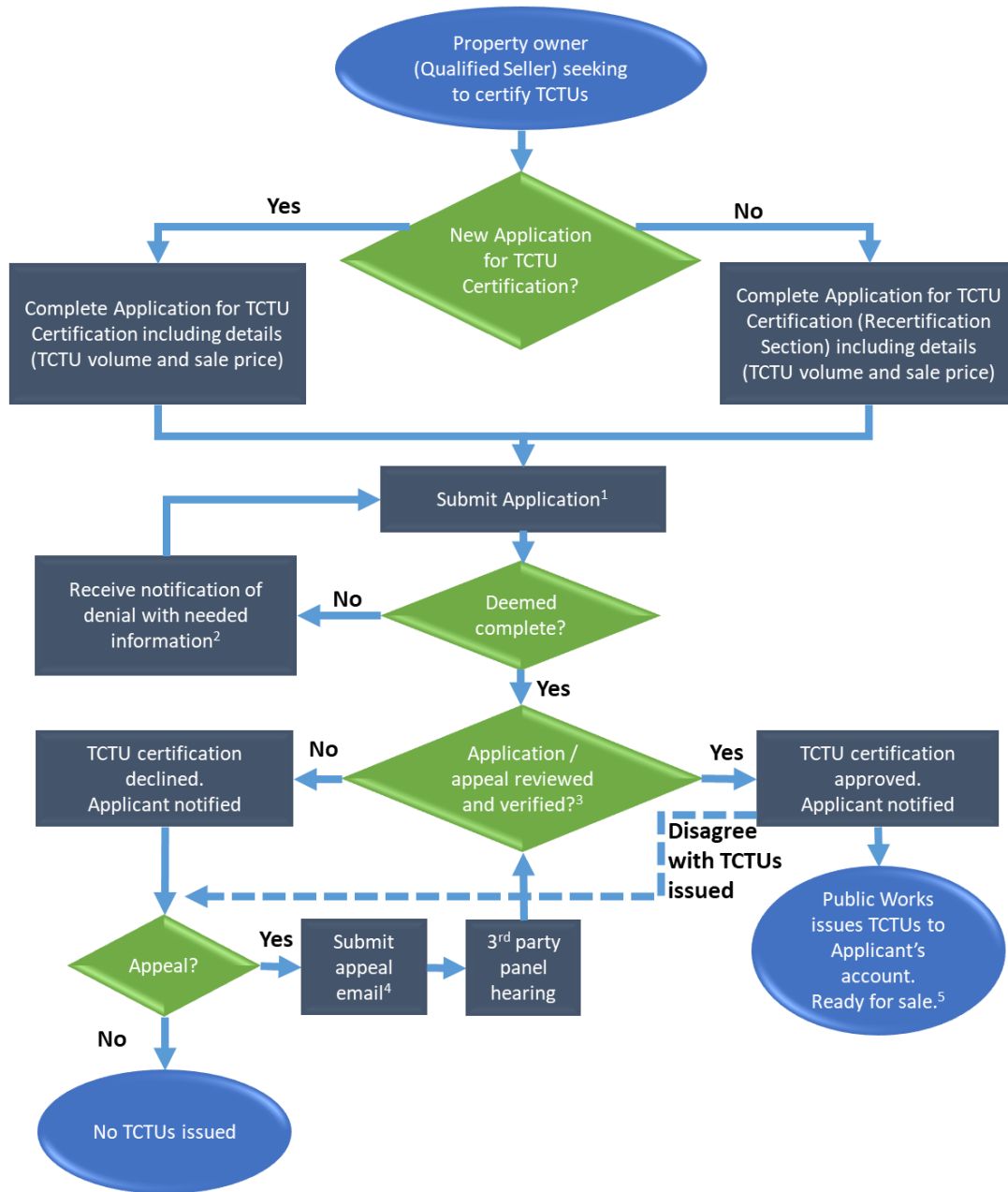
In this scenario, Stormwater Improvement on Seller's Parcel receives maximum credit for WQ, WS, and CI benefits and meets criteria for Additional Activities credit.

Scenario 2 (cont'): Buying TCTUs

- ▶ Seller generates \$1,089 worth of TCTUs per year (previous slide)
- ▶ Certifies \$2,178 of TCTUs (two year's worth)
- ▶ Buyer pays Seller \$0.50 per TCTU (total of \$1,089 = $\$0.50 * \$2,178$)
- ▶ Buyer receives \$2,178 in tax credits
- ▶ Buyer nets \$1,089 (= $\$2,172 - \$1,089$ paid to Seller)



Certification Process



- ▶ Stormwater improvements must already be in operation
 - Seller can pursue conditional approval if improvements are not yet complete
- ▶ Application must be stamped by a registered civil engineer
- ▶ Application includes improvement description, calculations of benefits, approved plans, improvement photos, etc.
- ▶ Deadline to submit application is September 30th to ensure adequate time to complete TCTU transaction by May 1st of following year
- ▶ Improvements subject to random inspection
- ▶ Established appeals process
- ▶ Applicant must sign agreement to maintain stormwater improvement over certification period



Recertification

- 🕒 Every 2 years
- 🕒 Seller re-submits application with current improvement photos demonstrating functionality
- 🕒 No monitoring, testing, or new calculations are required.
- 🕒 Applicants must sign statement that Stormwater Improvement is in working order.





