

Texas Commission on
Environmental Quality

SUPPLEMENTAL ENVIRONMENTAL PROJECTS

SEEPS

PUTTING

FINES

TO WORK

CLOSER

TO HOME

This publication amends and replaces the version of March 2009. It does not create any rights on behalf of alleged violators or other parties involved in the development of environmental projects. The approval of any particular proposed agreed order or SEP is wholly subject to the discretion of the TCEQ commissioners.

CONTENTS

Introduction	1
What's a SEP?	1
Types of Supplemental Environmental Projects	1
Pre-Approved SEPs	1
Custom SEPs	1
Compliance SEPs	1
Allowable Offset Amounts	2
Direct-Benefit SEPs	2
Indirect-Benefit SEPs	2
Mixed-Benefit SEPs	2
Who's Eligible to Participate?	2
What Makes for an Acceptable SEP?	3
Exceptions to SEP Policy	4
Where Can a SEP Be Located?	4
On-Site SEPs	4
Trans-Boundary SEPs	4
How Does the Application Process Work?	5
Submission of a SEP Application	5
Review and Approval of a SEP Application	5
Pre-Approved SEP Application	5
Compliance and Custom SEP Application	5
The Agreed Order Process	6
What Are the Performance and Reporting Requirements?	6
Reporting for Custom and Compliance SEPs	6
Performance and Reporting for a Contribution to a Pre-Approved SEP	7
Failure to Perform or Failure to Report	7
Third-Party Administrators of Pre-Approved SEPs	7
Basic Eligibility	7
Party Proposal	7
Reporting Requirements for Pre-Approved SEPs	8
For Further SEP Assistance	8



Bryan W. Shaw, Ph.D., P.E., *Chairman*
Toby Baker, *Commissioner*
Zak Covar, *Commissioner*

Richard A. Hyde, P.E., *Executive Director*

Published and distributed by the
 Texas Commission on Environmental Quality
 P.O. Box 13087
 Austin, TX 78711-3087

We authorize you to use or reproduce any original material contained in this publication—that is, any material we did not obtain from other sources. Please acknowledge the TCEQ as your source.

Copies of this publication are available for public use through the Texas State Library, other state depository libraries, and the TCEQ Library, in compliance with state depository law. For more information on TCEQ publications, call 512-239-0028 or visit our website at:

tceq.texas.gov/publications

How is our customer service? tceq.texas.gov/customersurvey

The TCEQ is an equal opportunity employer. The agency does not allow discrimination on the basis of race, color, religion, national origin, sex, disability, age, sexual orientation or veteran status. In compliance with the Americans with Disabilities Act, this document may be requested in alternate formats by contacting the TCEQ at 512-239-0028, Fax 512-239-4488, or 1-800-RELAY-TX (TDD), or by writing PO Box 13087, Austin, TX 78711-3087. Printed on recycled paper.



TakeCareOfTexas.org
Online Tips to Do Your Part!



SUPPLEMENTAL ENVIRONMENTAL PROJECTS (SEPs)

PUTTING FINES TO WORK CLOSER TO HOME

INTRODUCTION

When your plant or facility is found to be in violation of state environmental laws or regulations, you may be assessed a monetary penalty or fine by the Texas Commission on Environmental Quality. Penalties are paid to the TCEQ and deposited into the state's General Revenue Fund. As an alternative to paying a penalty to the TCEQ, state law allows you to put a portion of the penalty to work closer to home and help improve the environmental quality of your region. This option is called a Supplemental Environmental Project, or SEP.

What's a SEP?

A SEP allows a respondent under enforcement to voluntarily participate in a project that enhances, protects, and improves the Texas environment. If a SEP is approved, a respondent may offset a portion of the assessed penalty to conduct an environmental-enhancement project or to contribute to an existing environmental project. Under Texas law, the TCEQ may consider the respondent's willingness to contribute to a SEP in the settlement of enforcement actions. SEPs can include a wide range of actions that protect or improve the environment in or near the community where an environmental violation took place. SEPs advance the goals of cleaner air, water, and soil throughout Texas and enhance the environment in communities affected by environmental violations.

