



SAFE CLEAN WATER PROGRAM

Credit Trading Program (CTP Stakeholder Workshop)

August 16, 2023



Workshop Agenda

- Purpose / Status
- Brief Review
 - ☞ Safe Clean Water Program Overview
 - ☞ Credit Program Overview
- ☞ Draft Credit Trading Program Overview and Discussion
 - ☞ Program Background and Potential
 - ☞ Trading, Market Rules and Eligibility
 - ☞ Monitoring / Enforcement
- ☞ Next Steps / Timeline
- ☞ Discussion and Input



Purpose / Status

Purpose:

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

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

Why a CTP?

- Provide flexibility to taxed land owners
- Incentivize stormwater improvements on both non-taxed and taxed parcels
- Cost effective use of SCW Program funds to achieve goals.

Status:

- Currently in 3rd Public Workshop
- Develop Draft Final Procedures and Guidelines
- 30-day Public Comment Period
- Implementation



Safe, Clean Water Program

The 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
- 🔑 Implementation of SCWP is ongoing

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

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

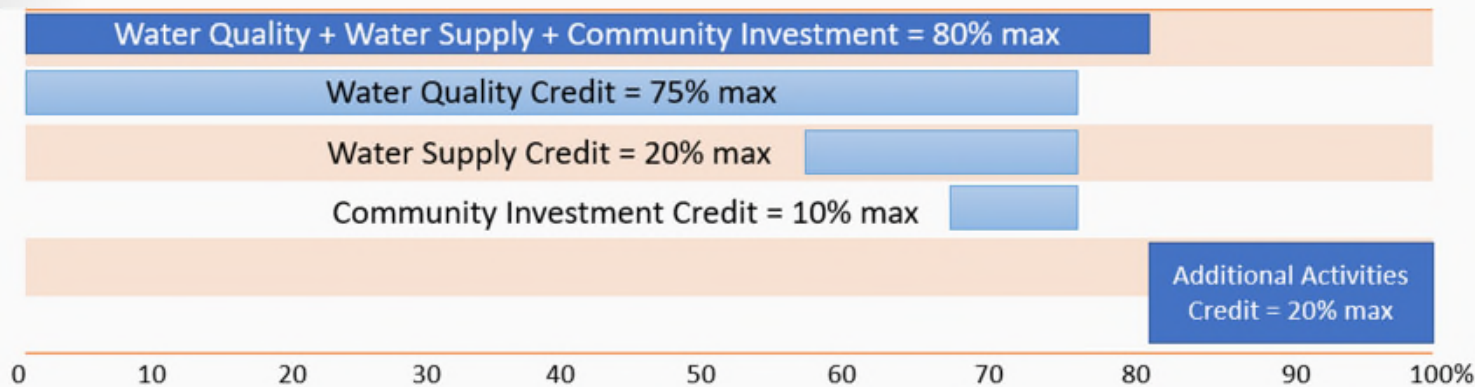
Funding

- 🔑 2.5 cents per square foot of impermeable area
- 🔑 First funding became available Fall 2020





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





CTP - Background

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: Potential Tax Credit Buyers



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



- ☞ Credit **Buyers** must be **owners of SCW Program taxed parcels**.
- ☞ Credit **Buyers** are parcel owners who **cannot or do not want to** build a stormwater improvement on their property.

Participants: Potential Tax Credit Sellers

Credit Sellers may include:

1. Owners of SCW Program **taxed parcels** who go above and beyond credit program requirements.
2. Owners of **tax-exempt** parcels who build stormwater improvements onsite. (e.g., schools, hospitals, faith-based organizations).

Taxed parcels

We received a tax Credit and would like to do more. Can we access additional funding if we manage more runoff?

Tax-exempt parcels

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





What is the Market Currency?

Credit Trading Unit (CTU):

Equivalent to \$1 in SCW Program Tax Credit Per Year



- For every CTU purchased, buyer receives \$1 in credit on SCW Program tax.
- Buyers can purchase CTUs up to an amount that is equivalent to their full tax.
- Buyers can purchase CTUs from multiple sellers to receive full tax credit (and vice versa).
- Buyer is only purchasing tax credit, not compliance credit



How are CTUs Created?





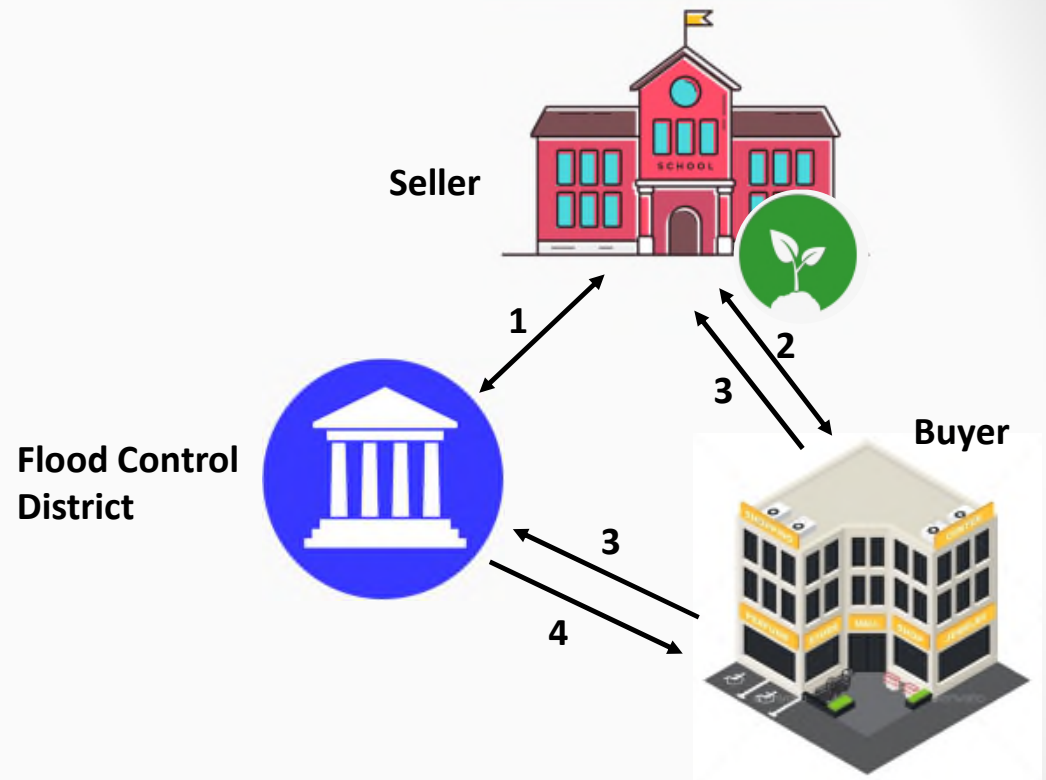
How Are Trades Made?

Step 1: Seller builds and certifies stormwater improvement for CTUs (\$) through District process

Step 2: Buyer enters into an agreement with the seller to purchase CTUs in amount not to exceed their parcel tax.

