

# **DRAFT REPORT**

## **AMERICAN SOCIETY OF CIVIL ENGINEERS**

### **EVALUATION OF WATERSHED MANAGEMENT FUNDING OPTIONS FOR LOS ANGELES COUNTY**

**September 14, 2005**

#### **EXECUTIVE SUMMARY**

**[To be provided later]**

#### **SECTION 1. INTRODUCTION**

The Los Angeles County Watershed Funding Workgroup, a committee sponsored by the American Society of Civil Engineers (ASCE), is comprised of representatives of various cities, the County Public Works Department, environmental and industry groups and other stakeholders within Los Angeles County. The workgroup is working cooperatively towards a long-term regional watershed management master plan for Los Angeles County by 2007 and to seek a voter approved mechanism for funding the master plan projects by 2008. The Workgroup is comprised of the Funding, Steering, Public Education and Plan Development Subcommittees.

This paper was prepared by the Funding Subcommittee and is intended to evaluate several alternative sources of funding the County's watershed management needs, expanding upon the "Stormwater Quality Needs Funding Options and Implementation Tasks" report prepared in 2003 by the County Department of Public Works. This report presents a qualitative, not a quantitative, analysis of the possible funding options, because cost data will not be available until the master planning effort is completed at the end of 2006. The report considers funding watershed management efforts in the County, not the flood-control responsibility of the County Flood Control District or of the cities.

The need to meet increasingly stringent NPDES permits and Total Maximum Daily Loads (TMDLs) has necessitated that local agencies find sustainable ways of funding their watershed management needs. This includes reducing the pollution in both stormwater and dry-weather runoff, to enhance the quality of the County's beaches and waterways. A TMDL establishes by permit a maximum limit for a specific pollutant that can be discharged into a water body without causing it to become impaired. The pollutants targeted in this report are trash and bacteria (both dry weather and wet weather). The source of the trash is littering, while bacteria comes from animal droppings, food waste, naturally occurring bacteria and decaying organic matter. Additional TMDLs, such as for heavy metals, are expected in the future. These may require additional types of capital projects besides those used in this report to evaluate the methods of funding the projects.

Nationwide, several approaches to funding either are in use or contemplated, the most prominent of which are property-related fees and assessments. In California, the biggest

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obstacle to any funding method based on parcel ownership is getting voter approval under Proposition 218, which was approved by voters on November 5, 1996. This Proposition imposed landowner approval procedures for assessments on real property and for fees imposed “incident of real property ownership’.” The proposition also limited the types of costs that can be recovered by taxes, assessments and fees, making a distinction between general taxes that are not covered by the Proposition, “general benefits” that cannot be assessed against real property and “special benefits” than can.

A number of possible funding sources for watershed management projects and activities are introduced and evaluated in the remainder of this report. Section 2 describes the various sources of funding evaluated in the report. Section 3 discusses considerations in the evaluation and implementation of the funding sources. Section 4 groups the likely future projects into broad categories and then evaluates their possible funding sources from the perspective of equity. Section 5 summarizes existing watershed maintenance operation and maintenance (O&M) activities that may have to be incorporated into any future funding mechanism. Section 6 develops the advantages and disadvantages of the various funding sources. Section 7 summarizes the recommended choices of the possible funding sources.

### **SECTION 2. DESCRIPTION OF FUNDING SOURCES**

Following are descriptions of the funding sources that are evaluated in this report. These do not include all of the sources discussed in the 2003 County report, omitting those sources that 1. are applicable only for localized areas, such as Mello Roos taxes, 2. are methods of borrowing funds, but do not actually provide revenues to pay debt service or other costs, and 3. are deemed to be not as practical as those analyzed in this report.

#### **Special Purpose Local Option Sales Tax**

In California, a sales tax is imposed on retailers selling tangible goods. An equivalent “use” tax is imposed on users of products purchased out of state but brought into California to be used. The use tax provides much less revenue than the sales tax, partly because use taxes are difficult to collect. A number of sales are not taxed, such as food for home consumption, prescriptions, utilities and most services.

The minimum sales tax rate in California is 7.25 percent, of which 6.25 percent is collected by the State and 1.00 percent is used to fund city and county operations and local transportation. Cities and counties may also impose, in 0.25 percent increments, a maximum 2.00 percent local option sales tax. The maximum possible sales tax in California is therefore 9.25 percent, though no county’s tax exceeds 8.75 percent.

In Los Angeles County, the sales tax rate is 8.25 percent. The local option sales tax is therefore 1.00 percent, including additional funds for transportation under Propositions A and C. Recently, an additional public safety sales tax failed to receive the necessary two-thirds vote. If a quarter cent sales tax were approved for watershed management, it would

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generate approximately \$280 million per year. However, the County's local option rate can be increased by only 1.00 percent for all purposes, including public safety. The rate can only be increased by 0.50 percent without exceeding the rate in any other county in the State.

### **Bond and Associated Property Tax for Capital with a Special Purpose Parcel Tax for O&M**

Property, or Ad Valorem, taxes are based on the assessed valuation of property, multiplied by an annual tax rate. Because of Proposition 13 in 1978, the valuation can increase a maximum two percent per year, unless the property is sold. In that case, the valuation is reset to reflect the sales price. The valuation can be reduced if property values fall and the owner petitions the County. State law provides certain exemptions from property taxes, including government-owned, non-profit, educational, religious, hospital, charitable and cemetery properties.

The property tax is an example of a "general" tax, which proceeds are placed in a City's or County's general fund and used for general government purposes. Special districts cannot levy general taxes. Proposition 13 limits the property tax to one percent of the assessed valuation, plus an additional percentage to pay debt service on bonds approved by the voters. It is very unlikely that the County will be able to fund any of its watershed management program from revenues of the one-percent property tax, because the revenues are sorely needed for general County and city purposes. However, the voters could be asked to approve the issuance of bonds to fund the capital needs of the program, with debt service paid from additional property tax. The feasibility of this was demonstrated when City of Los Angeles voters recently approved Proposition O. A two-third's vote of the general electorate would be needed to approve the bonds. Bonds can only be used to fund capital projects and do not provide the funds for operating the facilities once they are constructed.

While capital needs would be funded by bonds and property taxes, operation and maintenance needs could be funded by special taxes, often called "parcel taxes." These taxes can be imposed by special districts, but require a two-third's vote for approval. The taxes are often used to fund general services such as public safety, parks, libraries, and open-space protection. In recent years, parcel taxes have been increasingly used to fund school district operations because the legislature reduced the voting threshold to 55 percent for education. Parcel taxes are also popular for these types of general services because Proposition 218 prohibits their funding by assessments and fees.

Parcel taxes are most often levied as a flat amount per parcel, though an amount per square foot or some other calculation of the tax is possible. An annual inflation adjustment can also be incorporated in the formula. The rate must be applied evenly throughout the County or District; no authority is given for zones with different tax rates. In the past, parcel taxes have often been levied for four years, though there is no time limit in the law. They could be levied for longer periods or even permanently if the voters would allow it.

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Santa Clara Valley Water District implemented a parcel tax costing each single-family homeowner \$39 a year to fund watershed protection projects. The assessment was approved by voters in 2000 and will be in effect for fifteen years. The funds will be used for flood protection, pollution reduction and providing recreation and open space. The assessment is based on the acreage of the properties and varies by watershed. Industrial and commercial properties pay more per acre than residential, reflecting their greater potential for discharging runoff and pollutants.

### **Surcharge on Vehicle License and Registration Fees**

A surcharge could be added to vehicle license and registration fees to fund watershed management in the County. Special state legislation would probably be needed for the County to impose the surcharge.