Types of Supplemental Environmental Projects

There are three types of SEPs: pre-approved, custom, and compliance. Opting for a pre-approved SEP makes the individual SEP proposal process simpler and less time consuming. Although opting for a custom or compliance SEP makes the proposal process more complex, it provides a respondent with the opportunity to construct a project tailored to the respondent's capabilities and the community's environmental needs.

Pre-Approved SEPs

Pre-approved SEPs are fully designed and ready to be implemented or are already in progress. Pre-approved SEPs are implemented by Third-Party Administrators such as nonprofit organizations and government entities. Rather than paying a penalty to the Texas General Revenue Fund to resolve an enforcement case, a respondent can opt to pay a specific portion of the penalty to a pre-approved SEP. The benefit to contributing to a pre-approved SEP is that the respondent does not need to plan and propose its own project; rather, the respondent can simply choose a project from the list and send its penalty offset to the Third-Party Administrator of the project. The TCEQ maintains a list of pre-approved SEPs online at www.tceq.texas.gov/legal/sep.

Custom SEPs

A custom SEP is a project that the respondent designs, proposes, and implements after approval from the TCEQ. A custom SEP must have a significant, enduring, and quantifiable environmental benefit. A custom SEP cannot be used to address the respondent's violations. Creating a custom SEP can be time consuming, but it allows the respondent to plan a project around the specific environmental needs in the respondent's community.

Compliance SEPs

Compliance SEPs are available to local governments that qualify under a financial inability to pay analysis conducted by the TCEQ's Financial Administration Division. Compliance SEPs are a statutorily authorized exception to the requirement that a SEP cannot be performed in order to address a respondent's violations. Under this exception, a local government respondent may apply to conduct a compliance SEP in order to put its penalty towards correcting the violations that are the subject of its enforcement action. A local government respondent may offset up to 100 percent of its penalty for a qualifying project. For example, a city that is under enforcement for exceeding its effluent limitations may propose a compliance SEP to repair or replace its

wastewater treatment plant equipment in order to use the penalty to correct those violations. The respondent must agree to come into compliance with all of the violations regardless of whether the penalty offset will provide enough funds to complete the compliance activities.

Allowable Offset Amounts

There is a set of formulas in place for determining the percentage of a penalty that can be offset through a SEP. The formula applied in each case depends on the environmental benefit of the project, i.e., whether the project is considered to have a direct benefit, an indirect benefit, or a mixed benefit, as well as the nature of the respondent organization—government, nonprofit, or for-profit. Table 1 shows the percentage of a penalty that can go towards pre-approved and custom SEPs for governments and nonprofits versus for-profit organizations.

Additionally, a financially qualified local government may offset 100 percent of its penalty to perform a compliance SEP. Also, on a case-by-case basis, the executive director may approve a higher offset percentage based on the project’s exceptional benefit to the affected community or the project’s extraordinary environmental enhancement.

Direct-Benefit SEPs

A direct-benefit SEP is one that directly benefits the environment. It should provide significant, immediate, and enduring enhancements to the quality of the environment, or prevent or reduce further environmental degradation. The environmental benefits of direct-benefit projects should be readily quantifiable. Governments and nonprofit organizations may offset up to 100 percent of the penalty by performing a direct-benefit, media-specific SEP. For-profit businesses may offset only up to 50 percent of their penalty with a direct-benefit project. The offset for a direct-benefit project that does not involve the same media as that of the violation will be determined based on how the project addresses state, regional, or community environmental priorities.

Examples of direct-benefit projects include the removal of exotic invasive species from an affected habitat and the collecting and disposing of community household hazardous waste.



Indirect-Benefit SEPs

An indirect-benefit SEP is one that does not have an immediate, direct effect of improving the environment. Projects that indirectly benefit the environment can only offset up to 33 percent of any respondent’s penalty.

General examples of indirect-benefit projects include educational and public awareness projects.

Mixed-Benefit SEPs

A mixed-benefit SEP is one that has both indirect and direct benefits. Mixed-benefit projects can offset up to 50 percent of the penalty, no matter the type of respondent.

An example of a mixed-benefit SEP is a project that involves both collecting household hazardous waste and educating the public on proper disposal methods.

Who’s Eligible to Participate?