Step 3: Buyer submits purchase agreement for approval by District and sends payment to Seller.

Step 4: Payment receipt is presented to the District and tax Credit is issued for CTUs purchased.





How is the CTU Price Set?

- Seller and Buyer agree on CTU price
- CTU 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 CTUs 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)



How are CTUs Calculated?

- ☞ **Taxed Parcels**
 - ☞ First achieve 100% Tax Credit
 - ☞ CTUs issued for management of additional offsite runoff
 - ☞ CTUs not issued for **other** additional activities

- ☞ **Tax-Exempt Parcels**
 - ☞ CTUs calculated the same way as for credit program
 - ☞ Additional CTUs issued for management of offsite runoff

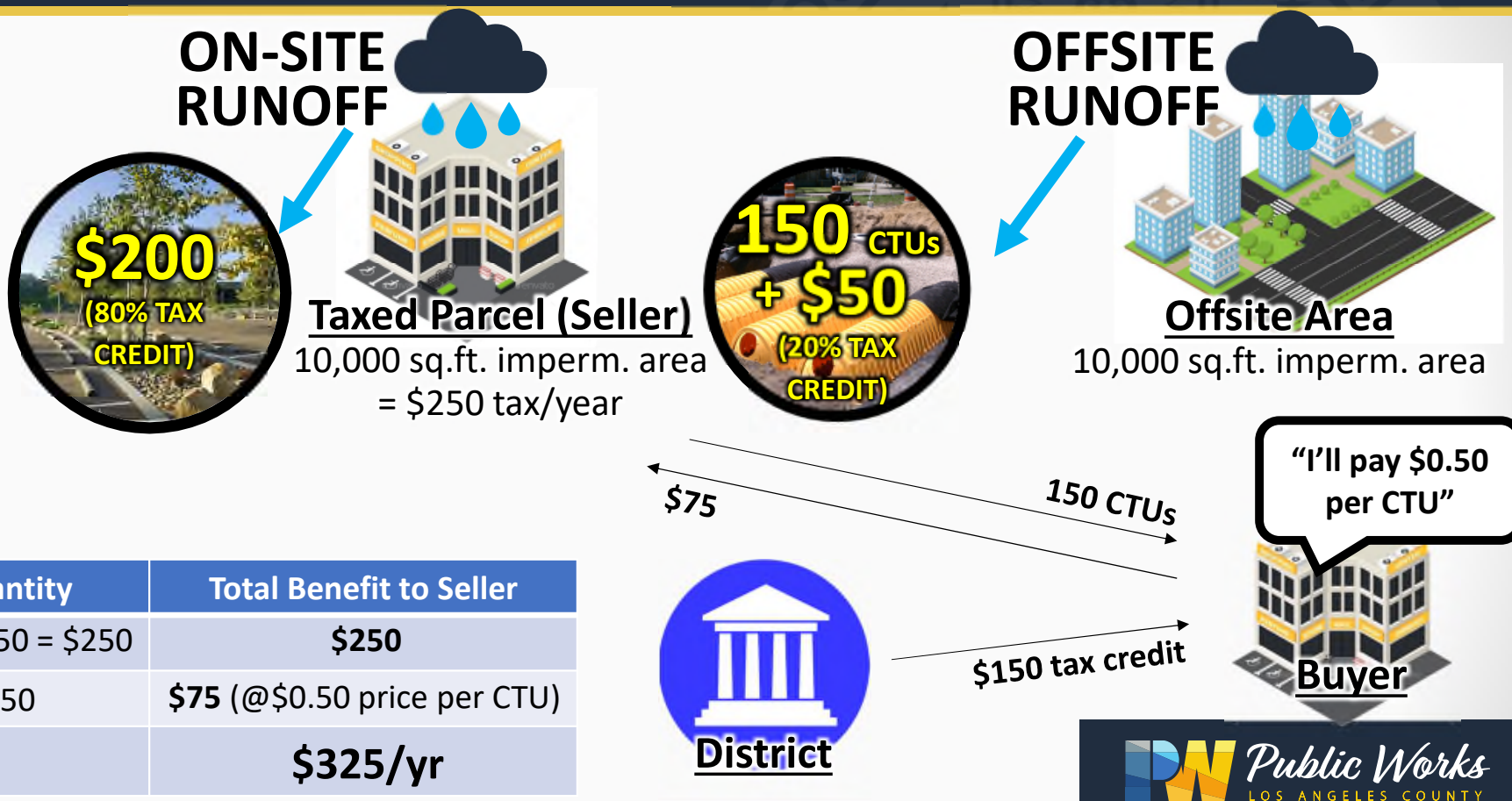
- ☞ **Once created, all CTUs are considered equal**
 - ☞ Buyers can purchase CTUs without consideration for how they were created (i.e., through WQ, WS, CI credits).

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%	



Scenario 1: Taxed Parcel, No Additional Activities

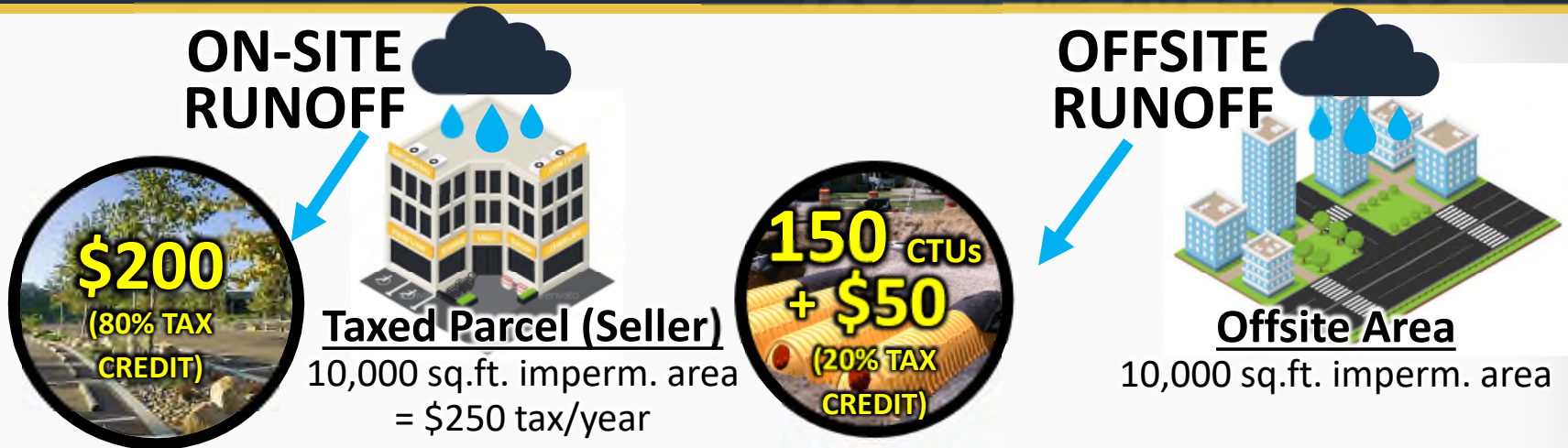
Taxed parcel improvement manages runoff from parcel and from offsite. No other “additional activities” are implemented.