The County of San Mateo was recently given permission by the State to impose such a surcharge. Assembly Bill 1546, which allows the County to impose a \$4 surcharge, passed the Legislature in 2004 and took effect on July 1, 2005. The purpose of the fee is to help fund projects to reduce traffic congestion and stormwater pollution. The fees will be collected by the Department of Motor Vehicles with the annual vehicle registration renewal. Collection of the fees terminates on January 1, 2009. The bill requires that the fees collected may only be used to pay for programs bearing a relationship or benefit to the motor vehicles paying the fee.

### **Gasoline Tax Surcharge**

Currently, gasoline and diesel taxes fund highway improvements in California. These are excise taxes assessed for each gallon of fuel that is sold. An additional per-gallon charge applicable in Los Angeles County could be used for watershed management, based on the logic that vehicles and streets are responsible for much of the runoff pollution. Special state legislation would probably be needed for the County to impose the surcharge.

### **Benefit Assessment**

The current Flood Control District Benefit Assessment collects approximately \$108 million per year primarily to provide flood protection. Some of the revenue supports the District's efforts in meeting the NPDES and TMDL water quality requirements. However, the amount will not be sufficient to pay for future water quality efforts. Moreover, the District does not cover the entire County and would not cover all the areas contributing polluted runoff. One option would be to abolish the current assessment and impose a new assessment that would cover all the costs of flood control and watershed management. Another option would be to retain the current assessment to cover flood control costs and another assessment to cover watershed management.

Establishing a new assessment would require the approval of a majority of returned ballots from property owners. However, the ballots would be weighted by the amount of the proposed assessment, so that larger property owners would have greater influence

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over the outcome of the balloting. Proposition 218 requires that assessments be used to provide a special benefit to the properties and not a general benefit to the public. A new assessment would therefore need to be structured to account for each property's contribution to runoff pollution.

### Utility Fee

A utility fee would be similar to a benefit assessment, except that a fee would not necessarily be property-related, but would be charged to people who are beneficiaries of the utility. However, in practice, it would probably be charged to properties on the County tax roll because of the low cost. The disadvantage of including the fee on the tax roll is that non-taxable properties, such as churches and government facilities, would not pay for their share of runoff and pollution. However, it would not be practical to include the fee on water bills, because there are hundreds of different water purveyors in the County. It also would not be practical for the County to develop a separate billing database including non-taxable properties because of the complication and expense.

An important difference between a utility fee and a property assessment is that, while the assessment must be approved by a majority of the weighted balloting of the property owners, a utility fee could be approved by either a majority of property owners or by a two-thirds vote of the general electorate. The Ventura County Watershed Protection District has requested legislation that would allow it to charge an annual fee of \$25 per parcel to fund watershed protection, because the District's management feels that obtaining a two-third's vote of the general electorate would be easier than obtaining a majority vote of the property owners for an assessment. The bill passed the Legislature but was vetoed by the Governor because of his concern that it "would not protect against the possibility of imposing a fee without voter approval". A revised bill has been submitted for the Governor's consideration in fall 2005.

More recently, Orange County Sanitation District proposed a countywide fee which will cost property owners as much as \$50 a year to keep the beaches clean. The fee would pay for a \$25 million project to divert urban runoff from the north and central County into its sewage treatment plants. A vote on the fee has been postponed to 2008.

Proposition 218, applies to any fee "imposed by an agency upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service." This would seem to apply to the utility fee as described in this report, because it would be billed to parcels and the property owners cannot avoid payment by declining the service. As such, the fee cannot 1. generate funds greater than required to provide the property related service, 2. be used for any purpose except that for which the fee is imposed, 3. exceed the proportional cost of the service attributable to the parcel, and 4. be imposed unless the service is actually used by, or immediately available to the owner of the property.

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The following table compares the utility fees of several cities in California.

**Table 2.1**  
**Comparison of Stormwater Utility Fees in California**

City or County	Typical Household Annual Fee	2004 Population	
Riverside County	\$ 4.00	1,871,950	(b)
City of San Clemente	\$ 8.00	59,550	(e)
City of San Diego	\$ 10.08	1,263,756	(a)
City of Los Angeles	\$ 24.00	3,845,541	(c)
City of Santa Monica	\$ 36.00	87,823	(e)
City of San Jose	\$ 40.44	904,522	(e)
City of Davis	\$ 45.00	63,722	(e)
City of Alameda	\$ 53.52	71,136	(e)
Sacramento County	\$ 70.20	1,352,445	(d)
City of Palo Alto	\$ 120.00	56,862	(e)

### Grants

Following are different types of grants that may be available for watershed protection projects.

**Grants from State General Obligation Bonds.** These competitive grants have been funded by state general obligation bonds authorized by Propositions 13, 40 and 50, though the State's voters may also authorize future bonds. Grants that will be funded in fiscal year 2005-06 and that may be applicable to watershed management in Los Angeles County include the following:

- **Nonpoint Source Pollution Control Program.** This program includes projects that protect the beneficial uses of water throughout the state through the control of nonpoint source pollution.
- **Urban Storm Water Grant Program.** This program includes projects designed to implement stormwater runoff pollution reduction and prevention programs, including diversion of dry weather flows to publicly owned treatment works for treatment, acquisition, and development of constructed wetlands and the implementation of approved best management practices, as required by stormwater permits.
- **Integrated Watershed Management Program.** This program includes projects for development of local watershed management plans and for implementation of watershed protection and water management projects.

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Grants that will be funded by Proposition 50 include the Coastal Nonpoint Source Pollution Control Program. This program includes projects that restore and protect the water quality and environment of coastal waters, estuaries, bays and near shore waters, and groundwater.

**U.S. Department of Transportation SAFETEA-LU Grants.** The Safe, Accountable, Flexible, Efficient Transportation Equity Act – Legacy for Users (SAFETEA-LU), enacted on August 10, 2005, provides grants for retrofitting or construction of stormwater treatment systems to address environmental problems caused or contributed to by transportation facilities. These grants may be applicable to runoff watershed management projects because much of the runoff arises from public streets and highways. In Los Angeles County, the Metropolitan Transit Authority administers the grants. The Cities of Santa Monica and Los Angeles used a transportation grant under a previous authorization to pay part of the cost of constructing the Santa Monica Urban Runoff Reclamation Facility (SMURRF).

**Section 319(h) Nonpoint-source Implementation Grants.** These grants are made according to Section 319(h) of the 1987 Clean Water Act Amendments. They are intended to fund projects that “prevent, control and/or abate non-point source water pollution.” The grants are administered in California by the State Water Resources Control Board. Application for the grants is very competitive.

**Direct Appropriations from State and Federal Governments.** The County can ask its representatives in the state legislature and U.S. Congress to sponsor legislation that will fund certain projects. A specific appropriation can be a line item for an existing program or as part of general appropriations.

### **Metropolitan Water District Operating Subsidy**

In its Local Resources Program, MWD offers annual operating subsidies for projects that recycle water that otherwise would have to be imported. The subsidy may be available, on a competitive basis, for projects that treat and reuse urban runoff. In 2004, the subsidy was \$117 per acre-feet of water that is treated and delivered for use. The amount of the subsidy therefore depends on the ability to market and sell recycled water. MWD provides the subsidy for SMURRF because the project provides water for irrigation.

### **Water Sales**

Water that is recycled in urban runoff treatment plants can be sold at a discount from potable water rates. However, at current rates, the sales revenue from recycled water is often insufficient to cover the capital and operating costs of distributing the water to the customers. It is also often difficult to find enough customers within a reasonable distance of the plant to purchase all of the available recycled water.

### **U.S. Army Corps of Engineers**

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The Corps' Civil Works Directorate spends about \$500 million per year on environmental activities. Major projects require congressional approval. This funding source may be applicable for environmental projects along the Los Angeles River and other waterways owned by the Corps.