All respondents in the TCEQ enforcement process are eligible to contribute to a third-party SEP or perform a custom SEP. Only qualifying local governments can participate in compliance SEPs. The TCEQ encourages all respondents to consider undertaking a SEP. However, the TCEQ must evaluate each case individually to determine whether a SEP is appropriate in that instance.

During the evaluation process, the TCEQ may consider a number of factors, including the respondent’s history of

Table 1—Allowable Offset Amounts by Type of Respondent

	Direct-Benefit SEPs	Indirect-Benefit SEPs	Mixed-Benefit SEPs
Governments and Nonprofit Organizations	100%	33%	50%
For-Profit Organizations	50%	33%	50%

completing SEPs, the respondent's good-faith participation in the settlement of the enforcement action, and the respondent's degree of culpability for the violations at issue. In each case, the TCEQ tries to bring the enforcement process to a conclusion as soon as reasonably possible while providing the respondent with an opportunity to do a SEP. In order to be considered for a SEP, a respondent must inform the TCEQ of its desire to participate in a SEP as soon as possible after the enforcement process begins. For the SEP approval process to be completed, the respondent must resolve any dispute concerning the amount of the proposed penalty and be willing to sign an agreed order. Opportunities for public comment are available during the enforcement process.

What Makes for an Acceptable SEP?

In order to be considered acceptable as a SEP, a project must meet the following three principal criteria:

1. The Project Must Be Environmentally Beneficial

The project should improve and protect the environment and reduce environmental risks to the public. Projects that are directly beneficial to the environment are preferred. Projects that have only an indirect benefit to the environment may be acceptable, but, if approved, the amount of the penalty that may be offset by the project is limited to a smaller portion (33 percent) than is allowed with a project that directly benefits the environment (50 or 100 percent—see above). An example of a directly beneficial project is the restoration of a degraded wetland. An example

of an indirectly beneficial project is an educational project teaching students about recycling. If the proposed project would provide some direct benefit to the respondent, the project may not be allowable unless it is a compliance SEP.

2. The Project Must Be Performed as a Result of a Settlement Agreement

The project must follow, not precede, a TCEQ enforcement action. A respondent cannot offset its penalty for a project that the respondent has already completed, already included in its budget, or already committed to undertake. For example, a city cannot offset a penalty amount with a household hazardous waste collection project if it had previously committed to implement, or received grant funds to implement, such a project. However, if that same city proposed to expand the household hazardous waste project beyond its previous commitments by expanding it to include additional neighborhoods, then the project may be appropriate.

3. The Project Must Go Beyond What Is Required for Compliance

A pre-approved or custom SEP must benefit the environment above and beyond legal compliance requirements. Compliance SEPs are a specific exception to this requirement. If federal, state, or local law requires the respondent to carry out the project being proposed, the project cannot qualify as a pre-approved or custom SEP. Nor can a respondent use



a pre-approved or custom SEP to fix the problems that are the basis of the enforcement action taken against the respondent by the TCEQ. For example, if a respondent is in enforcement for discharging waste into a river, the respondent cannot use a pre-approved or custom SEP to clean up the discharge.

The TCEQ may consider a number of other factors when determining whether a SEP can be approved, including:

- Does the project meet state, regional, or community environmental priorities?
- Will the project be done in or near the community where the violation occurred? The agency gives preference to SEPs that benefit the same community where the violation occurred. A community may include areas in the same river basin, watershed, airshed, or nonattainment area where the violation occurred.
- Does the project match the environmental media of the violation? The agency gives preference to SEPs that involve the same environmental media (air, water, or waste) as the alleged violation. For example, to address an air emission violation, a respondent could contribute to a project that replaces old, high emissions school buses with new, low emissions buses.

Exceptions to SEP Policy

In limited circumstances, the TCEQ's executive director may make an exception to the agency's SEP policy if there is an extraordinary benefit to human health or the environment that outweighs the considerations used in developing this policy. Such cases will be evaluated on an individual basis and must directly benefit the individuals, community, or area potentially or actually affected by the violations, or otherwise address environmental priorities of the state, region, or community. Any exception to the policy must ultimately be approved by the TCEQ commissioners before the project can be implemented.

Where Can a SEP Be Located?