Scenario 1: Taxed Parcel, No Additional Activities

Taxed parcel improvement manages runoff from parcel and from offsite. No other “additional activities” are implemented.



Cost:*

Capital Cost = \$30k

O&M = **\$330/year**

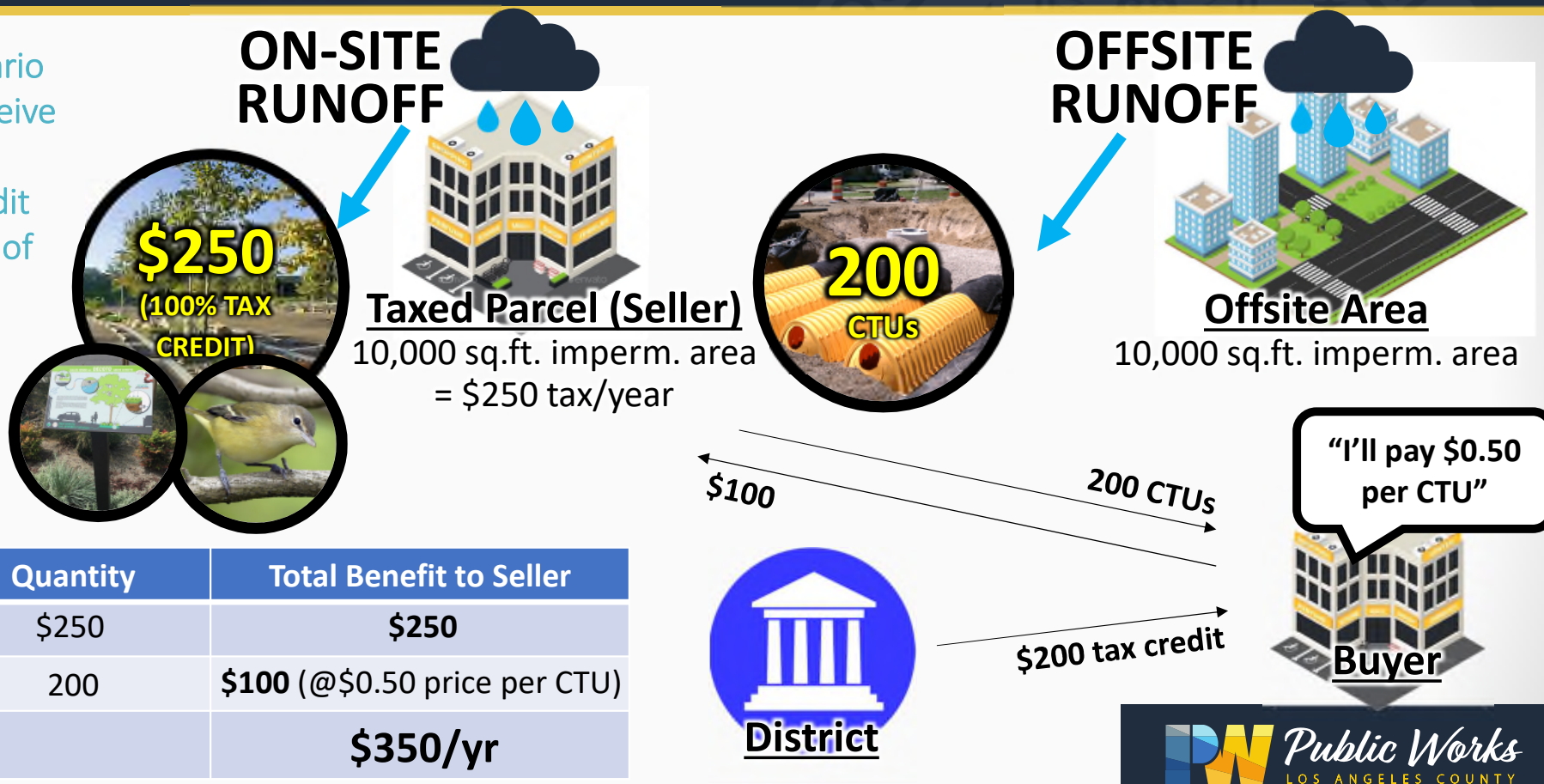
*Assuming 625-square-foot bioretention facility

	Quantity	Total Benefit to Seller
Tax Credit	$\$200 + \$50 = \$250$	\$250
CTUs	150	\$75 (@\$0.50 price per CTU)
Total		\$325/yr



Scenario 2: Taxed Parcel, Additional Activities

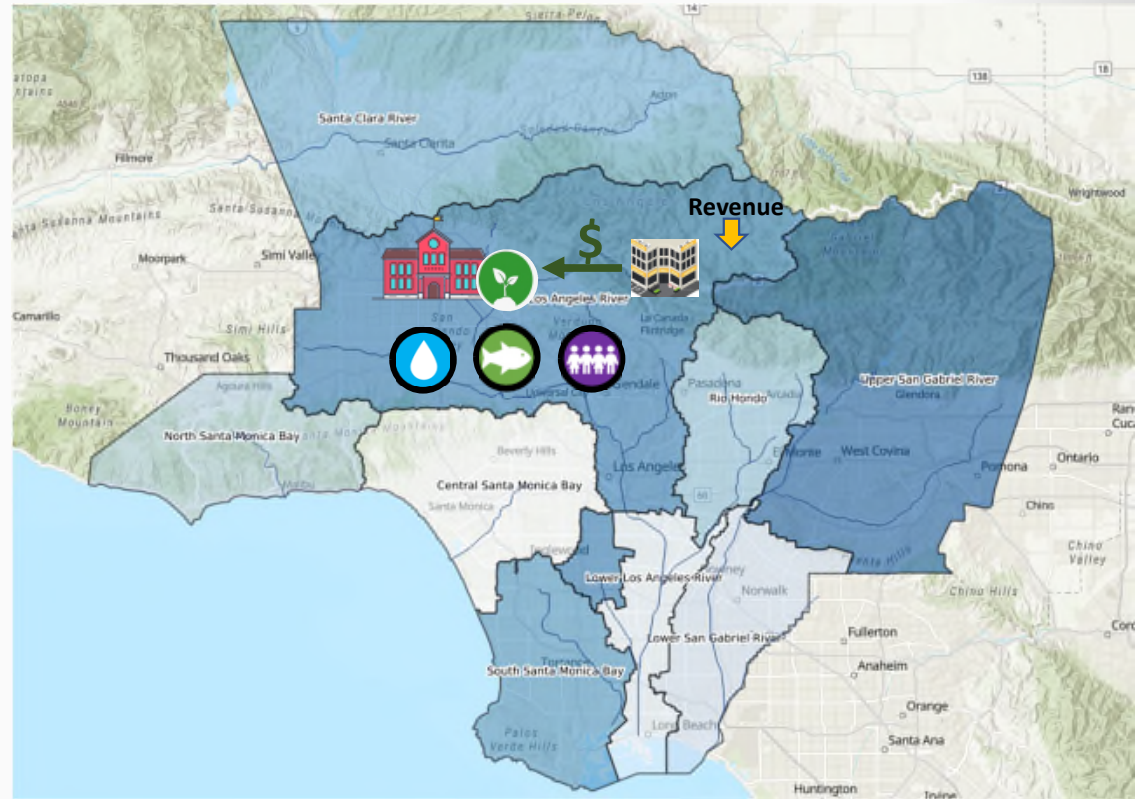
Same as Scenario 1, but also receive “Additional Activities” credit (management of offsite runoff ineligible for additional activities credit)