### **Participation by Water Agencies**

Runoff treatment projects may produce water that can be used for irrigation or industrial use or used to recharge groundwater aquifers. Storage projects may recharge aquifers by allowing the infiltration of runoff. Water agencies may be willing to participate in the construction costs of the projects in return for rights to the water. As a wastewater example, the Los Angeles Department of Water and Power paid the costs of the Advanced Wastewater Treatment Facility at the City's Terminal Island Treatment Plant so that the Department could sell the recycled wastewater to neighboring industries. Perhaps similar arrangements could be made for treated or infiltrated runoff.

### **Runoff Discharge Permit Fees**

Permits would be issued similar to the permits for discharging industrial waste to the wastewater system. Inspection fees would recover the costs of performing the inspections. Penalties would be imposed for violations. The amounts of the penalties would be set to discourage unlawful runoff discharges, with the proceeds used to fund general watershed management activities. Additional fees could be imposed on the permits to recover system wide watershed management costs. However, these additional fees are not evaluated in this report because they would be largely duplicative of the other funding sources evaluated in this report and would not be generally applicable.

## **SECTION 3. CONSIDERATIONS IN EVALUATING THE FUNDING SOURCES**

This section discusses the considerations that must be made in evaluating the possible funding sources.

### **Varying Funding by Watershed**

The County may wish to vary a watershed management fee, assessment or tax by watershed, in consideration of the varying costs of the projects in the different watersheds. This report considers if the selected funding source can be varied by watershed, if such is needed for equity and/or political reasons.

### **Distribution Of Funds And Providing Credits For City Taxes**

One issue that needs to be resolved is how to ensure equity across all of the cities and areas of the County. Some cities are already charging their residents for watershed management projects and activities. For example, the City of Los Angeles will charge property taxes to pay debt service on its Proposition O bonds funding capital projects. It is

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important to ensure that the residents of some cities, such as Los Angeles, are not unfairly paying more for pollution control than other County residents because these cities have already acted on the runoff pollution problem. Another important issue is how to distribute funds for projects in the various cities. The solutions to these two issues are linked together. Following are options for resolving these issues.

**Option 1 – Reducing Payments for Cities Already Charging their Residents.** One option is to reduce the countywide fee or tax to the residents of these cities so that the total payments are the same throughout the County or watershed. More funds would need to be obtained on a countywide basis than with Option 2 below. Funds in excess of the needs of the County’s watershed management projects would be distributed to the different cities for their own projects. With all residents paying the same, there would be no need to distribute the funds in proportion to the cities’ contribution of funds. The funds would be distributed to those projects with the greatest impact on pollution, regardless of location. However, if some projects have multiple benefits such as recreation, then the funds paying for these other benefits may still need to be distributed more or less evenly across the County or watersheds.

Advantages of this option include the following:

- Funding resources would be put to the greatest benefit because more of the funds would come from the countywide source. These funds would be distributed to the projects with the greatest impact on pollution, regardless of location. This would result in greater overall pollution control.
- With more funds coming from the countywide source, there would be greater economies of scale in obtaining the funds. There would be less administrative cost than if each city obtained more of its own funds.

This option has the following disadvantage:

- This option would require that funding sources allow reductions for those cities with their own funding sources. Property taxes, for example, would work well, because different rates can be made to be applicable in different areas. It probably would not be possible, or very effective even if it were possible, to vary sales tax rates in different cities depending on how much they fund their own runoff pollution projects. This option would therefore limit the funding sources that can be used.

**Option 2 – Charging Residents the Same Across the County or Watershed.** Another option would be to charge all residents a reduced amount to fund only County projects. The cities would be expected to pay for other projects in their own jurisdictions. This option has the following advantages:

- This option would simplify the administration of the countywide funding source because the same rate would apply in all areas.

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- The option would allow a greater range of funding sources, because it would not be necessary to reduce the payments of residents in those cities with their own funding sources.

Disadvantages include the following:

- With each city selecting and paying for its own projects, resources may be used by some cities to fund projects having limited benefit in reducing runoff pollution, while other cities may not have sufficient resources to fund projects with greater watershed management benefit. Overall pollution control may therefore be less than with Option 1.
- Residents in unincorporated areas and in cities that fail to obtain their own funding sources would pay less overall for runoff watershed management than would the residents of the other cities. This would be unfair because the residents of all areas contribute to the pollution problem.

**Option 3 – Variant of Option 1.** This is similar to Option 1, except that funds from the County are distributed to the cities based on their populations, contributions of funds by their residents or businesses, or some other formula. Option 3 has the following advantage:

- With more funds coming from the countywide source, there would be greater economies of scale in obtaining the funds. There would be less administrative cost than if each city obtained more of its own funds.

Disadvantages include the following:

- This option would require that funding sources allow reductions for those cities with their own funding sources. This option would therefore limit the funding sources that can be used.
- The distribution of funds would be made without regard to the need for projects. Overall pollution control may therefore be reduced.

**Conclusion.** Based on the above analysis, Option 1 is the preferable method of distributing funds and accounting for cities with their own funding sources. It provides a greater amount of pollution control benefit for the same expenditure and guarantees that residents of all cities pay their fair share of watershed management costs.

### Evaluation Criteria

Following is a summary of the criteria that are used to evaluate the funding options in this report:

- **Equity.** Generally, those people that contribute the pollution should pay the costs of watershed management projects in proportion to their contribution. Fairness requires that a relationship, or “nexus,” exist between the payment and

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contribution. This requires consideration of whether runoff was generated on private or public property, on what basis the capital and operating costs are incurred and if the selected funding source results in people paying in proportion to the costs of removing the pollution that they contribute.

- **Administrative Cost.** The report considers the costs of collecting the revenue and if an existing system is in place to collect the revenue.
- **Availability of Funds.** The report considers if the source will contribute significant funds.
- **Implementation Feasibility.** The report considers if the funding sources fit well with the existing funding sources of the various cities in the County so that the residents in each city contribute their fair share of the Countywide watershed management costs. The report also considers if the funding sources can vary between watersheds, if the County decides this is needed.
- **Stability of Revenue.** The report considers if the funding source will provide a dependable revenue stream.
- **Acceptable.** The report considers the hurdles that must be surmounted for the funding sources to be adopted, such as voting requirements, legislative action and state or federal appropriations.
- **Flexibility.** The report considers if the funding sources can be used to cover the different types of costs.

### SECTION 4. APPLICABLE FUNDING SOURCES FOR CAPITAL PROJECTS

This section groups the likely future projects into broad categories and then evaluates the funding sources that may be applicable for the projects from the perspective of equity. The analysis for future projects includes both the capital costs and O&M costs arising from the projects.

#### Description of the Project Categories

After a review of activities and projects related to watershed management, six broad categories of likely projects have been identified. This grouping may not be exhaustive and is based primarily on the type of structure(s) and the purpose of project. The six main project categories, discussed below, are runoff treatment, low flow diversion, trash capture, stormwater storage and infiltration, dry weather flow storage and infiltration and improvements along waterways and lakes.

**Runoff Treatment.** These are runoff treatment facilities similar to SMURRF. The purposes of the facilities are to treat the runoff, thus removing a source of pollution, and to provide water suitable for irrigation and other uses.

**Low Flow Diversion.** These are diversions of dry-weather runoff to the sewer system for treatment at the sanitary treatment plants. The purpose of the facilities is to remove a source of pollution. Due to economies of scale, sanitary treatment costs are much lower than with runoff treatment plants such as SMURRF. However, the diversions do not

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provide additional water for reuse because the plant owners cannot typically reuse all of the water that they treat.

**Trash Capture.** These are devices, such as catch-basin screens and continuous deflection separators, which capture trash for later disposal. The devices need ongoing maintenance to remove and dispose trash.

