AB 2766 Subvention Fund Program
Resource Guide

March 2013
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A Resource Guide for Local Government Recipients of
Motor Vehicle Registration Fee Revenues

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INTRODUCTION

The AB 2766 Resource Guide is designed to help local governments identify projects that are eligible for AB2766 funding. The program descriptions and examples outlined in this document are in keeping with criteria, guidelines, and philosophies of the South Coast Air Quality Management District (SCAQMD) and the California Air Resource Board (CARB) for the use of Motor Vehicle Registration Fees. Not every strategy will be applicable for each jurisdiction or region. Local governments should make project implementation choices based on their individual need and requirements. Use of AB 2766 Subvention Funds should include quantifiable strategies that specifically reduce motor vehicle emissions. Subvention Funds should be considered as a source of funding to encourage the development of motor vehicle emission reduction measures or projects that result in the reduction of motor vehicle emissions.

Since 1991, local governments have received AB 2766 funds to implement programs that reduce air pollution from motor vehicles. A Motor Vehicle Registration fee surcharge of $6 per vehicle is collected by the Department of Motor Vehicles and subvened to the SCAQMD for disbursement. Four dollars of the registration fee is divided as follows: 40 percent of the funds go to local governments (subvention portion); 30 percent goes to the Mobile Source Air Pollution Reduction Review Committee (MSRC) (discretionary portion); 30 percent is allocated to the SCAQMD for its vehicle emission reduction programs. The remaining $2 of the registration fee funds projects eligible for grants under the Carl Moyer Memorial Air Quality Standards Attainment Program.

The AB 2766 Subvention Program provides a funding source for cities and counties to meet requirements of federal and state Clean Air Acts, and for implementation of motor vehicle emission reduction measures in the SCAQMD Air Quality Management Plan (AQMP). The legislation creating this revenue source provides for oversight of the use of these monies by local governments. Air districts that receive AB 2766 monies report annually to CARB on the use and results of the programs funded by the fees. Cities and counties under SCAQMD’s jurisdiction provide annual program and financial information to the SCAQMD. This information is compiled by the SCAQMD and forwarded as an annual report to CARB. In addition, the SCAQMD works with an independent firm to conduct audits of AB 2766 fee recipients, at least once every two years.

The 2007 State Implementation Plan (SIP) describes the PM$_{2.5}$ challenge in the South Coast Air Basin (SCAB) and the plan to meet the federal PM$_{2.5}$ standard by achieving an additional 74 tons per day of NOx emissions. A consensus between state and local air quality agencies and the metropolitan planning organization identified an action plan which includes the involvement of local governments to achieve 4 tons per day of the NOx reduction targets by the PM$_{2.5}$ attainment date of 2014, by funding SIP credible projects. Primary emphasis is directed towards those projects that provide cost-effective emission reductions. A quantitative analysis is needed to determine the amount of emission reductions achieved for projects implemented using AB 2766 funds. CARB has defined cost-effectiveness as project funding divided by the total emissions reduced. Projects are considered cost-effective if emission reduction costs are less than $20,000/ton or $10/pound of emissions reduced. Most studies, plan development, or research projects are demonstrative by nature and may be an exception to this threshold. Therefore, funding of all research and development projects, which includes environmental impact report (EIR) related studies for goods movement and major

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1 California Health and Safety Code § 44220 et seq.
transportation projects, public education and website development projects shall not exceed 10% of the jurisdiction’s total Subvention Funds received during the fiscal year reporting cycle. This 10% limitation also includes the portion of AB 2766 funds given to Councils of Governments by their member cities for implementation of these types of projects. Council of Governments (COGs) receiving AB 2766 funds from their member cities are required to report to the SCAQMD on an annual basis, project descriptions and emission reduction data for projects implemented using the AB 2766 funds.

Numerous projects can be executed with modest budgets. Partnering and fund leveraging are encouraged to increase the cost effectiveness of the funds used by each local government, increase the overall project success and achieve quantifiable regional benefits. Cost sharing of total project expenses to include initial startup, operation and maintenance are critical considerations when developing a joint venture partnership. As a financial planning tool, jurisdictions are strongly encouraged to pre-designate funds in anticipation of accumulating adequate funding to implement larger, more costly projects. Local jurisdictions are never allowed to purchase or sell AB 2766 funds.

The Project Implementation section gives examples of various projects that local governments may choose to implement.

The Financial Administration section describes the financial and program reporting guidelines that each agency receiving motor vehicle registration fee revenue is required to follow.
PROJECT IMPLEMENTATION
1. Alternative Fuels / Electric Vehicles

Alternative fuel projects promote and support the use of alternative fuels. Alternative fuel projects can be electric, compressed natural gas, propane, fuel cell, hydrogen, and non-diesel hybrids that meet specific CARB certification standards.


Medium duty hybrid vehicles must meet Ultra Low Emission Vehicle (ULEV) certification standards. Light and medium duty vehicle sizes are defined according to CARBs gross vehicle weight (GVW) classes. LD vehicles weigh up to 8,500 lbs GVW; MD vehicles weigh between 8,501-14,000 lbs GVW.

This project category assists in fleet conversions from the use of conventionally fueled vehicles and helps facilitate compliance with SCAQMD Fleet Rules. Local jurisdictions should consider partnering with other jurisdictions and private entities to develop or improve the necessary infrastructure. Maximum benefits will be achieved when a fueling facility is accessible to local jurisdictions and the public. In this way, groups of local governments and commercial entities could all benefit from the economies of scale achieved from centrally located infrastructure.

The most cost-effective projects would be those that fund the cost differential, the difference between alternative fueled versus conventionally fueled vehicles. However, funding more than the differential cost is acceptable for jurisdictions that commit to convert a large portion of their fleet to alternative fuel vehicles. When a local jurisdiction is considering purchasing alternative fuel vehicles, it should take into consideration planned uses for the vehicles, available technologies, and infrastructure requirements.

**Project Subcategories & Examples:**

(1-a) Alternative Fuel Vehicle Purchases/Leases
Replacement of older and dirtier, more polluting diesel or gasoline engines with engines powered with cleaner alternative fuels such as compressed natural gas, liquefied natural gas or hydrogen.

**Examples:**

- New purchases, leases, retrofits or re-powers of alternative fuel vehicles.
- New purchases or leases of allowable hybrid and plug-in hybrid electric vehicles.
- Vehicles used for local government code or parking enforcement, citizen patrol, public safety programs, public works, refuse collection, park maintenance, and guaranteed ride-home programs.
- Purchasing/leasing of alternative fuel vacuum street sweepers would assist local jurisdictions in complying with SCAQMD Rule 1186.1 – Alternative-Fuel Sweepers. See Project Subcategory (9-a) Road Dust Control for additional information.