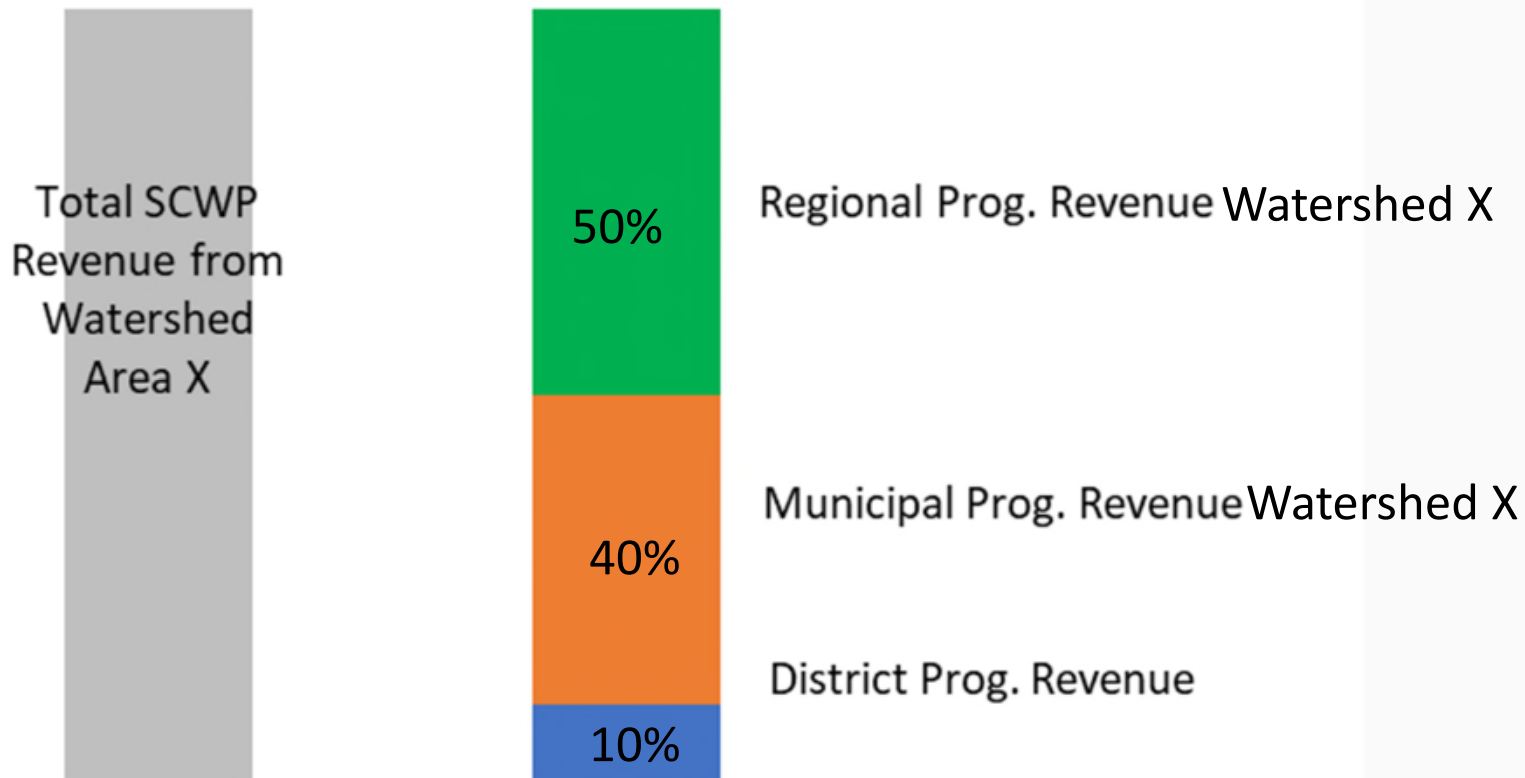
What are the Market Boundaries?

- 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.