**Stormwater Storage and Infiltration.** These projects include devices that 1. store wet-weather runoff, including retention grading, driveway dry wells and bioretention that may also filter the runoff or remove organic material, 2. cisterns that serve to reduce peak flows and reduce water use as the cistern water is used for irrigation and 3. porous pavement in areas with permeable soils, such as the East San Fernando Valley, that reduces peak storm flows and enhances infiltration into the groundwater. The devices may be small enough to be installed and paid for by individual property owners, as required for construction permits.

The projects may also include larger flood control basins and detention basins to store stormwater. Such storage may allow infiltration of stormwater over time, with the benefits of capturing pollutants in the soil and augmenting the groundwater. Storage will also reduce downstream peak stormwater flows, allowing downstream facilities to remove a larger percentage of the polluted stormwater.

**Dry Weather Flow Storage and Infiltration.** Devices such as retention grading, driveway dry wells and bioretention may also be used to store and filter dry-weather runoff. The devices may be small enough to be installed and paid for by individual property owners, as required for construction permits.

**Improvements Along Waterways and Lakes.** These projects divert polluted runoff from waterways and lakes, often filtering out pollutants in constructed wetlands or strip filters. They often have the added benefits of improving the appearance of the waterways and providing recreational opportunities.

### Multi-benefit Projects

Many of the projects discussed above provide opportunities for multiple benefits. For example, a constructed wetland could provide recreational benefits in addition to filtering pollutants from runoff. In some cases, these additional benefits may allow the use of additional funding sources for constructing or operating the projects. For example, selling water for irrigation could offset some of the operating costs of the projects. Including other benefits may also reduce the cost of the watershed management portions of the projects. Following are some of the possible benefits of the projects besides removing pollutants from runoff:

**Flood Control.** The wet weather storage and infiltration projects discussed above have an added flood control benefit of reducing the peak flows of runoff. A portion of the project

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costs could therefore be paid from the existing flood control assessment in recognition of this benefit.

**Water Reuse.** Some of the projects provide water that can be reused, thereby reducing the need for water that must be imported. Projects with runoff infiltration will augment groundwater supplies, while projects that treat runoff will provide water for direct use. The Metropolitan Water District, Los Angeles Water and Power and other water agencies may be willing to contribute funds towards projects that reduce the amount of water that they must import.

Water sales for irrigation or other uses might offset some of the costs of multi-benefit projects. Unfortunately, at today’s water prices, the capital costs of distributing such water will most often exceed the water sales. In the short run, there will probably be no net revenues that can be used to offset the capital costs of capturing and treating the water, though the net sales may offset some of the operating costs.

**Recreation.** Constructed wetlands and other vegetated areas used for removing pollutants might also provide recreational and esthetic benefits. This might be used to justify using park bond funds to pay for portions of the projects. However, there may be considerable competition for park funds.

### Possible Funding Sources for the Projects

For each of six project categories, the tables below identify a target parameter and contributors to the problem, which in turn determines the possible sources of funding based on the principle of “polluter pays”. The tables also discuss how well the possible funding sources provide the nexus between payment of the project costs and their pollution contribution for the project categories. Benefits other than watershed management, such as flood control, recreation and water supply, are also shown in the tables.

**Table 4.1  
Funding Sources for Runoff Treatment Projects**

Cost	Cost Allocation Parameter	Source of Parameter	Possible Funding Sources	Comments
Capital	Dry-weather flow	Runoff from streets and other public areas	Local sales tax	This funding source is appropriate for this general benefit in that it makes all people pay to control runoff from public places.
			Bond and associated property tax	This funding source is appropriate for this general benefit in that it makes all people pay for runoff from public places, either through tax bills or through rents.
			Utility fee or benefit assessment based on use of the property	This provides a reasonable nexus if one assumes that responsibility for runoff volume from streets is proportional to runoff volume from properties.
			Flat surcharge on vehicle License and registration fees	Assumes that all vehicles use the streets equally. This provides a reasonable nexus between payment and use of the streets that contribute to runoff, but not as good a nexus as a gasoline tax.

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Cost	Cost Allocation Parameter	Source of Parameter	Possible Funding Sources	Comments		
		Runoff from private property (Car washing, irrigation overspray, etc.)	Gasoline tax	Good nexus between payment and use of the streets that contribute to runoff.		
			Utility fee or benefit assessment based on use of the property	Can provide a good nexus if studies provide a reasonable estimate of dry-weather runoff based on property use.		
			Utility fee or benefit assessment based on total area and impervious area	Payment is based on an estimate of storm runoff generation. This provides a poor nexus between payment and the amount of dry-weather runoff.		
			Bond and associated property tax	The nexus between dry-weather runoff and assessed value is poor.		
			Construction grants			
	Beneficial use of water			Participation by the Metropolitan Water District or other water agency	Water agencies may be willing to pay some of the cost, because this should reduce the amount of water that they must import.	
				Water Sales	Water sales may be used in some limited cases to cover the capital costs of producing the water. However, at current water prices, the distribution costs will exceed the water sales in most situations, so that there will be no net revenues to cover treatment capital costs.	
O&M	Bacteria and other pollutants	Pollution from streets and other public areas (dog feces, littering, gasoline, brake lining dust, etc.)	Local sales tax	This funding source is appropriate for this general benefit in that it makes all people play to control runoff from public places.		
			Parcel tax	This funding source is appropriate for this general benefit in that it makes all people pay for runoff from public places, either through tax bills or through rents.		
			Utility fee based on use of the property	This provides a reasonable nexus if one assumes that responsibility for runoff pollution from streets is proportional to runoff pollution from properties.		
			Flat surcharge on vehicle License and registration fees	Assumes that all vehicles use the streets equally. This provides a reasonable nexus between payment and use of the streets that contribute to runoff, but not as good a nexus as a gasoline tax.		
			Gasoline tax	Good nexus between payment and use of the streets that contribute to pollution from vehicles.		
		Runoff from private property (Car washing, irrigation overspray, etc.)			Parcel tax	Although the formula can be varied somewhat from a per-parcel tax, it probably cannot be structured to provide a good nexus between pollution contribution and payment.
					Utility fee or benefit assessment based on use of the property	The fee or assessment can be structured to provide a good nexus between pollution contribution and payment.
					Utility fee or benefit assessment based on total area and impervious area	Payment is based on an estimate of storm runoff generation. This provides a poor nexus between payment and the amount of dry-weather runoff.
Beneficial use of water			Metropolitan Water District operating subsidy	Water agencies may be willing to pay some of the cost, because this should reduce the amount of water that they must import.		
			Water sales	Water sales less the costs of distribution pumping may cover some of the O&M costs of producing the water.		

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**Table 4.2  
Funding Sources for Low Flow Diversion Projects**