The TCEQ will consider the location of a proposed SEP when determining its feasibility and approvability. The TCEQ gives preference to SEPs that benefit the community where the violation occurred, including projects that provide environmental enhancement to the same watershed, river basin, airshed, or nonattainment area where the violation occurred. But a SEP cannot generally be located on-site, meaning at

the actual site of the facility that committed the violations. Also, a SEP cannot generally be located outside the state. However, there are a few exceptions to these restrictions.

On-Site SEPs

On-site SEPs are performed at the same site or facility where the violations occurred. As mentioned above, on-site SEPs are generally not approvable. However there are three exceptions to this rule, so long as the SEP is not necessary to bring the respondent into compliance with environmental laws and is not necessary to remediate the environmental harm caused by the respondent's violation:

- Cities, counties, or other governmental entities under enforcement may perform a custom or pre-approved SEP within their jurisdiction as long as the SEP is not necessary to bring the respondent into compliance with environmental laws and is not necessary to remediate the environmental harm caused by the violation.
- Nonprofit organizations under enforcement may be eligible to perform a custom or pre-approved SEP on-site when the benefit to the environment far outweighs the benefit to the nonprofit organization as long as the SEP is not necessary to bring the respondent into compliance with environmental laws and is not necessary to remediate the environmental harm caused by the violation.
- Local governments may perform compliance SEPs, which may take place on the property where the violation(s) occurred regardless of whether the SEP is necessary to achieve compliance.

Trans-Boundary SEPs

There are many border communities in Texas that are affected by the same water-quality and air-quality conditions as their sister cities in Mexico. In light of this fact, the Texas Legislature has given the TCEQ the authority to consider for approval some projects that operate across the international boundary with Mexico. Therefore, in limited circumstances, a respondent may propose to undertake a project on the Mexican side of the border if that project would also benefit the environment on the Texas side of the border. There are additional factors that the TCEQ must consider before approving a trans-boundary SEP:

- The project cannot benefit a Mexican city at the expense of its Texas sister city.
- The project must address a problem of strong concern to Texans.

- The project should directly benefit the border environment.
- There must be an existing infrastructure through which the project can be accomplished.
- There must be channels for international communication about the project.
- The project goals should be capable of quick realization.
- The respondent or Third-Party Administrator must assume direct responsibility for oversight and implementation of the project.

HOW DOES THE APPLICATION PROCESS WORK?

When a respondent's case is referred to the Enforcement Division, the respondent will receive a proposed agreed order¹ to settle the matter. The cover letter accompanying the order will explain what the respondent needs to do in order to apply for a SEP. If the respondent desires to conduct a SEP, it should inform the enforcement coordinator assigned to the case as soon as possible but no less than 30 days after the date of the cover letter of the proposed order. In order to apply for a SEP, the respondent must agree to the penalty amount and submit a SEP application.

Submission of a SEP Application

A respondent must submit a SEP application within 30 days after the date of receipt of the proposed agreed order. If a SEP application is not received during this time period, the case will be either settled without a SEP or, if no settlement is reached, forwarded to the TCEQ's Litigation Division. If the SEP application is for a custom or compliance SEP, the respondent may be given more time to develop the details of the project, but an application must be submitted within the 30-day period. SEP applications for each kind of SEP are available on <www.tceq.texas.gov/goto/sep-forms>.

Review and Approval of a SEP Application

Once a SEP application is submitted, it will proceed through the review and approval process. This process will vary depending on whether the proposal is for a pre-approved, custom, or compliance SEP. If the application is approved, the SEP must be incorporated into the agreed order.

¹An agreed order is a legally binding agreement between TCEQ and a respondent that settles an enforcement action. The agreed order sets forth alleged violations, the corrective actions required to resolve the alleged violations, and the payment of an administrative penalty. If a respondent elects to participate in a SEP, the SEP will be incorporated into the agreed order.

Pre-Approved SEP Application

The application for contributing to a pre-approved SEP is available on the TCEQ website at <www.tceq.texas.gov/legal/sep>. The application requires certain information, including respondent information, choice of the SEP that will receive the contribution, and a certification that contributing to the SEP is not otherwise required by law and that there is no pre-existing obligation to contribute to the SEP or the Third-Party Administrator. A respondent may contribute to a SEP that is in the respondent's community, that involves the same media as the respondent's violations, and that is accepting contributions in the amount of the respondent's eligible offset amount. After the application to contribute to a pre-approved SEP is approved by the TCEQ, language will be added to the agreed order that incorporates the requirement to contribute to a SEP, and an attachment will be added to the order that describes the SEP and states the respondent's offset amount.