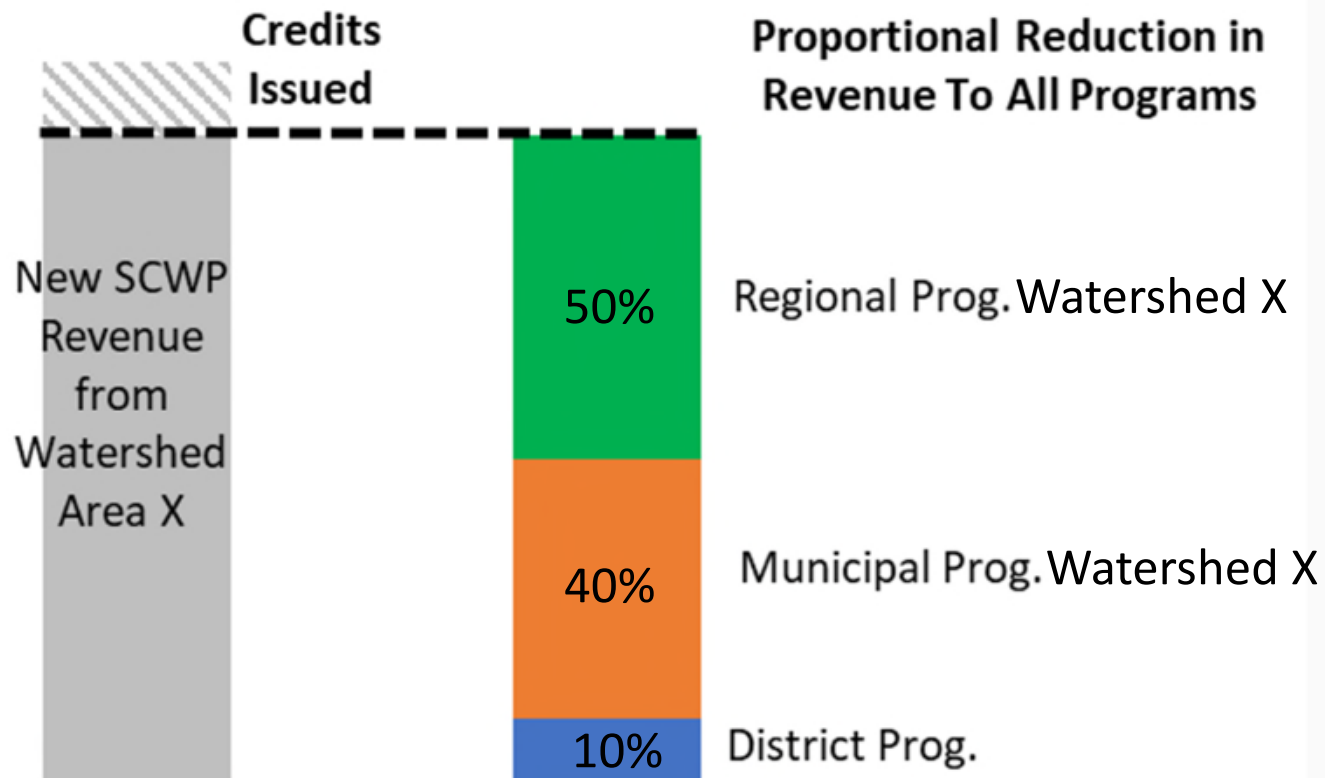


Revenue Accounting



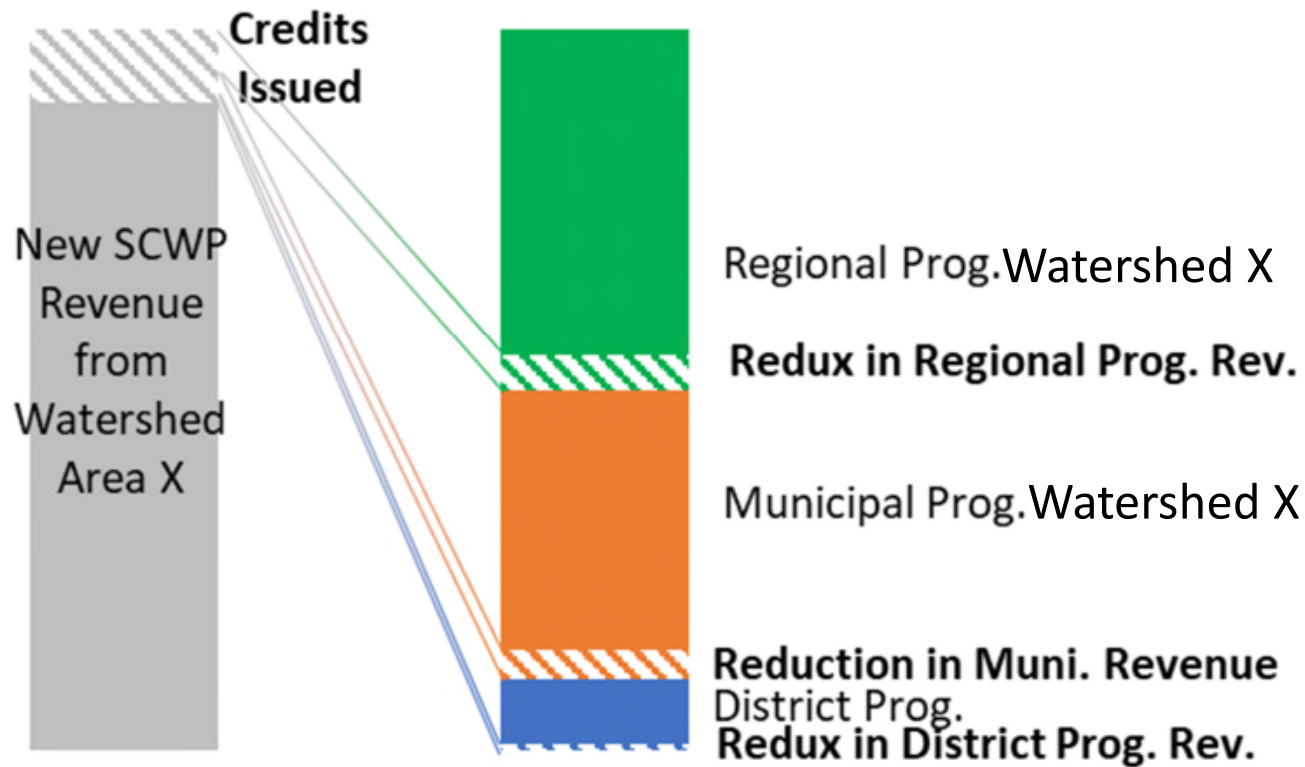


Revenue Accounting



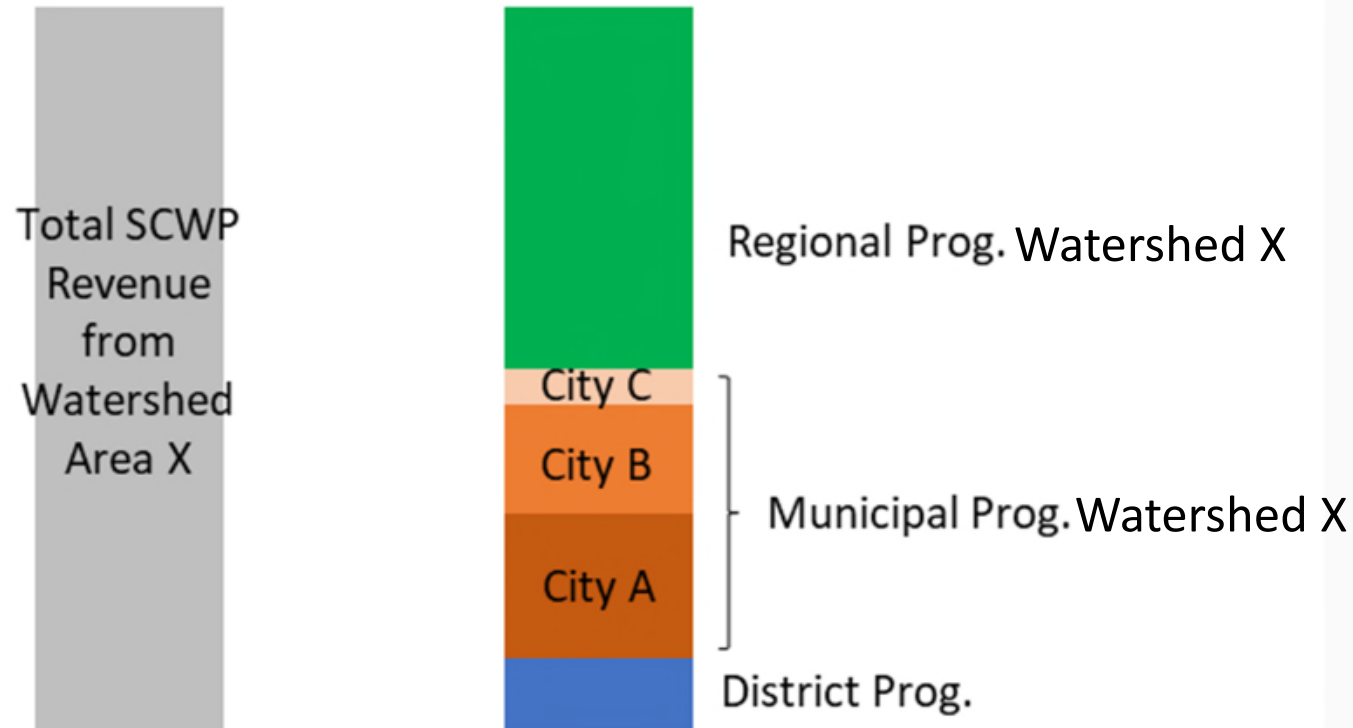


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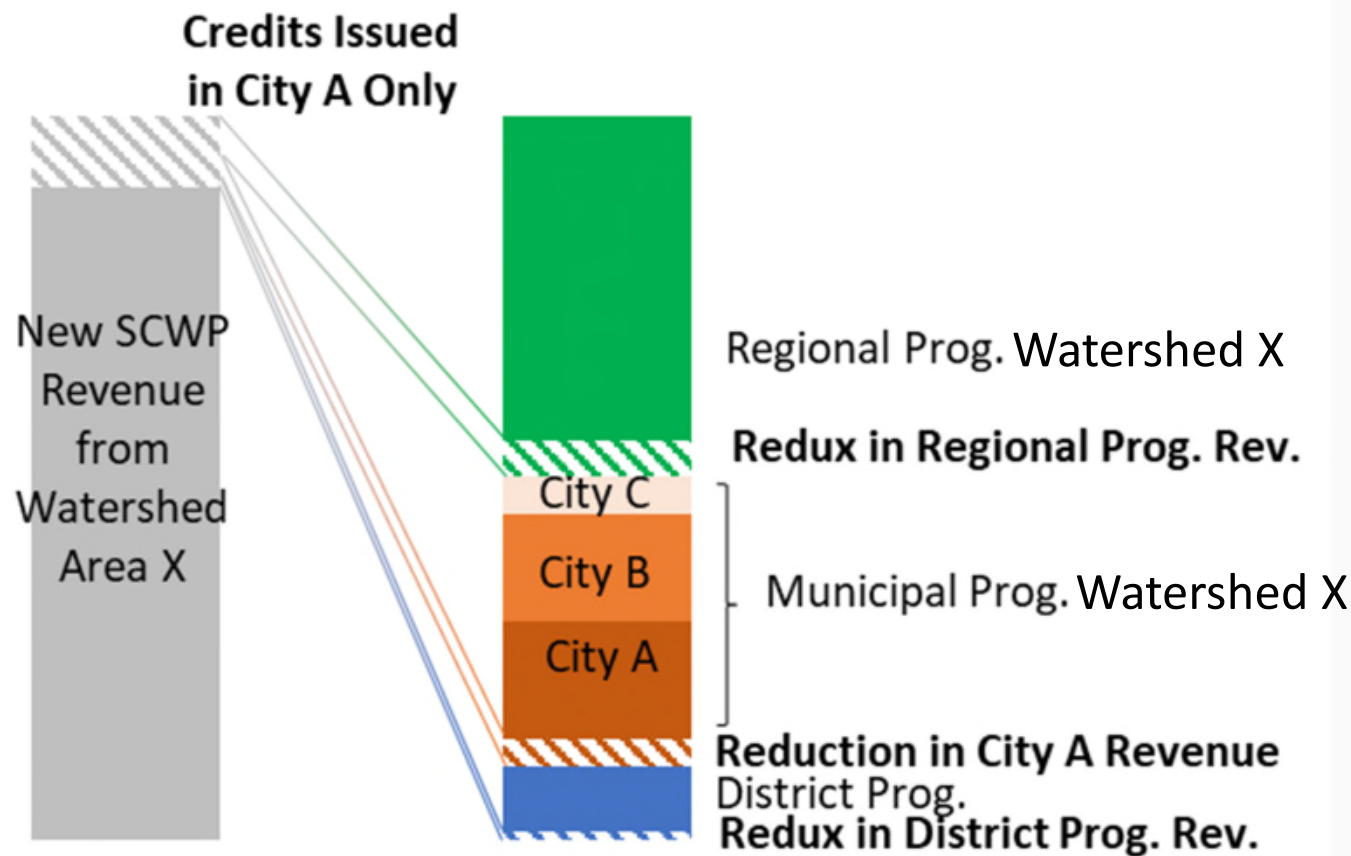


What are the Market Boundaries?





What are the Market Boundaries?





Who is Eligible to Participate?

- ☞ **Buyers** – Taxed parcel owners
- ☞ **Sellers** – Taxed and tax-exempt parcel owners, with some exceptions:

Ineligible:

- ☞ Improvements planned, designed, built and or maintained w/SCW Program funds
- ☞ Improvements mandated by a compliance obligation (Regional Board mandated)
 - ☞ Going beyond these obligations "may qualify on a case by case basis"
- ☞ Improvements completed prior to adoption of the SCW Program (November 6, 2018)
- ☞ Improvements that don't meet minimum local design standard (MS4 or NPDES permit)
- ☞ Municipalities (more on next slides)



Who is Eligible to Participate?

Examples:

Residential parcel owner in City of LA installs a bioretention basin to treat first 0.5" of runoff from roof.

Does not Qualify – Does not meet local MS4 design standard

Residential parcel owner installs a bioretention basin to treat first 0.75" of runoff from roof.

Qualifies – Meets MS4 design standard*

*Note some areas within City of L.A. may be required to manage more than 0.75". Check your local ordinances.