Cost	Cost Allocation Parameter	Source of Parameter	Possible Funding Sources	Comments
Capital	Dry-weather flow	Runoff from streets and other public areas	Local sales tax	This funding source is appropriate for this general benefit in that it makes all people play to control runoff from public places.
			Bond and associated property tax	This funding source is appropriate for this general benefit in that it makes all people pay for runoff from public places, either through tax bills or through rents.
			Utility fee or benefit assessment based on use of the property	This provides a reasonable nexus if one assumes that responsibility for runoff volume from streets is proportional to runoff volume from properties.
			Flat surcharge on vehicle License and registration fees	Assumes that all vehicles use the streets equally. This provides a reasonable nexus between payment and use of the streets that contribute to runoff, but not as good a nexus as a gasoline tax.
			Gasoline tax	Good nexus between payment and use of the streets that contribute to runoff.
		Runoff from private property (Car washing, irrigation overspray, etc.)	Utility fee or benefit assessment based on use of the property	Can provide a good nexus if studies provide a reasonable estimate of dry-weather runoff based on property use.
			Utility fee or benefit assessment based on total area and impervious area	Payment is based on an estimate of storm runoff generation. This provides a poor nexus between payment and the amount of dry-weather runoff.
			Bond and associated property tax	The nexus between dry-weather runoff and assessed value is poor.
			Construction grants	
O&M	Bacteria and other pollutants	Pollution from streets and other public areas (dog feces, littering, gasoline, brake lining dust, etc.)	Local sales tax	This funding source is appropriate for this general benefit in that it makes all people play to control runoff from public places.
			Parcel tax	This funding source is appropriate for this general benefit in that it makes all people pay for runoff from public places, either through tax bills or through rents.
			Utility fee based on use of the property	This provides a reasonable nexus if one assumes that responsibility for runoff pollution from streets is proportional to runoff pollution from properties.
			Flat surcharge on vehicle License and registration fees	Assumes that all vehicles use the streets equally. This provides a reasonable nexus between payment and use of the streets that contribute to runoff, but not as good a nexus as a gasoline tax.
			Gasoline tax	Good nexus between payment and use of the streets that contribute to pollution from vehicles.
		Pollution from private property (Car washing, pesticides, nutrients, fertilizer, etc.)	Parcel tax	Although the formula can be varied somewhat from a per-parcel tax, it probably cannot be structured to provide a good nexus between pollution contribution and payment.
			Utility fee or benefit assessment based on use of the property	Can provide a good nexus if studies provide a reasonable estimate of pollution based on property use.
			Utility fee or benefit assessment based on total area and impervious area	Easier to calculate, but not as good a nexus, because pollutant contribution is poorly related to property size and imperviousness, especially when comparing industrial, commercial and residential uses of property.

**Table 4.3**

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## Funding Sources for Trash Capture Projects

Cost	Cost Allocation Parameter	Source of Parameter	Possible Funding Sources	Comments
Capital and O&M	Volume of trash	Littering on streets and in other public areas	Property tax and Parcel Tax	This funding source is appropriate for this general benefit in that it makes all people pay for trash in public places, either through tax bills or through rents.
			Local sales tax	There may be a nexus between purchases subject to sales tax and littering. Moreover, this funding source is appropriate for this general benefit in that it makes all people pay to control trash in public places.
			Flat surcharge on vehicle License and registration fees	Reasonable nexus between payment and use of the streets. However, this works only for the trash contributed by vehicle owners, forcing vehicle owners to pay for the trash contributed by pedestrians.
			Bond and associated property tax, Parcel tax	These funding sources are appropriate for this general benefit in that they make all people pay for trash in public places, either through tax bills or through rents.
			Gasoline tax	Good nexus between payment and use of the streets. However, this works only for the trash contributed by vehicle owners, forcing vehicle owners to pay for the trash contributed by pedestrians.
			Tax on commodities	This would provide a good nexus between the payment and costs of trash removal, if it were possible to tax all the different sources of trash. However, it would not be feasible to do so.
			Construction grants	

**Table 4.4**  
**Funding Sources for Stormwater Storage and Infiltration Projects**

Cost	Cost Allocation Parameter	Source of Parameter	Possible Funding Sources	Comments
Capital	Wet-weather flow	Storm runoff from streets and other public areas	Local sales tax	This funding source is appropriate for this general benefit in that it makes all people pay to control runoff from public places.
			Bond and associated property tax	This funding source is appropriate for this general benefit in that it makes all people pay for runoff from public places, either through tax bills or through rents.
			Utility fee or benefit assessment based on are and impervious area	This provides a reasonable nexus if one assumes that responsibility for runoff volume from streets is proportional to runoff volume from properties.
			Flat surcharge on vehicle License and registration fees	Assumes that all vehicles use the streets equally. This provides a reasonable nexus between payment and use of the streets that contribute to runoff, but not as good a nexus as a gasoline tax.
			Gasoline tax	Good nexus between payment and use of the streets that contribute to runoff.
		Storm runoff from private property	Utility fee or benefit assessment based on total area and impervious area	Payment is based on an estimate of storm runoff generation, provides a good nexus between payment and the amount of runoff.
			Bond and associated property tax	The nexus between wet-weather runoff and assessed value is poor.

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Cost	Cost Allocation Parameter	Source of Parameter	Possible Funding Sources	Comments	
			Individual property owners	Devices, such as retention grading, driveway dry wells and bioretention, may be required of new development to mitigate increased peak flows and pollution caused by the development.	
			Construction grants	Water agencies may be willing to pay some of the cost, because this should reduce the amount of water that they must import.	
			Participation by the Corps of Engineers		
	Flood control benefit		Current flood control assessment	The flood control benefit may justify using funds from the current assessment, unless the assessment is replaced by a funding source covering both watershed management and flood control.	
	Beneficial use of water infiltrated into the groundwater		Participation by the Metropolitan Water District or other water agencies	Water agencies may be willing to pay some of the cost, because this should reduce the amount of water that they must import.	
O&M	Bacteria and other pollutants	Pollution from streets and other public areas (dog feces, littering, gasoline, brake lining dust, etc.)	Local sales tax	This funding source is appropriate for this general benefit in that it makes all people pay to control runoff from public places.	
			Parcel tax	This funding source is appropriate for this general benefit in that it makes all people pay for runoff from public places, either through tax bills or through rents.	
			Utility fee based on use of the property	This provides a reasonable nexus if one assumes that responsibility for runoff pollution from streets is proportional to runoff pollution from properties.	
			Flat surcharge on vehicle License and registration fees	Assumes that all vehicles use the streets equally. This provides a reasonable nexus between payment and use of the streets that contribute to runoff, but not as good a nexus as a gasoline tax.	
			Gasoline tax	Good nexus between payment and use of the streets that contribute to pollution from vehicles.	
		Pollution from private property (Car washing, pesticides, nutrients, fertilizer, etc.)	Parcel tax	Although the formula can be varied somewhat from a per-parcel tax, it probably cannot be structured to provide a good nexus between pollution contribution and payment.	
			Utility fee or benefit assessment based on use of the property	Can provide a good nexus if studies provide a reasonable estimate of pollution based on property use.	
			Utility fee or benefit assessment based on total area and impervious area	Easier to calculate, but not as good a nexus, because pollutant contribution is poorly related to property size and imperviousness, especially when comparing industrial, commercial and residential uses of property.	
		Flood control benefit		Current flood control assessment	The flood control benefit may justify using funds from the current assessment, unless the assessment is replaced by a funding source covering both watershed management and flood control.
		Beneficial use of water infiltrated into the groundwater		Reimbursement for water that is available for future pumping.	Water agencies may be willing to pay some of the cost, because this should reduce the amount of water that they must import.