Enforcement

- ✎ Improvements that fail to demonstrate that they are performing as intended will not be eligible for recertification.
- ✎ Public Works may conduct random inspections
- ✎ If seller fails to maintain TCTU-generating improvement and is no longer functioning, Public Works may issue notice of violation to the seller describing remedial actions.
 - ✎ If remedial actions are not completed, Public Works, may decertify the associated TCTUs.



Effect on SCW Program Funds

Will there be a cap on TCTUs?

- ☞ Within each SCW Program Watershed Area, issuance of TCTUs will be limited to 5% of total SCW Program revenues for that area.
- ☞ This may be reevaluated as the program evolves.

How will CTP affect SCW Program Revenues?

- ☞ Municipal and Watershed Area trading boundaries ensure that revenue is only reduced in areas where seller improvements are creating benefits.
- ☞ Tax Credit Trading and Credit Programs result in cost effective stormwater improvements.

Other Key Questions

▶ **How will this advance SCW Program Goals?**

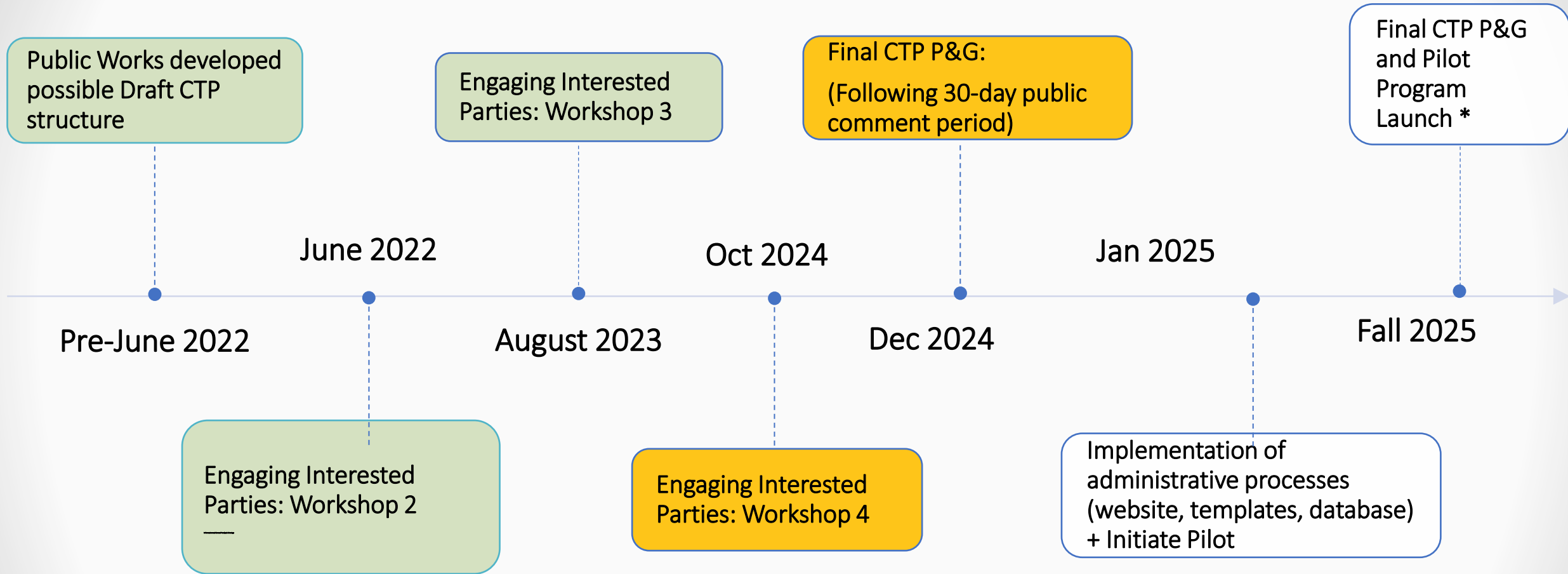
- Provides small incentive for improvements on tax-exempt parcels
- Cost effective stormwater management

▶ **Will this let developers off the hook from “doing the right thing?”**

- No. Developers must still comply with relevant stormwater/LID ordinances.
- Program is designed to incentivize voluntary improvement projects on tax-exempt parcels.
- Results in a net gain in Stormwater Improvements.



Anticipated Timeline to CTP Launch



A person with a beard is seen in profile, pointing at a whiteboard. The whiteboard is covered with numerous sticky notes, some of which contain handwritten text in Spanish. The scene is dimly lit, with light coming from a window with blinds in the background. A semi-transparent white box with text is overlaid on the center of the image.

Questions / Open Forum

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