Tax exempt parcel owner (e.g. faith based organization) built a voluntary stormwater improvement to local codes in 2015.

Does not Qualify – Improvement predates SCW Program

Tax exempt parcel owner (e.g. faith based organization) built a voluntary stormwater improvement to local codes in 2020.

Qualifies – Improvement built after November 6, 2018.



Who is Eligible to Participate?

Examples:

Taxed, industrial parcel undertakes stormwater improvements to meet their Industrial Permit compliance obligation

Does not Qualify – Improvements mandated by compliance obligation.

Taxed, industrial parcel undertakes stormwater improvements and exceed their Industrial Permit compliance obligation by **managing 0.75" of runoff from a 5 acre offsite catchment.**

Likely Qualifies – Voluntary management of offsite runoff to MS4 standard. District to review specific circumstances of improvement.

Taxed, industrial parcel undertakes stormwater improvements and exceed their Industrial Permit obligation by **managing a greater depth of runoff** than required.

May Qualify – Managing a greater depth of runoff does not automatically mean the improvement meets local MS4 requirements and parts of the improvements are mandated by permit. District to review specific circumstances of improvement.



Who is Eligible to Participate?

Examples:

Taxed, private parcel owner on a 10 acre site manages 50 acres of offsite runoff in an underground retention vault with cost share from the SCW Regional Program and local Municipality.

