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AB 2766 Subvention Fund Program
Resource Guide

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

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South Coast Air Quality Management District
21865 Copley Drive
Diamond Bar, CA 91765

AB 2766 Program Staff

Carol Gomez, Planning and Rules Manager
(909) 396-3264 / cgomez@aqmd.gov

Lane Garcia, Program Supervisor
(909) 396-3297 / lgarcia@aqmd.gov
Coachella Valley COG
Las Virgenes / Malibu COG
San Fernando Valley COG
Westside Cities Association
Western Riverside COG
City of Los Angeles

Elliott Popel, Air Quality Specialist
(909) 396-2616 / epopel@aqmd.gov
Gateway Cities COG
San Bernardino County Transportation Authority
South Bay Cities COG
Orange County COG
San Gabriel Valley COG

AB 2766 Office Assistance

ab2766@aqmd.gov / fax: (909) 396-3893

AB 2766 Financial Staff

John Kampa, Financial Analyst
(909) 396-3026 / jkampa@aqmd.gov
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Introduction

Since 1991, the AB 2766 Subvention Fund Program provides a funding source to cities and counties to develop clean transportation programs and reduce vehicle emissions. This Resource Guide is designed to help local governments identify projects that are eligible for AB 2766 funding. The program descriptions and examples outlined in this document are in keeping with the criteria, guidelines, and mission of the South Coast Air Quality Management District (South Coast AQMD) 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 available resources. Use of AB 2766 Subvention Funds should include quantifiable strategies that specifically reduce motor vehicle emissions, or strategies that can lead to indirect motor vehicle emission reductions through innovative program and technology implementation. 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.

The Resource Guide covers two sections:

The **Project Implementation** section describes categories of various projects that local governments may choose to implement using AB 2766 funds. This section provides useful examples and outlines the requirements for eligibility. It is intended to be a guide in project development and reporting.

The **Financial Administration** section describes the financial and program reporting guidelines that each agency receiving motor vehicle registration fee revenue is required to follow.

Reporting cycles begin on the first day of July in one year and end on the last day of June in the following year. This document was published in January 2020, and will become effective on July 1st, 2020. The early release of this document allows local jurisdictions the opportunity to adjust their plans accordingly.

**AB 2766 Funding Source**

The Motor Vehicle Registration fee surcharge of six dollars per vehicle is collected by the Department of Motor Vehicles and subvened to the South Coast AQMD 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 South Coast AQMD for its vehicle emission reduction programs. The remaining two dollars of the
registration fee funds projects eligible for grants under the Carl Moyer Memorial Air Quality Standards Attainment Program.

Funds are disbursed to local jurisdictions quarterly, and they may use it on eligible projects that meet the requirements of federal and California Clean Air Acts and align with CARB’s guidance on cost-effectiveness. Cities and counties under South Coast AQMD’s jurisdiction provide annual program and financial information to the South Coast AQMD. This information is compiled by the South Coast AQMD and forwarded as an annual report to CARB. In addition, South Coast AQMD works with an independent firm to conduct audits of AB 2766 fee recipients, at least once every two years.

Funds are distributed to jurisdictions based on population share which may necessitate that smaller jurisdictions accumulate funds over time to implement larger, more costly projects. However, numerous projects can be executed with modest budgets, and alternative funding streams are also available that can help maximize the potential uses of subvention funds. The CARB Carl Moyer Program, the California Clean Vehicle Rebate Project, and the ongoing Volkswagen Settlement project solicitations are just a few examples of funding streams that can be paired with subvention funds when planning future projects. For a current list of alternative funding sources for mobile source emission reducing projects, please visit our webpage at www.aqmd.gov/ab2766.

**Project Cost-Effectiveness**

An important metric for the AB 2766 Subvention Fund Program is the project’s cost-effectiveness. Cost-effectiveness is defined as project funding divided by the total emissions reduced by the project. When local jurisdictions report their AB 2766 expenditures to South Coast AQMD the amount of emissions reduced by the projects are calculated.

In 1995, CARB determined that spending $10 per pound of emissions reduced ($20,000 per ton) was an ideal target for the Program. Per the most recent staff report at the time of this writing, this target is now $16.23 per pound of emission reduced ($32,460 per ton) in July 2018 dollars.

Projects that provide quantifiable emission reductions, maximize motor vehicle emission reductions, and advance new technologies are emphasized. AB 2766 does allow for flexibility within jurisdictions to plan projects that are difficult to quantify but can provide indirect emission reductions, such as CEQA studies, transportation plan development, public education, or research projects.