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• Strategies that allow a few alternative fuel vehicles to be purchased initially, followed by only alternative fuel fleet purchases in the future.

(1-b) **Alternative Fuel Vehicle Conversions**
Converting or re-powering conventionally fueled vehicles with alternative fuel engines.

*Examples:*
• Fleet conversions from conventionally fueled vehicles to alternative fuel engines.

(1-c) **Alternative Fuel Infrastructure**
Building, constructing or installation of compressed natural gas (CNG), liquefied natural gas (LNG) and/or hydrogen fueling and refueling facilities. On-going maintenance and upkeep of alternative fuel infrastructure is **not** an allowable expenditure.

*Examples:*
• Constructing infrastructure near fleets to minimize local government vehicle(s) travel distance to refueling destinations.
• The full cost of alternative fuels, for up to three years after vehicle purchase, but only the differential cost thereafter.
• Expansion, enhancements, or upgrades that improve usability or safety.
• Purchasing of specialized tools necessary to maintain alternative fueled infrastructure is an allowable expenditure for this project category.

*Public access to alternative fueling service stations is encouraged through public/private partnerships. Potential locations include malls, libraries, public parking structures, existing conventional fuel service stations, etc.*

(1-d) **Electric Vehicle Purchases/Leases**
Purchasing or leasing electric vehicles.

*Examples:*
• Purchasing/leasing of neighborhood electric vehicles, buses, shuttles and forklifts, etc.

*The purchase of zero-emission electric vehicles supports California’s transition to zero and near zero motor vehicle technologies and related infrastructure.*

(1-e) **Electric Vehicle Conversions**
Converting conventionally fueled vehicles to electric vehicles.

(1-f) **Electric Vehicle Infrastructure**
Construction or installation of electric charging stations. On-going maintenance and upkeep of electric vehicle infrastructure is **not** an allowable expenditure.
Examples:
- Constructing electric charging stations in close proximity of fleets to minimize city or county vehicles travel distance to charging destinations.
- Expansions, enhancements, or upgrades that improve usability or safety.
- Purchasing of specialized tools necessary to maintain electric infrastructure is an allowable expenditure for this project category.

Public access to alternative fueling service stations is encouraged through public/private partnerships. Potential locations include malls, libraries, public parking structures, existing conventional fueling service stations, etc.

(1-g) Mechanic Training on Vehicle Operation and Maintenance
Education and training of personnel on the operations, mechanics, safety, and maintenance of alternative fuel vehicles, equipment structures and refueling stations (i.e., pumps, compressors). Also provides for the education and training of personnel on the tools, materials and other specialized mechanical instruments and utensils involved in the implementation of emission reducing projects.

Acquisition/purchasing of specialized tools necessary to maintain alternative fueled or electric vehicles is an allowable expenditure for this project category. On-going maintenance and upkeep of infrastructure and alternative fuel vehicles, or electric vehicles are not allowable expenditures.

(1-h) Alternative Vehicles Research and Development
The study and investigation of developing alternative fuel vehicles. Funding of all research and development projects shall not exceed 10% of the jurisdiction’s total subvention funds received during the fiscal year reporting cycle.
2. Vehicle Emissions Abatement

Installing CARB-approved add-on emission control equipment is an eligible expenditure for both on-road and off-road diesel engines. Subvention Funds may be used to reduce emissions from specified conventionally fueled vehicles by replacing dirty off-road diesel engines with newer, cleaner diesel engines when alternative fuel engines that meet the needs of the application are not yet available or practical. Funding of the differential cost for these projects, the difference between re-powering with a new, cleaner diesel engine and rebuilding the older engine, is a preferred project expenditure. Ensuring that vehicles are properly tuned and maintained is essential to achieve the lowest possible emissions.

**Project Subcategories & Examples:**

(2-a) **Off-Road Cleaner Diesel Vehicle Purchases, Re-powering or CARB Approved Add-on Control Equipment**
Off-road construction and agriculture-related motor vehicles. CARB-verified diesel emission control systems (VDECS) and particulate trap retrofits for off-road diesel engines that meet CARB emission standards; funding the differential cost is preferable.

**Examples:**
- Re-powering or adding on emission control devices/systems to backhoes, forklifts, rollers/compactors, concrete pavers, loaders, dozers, dumpers, excavators, graders, cranes and tractors, etc.

(2-b) **On-Road CARB-Verified Diesel Emission Control Systems (VDECS) and Particulate Trap Retrofits**
Installation of On-road CARB-verified diesel emission control systems (VDECS) and particulate trap retrofits for medium and heavy duty vehicles that meet CARB emission standards.

**Examples:**
- Installation of particulate traps or other certified catalytic reduction devices/systems onto trash trucks, dump trucks and/or long and short haul vehicles.

(2-c) **Old Vehicle Scrappage**
Old Vehicle Scrapping Programs that specifically target elimination of the highest polluting vehicles on the road.

**Examples:**
- Participation in the SCAQMD Rule 1610 – Old Vehicle Scrapping; or
- Rule 2202 – On-Road Motor Vehicle Mitigation Options

(2-d) **Improved Maintenance and Vehicle Emission Abatement / Research and Development**
Periodic inspections of vehicles and their respective engines exhaust systems and other components at intervals more frequent than required by law to pass SMOG check, such as a Smoking Vehicle Enforcement Program which includes abatement requirements. *Funding of all research and development projects shall not exceed 10% of the jurisdiction’s total subvention funds received during the fiscal year reporting cycle.*
3. Land Use

Projects utilizing land use strategies can make it easier for people to walk, bicycle or use public transit, thus reducing automobile trips and their related emissions. Design, develop, implement and work with policy makers on projects and/or plans that will encourage significant areas of appropriate mixed-use developments.

Local governments should ensure that staff time charged against their Subvention Funds is only for work performed on elements of their planning documents that specifically reduce motor vehicle travel and/or are related to reducing emissions from motor vehicles.