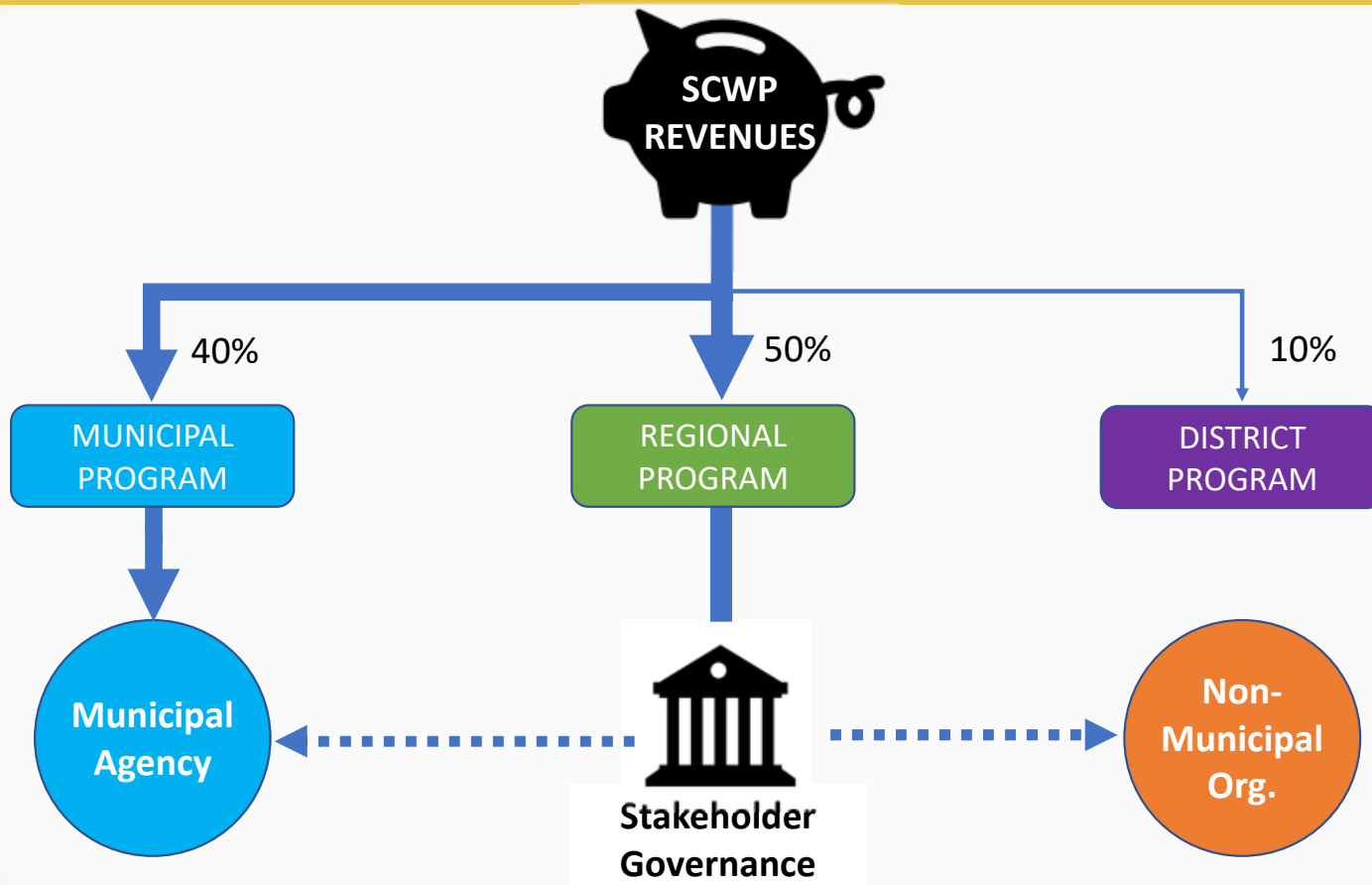
Does not Qualify – SCW
Program funded improvement

Taxed, private parcel owner on a 10-acre site manages 50 acres of offsite runoff in an underground retention vault without cost share from any entity.

Qualifies – Voluntary self-funded improvement.
Creates Credits first for first 10 acres managed and CTUs for remaining 40-acres.

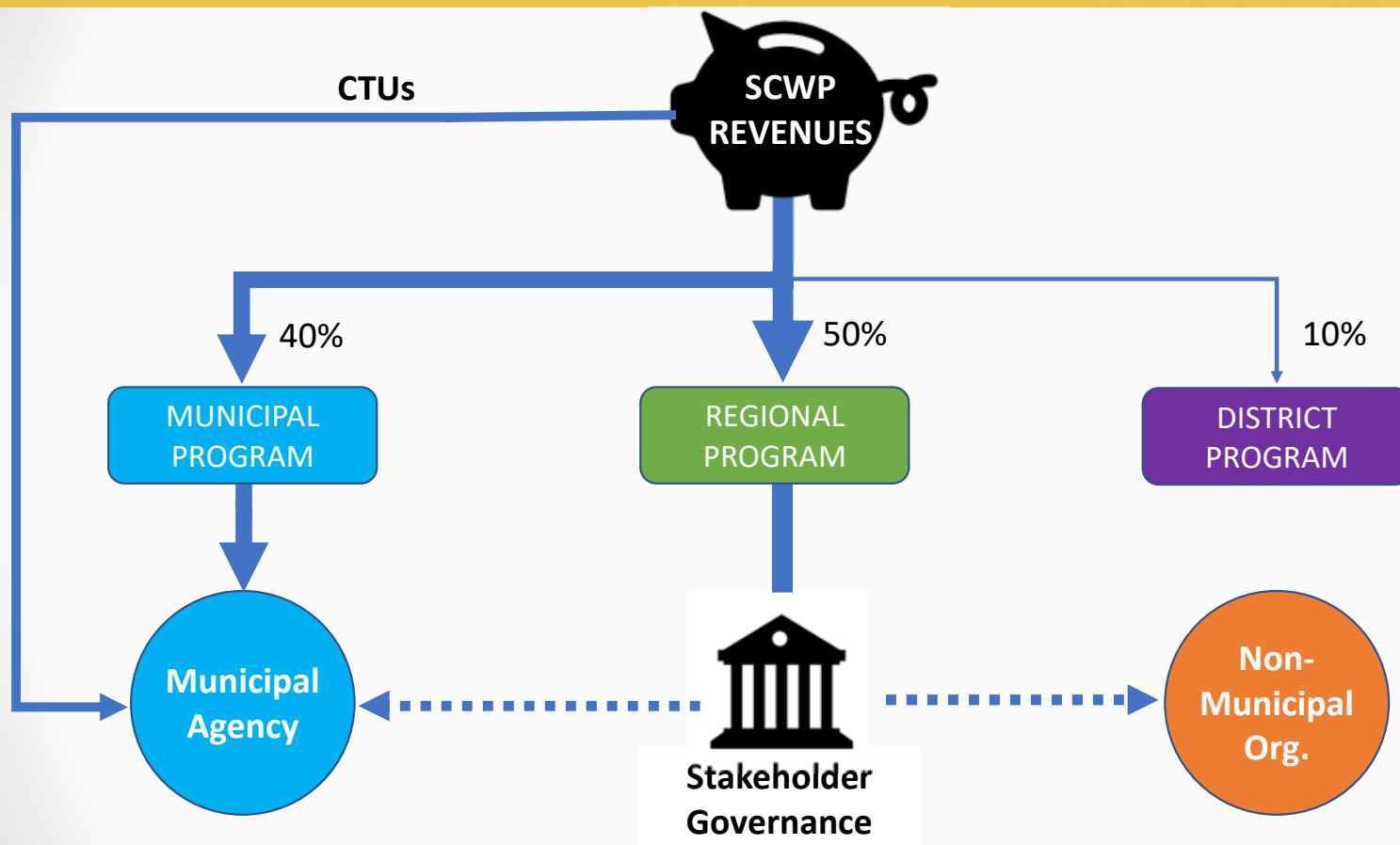


Who is Eligible to Participate?