Compliance and Custom SEP Application

The application for a compliance or custom SEP is also available on the TCEQ website at <www.tceq.texas.gov/legal/sep>. The application requires detailed information regarding the proposed SEP, including a line-item budget. The SEP Program can help the respondent with the details of the compliance or custom SEP as necessary and will draft the SEP provision of the agreed order. Once the details of the project are complete, the SEP Program will review the project to determine that it meets applicable offset percentages and the criteria for an acceptable SEP and will confer with the TCEQ program area and/or regional office as necessary to evaluate the environmental benefits of the SEP for the community where the SEP is located. If the application is for a compliance SEP, the TCEQ Financial Administration Division will complete a financial review to determine whether the local government qualifies to put the offset amount towards compliance. This review may require the local government respondent to provide financial information to the TCEQ.

A custom or compliance SEP must have a significant, enduring, and quantifiable environmental benefit, which should be described in detail in the application. The following information is also required by the application for a custom or compliance SEP:

- Respondent/applicant information, including name, facility, and contact information.
- Compliance history and information regarding the enforcement action.

- Details of the project, including media, implementation plan, site information, and performance schedule.
- A line-item budget, including all expenses for the project, the number of each expense item needed, the price per item, and the total price.
- Geographic area that will benefit from the project, such as the applicable watershed, river basin, airshed, or nonattainment area.
- Description of the project that is being proposed. The agency identifies the following six types of projects as appropriate SEPs:

1. Pollution prevention and/or reduction projects.
2. Environmental restoration projects that go beyond repair that serve to enhance the environment in the community of the violating facility.
3. Assistance to regulated entities experiencing economic and/or technological hardships that prevent them from complying with environmental regulations.
4. Environmental education and/or engineering assistance to members of the regulated community or public.
5. Projects to fund public works for a neighboring municipality or county that will benefit the environment in a way that is beyond ordinary compliance with the law.
6. Projects to clean up illegal municipal and industrial solid waste dumps where an owner cannot be identified or is not financially capable of cleaning up the site.

- The expected environmental benefits of the project, quantified to the extent possible.
- Any estimated financial returns from the project.
- A certification that the project is not required to meet already existing legal requirements and that the project is not already budgeted for by the respondent or already funded through other sources.

The Agreed Order Process

After the SEP Program finishes reviewing the SEP application and determines that all criteria are met, the project will be incorporated into the agreed order. Specifically, a written provision will be added to the agreed order requiring the completion of the proposed SEP, and an attachment will be added that will detail the project and include the project budget.

The agreed order incorporating the SEP will be provided to the respondent and must be signed and returned to the agency within the time frame established by the TCEQ in the cover letter. The respondent should not make any payment to the SEP Third-Party Administrator or begin conducting the SEP until the agreed order is approved by the commission or executive director. Once the agency receives the signed agreed order, it will be scheduled to be presented to the TCEQ commissioners or executive director for approval as appropriate for the type of order involved. The respondent will be notified when the agreed order has been approved to begin the associated SEP project in accordance with the agreed order.

WHAT ARE THE PERFORMANCE AND REPORTING REQUIREMENTS?

Performance and reporting requirements vary according to the type of SEP being implemented—pre-approved, custom, or compliance. There are also performance and reporting requirements for the Third-Party Administrators performing pre-approved SEPs. Those requirements are covered below in Section IV.

Reporting for Custom and Compliance SEPs

Both custom and compliance SEPs will include line-item budgets listing all allowable SEP expenses. Additionally, both custom and compliance SEPs will include Performance Schedules for implementation of the SEP, reporting dates, and a deadline for completion of the SEP. Specific reporting requirements will vary by project, but in general, both



custom and compliance SEPs require certain information to be reported to the TCEQ on a regular basis to ensure that the SEPs are implemented according to the agreements.

Performance and Reporting for a Contribution to a Pre-Approved SEP

Agreed Orders for respondents contributing to Pre-approved SEPs will include a Performance Schedule with a deadline for the respondent to contribute the SEP Offset Amount to the Third-Party Administrator. The respondent must also provide the TCEQ with proof that the contribution has been provided to the Third-Party Administrator.