Use of AB2766 funding for CEQA document preparation and review should adhere to each of the following parameters:

- **Limit expenditures to goods movement and major transportation projects only.** Goods movement and major transportation projects have potential for significant long-term mobile source emissions and often require the development of CEQA documents. Local governments use of AB 2766 funds to support air quality analyses required for environmental documents is allowed; and

- **Fund CEQA related studies that will identify additional mobile source mitigation measures or project alternatives resulting in reduced emissions.** To maintain consistency with the AB 2766 program and with current implementation guidelines, funds should only be used for the portion of any project that results in or leads to the reduction of mobile source emissions; and

- **Funding is not to be used to replace funds otherwise available to perform CEQA related activities.** Funds are not intended to be used in place of existing funding (i.e., funding by project proponents); but instead as a supplemental source of funding that would encourage the development of mobile source emission reduction measures. The funds should be considered for analyses that otherwise would not be implemented without the availability of AB 2766 funds; and

- **Expenditures on CEQA related studies must be captured within the Resource Guide’s 10% cap for Research & Development projects.** Funds are to be directed towards projects that achieve quantifiable emission reductions.

**Project Subcategories & Examples:**

(3-a) **General Plan Elements**

Develop and update general plans, air quality policies, air quality elements and AQMP measures specifically related to motor vehicle reduction strategies.

**Examples:**

- Developing traffic mitigation measures, on-site improvements to encourage the use of alternate modes of transportation, and updating codes and regulations to support land use-based actions to improve air quality.
- Planning activities for development or redevelopment strategies in which significant emphasis is given to reducing vehicle travel.
- Funding costs incurred by groups or organizations preparing applications and plans for projects that will reduce vehicle trips or vehicle miles traveled.
- Preparing plans for mixed-use housing and commercial developments, co-housing projects near major activity centers or transit oriented developments (TODs).
- Developing the air quality portion of EIRs for goods movement and/or major transportation projects that include the identification of motor vehicle mitigation measures or project alternatives. Funding of EIRs are included in the 10% R&D expenditure limit.

Performance targets, tracking and monitoring measures should be part of any such project.

(3-b) **Guidelines Development**
Guidelines developed by cities can facilitate the implementation of land use strategies conducive to reducing the reliance on the automobile.

**Examples:**
- Developing guidelines that increase residential densities around transit stations or bus transit corridors, or increasing the density of mixed residential and commercial uses around existing or planned transit stations.
- To require office parks, business centers or other employment centers to provide shuttles to and from transit facilities.

(3-c) **Facilities (Pedestrian, Mixed Use, etc.)**
Plan, design and construct facilities that decrease the use of the automobile.

**Examples:**
- A planned community which includes housing, retail and public transit access.

(3-d) **Land Use Research**
The study and investigation of developing various land uses that lead to reduction of vehicle trips and miles traveled. This may include the study of land use densification or mixed land uses.

*Funding of all research and development projects AND related environmental impact reports shall not exceed 10% of the jurisdiction’s total subvention funds received during the fiscal year reporting cycle.*
4. Public Transportation

Public transportation projects are those that reduce single occupancy vehicle trips. If a public transportation project simply replaces existing public transit service, no additional emission reductions will be achieved and therefore is not an eligible project. An eligible project must provide new or extended transit service.

*Operational costs for new projects may be funded for up to three years.* Funds may be used as an incentive to launch new transportation services and demonstration projects, but should not be considered an ongoing source of revenue for projects.

Often new transportation projects are funded without long-term financing in place and when the interim project funding is exhausted, on-going funding is very difficult to achieve if the cost per passenger is high and/or emission reductions are not significant. Therefore, this is an important consideration when local jurisdictions decide to fund new service or add to existing transit service.

**Project Subcategories & Examples:**

**4-a) Public Transportation Facilities**
Construction, reconstruction, rehabilitation and maintenance of public mass transportation facilities designed to increase the use of the system.

*Examples:*
- Installation of rail feeder facilities, shelters at bus stops or public transit infrastructure, bus pullouts and bus pads.

**4-b) Information Access Equipment**
Marketing via kiosks, bus stop displays and other information providing structures.

*Examples:*
- Construction or installation of structures that contain mass transit schedules, routes and other information necessary to facilitate the convenience of traveling on public mass transit.

**4-c) Transit Operations**
Purchase or lease of vans/buses/rail.

*Examples:*
- New or replacement vehicles should operate on alternative fuels.
- Fleet conversion assistance to transit agencies and schools.
- Implementation of shuttle/rail feeder operations for residents commuting within their jurisdiction or to other local cities.
- Lunchtime or all-day shuttle services that transport to nearby activity centers.
- Services that pick-up multiple passengers along an established route or at specific locations.
Projects that use alternative fueled vehicles are preferred to achieve maximum emission reductions, thereby, making the project more cost effective.

Projects such as dial-a-ride or taxis will not qualify as an eligible project because they typically transport one or two passengers which do not achieve any reduction of vehicle trips or motor vehicle emissions.

(4-d) Passenger Fare Subsidies
Discount and/or reimbursement of transportation costs.

Examples:
- Fare subsidies and discounts should be used for encouraging new ridership on local and regional public transit and commuter rail systems.

(4-e) Public Transportation Research and Development
The study and investigation of mass transit planning to make transit routes more efficient, attracting new riders and reducing vehicle trips and vehicle miles traveled. Funding of all research and development projects shall not exceed 10% of the jurisdiction’s total subvention funds received during the fiscal year reporting cycle.
5. Traffic Management and Signal Coordination

Traffic management encompasses monitoring, processing, controlling and communicating of travel conditions and the incorporation of policy guidelines, strategies and institutional relationships required to implement continuous actions and adjustments for improving those travel conditions.

Signal coordination should improve and/or maintain a balanced traffic load/level of service, reduce trip travel time and result in the reduction of traffic congestion as well as motor vehicle emissions throughout a specific area or corridor, while enhancing the performance of public transportation systems.

Posted, constant and moderate speeds can be beneficial to all modes of travel. On-going monitoring, before and after project implementation, will be necessary to identify the changes in traffic patterns and growth.

Project Subcategories & Examples:

(5-a) Traffic Calming
Projects that calm traffic and reduce vehicle speeds; measures that reduce idling or control vehicle speeds are benefits to air quality.

Examples:
- Construction of roundabouts and pedestrian islands.
- Design changes in street and intersections that calm traffic and reduce vehicle speeds.
- Striping and re-striping of pedestrian crosswalks and/or facilities.

(5-b) Traffic Flow or Signalization
Projects that optimize traffic conditions and reduce vehicle speeds and idling. Project parameters shall not be limited to one traffic signal or intersection, but should encompass an entire road segment, network or corridor.

Examples:
- Traffic incident management actions such as changeable message signs.
- System integration and coordination of fixed time directional flow or full traffic-adaptive systems to adjust to traffic conditions.
- Implementation of Freeway Emergency Towing Services.
- Periodic adjustments may be made in order to prevent traffic congestion from returning to pre-project levels.

(5-c) Alternative Mode Signalization
Installation of transit bus signal pre-emption equipment, bicycle signals and pedestrian traffic control devices.