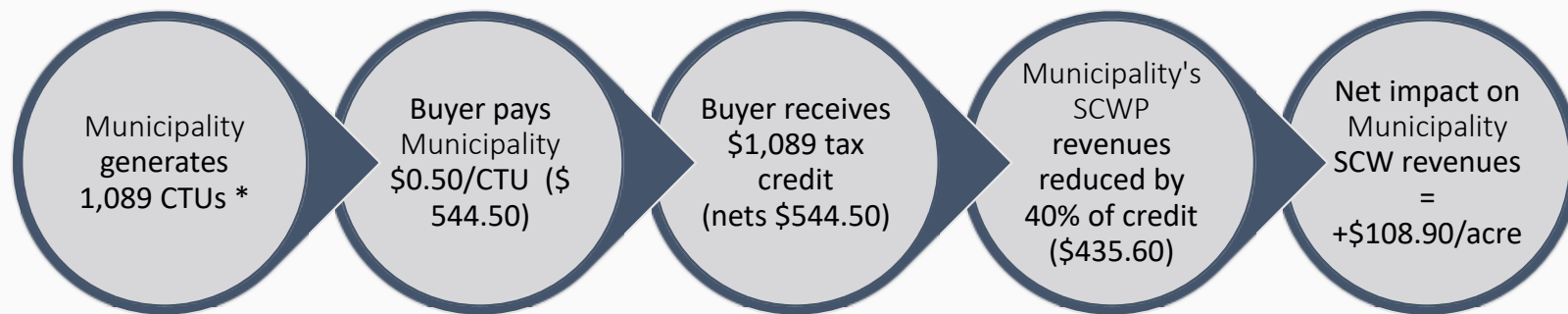


Who is Eligible to Participate?



Can Municipalities Generate CTUs?

- ☹ Municipalities currently **cannot** generate CTUs
- ☹ Buyer pays municipality, municipality credits buyer (circular)
- ☹ Circumvents WASC process (WASC revenues reduced)
- ☹ Tracking SCWP funds by project is difficult (accounting game)



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



Application and Recertification

Initial Application

- ☞ Seller submits application form with engineers calcs, local permit information , photos and Maintenance Plan
- ☞ CTP website host application forms, Seller/Buyer agreement templates, list of CTU Sellers, prices, and available CTU volumes
- ☞ CTU's remain valid for sale and redemption for 2 years.

Recertification

- ☞ Every 2 years
- ☞ Seller re-submits application with current improvement photos demonstrating functionality





SCW Program Funds

Will there be a cap on CTUs?

- ☞ Currently no cap on the volume of CTUs that can be created.
- ☞ 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.
- ☞ How can program track benefits/costs?



Enforcement

- Improvements that fail to demonstrate that they are performing as intended will not be eligible for recertification.
- District may conduct random inspections



Clogged and eroding bioretention basins: Source (Blecken et. al, 2015)



Input/Discussion

Who should be eligible to participate in Tax Credit Trading?

- **Do you agree that**
 - **Municipalities should not participate?**
 - **No CTUs are issued for projects that**
 - **don't meet local design standards**
 - **Are mandated by compliance obligation**
 - **Are built prior to implementation of SCW Program**
 - **Receive SCW Program funds.**

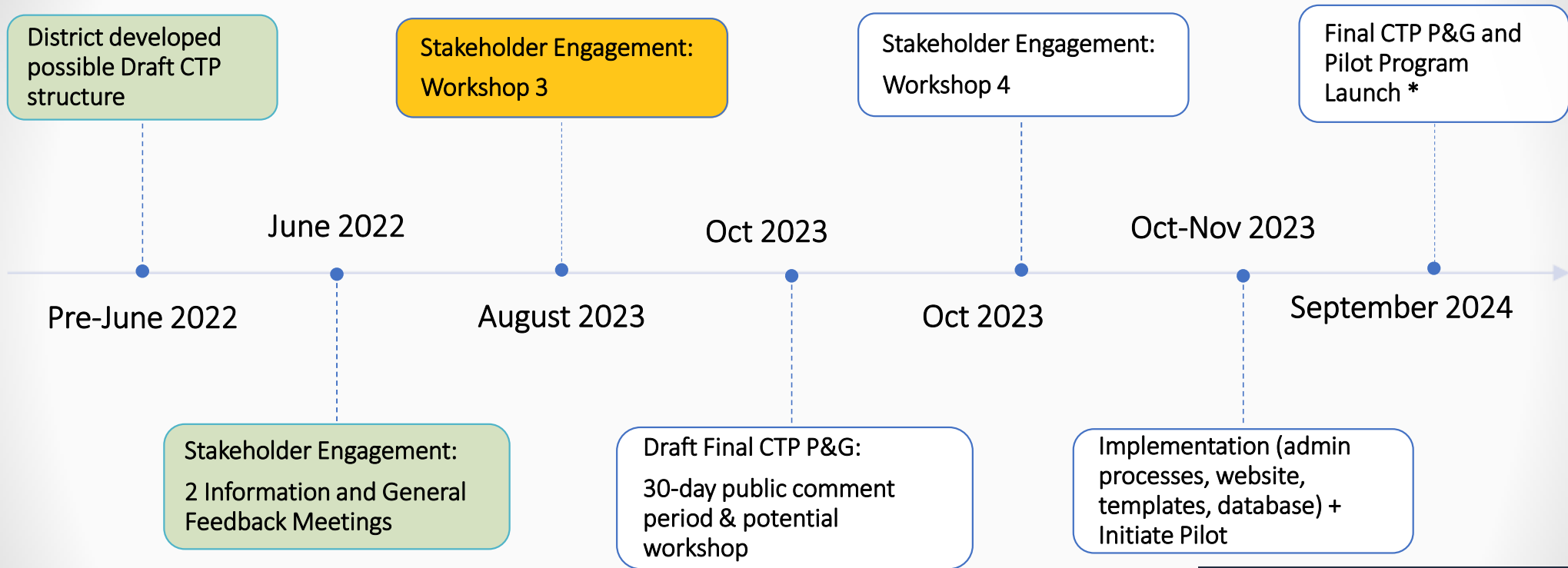
Possible Pilot Trading Program Discussion

Purpose

- Test market and program functionality
 - Trading boundaries
 - Eligibility
 - Trading volume
 - Enforcement
 - Determine whether modification needed
- Discuss Trial Watershed Area



Anticipated Timeline to CTP Launch



*CTUs could be redeemed at earliest for the FY25-26 tax year



Questions / Open Forum

If you would like to attend future workshops please chat your email to the host

safecleanwaterla@dpw.lacounty.gov