However, funding of all research and development projects, which include environmental impact report (EIR) related studies for goods movement and major 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

**Interjurisdictional and Council of Governments (COGs)**

Interjurisdictional 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.

Council of Governments (COGs) are a useful framework for developing and implementing regional projects. COGs may receive AB 2766 funds from their member cities for a specific project, but the cities are required to report the project descriptions and emission reduction data to South Coast AQMD on an annual basis. All COG projects should be reported as a “COG Sponsored Project” in the project name or description in the Annual Report. AB 2766 funds cannot be used for regular COG dues and can only be transferred to implement COGs for specific projects.

**Guidance and Technical Assistance**

South Coast AQMD staff will gladly assist you in developing project ideas, identifying potential co-funding sources, and guiding you through the reporting process. If you have any questions about AB 2766, do not hesitate to reach out to us via our webpage: [www.aqmd.gov/ab2766](http://www.aqmd.gov/ab2766).
Project Implementation
1. Alternative Fuels / Electric Vehicles

AB 2766 recipient jurisdictions may use subvention funds to replace conventionally fueled vehicles and fueling infrastructure. Projects should be listed in this category when cities and counties transition their conventionally fueled on-road and off-road fleet vehicles to lower-emission vehicles, such as electric (EV), compressed natural gas (CNG), propane (LPG), hydrogen (H2), and hybrids that meet specific CARB certification standards.

When a local jurisdiction is purchasing an alternative fuel vehicle(s), it should take into account the vehicle’s duty cycle, available technologies, infrastructure accessibility, and ongoing vehicle and infrastructure maintenance. Ongoing maintenance of purchased vehicles and equipment are not an allowable use of AB 2766 subvention funds.

To develop or improve the necessary infrastructure to support alternative fuel and electric vehicles, local jurisdictions may consider partnering with other jurisdictions and private entities to secure additional funding or provide additional opportunities for expanded fueling networks.

To support the purchase/lease of alternative fuel vehicles, the full fueling cost of these vehicles is allowable for up to 3 years after vehicle purchase, but only the differential cost thereafter.

**Emission Standards Requirements**


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

- **Alternative Fuel Vehicles (Light or Medium Duty)**
  - SULEV (Super Ultra Low Emission Vehicle)
  - AT PZEV (Advance Technology Partial Zero Emission Vehicle)

- **Hybrids**
  - Light Duty - SULEV or AT PZEV
  - Medium Duty - ULEV (Ultra Low Emission Vehicle)

- **Electric Vehicles**
  - Automatically Acceptable - All EVs are zero emission vehicles
Project Subcategories & Examples

(1-a) Alternative Fuel Vehicle Purchases/Leases
Replace older and dirtier, more polluting diesel or gasoline engines with engines powered by cleaner alternative fuels. Initial purchase/lease of vehicles powered by cleaner alternative fuels or purchase/lease to replace older, more polluting diesel or gasoline vehicles.

Examples:
- Purchase or lease of light, medium, or heavy-duty clean vehicles that meet the emission ratings noted above.
- Purchase/lease of Rule 1186.1 compliant alternative fuel vacuum street sweepers.
- An alternative Fuel Vehicle Rebate Program.

Ineligible Expenses:
- Ongoing maintenance and upkeep of alternative fuel vehicles.
- Staff time and materials necessary for ongoing maintenance and upkeep of alternative fuel vehicles.
- Purchase/lease of vehicles not intended for jurisdiction use such as personal vehicles of jurisdiction employees.
- Accessories such as safety lights, work boxes, or other additional equipment unrelated to mobile source emission reductions.

(1-b) Alternative Fuel Vehicle Conversions
Convert (retrofit or re-power) conventionally fueled vehicles with alternative fuel technologies.

Examples:
- Vehicle fleet conversions from conventionally fueled vehicles to alternative fuel engines.
- Retrofits or re-powers of alternative fuel vehicles.
- Vehicle or fleet conversion to cleaner fuels.

Ineligible Expenses:
- Purchase of non-compliant vehicles that are to later be converted.
- Conversion to vehicles that do not meet CARB Certification standards.
- Ongoing maintenance and upkeep of converted vehicles.
- Staff time and materials necessary for ongoing maintenance and upkeep of vehicles.