(5-d) Traffic Management Research and Development
Research and evaluation of trends in traffic management with respect to its effect on air quality. Provide information to local decision-makers required to support advance traffic management technologies. **Funding of all research and development projects shall not exceed 10% of the jurisdiction’s total subvention funds received during the fiscal year reporting cycle.**
6. Transportation Demand Management

Transportation Demand Management (TDM) is the application of plans and policies designed to change or reduce demand for automobile use by encouraging the behavioral change of household choices of travel. TDM strategies are designed to improve transportation efficiency by reducing vehicular congestion, resulting in reduced motor vehicle emissions.

There are many different TDM strategies with a variety of impacts. Some improve the availability of transportation options, while others provide incentives to choose more efficient travel patterns. There are strategies that reduce the need for physical travel through mobility substitutes and can change travel timing, routes, destinations or modes.

Employers and other entities may join together in order to develop cohesive approaches to developing and implementing TDM strategies and to enable leveraging of funds. This will encourage regional transportation choices and investments that minimize environmental impacts, make efficient use of the entire system and reduce congestion.

Project Subcategories & Examples:

(6-a) Employer Based Work-Related Trip Reduction
An employer based work-related trip reduction plan is developed with strategies designed to reduce or eliminate “drive alone trips” to the worksite.

Examples:
- A successful trip reduction program that reduces or eliminates single occupancy vehicle trips to the worksite by encouraging the use of public transit, facilitating carpooling and vanpooling, biking, walking, implementation of telecommuting programs and policies and/or implementing compressed workweek schedules.
- Local jurisdictions may develop a trip reduction plan for their own employees as well as provide incentives for employers located within their jurisdictions.

A survey should be conducted as part of a trip reduction program to determine the number of drive alone trips eliminated in order to quantify the emissions reduced.

(6-b) Other Trip Reduction Incentive Programs
Develop a program that focuses on reducing trips to facilities other than the work place.

Examples:
- Reduction of trips to shopping facilities, special event centers, or other attractions within a local jurisdiction through the implementation of shuttle and/or transit service or establishing vanpools.

(6-c) Vanpool Programs
Lease and/or purchase of vans for resident work commutes resulting in fewer vehicle trips and miles traveled.
(6-d) Park and Ride Lots
Costs for design, construction, maintenance, security and facility enhancements at park and ride lots that provide commuter designated parking spaces.

**Examples:**
- Agreements between private and/or public owners to develop and construct Park and Ride facilities for short-term commuter parking at safe and convenient locations to facilitate carpools and/or vanpools and is transit accessible.

*Locations should be close to major residential areas, preferably adjacent to a State or major route, with easy access to HOV, pedestrian and bicycle facilities as well as bus/transit connections.*

(6-e) Telecommunication
Telecommuting allows employees to work from home or at a satellite work center.

**Examples:**
- Expenditures may include purchasing telecommuting equipment, materials and other additional resources necessary to perform work related functions at home.
- Costs associated with design, development, purchase/leasing or rental of satellite work center locations, including equipment installation, facility modifications and maintenance of telecommuting equipment.

*Local jurisdictions may use Subvention Funds to develop internet programs and website projects that yield quantifiable emission reductions and **shall not exceed 10%** of the jurisdiction’s total subvention funds received during the fiscal year reporting cycle.*

(6-f) Transportation Management Association (TMA)/Transportation Management Organization (TMO)
Membership in an organization of employers, firms or individuals that work together to provide assistance to employees in finding the best commute alternatives to solo driving in the immediate area.

**Examples:**
- Organizations that collectively establish policies, programs and services to eliminate or reduce motor vehicle emissions.

*Those member cities that provide AB 2766 funding to support TMA/TMO motor vehicle reduction activities should coordinate with their TMAs/TMOs to obtain project description and emission reduction information that is to be included in the individual city’s AB 2766 Annual Report.*

(6-g) Transportation Control Measure Effectiveness Research and Development
To fund the research and evaluation of trends resulting from the implementation of TDM strategies and transportation control measures. The ultimate goal of funding such projects is to reduce motor vehicle emissions as a result of fewer vehicle trips and miles traveled. **Funding of all research and development projects shall not exceed 10% of the jurisdiction’s total subvention funds received during the fiscal year reporting cycle.**
7. Market Based Strategies

Market based strategies primarily involve the use of incentives and disincentives such as user fees or congestion charges for consumers that will encourage behavioral changes that result in emission reductions. Local jurisdictions must ensure that these strategies are designed to consider all levels of income to mitigate potential hardships.

Project Subcategories & Examples:

(7-a) Parking Management and Congestion Pricing
Develop and implement parking cash-out programs, parking fees programs, congestion pricing, toll charges, emission fees and/or elimination of free parking.

Examples:
- California State law (Health & Safety Code 43845, Parking Cash-Out Program) requires that certain employers who provide subsidized parking for their employees to offer a cash allowance in lieu of a parking space. Parking Cash-Out will reduce vehicle commute trips and emissions by offering employees the option of “cashing out” their subsidized parking space and taking transit, biking, walking or carpooling to work. Programs must be designed to apply the law as it relates specifically to the parking circumstances.
- Systems that would cordon areas around a city center, with charges for passing the cordon line.
- A city center toll ring, with toll collection surrounding the city.
- Corridor or single facility congestion pricing, where access to a lane or a facility is priced.

(7-b) Market Based Measures Research and Development
The study and investigation of market based strategies that will provide fair, equitable efficient local and/or regional pricing strategies that encourage the development of advanced transportation technologies and associated economic development. Studies can also include research on financial and air quality impacts as a result of adopting policies that support the use of less-congesting or less-polluting forms of transportation. Funding of all research and development projects shall not exceed 10% of the jurisdiction’s total subvention funds received during the fiscal year reporting cycle.
8. Bicycles

The more effective bike expenditures are those that are linked to other bike-friendly policies, places and practices that help people feel more comfortable about traveling by bicycle with other forms of traffic and reduce motor vehicle emissions. Projects provide safe accommodations and facilities for bicyclists and encourage residents to bike for transportation. When local jurisdictions contemplate using funds for this category, special attention should be given to whether the expenditures truly reduce single occupancy vehicle trips.

**Project Subcategories & Examples:**

**(8-a) Bicycle Lanes, Trails and Bridges**
Design, develop and install designated bicycle routes, bikeways/bike paths and implement bike trail improvements.

*Examples:*
- Facilities that safely link residential areas and major activity centers and are physically separated from motor vehicle traffic.