**Table 4.5  
Funding Sources for Dry Weather Flow Storage and Infiltration Projects**

Cost	Cost Allocation Parameter	Source of Parameter	Possible Funding Sources	Comments
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Cost	Cost Allocation Parameter	Source of Parameter	Possible Funding Sources	Comments	
Capital	Dry-weather flow	Runoff from streets and other public areas	Local sales tax	This funding source is appropriate for this general benefit in that it makes all people pay to control runoff from public places.	
			Bond and associated property tax	This funding source is appropriate for this general benefit in that it makes all people pay for runoff from public places, either through tax bills or through rents.	
			Utility fee or benefit assessment based on use of the property	This provides a reasonable nexus if one assumes that responsibility for runoff volume from streets is proportional to runoff volume from properties.	
			Flat surcharge on vehicle License and registration fees	Assumes that all vehicles use the streets equally. This provides a reasonable nexus between payment and use of the streets that contribute to runoff, but not as good a nexus as a gasoline tax.	
			Gasoline tax	Good nexus between payment and use of the streets that contribute to runoff.	
		Runoff from private property	Utility fee or benefit assessment based on use of the property	Can provide a good nexus if studies provide a reasonable estimate of dry-weather runoff based on property use.	
			Utility fee or benefit assessment based on total area and impervious area	Payment is based on an estimate of storm runoff generation. This provides a poor nexus between payment and the amount of dry-weather runoff.	
			Bond and associated property tax	The nexus between dry-weather runoff and assessed value is poor.	
			Individual property owners	Devices, such as retention grading, driveway dry wells and bioretention, may be required of new development to mitigate increased peak flows and pollution caused by the development.	
			Construction grants		
O&M	Bacteria and other pollutants	Pollution from streets and other public areas (dog feces, littering, gasoline, brake lining dust, etc.)	Local sales tax	This funding source is appropriate for this general benefit in that it makes all people pay to control runoff from public places.	
			Utility fee based on use of the property	This provides a reasonable nexus if one assumes that responsibility for runoff pollution from streets is proportional to runoff pollution from properties.	
			Parcel tax	This funding source is appropriate for this general benefit in that it makes all people pay for runoff from public places, either through tax bills or through rents.	
			Flat surcharge on vehicle License and registration fees	Assumes that all vehicles use the streets equally. This provides a reasonable nexus between payment and use of the streets that contribute to runoff, but not as good a nexus as a gasoline tax.	
			Gasoline tax	Good nexus between payment and use of the streets that contribute to pollution from vehicles.	
		Pollution from private property (Car washing, pesticides, nutrients, fertilizer, etc.)	Parcel tax	Although the formula can be varied somewhat from a per-parcel tax, it probably cannot be structured to provide a good nexus between pollution contribution and payment.	
			Utility fee or benefit assessment based on use of the property	Can provide a good nexus if studies provide a reasonable estimate of pollution based on property use.	
			Utility fee or benefit assessment based on total area and impervious area	Easier to calculate, but not as good a nexus, because pollutant contribution is poorly related to property size and imperviousness, especially when comparing industrial, commercial and residential uses of property.	
		Beneficial use of water infiltrated into the groundwater		Reimbursement for water that is available for future pumping.	Water agencies may be willing to pay some of the cost, because this should reduce the amount of water that they must import. However, the amount of dry-weather flow that can be infiltrated may be low because of groundwater contamination concerns.

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**Table 4.6  
Funding Sources for Improvements Along Waterways and Lakes**

Cost	Cost Allocation Parameter	Source of Parameter	Possible Funding Sources	Comments	
Capital	Dry-weather and perhaps wet-weather flow	Runoff from streets and other public areas	Local sales tax	This funding source is appropriate for this general benefit in that it makes all people pay to control runoff from public places.	
			Bond and associated property tax	This funding source is appropriate for this general benefit in that it makes all people pay for runoff from public places, either through tax bills or through rents.	
			Utility fee or benefit assessment based on use of the property	This provides a reasonable nexus if one assumes that responsibility for runoff volume from streets is proportional to runoff volume from properties.	
			Flat surcharge on vehicle License and registration fees	Assumes that all vehicles use the streets equally. This provides a reasonable nexus between use of the streets that contribute to runoff, but not as good a nexus as a gasoline tax.	
			Gasoline tax	Good nexus between payment and use of the streets that contribute to runoff.	
		Runoff from private property (Car washing, irrigation overspray, etc.)	Utility fee or benefit assessment based on use of the property	Can provide a good nexus if studies provide a reasonable estimate of dry-weather runoff based on property use.	
			Utility fee or benefit assessment based on total area and impervious area	Payment is based on an estimate of storm runoff generation. This provides a poor nexus between payment and the amount of dry-weather runoff.	
			Bond and associated property tax	The nexus between runoff and assessed value is poor.	
		Recreation and Esthetic Improvement Benefit		Participation by the U.S. Corps of Engineers	The Corps may be willing to pay some of the cost of projects alongside channels owned by them.
				Construction grants	
	O&M		Runoff from streets and other public areas	Recreation bond funds	Park bond funds might be used to pay for portions of the projects. However, there will be considerable competition for park funds.
				Local Sales Tax	Use of this type of revenue is consistent with the general nature of this benefit.
Bond and property tax				Use of this type of revenue is consistent with the general nature of this benefit.	
Local Sales Tax				Use of this type of revenue is consistent with the general nature of this benefit.	
Parcel tax				This funding source is appropriate for this general benefit in that it makes all people pay for runoff from public places, either through tax bills or through rents.	
		Runoff from private property (Car washing, irrigation	Utility fee based on use of the property	This provides a reasonable nexus if one assumes that responsibility for runoff pollution from streets is proportional to runoff pollution from properties.	
			Flat surcharge on vehicle License and registration fees	Assumes that all vehicles use the streets equally. This provides a reasonable nexus between use of the streets that contribute to runoff, but not as good a nexus as a gasoline tax.	
			Gasoline tax	Good nexus between payment and use of the streets that contribute to pollution from vehicles.	
			Parcel tax	Although the formula can be varied somewhat from a per-parcel tax, it probably cannot be structured to provide a good nexus between pollution contribution and payment.	

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Cost	Cost Allocation Parameter	Source of Parameter	Possible Funding Sources	Comments
		overspray, etc.)	Utility fee or benefit assessment based on use of the property	Can provide a good nexus if studies provide a reasonable estimate of the quality of dry-weather runoff based on property use.
			Utility fee or benefit assessment based on total area and impervious area	Payment is based on an estimate of storm runoff generation. This provides a poor nexus between payment and the amount of dry-weather runoff.
	Recreation and Esthetic Improvement Benefit		Local Sales Tax	Use of this type of revenue is consistent with the general nature of the benefit.
			Parcel tax	Use of this type of revenue is consistent with the general nature of the benefit.

### SECTION 5. APPLICABLE FUNDING SOURCES FOR CURRENT WATERSHED MANAGEMENT ACTIVITIES

#### Description of the Project Categories

The Los Angeles County Flood Control District and various cities in the County have ongoing activities aimed at mitigating runoff pollution that may need to be incorporated in any future funding structure. Below is a summary list of the activities.

**Inspection/Enforcement.** The main goal of this operation is to ensure that industrial and commercial businesses follow and implement best management practices to prevent pollutants such as grease from restaurants, oils from automotive repair, and bacterial laden food from food processing activities from being washed down the storm drain. Enforcement units ensure that violators are punished properly by applying penalties and any applicable statutes.

**Catch Basin Cleaning and Road Sweeping.** Catch basins serve as the primary point through which stormwater and urban runoff enter the storm drain network. Littering is the primary cause of catch basin blockage. Clogged catch basins, as well as being unsanitary and unsightly, have the potential to cause flooding, especially during rain events. The City of Los Angeles owns about 35,000 catch basins and cleans them at least once a year.

**Public Education And Stormwater Hotline.** This aims to increase public knowledge of the impact of runoff pollution, assist in information dissemination and encourage a change in behavior that contributes to stormwater pollution such as littering and illegal dumping of waste. Activities include printing brochures, conducting educational workshops, stenciling catch basins and many more. In addition, toll free hotlines are available for the public to report abandoned wastes and chemical spills that will drain into catch basins and the storm drain system.

The tables below summarize the main activities and identified possible sources of funding.

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**Table 5.1  
Funding Sources for Enforcement/Inspection**

Cost	Cost Allocation Parameter	Source of Parameter	Possible Funding Sources	Comments
Inspection and enforcement			Inspection fee for permit	Since this would vary with the type of business, there could be a very good nexus between the expected inspection costs and the amount of the fee.
			Violation Penalties	The penalties would ensure that the dischargers, rather than other people, would bear the costs of dealing with the unlawful discharges.
			Local sales tax	This funding source is appropriate if it is not practical to assess inspection fees.
			Parcel property tax	This funding source would be appropriate if it is not practical to assess inspection fees.