Failure to Perform or Failure to Report

If a respondent fails to perform a SEP or fails to properly report on its progress and expenditures, the respondent will be required to pay the unused or unreported portion of the SEP offset amount to the TCEQ for deposit into the state General Revenue Fund. Additionally, if a respondent uses SEP funds to pay for any work, equipment, or materials that are not included in the budget, the respondent will have to refund those funds to the TCEQ.

THIRD-PARTY ADMINISTRATORS OF PRE-APPROVED SEPs

As mentioned above, the TCEQ can enter into agreements with third-party nonprofit and governmental organizations to conduct environmental-enhancement projects known as pre-approved SEPs. A list of pre-approved SEPs is maintained at the TCEQ's website, <www.tceq.texas.gov/legal/sep>.

Basic Eligibility

A third party that is interested in obtaining and using SEP funds to implement an environmental-enhancement project must meet the criteria for an acceptable SEP listed above. In addition, eligible third-party organizations must have Internal Revenue Code section 501(c)(3) status as a nonprofit organization, or be a governmental organization, and must be able to:

- receive and manage SEP funds and to report to the TCEQ on the use of these funds with supporting documentation;
- maintain SEP funds in a separate bank account;
- provide a line-item budget for the project, spend funds in accordance with the budget, and report on budget expenditures;

- estimate and report on the quantifiable benefits of the project (e.g., number of tires to be removed); and
- submit detailed Quarterly Reports for the project each quarter, reporting on each contribution and expenditure and providing supporting documents, as further explained below.

The TCEQ may consider other factors in determining the appropriateness of entering into a third-party agreement with an organization such as an organization's experience in implementing and managing environmental enhancement projects.



Party Proposal

The Third-Party Administrator SEP application is available on the TCEQ's website at <www.tceq.texas.gov/legal/sep>. The following information is required by the application:

- Information regarding the Third-Party Administrator, including contact information and type of organization (government or nonprofit).
- Previous experience with SEPs or with funds management and ability to maintain SEP Funds in a separate account.
- Insurance information.
- Total project cost and minimum contribution amount.
- Project description, media of project (air, water or waste), location of the project, and ownership of the project site.
- Quantified estimate of environmental benefit of the project.
- Project schedule.

- A line-item budget, including all expenses for the project, the number of each expense item needed, the price per item, and the total price.
- A certification that the project is not required to meet already existing legal requirements and that the project is not already budgeted for by the Third-Party Administrator or already funded through other sources.

Other information may be required as the application is reviewed.

During review, the application will be considered by the SEP Program and a panel of TCEQ staff from the Litigation, Enforcement, Field Operations, and Small Business and Local Government Assistance divisions (the “SEP Panel”) as needed to ensure that the proposed SEP meets criteria and that all agency priorities are met. Other areas of the agency will also be consulted as needed. Proposed SEPs that meet agency criteria will be signed by the TCEQ and the Third-Party Administrator. After agreements are signed, SEPs are added to the pre-approved SEP list on the TCEQ’s website. The pre-approved SEP list is submitted to the TCEQ commissioners annually.

Reporting Requirements for Pre-Approved SEPs

The Third-Party Administrator will be provided with a Quarterly Report form that must be completed and submitted each quarter. The specific information required in the

Quarterly Reports will vary by project, but the following information is typically required:

- SEP Funds received;
- Expenditures;
- Balance of SEP Funds;
- Bank statements for the SEP Funds bank account;
- Copies of receipts, checks, and other documentation to support all expenditures;
- Invoices, receipts, contracts, work logs, and work plans for all work performed by a contractor;
- Before and after pictures; and
- Maps showing locations of SEP sites.

At the conclusion of the project, a Final Quarterly Report will be required. This report must include the information listed above for the final quarter of the project, along with a list of any remaining SEP Funds, which must be returned to the TCEQ within 30 days after the due date of the Final Quarterly Report, along with any additional information required by the TCEQ.

FOR FURTHER SEP ASSISTANCE

The SEP Program can be reached at 512-239-2223. The SEP Applications are available online at <www.tceq.texas.gov/goto/sep-forms>; and other information is at <www.tceq.texas.gov/legal/sep>.