*Bike lanes, paths or routes are most effective when they reduce commute and non-recreational auto travel by encouraging and increasing the use of bicycles. A bike path must eliminate and/or decrease single commuter vehicle trips and miles traveled, while improving safety and accessibility.*

*Bike paths strictly used for recreational activities will not qualify as an eligible project because there are no motor vehicle emission reductions or vehicular commuter trips reduced or eliminated.*

**(8-b) Other Bicycle Facilities**
Bicycle facilities that promote and facilitate the increased use of non-motorized travel.

*Examples:*
- Facilities would include bicycle racks, lockers, signals and bus racks; installation of bike storage units within park and ride facilities or at the end of bicycle trails.

**(8-c) Bicycle Usage**
A bicycle loan or purchase program.

*Examples:*
- Purchase or enter into a loan agreement for electric or standard bicycles in lieu of gas powered vehicles for police officers, community service personnel and community residents.

**(8-d) Bicycle Research and Development**
The study and investigation of establishing appropriate bikeways for commuter travel and that reduce commuter vehicle trips; conducting research on other types of bicycle facilities and programs that have the potential to reduce motor vehicle emissions. *Funding of all research and development projects shall not exceed 10% of the jurisdiction’s total subvention funds received during the fiscal year reporting cycle.*
9. PM Reduction Strategies

Particulate Matter (PM) emissions are minute particles of dust generated by driving on paved and unpaved roads. Projects that reduce and/or eliminate the amount of materials deposited onto paved or unpaved roadways can be either preventive or mitigative measures. Preventive measures attempt to prevent deposits of materials from build-up on roadway surfaces; mitigative measures seek to remove material which has been previously deposited onto driving lanes.

PM is linked to respiratory disease, in addition to hindering visibility. Potential sources of PM include, but are not limited to mud and dirt carryout, dust fall, litter and pavement wear. Some paved PM emissions are a result of vehicle tires re-suspending PM sized or smaller materials previously deposited onto the paved surface, or vehicles crushing larger sized particles into PM sized materials or smaller.

Project Subcategories & Examples:

(9-a) Road Dust Control
Paving of roads, shoulders and other areas that generate/contribute to dust.

Examples:
- Implementing SCAQMD’s Rule 1186 – PM$_{10}$ Emissions from Paved and Unpaved Roads and Livestock Operations, requires local jurisdictions to purchase street sweepers that are capable of removing minute particles of dust generated by driving on unpaved roads.
- Purchasing PM efficient street sweepers.

If the sweeper purchased is an alternative fuel vehicle, select Project Subcategory 1a - Alternative Fuels/Electric Vehicles when completing the AB 2766 Annual Report.

(9-b) PM Research and Development
The study and investigation of developing strategies that eliminate or reduce PM emissions. Funding of all research and development projects shall not exceed 10% of the jurisdiction’s total subvention funds received during the fiscal year reporting cycle.
10. Public Education

Educating the public about options that reduce single occupancy vehicle trips is vital to the success of any emission reduction strategy. Public education campaigns are especially critical when launching new programs and demonstration projects.

Effective public outreach campaigns inform the public about current air quality improvement programs and options as well as the details and descriptions of the incentives designed to entice the public to try those options. Coordination of promotional events or programs will educate the public and schools about transportation alternatives, will get the public’s attention and interest in air quality issues and will provide education on the relationships between motor vehicles and air pollution.

Students are an important focus of any public outreach campaign because it is easier to get young people to consider developing an air quality friendly lifestyle, rather than getting them to change their behavior in later years.

Project Subcategories & Examples:

(10-a) Short Term Public Education
Projects, programs and/or activities taking place for one year or less.

Examples:
- Marketing of demonstration or pilot projects.
- Public outreach highlighting specific and/or special events with periodic changes, modifications and/or updates to information is most effective.
- Intermittent public messages relative to statistics on clean air; minimizing hard accelerations, excessive speeds and vehicle trips; safety precautions for pedestrians to encourage use of bicycles and walking.

(10-b) Long Term Public Education
Routine, regularly scheduled, frequent, ongoing updates and/or dissemination of curriculum, videos, brochures, presentations, and printed materials that encourage behavioral changes, resulting in the reduction of motor vehicle emissions.

Funds expended for long and short term public education programs should not exceed a total of ten percent (10%) of the jurisdiction’s Subvention Funds received during the fiscal year reporting cycle.
11. Miscellaneous Projects

(11-a) Miscellaneous Projects and Examples
The “Miscellaneous Projects” category allows local jurisdictions to identify projects that reduce motor vehicle emissions, but are not identified in this Resource Guide. Project description, emission reduction and cost effectiveness data and any other pertinent project information should be identified.

Councils of Governments (COGs), either on a regular basis or periodically, receive AB 2766 Funds from local governments that finance inter-jurisdictional projects. Those member cities that provide AB 2766 funding should coordinate with their COGs to receive project descriptions and emission reduction data that will be included in the individual city’s AB 2766 Annual Program Report.

Examples:
- Horse-mounted patrols that replace conventionally fueled vehicle patrols.
- Participation in and/or contributions to COG Sponsored Projects.
- Adoption and implementation of other regional emission reduction air quality programs.

All COG projects should be reported as a “COG Sponsored Project” on the Project Name line in the Annual Program Report. Local governments should also include a description of the project(s) and, if available, emission reduction data.

SCAQMD Staff is available to help identify appropriate projects and guidance on quantifying emission reductions from a proposed project reported in the Miscellaneous Project category.

Funding of all research and development projects shall not exceed 10% of the jurisdiction’s total subvention funds received during the fiscal year reporting cycle.
FINANCIAL ADMINISTRATION
12. Audit of AB 2766 Fee Revenues

Health and Safety Code Section 44244.1 stipulates that each recipient of AB 2766 funds be subject to an audit at least once every two years by an independent auditor selected by the SCAQMD. The audit cost is to be deducted from disbursements of AB 2766 fee revenues made to local governments.

To assist local governments in complying with the requirements of the Health and Safety Code Sections 44220 et seq., the SCAQMD has developed audit guidelines for local governments with input from the Technical Advisory Committee Audit Subcommittee of the Inter-Agency AQMP Implementation Committee (IAIC), representatives of the Finance Committee of the League of Cities and Certified Public Accounting (CPA) firms whose clients include local governments. These guidelines were adopted by the SCAQMD Governing Board on December 4, 1992 and further revisions were subsequently approved by the Board on January 13, 1995 and August 1, 2003.

The Audit Guidelines describe the financial and program reporting requirements for local governments. The AB 2766 program legislation requires that each agency receiving motor vehicle registration fee revenues must submit:

- an annual program progress report
- an annual audited financial statement of AB 2766 funds

These reports must be received by the SCAQMD no later than the first Friday in February of each year.