**Table 5.2  
Funding Sources for Catch Basin Cleaning and Street Sweeping**

Cost	Cost Allocation Parameter	Source of Parameter	Possible Funding Sources	Comments
O&M	Trash	Littering from streets and other public areas by the public	Local sales tax	This funding source is appropriate for this general benefit as it makes all people pay to control littering which is the source of trash in the catch basins.
			Parcel tax	This funding source is appropriate for this general benefit in that it makes all people pay for trash in public places, either through tax bills or through rents.
			Tax on commodities	This would provide a good nexus between the payment and costs of trash removal, if it were possible to tax all the different sources of trash. However, it would not be feasible to do so.
			Flat surcharge on vehicle license and registration fees	Reasonable nexus between payment and use of the streets. However, this works only for the trash contributed by vehicle owners, forcing vehicle owners to pay for the trash contributed by pedestrians.
			Gasoline tax	Good nexus between payment and use of the streets. However, this works only for the trash contributed by vehicle owners, forcing vehicle owners to pay for the trash contributed by pedestrians.

**Table 5.3  
Funding Sources for Public Education Hotline**

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Cost	Cost Allocation Parameter	Source of Parameter	Possible Funding Sources	Comments
O&M	Trash, Bacteria	Illegal discharges and littering	Local sales tax	This funding source is appropriate for this general benefit in that it makes all people pay to control the problem before it reaches the storm drains.
			Parcel tax	This funding source would be appropriate for this benefit because it makes all people pay, either through tax bills or through rents.
			Gasoline Tax	Good nexus between payment and use of the streets that contribute to pollution from vehicles.

### SECTION 6. ADVANTAGES AND DISADVANTAGES OF THE ALTERNATIVE FUNDING SOURCES

This section develops the advantages and disadvantages of the funding sources.

#### Local Option Sales Tax for Capital and O&M

Advantages of this funding source include the following:

- Sales taxes are frequently used to pay for general benefits, such as reducing pollution in runoff from streets and other public areas. It makes all people pay to control runoff from public places.
- There may be a nexus between purchases subject to sales tax and littering.
- This funding source could provide as much funds as needed for the entire program.

The disadvantages include the following:

- This alternative would not work well for the preferred Option 1 of keeping all residents' payments for watershed management the same by reducing the assessments of the residents of cities with their own funding sources. It would be impossible or impractical to vary the sales tax rate by city.
- There is no nexus between payment of sales taxes and polluted runoff generated from private property.
- Revenues from sales taxes can vary significantly depending on economic conditions.
- Over the last twenty years, sales taxes have declined in California as a percentage of personal income. This is partly due to a shift from the purchase of taxable goods toward nontaxable services and intangible goods. The tax erosion has also been caused by Internet sales, which are supposedly taxable, but difficult to collect. Further declines in sales taxes are expected because of increased Internet sales.
- Increasing the tax rate will make the County's retailers less competitive than in other neighboring counties. This could reduce sales tax revenues somewhat by shifting sales outside the County.

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- Because the tax rate can only be increased by an additional half percent without becoming higher than in any other county, there will be substantial competition for increasing sales taxes from law enforcement and other public needs.
- Sales taxes are highly regressive, so that poorer people would pay a higher part of their income for watershed management than others.
- Two-thirds of the general electorate would need to approve the increased taxes.
- The County could not practically vary sales tax rates by watershed.

### **Bond and Associated Property Tax for Capital with a Special Purpose Parcel Tax for O&M**

Property taxes can be used to pay debt service on bonds, in which case the voters would be asked to authorize bonds with a corresponding increase in property tax rates. Property taxes cannot be used to finance O&M activities, so a special purpose parcel tax would be used. Advantages of this funding source including the following:

- The combination of property and parcel taxes can be used to fund all elements of the runoff pollution program.
- Property and parcel taxes are frequently used to pay for general benefits. They would therefore make all people pay for trash in public places, either through their tax bills or through rents. They would also make businesses pay. They would also be appropriate for funding the general benefits of multipurpose projects, such as parks and wetlands.
- Administrative costs of collecting the taxes should be low.
- This funding source could provide as much funds as needed for the entire program.

Disadvantages include the following:

- Revenues could be reduced somewhat if falling property values force the County to lower assessed valuations. In times of stable values, revenues may increase slower than inflation, especially construction inflation, since the assessment increases at only two percent per year unless the properties are sold.
- The equity of using property taxes is diminished because owners will pay differing amounts of the property taxes depending on how long they have owned their properties.
- Utility fees or benefit assessments can be structured to provide a much better nexus between payments by property owners and the costs of reducing pollution in runoff from the properties.
- Two-thirds of the general electorate would need to approve the increased taxes.
- A parcel tax would not work well for the preferred Option 1 of keeping all residents' payments for watershed management the same by reducing the assessments of the residents of cities with their own funding sources. A parcel tax approved in a County-wide or District-wide vote cannot be varied by area.
- The County would not have the option of varying the parcel tax by watershed.

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## **Flat Surcharge on Vehicle License and Registration Fees**

Advantages this funding source including the following:

- This provides a reasonable nexus between payment and use of the public streets that contribute runoff, as well as pollutants that are emitted by motor vehicles, but not as good a nexus as a gasoline tax surcharge.
- There is already a system in place to collect and distribute the revenue, so there should be minimal additional cost in administering the system.

Disadvantages include the following:

- This alternative would not work well for the preferred Option 1 of keeping all residents' payments for watershed management the same by reducing the assessments of the residents of cities with their own funding sources. It would be impossible or impractical to vary the surcharge by city.
- The legislature would probably need to approve the surcharge.
- There is no nexus between payment of the surcharge and generation of polluted runoff from private property, except for runoff generated from car washing.
- There is a poor nexus between payment and generation of trash, since pedestrians, not drivers, contribute most trash.
- The revenue would not be available if the Vehicle License and Registration Fees are abolished for political reasons.
- The County would not have the option of varying the surcharge by watershed.

## **Surcharge on Gasoline Tax**

Advantages of this funding source including the following:

- This provides a good nexus between payment and use of the public streets that contribute runoff, as well as pollutants that are emitted by motor vehicles. Use of streets and generation of pollutants are directly correlated to the amount of gasoline used by the vehicles.
- There is already a system in place to collect and distribute the revenue, so there should be minimal additional cost in administering the system.
- This funding source could provide as much funds as needed for the entire program.

Disadvantages include the following:

- This alternative would not work well for the preferred Option 1 of keeping all residents' payments for watershed management the same by reducing the assessments of the residents of cities with their own funding sources. It would be impossible or impractical to vary the surcharge by city.
- Voters would need to approve the surcharge. This may be difficult with the current high gasoline prices.

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- Legislative approval may be needed.
- There is no nexus between payment of the surcharge and generation of polluted runoff from private property; except for runoff generated from car washing.
- There is a poor nexus between payment and generation of trash, since pedestrians, not drivers, contribute most trash.
- The County would not have the option of varying the surcharge by watershed.

### Benefit Assessment

Advantages of this funding source including the following:

- This alternative would work well for the preferred Option 1, keeping all residents' payments for watershed management the same by reducing the assessments of the residents of cities with their own funding sources. The assessment rate could be adjusted for properties in different cities.
- Benefit assessments provide a good nexus between payments by property owners and the costs of reducing pollution in runoff from the properties. Assessments based on total area and impervious area provide a good estimation of runoff generated by the properties. They would correlate well with the capital costs of projects that are usually designed based on the volume of wet weather runoff. Assessments that estimate the pollution and dry-weather runoff generated on properties based on the types of developments on the properties would correlate well with operation and maintenance costs and with the capital costs of dry-weather storage, improvements along waterways and lakes, low-flow diversions and runoff treatment projects.
- Assessments may provide a reasonable nexus between payments and the costs of reducing runoff pollution generated in streets, if one assumes that responsibility for runoff volume and pollution from streets is proportional to runoff from properties.
- The assessments could be used to reduce pollution from runoff generated on private property, since that would be considered to be a special benefit of each property.
- Revenues from the assessments would be very stable, not varying much with economic conditions.
- The administrative costs of including the assessment on the property tax bill are low, approximately \$0.20 per parcel.
- This funding source could provide as much funds as needed for the entire program.
- The County would have the option of varying the surcharge by watershed.

Disadvantages include the following:

- According to Proposition 218, a detailed engineer's report must be prepared determining the cost of the proportional special benefit to each parcel. The assessments may only recover the costs of special benefits over and above general benefits conferred to the public. County Counsel should be asked if the reduction of pollution in runoff or trash generated on streets or other public areas is

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a general benefit that cannot be included in the assessment. If it cannot be included in the assessment, then a benefit assessment would not be practical as a funding source.

- There would be no nexus between the assessment and the amounts of trash collected in trash capture projects.
- A majority of the property owners would need to approve the fees or assessments on a weighted basis. The owners of large properties could therefore stop the assessments, even if most property owners approve.

If the existing flood control benefit assessment is abolished and folded into an assessment covering more of the County, then the assessment should have two components, 1. a flood control component based on the current estimation of wet-weather runoff, and 2. a watershed management component based on an estimation of dry-weather runoff and pollution for each type of property use. Otherwise, the assessment will not accurately reflect the costs of both flood control and watershed management for the property.

### Utility Fee

Advantages of this funding source including the following:

- This alternative would work well for the preferred Option 1, keeping all residents' payments for watershed management the same by reducing the assessments of the residents of cities with their own funding sources. The fee rate could be adjusted for properties in different cities.
- Utility fees provide a good nexus between payments by property owners and the costs of reducing pollution in runoff from the properties. Fees based on total area and impervious area provide a good estimation of runoff generated by the properties. They would correlate well with the capital costs of projects that are usually designed based on the volume of wet-weather runoff. Fees that estimate the pollution and dry-weather generated on properties based on the types of developments on the properties would correlate well with operation and maintenance costs and the capital cost of projects that designed based on dry-weather runoff.
- Utility fees may provide a reasonable nexus between payments and the costs of reducing runoff pollution generated in streets, if one assumes that responsibility for runoff volume and pollution from streets is proportional to runoff from properties.
- Revenues from the fees or assessment would be very stable, not varying much with economic conditions.
- Assuming that the fee will be charged on the County property tax bills, the administrative costs should be low, approximately \$0.20 per parcel. This amounts to less than one percent of the revenue from the City of Los Angeles' Stormwater Watershed management Charge.
- This funding source could provide as much funds as needed for the entire program.
- The County would have the option of varying the surcharge by watershed.

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Disadvantages include the following:

- Two-thirds of the general electorate or one-half of the property owners would need to approve the fees.
- County Counsel should be consulted to determine if the Los Angeles County Flood Control District could impose utility fees instead of or in addition to the current benefit assessment. State legislation was needed so that the Ventura County Watershed Protection District could impose such a fee.
- There would be no nexus between the fee and the amounts of trash collected in trash capture projects.
- Equity of utility fees will be greatly improved if dry-weather flow and runoff pollution from properties can be estimated based on use of the properties. This has not been widely done in the stormwater and watershed management industry, however.
- According to Proposition 218, the fee cannot be imposed to recover the costs of general governmental services. The fee might therefore not be able to recover the costs of multiple benefits such as habitat protection, conservation and recreation. For example, if a constructed wetland were considered to provide recreational benefits in addition to pollution reduction benefits, then the cost of the recreational component would need to be funded from general taxes rather than the utility fee. If this interpretation of Proposition 218 holds, then a utility fee would not be flexible enough to cover all of the costs of the potential projects described above. However, this would not be as restrictive as for a benefit assessment.

If the existing flood control benefit assessment is abolished and folded into a utility fee, then the fee should have two components, 1. a flood control component based on the current estimation of wet-weather runoff, and 2. a watershed management component based on an estimation of dry-weather runoff and pollution for each type of property use. Otherwise, the fee will not accurately reflect the costs of both flood control and watershed management for the property.

### **Construction Grants, MWD Operating Subsidies, Corps of Engineers Participation, Water Sales and Participation by Water Utilities**

These funding sources are grouped together because they all have the following advantages:

- The funds do not need to be repaid.
- Receipt of the funds does not preclude the use of other funding sources for the remaining costs.

Disadvantages of these funding sources include the following:

- The application process for grants, MWD operating subsidies and Corps of Engineers participation is time-consuming.

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- Corps of Engineers participation will require federal approval and appropriation of the funds.
- There may be much competition for these funding sources.
- There may be extensive grant compliance requirements, including grant audits.
- Water sales revenues will probably not cover the distribution capital costs, let alone the costs of a runoff treatment project. Sales revenues may cover much of the operating and maintenance costs, however.
- Participation by water utilities will require negotiation of the terms of the participation and ongoing administration of the contract.
- These sources could provide funds for only portions of the watershed management program.

### Runoff Discharge Permit Fee

Advantages of this funding source include the following:

- Equity would be enhanced because inspection and enforcement fees could track closely the costs of performing these activities.

Disadvantages include the following:

- A new administrative system would need to be established, including a database of permittees and billing procedures. There would be considerable one-time costs to implement the permits and fees.
- Many cities already provide inspection of businesses in their jurisdiction. The fees would therefore not be applicable throughout the County.
- This would be appropriate as a funding source for only the costs of inspection and enforcement.

## SECTION 7. CONCLUSION

Of the funding sources evaluated in the Section 6, three were judged to be the most promising for funding most of the costs of the watershed management program. They are special purpose property taxes, benefit assessments and utility fees. All three sources comply well with the following evaluation criteria described in Section 3:

- **Administrative Cost.** The sources have relatively low administrative costs.
- **Availability of Funds.** The sources all can provide sufficient funds for the entire watershed management program.

The following table compares the three best funding sources in relation to the remaining evaluation criteria.

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**Table 7.1  
Comparison of the Three Best Funding Alternatives**

Funding Source	Equity	Implementation Feasibility	Stability of Revenue	Acceptable	Flexibility
Bonds and Property Tax for Capital, Parcel Tax for O&M	They make all people pay for runoff from public places and would be appropriate for funding the general benefits of multipurpose projects. Poor nexus between payment and runoff from private properties.	Parcel taxes cannot be varied to fit well with the existing funding sources of the cities to guarantee that all residents pay their fair share. Parcel taxes could not vary between watersheds.	Property tax revenues could be reduced somewhat if falling property values force the County to lower assessed valuations. Parcel tax revenues are stable.	Requires 2/3 vote.	Can cover all types of costs.
Benefit Assessment	Good nexus between payment and contribution to runoff from private property. Must assume that responsibility for runoff from streets is proportion to runoff from private property.	Can vary to fit well with the existing funding sources of the cities to guarantee that all residents pay their fair share. Assessments could vary between watersheds.	Revenues are very stable.	Requires half of weighted vote of property owners. Large properties could defeat the vote.	May not cover the costs of general benefits, which could be much of the total.
Utility Fee	Good nexus between payment and contribution to runoff from private property. Must assume that responsibility for runoff from streets is proportion to runoff from private property.	Can be varied to fit well with the existing funding sources of the cities to guarantee that all residents pay their fair share. The fees could vary between watersheds.	Revenues are very stable.	Requires either half vote of property owners or 2/3 vote of the general electorate.	May not be used for general government services, but will likely cover more than assessments.

This paper does not recommend a single best funding source for watershed management. The advantages and disadvantage of the three alternative sources are presented in this paper so that policy-makers can decide among them. It is recommended that construction grants, MWD operating subsidies, Corps of Engineers participation, water sales revenues and participation by water utilities be pursued as they may be available. Some of these sources may be available to cover water sales and other multiple benefits of the projects. There are certain costs in applying and negotiating for these sources, but the fact that they do not need to be repaid makes the effort well worthwhile.