Audit requirements are based on the amount of annual receipts:

**Large Recipients** (annual AB 2766 receipts of more than $100,000) may elect to meet the audit requirement in one of the following ways:

a) Separately disclose the air quality improvement trust fund financial results and balance sheet in their combining financial statements of the Comprehensive Annual Financial Report (CAFR). General purpose financial statements, which present results on a combined basis, are not deemed adequate disclosure.

   An unqualified opinion issued on the general purpose financial statements, report on internal controls over AB 2766 funds, and report on compliance with laws and regulations required by AB 2766 will be sufficient for the local government to comply with the AB 2766 audit requirement.

b) Issue independent audited financial statements specific to the Air Quality Investment Fund (AQIF) that includes:

   1. Balance sheet;
   2. Statement of revenues, expenditures, and changes in fund balances;
   3. An Independent Auditor’s Report on the internal control structure of the AQIF must be submitted; and
   4. An Independent Auditor’s Compliance Report with the laws and regulations required by AB 2766 must be submitted.
In accordance with Statement on Auditing Standards Number 63, Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance (SAS-63), the independent auditors report must make specific reference to tests for compliance with provisions of Assembly Bill 2766 Chapter 1705 [44220 through 44247].

c) Submit to an independent audit by an auditor selected by the SCAQMD. Large recipients that select this option are required to notify the SCAQMD Finance contact person, in writing, by the first Friday in February.

Small recipients (annual AB 2766 receipts of less than $100,000) may submit their Comprehensive Annual Financial Report (CAFR) or an audit report specific to the trust fund. All small recipients that comply with the reporting requirements will be placed in a pool of cities, from which a sample of 10 percent of participants will be selected for an audit. The cost of such audit will be deducted from the total amount distributed to the cities in the pool.

Large or small recipients who do not submit either one or both annual reports (financial and progress) will be subject to an audit. Large recipients that request an audit and all (large and small) recipients who do not comply with the reporting requirements will bear the cost of their own audit.

Cities that are members of consortiums or joint powers authorities equally share the cost of the audit of the joint powers authorities or consortium.

The SCAQMD shall review the audit report and determine if the monies received by the agency were expended on programs which reduce pollution from motor vehicles. If it is determined that the expenditure will not result in the reduction of pollution from motor vehicles then the SCAQMD shall do all of the following:

- Notify the affected agency of its determination;
- Within 45 days of this notification hold a public hearing at which the agency may present information related to the expenditure of the revenue from the fees;
- After the public hearing, if the SCAQMD determines that the expenditure was contrary to the intent of Health and Safety Code sections 44240 et seq., the SCAQMD may withhold these revenues from the agency in the amount that was inappropriately expended.

The audit reports are available to the affected agency and the public upon request.
13. Pooling of AB 2766 Funds in Consortiums

What are consortiums and why are they created?

Local governments are encouraged to pool their resources for implementing the requirements for the use of AB 2766 fee revenues through a joint powers agreement. The entity created through the joint powers agreement is generally referred to as a consortium or joint powers authority (JPA) and is wholly or partially funded by member local governments from their AB 2766 fee revenues. The JPA or consortiums are created to undertake programs to reduce pollution from motor vehicles on behalf of its members.

What are the responsibilities of the consortiums?

The consortiums are subject to the same spending, reporting and audit requirements as the member cities, such as, separate accounting of AB 2766 fee revenues and expenditures, allocate interest income on unused AB 2766 cash balances, and submit annual progress reports and audited financial statements to the SCAQMD. Consortiums receiving AB 2766 fee revenues must spend the money on the reduction of emissions from motor vehicles. Consortiums are audited once every two years.

What if the consortium was not created specifically for implementing motor vehicle emission reduction projects? Are they subject to the same requirements?

If the member cities/counties of a consortium created for another purpose agree to implement a motor vehicle emission reduction project and contribute monies from their individual AB 2766 annual fee revenues, then the consortium is subject to all AB 2766 tracking, reporting, and audit requirements.

Can AB 2766 monies received from member cities of a consortium be combined with other monies contributed by member cities?

No. AB 2766 fee revenues must be accounted for and tracked separately within the accounting records of the consortium.

What are the duties and obligations of member cities/counties with respect to the consortium?

Member cities/counties must report their AB 2766 fee revenue contributions to the consortium in the annual progress reports provided to the SCAQMD. Additionally, as the primary recipient cities/counties are responsible for ensuring the work conducted under the pooling arrangement complies with the legal mandate, e.g. for the purpose of reduction of air pollution by motor vehicles. Sub-recipients (entities that receive funds from primary recipients through joint powers agreements, memorandum of agreement, or contract) shall be subject to the same audit requirements as the primary recipients. The legal document binding the cities/counties to the consortium with respect to the use of AB 2766 fee revenues must specify the statutory requirements governing the use of the money, state that the consortium shall be audited at least once every two years as stipulated in the Health And Safety Code section 44244.1, and provide for expenditure documentation and tracking requirements similar to those applicable to the member cities/counties.
The primary recipient of AB 2766 funds is the party subject to audit and thus responsible for providing SCAQMD with audited financial statements annually. Any legal documents between the primary and sub-recipient should state that the sub-recipient acknowledges that it is subject to audit by accepting AB 2766 funds.

**Who pays the cost of auditing the consortium?**

Member cities share equally in the cost of auditing the consortium.

**How does the SCAQMD resolve monetary audit findings cited in an audit of a consortium (e.g., disallowed expenditures, excessive administrative costs, etc.)?**

Member cities are notified of the finding by the SCAQMD. The JPA/consortium must also submit a copy of the audit to member cities/counties which addresses the findings. Cities/counties have the option of reimbursing the SCAQMD their prorated share of the total amount of the funding or having the said amount deducted by the SCAQMD from future remittances to the member cities.
14. Accounting of AB 2766 Fee Revenues

How should a city/county account for AB 2766 revenues?

Health and Safety code Section 44243(b)(1)(C) (AB 2766) requires local governments to establish a separate air quality improvement trust fund for the receipts and expenditures of these funds. Cities/counties may vary in their naming of this fund, therefore, for purposes of this document all references to this fund shall be “Special Revenue Fund.”

What is the SCAQMD’s fiscal year for accounting of AB 2766 revenues?

The SCAQMD’s fiscal year for AB 2766 revenues is July 1 of a given year through June 30 of the following year.

At what times during the year will the city/county receive AB 2766 revenues?

Quarterly disbursements are generally made to each city/county as follows:

- 1st Quarter – mid December – for July, August, September revenues
- 2nd Quarter – mid March – for October, November, December revenues
- 3rd Quarter – mid June – for January, February, March revenues
- 4th Quarter – mid August – for April, May, June revenues

The total amount disbursed for those four quarters should equal the annual AB 2766 revenues for the city/county.

If the fourth quarter revenues are not received until August of any given year, how can the city/county account for all four quarters in the accounting records at the close of the fiscal year on June 30?

The third quarter disbursement mailed to cities/counties in June of any year includes an estimate for the fourth quarter disbursement to be mailed in August of the same year. An accrual entry to record the revenue and a receivable account for the amount of the estimate must be made prior to the close of the fiscal year ending June 30.

How can a city/county project the amount of AB 2766 fee revenues to be received by the city/county in a year?

The amount received in the prior year can be used as a guide to estimate the annual revenues and calculate the cap on administrative expenses. Motor Vehicle Registration revenues do not fluctuate significantly from year to year.
Can revenues from other fee sources be combined with AB 2766 revenues in the Special Revenue Fund?

No. AB 2766 revenues may not be combined with revenues from other fee revenues. However, AB 2766 monies from the MSRC (discretionary portion) and co-funding for projects being funded by AB 2766 monies may be accounted for in the same fund. MSRC funds are provided to agencies on a reimbursement basis as the projects are completed and invoices are submitted to the SCAQMD for payment out of the discretionary portion of the AB 2766 Fund.

What about co-funding received from other agencies (public or private) to implement emission reduction programs? Can such funding be combined and accounted for in the Special Revenue Fund with AB 2766 funds?

Yes, however it is the responsibility of the city/county to provide accurate and adequate documentation to maintain segregated balances and revenue and expenditure allocations for reporting and audit purposes.

What about contract awards of discretionary funds received from the MSRC? Can those funds be deposited in the AB 2766 Special Revenue Fund?

Yes. Awards received from the MSRC (discretionary funds) may be combined with the AB 2766 subvention monies received by cities/counties. However, it is the responsibility of the city/county to provide accurate and adequate documentation to support revenue and expenditure allocations as well as segregated balances for reporting and audit purposes.

If the AB 2766 Special Revenue Fund has available funds, can it advance monies to other city/county funds?

No. AB 2766 fee revenues are legislatively mandated to be spent for projects to achieve motor vehicle emission reductions only. If these fee revenues are not immediately spent and are accumulated to fund higher cost or larger projects, the accumulating balance earns interest which is then credited back to the fund for use on projects with the same objective. In the event a project is approved and implemented and an advance is a necessary and material factor in the implementation of the project, then such an advance may be made against a contractual agreement to implement the project.

Is the city required to identify assets purchased from AB 2766 monies as belonging to the SCAQMD?

Assets purchased by the city/county from AB 2766 monies must be identified as AB 2766 assets. However ownership of these assets rests with the city/county. These assets do not belong to the SCAQMD but proceeds on the disposition of the asset must be returned to the special revenue fund.

Does the asset revert to the SCAQMD if the project is canceled or the asset is not being used for motor vehicle emission reduction projects?

The asset does not revert back to the SCAQMD if the project for which it was purchased is canceled. In this case the money expended on the purchase of the asset must be reimbursed to the special revenue fund.
What happens to revenues generated from the implementation of a motor vehicle emission reduction project (e.g., revenues generated from operating a shuttle or parking cash out program)?

There is no statutory requirement governing the use of revenues generated from implementing projects for motor vehicle emission reduction. It would be in keeping with the intent of the legislation to recycle such revenues into the special revenue fund to cover the cost of an existing project or to fund other projects to achieve motor vehicle emission reductions.

Local Governments are never allowed to purchase or sell AB 2766 funds.
15. Allocation of Interest Income

How should interest on AB 2766 Special Revenue Fund be treated?

Since AB 2766 requires a segregation of motor vehicle registration fee revenues to ensure separation of these monies from other fee revenues and expenditures of local governments, interest earned on unused cash balances of this money must be deposited in the same fund. Additionally, the AB 2766 Special Revenue Fund is legally restricted to expenditures for the designated purpose of reduction of emissions from motor vehicles. Interest earned on cash balances held in this fund must therefore be put to the same use.

Why is interest income significant?

Often local governments accumulate funds over an extended period for costly projects. Depending on the amount of annual AB 2766 receipts and the timeliness of project expenditures, cities/counties may have large cash balances in the AB 2766 Special Revenue Fund. Interest earned on these cash balances could amount to a significant sum of money.

How is interest income calculated?

If AB 2766 fees are invested with cash balances from other general fund revenues, an equitable proration of interest earned on the total funds invested must be made to the AB 2766 Special Revenue Fund. Several methods are available to determine an equitable distribution of interest earned. Interest can be calculated on a monthly, quarterly or annual basis. The method for calculating interest will be analyzed in the course of the biennial audit to determine reasonableness and confirm distribution of interest allocation.

How is interest calculated on monies transferred from the AB 2766 Special Revenue Fund to other city/county funds through the budget process for use on AB 2766 authorized projects?

Since it is not possible to segregate earned interest on funds transferred to other city/county funds for authorized AB 2766 projects, these transfers should be performed on a monthly or quarterly frequency on an expense reimbursement basis.

Does the interest distribution methodology allow for negative distributions?

No. Negative interest constitutes an interest charge and a related loan to the fund. Loans to the fund are not permitted. General fund monies advanced to the AB 2766 Special Revenue Fund are to be reimbursed as AB 2766 funds become available. However, investment losses are allocable based on an equitable distribution of losses among all funds.
16. Administrative Costs

What are Administrative Costs?

A reasonable definition of administrative costs would be those direct and indirect costs necessary and attributable to accounting, administering, providing legal assistance and managing the entire fund as opposed to those costs directly attributable to individual project implementation. Staff hours relating to administrative costs must be readily identifiable and preferably documented separately from project costs. Documentation of the hourly charges may be provided either in the form of time sheets or any other generally accepted mechanism to allocate and document staff time.

Provide examples of administrative costs.

Determination of whether a cost qualifies as an administrative cost depends on the nature of activity for which the expenditures are incurred. Expenditures for overall administrative time and materials for reporting, legal advice, and financial accounting of AB 2766 monies would constitute administrative costs. Examples would include preparing reports on overall AB 2766 activities to City Councils and other levels of management, accounting and monitoring of AB 2766 fees, legal advice on AB 2766 projects or programs, coordinating financial and compliance audits, review and payment of contractor invoices, etc., as opposed to reports on specific projects and time spent preparing specific project reports.

Are there any limitations on Administrative Costs?

Yes. AB 2766 legislation limits expenditures on administrative costs to 5 percent of the fee subvened. It is calculated on the amount recognized as revenue by the city/county for a fiscal year beginning July 1 of a given year and ending June 30 of the following year. The intent of the legislation was to limit expenditures on administrative costs in order to maximize the amount available to be spent on motor vehicle emission reduction programs.

Can a city/county include interest earnings in the total annual receipts to calculate the 5 percent cap on administrative expenses?

AB 2766 legislation does not address this issue. Past practice by local governments, MSRC and SCAQMD has been to exclude interest earnings from the base used to calculate the limitation.

Are unused amounts of administrative costs carried forward into following years?

No. The limitation on administrative costs is not intended to be a set aside amount. The statute sets the cap as the maximum amount to be spent on administrative costs. Keeping administrative costs below the 5 percent cap does not qualify the unused amount to carry over into the following fiscal year.
17. Direct Program Costs

How would you describe program costs?

Direct program costs are those associated specifically with planning, monitoring and implementing a motor vehicle emission reduction project. Typical program costs are: a) compensation for employees for the time identified specifically for a project; b) cost of materials acquired, consumed, or expended specifically on the project; c) equipment and other approved capital expenditures for the project; d) travel expenses incurred specifically to carry out the project; e) outreach conducted to directly implement the project, etc.

What is included in the compensation for employees working directly on a specific program objective? Is it limited to salary only? What about the cost of benefits for these employees? What about other indirect costs applicable to direct staff time?

Direct and indirect (fully burdened) costs of staff working on motor vehicle emission reduction programs are allowable program costs. Similarly, direct and indirect costs for staff activities that are classified as administrative must be charged as administrative cost.

Define direct costs as used in the above answer.

For administrative costs, direct costs are the sum of documented hourly labor costs for providing staff time and materials for coordinating, reporting, legal advice, and financial accounting of AB 2766 monies. For project costs, direct costs are the sum of documented hourly labor charges, purchases, contracts or other direct costs directly and solely related to implementing and overseeing a project.

Define indirect costs as used in the above answer.

Indirect costs are the reasonable overhead costs incurred in providing a place of work and general support services and oversight. Examples include rent, utilities, office supplies, computer, payroll, reproduction, mailroom support staff, and management oversight.

Our city has only one staff member working on administering and implementing the city’s motor vehicle emission reduction programs. Do we categorize that staff person’s fully burdened salary and benefits as direct program costs or administrative costs?

As described earlier, the activity determines the nature of the costs charged to the program. If an individual spends time on both administrative and program activities, fully burdened salary and benefits for that individual can be prorated between the two costs based on a percentage allocation. The staff person must keep detailed records of time spent on different activities to calculate administrative and program percentage allocations.

Our city just purchased a computer and office furniture for the staff person implementing our motor vehicle emission reduction programs funded with AB 2766 revenues. Is the purchase a qualified direct expense?

If the staff person’s sole responsibility is the implementation of motor vehicle emission reduction programs, and the computer is the tool by which the person will track, monitor, and complete their
responsibilities, then expenditures are direct expenditures. However, if AB 2766 program activities are only one of the many activities performed by the staff person and the other criterion described above are applicable, then only a prorated portion of the expenditure is an acceptable direct expenditure.

**What documentation is required to support expenditures on direct costs?**

- Expenditures on equipment, materials, and subcontractor services must be supported by a warrant and other source document clearly showing that the payment was for an expenditure charged against the fund and included in the annual program report to the SCAQMD. It is also important that the source document (invoice, requisition, equipment rental charge, and other pertinent data) clearly identify the project to establish a readily discernible audit trail.

- Direct labor must be documented on time sheets. If time sheets do not permit the level of detail required to document direct labor hours to be charged to AB 2766 projects specifically, then a detailed log of time spent on projects, the activities performed and the outcome or product generated must be maintained. Direct labor costs must identify the project to establish a clear audit trail. *Allocating a fixed or budgeted amount of staff time and associated salary expense each pay period will not meet the requirements for the audit.*

- Benefits associated with the salary for direct labor are permissible direct expenditures. In the event staff time is divided between direct labor, administrative costs and/or other functions not related to AB 2766 projects, the associated cost of the benefits must be similarly split between the different categories of labor costs. It is important that there is documentation to support calculations for benefits allocation.

- Payment of rideshare incentives must be supported with verification of each participant’s eligibility, justification for the payment amount, and a reporting system that demonstrates evidence of program participation. There are several ways to monitor ridesharing for which incentives are paid. Periodic self-certification, issuance of special parking privileges, and limiting and designating parking spots are the popular methods that verify ridesharing by employees.
18. Common Audit Findings

- Submittal of Audited Financial Statements by the first Friday of February.
  - If audited financial statements have not been completed by the first Friday of February, local governments can request an extension until April 1\textsuperscript{st} by submitting an interim statement of program receipts and expenditures certified by the local government’s finance director.
  - Local governments that do not comply with the financial reporting requirements will be subject to an audit conducted by an independent auditor selected by the SCAQMD. The cost of the audit will be deducted from the amount distributed to the non-compliant local governments.

The following findings will result in the affected local government having to replace the amount of the finding by either agreeing to have future AB 2766 disbursements withheld or providing supporting documentation that the funds have been replaced.

- Direct Labor charged is not supported by time cards or time studies.
- Administrative expenses exceed the 5% cap.
- Unsupported documentation on direct program costs.
- Interest earned on AB 2766 cash balances are not deposited into the AB 2766 Special Revenue Fund.
- Expenditures charged against the AB 2766 Fund do not meet the program requirements of reducing air pollution from motor vehicles.
19. Other Audit Findings

- Failure to maintain a separate Air Quality Improvement Fund (AQIF) for AB 2766 receipts and expenditures.
  - To resolve the finding, the local government will be required to set up a separate AB 2766 fund.

- Local government does not keep a copy of their adopted ordinance accepting AB 2766 funds on file.
  - To resolve the finding the local government will have to provide the SCAQMD with a copy of the ordinance.
20. Budgeting of AB 2766 Funds

Are local governments required to obtain approval from their City Councils or Board of Supervisors to fund projects and/or programs using AB 2766 funds?

Yes. All local governments are required to obtain approval from their respective City Councils or Board of Supervisors for a project or program using AB 2766 funds. This can be done through the budget adoption process or as an amendment to the adopted budget.

In order to keep elected officials apprised of the use of AB 2766 funding, it is recommended that each local government highlight the use of AB 2766 funds when gaining approval for a project/program.