(1-c) Alternative Fuel and Infrastructure
Build, construct, install or expand compressed natural gas (CNG), liquefied natural gas (LNG) and/or hydrogen (H2) fuel generation and refueling facilities. Maximum benefits will be achieved when a fueling facility is centrally located and accessible to local jurisdictions and the public, and public/private partnerships are encouraged to achieve these benefits.
Expenditures for the full cost of alternative fuels are eligible for the first three years of operations, and thereafter only the differential cost are allowable. For example, if the cost of gasoline is $3 per gallon and the cost of hydrogen is $4 per gasoline gallon equivalent (GGE), subvention funds can be used for the full cost ($4 per GGE) in the first three years and thereafter the differential cost ($1 per GGE) between the two fuel prices.

**Examples:**
- Construct alternative fuel facilities to support the establishment of alternative fuel infrastructure networks.
- Expansions, enhancements or upgrades that improve efficiency or safety.
- Purchase of specialized tools necessary to maintain alternative fuel infrastructure.
- Initial installation of fueling station point-of-sale equipment.
- Fuel generation facilities that can produce CNG, LPG, or H2. Facilities include but are not limited to landfills, anaerobic digesters at livestock operations, wastewater treatment, or electrolysis system.

**Ineligible Expenses:**
- Ongoing maintenance and upkeep of alternative fuel infrastructure.
- Staff time and materials necessary for ongoing maintenance and upkeep of alternative fuel infrastructure.

**Electric Vehicle Purchase/Lease**
Purchase or lease on-road and off-road electric vehicles. The purchase of zero-emission electric vehicles supports California’s transition to zero and near zero motor vehicle technologies and related infrastructure.

**Examples:**
- Purchase/lease of on-road and off-road electric vehicles such as buses, shuttles, vans, passenger cars, golf carts, trolleys, neighborhood electric vehicles and forklifts, etc.
- Electric Vehicle Rebate Programs.
- Commercial ride-on lawn mowers.

**Ineligible Expenses:**
- Ongoing maintenance and upkeep of electric vehicles.
- Staff time and materials necessary for ongoing maintenance and upkeep of electric vehicles.
- Purchase/lease of vehicles not intended for jurisdiction use.

**Electric Vehicle Conversions**
Convert conventionally fueled vehicles to electric vehicles.

**Ineligible Expense:**
- Ongoing maintenance and upkeep of converted vehicles.
- Purchase of non-compliant vehicles that are to later be converted.
(1-f) Electric Vehicle Infrastructure
Build, construct or install electric charging stations. Expenditures that cover the full cost of electricity for up to three years after initial operation are eligible program expenses. Maximum benefits will be achieved when an EV charging station is centrally located and accessible to local jurisdictions and the public, and public/private partnerships are encouraged to achieve these benefits. Locations such as shopping centers, libraries, public parking structures, transit hubs, and existing conventional fueling stations should be considered.

Examples:
- Construct electric charging facilities in close proximity of fleets or centrally located to popular public destinations.
- Expand, enhance or upgrade infrastructure to improve efficiency or safety.
- Purchase of specialized tools necessary to operate electric infrastructure.
- Electric station card readers.
- Ongoing software support.

Ineligible Expenses:
- On-going maintenance of electric charging infrastructure.
- Onsite-electricity generation, such as solar panels, solar carports, wind turbines, etc.
- Onsite-battery storage

(1-g) Mechanic Training on Vehicle Operation and Maintenance
Educate and train personnel on the operations, mechanics, safety, and maintenance of alternative fuel vehicles, equipment structures and refueling stations.

Example:
- Educate and train personnel on the tools, materials and other specialized mechanical instruments involved in the implementation of emission reducing projects.

Ineligible Expense:
- Training not associated with operation or maintenance of alternative fuel vehicles or electric vehicles and associated infrastructure.
- While training in maintenance of alternative fuel vehicles and fueling equipment is an eligible expense, actual maintenance costs are not eligible expenses.

(1-h) Alternative Fuel and Zero Emission Vehicles Research and Development
The study and investigation of developing alternative fuel technology and/or infrastructure.

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.

Project Subcategories & Examples

(2-a) Off-Road Cleaner Diesel Vehicle Purchases, Re-powering or CARB Approved Add-on Control Equipment

Purchase of eligible 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) Vehicle Scrapping

Vehicle Scrapping Programs that specifically target elimination of the highest polluting vehicles on the road.

Examples:
- Participation in the South Coast AQMD Rule 1610 – Old Vehicle Scrapping
(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 Air Quality Management Plan 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 Environmental Impact Reports (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.

_Please note:_ 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.
▪ Mobility hubs where multiple transportation options are located close to each other, including but not limited to bus stops, bicycle racks, scooter rentals, carsharing services, EV charging stations, etc.

(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. An eligible project must provide new or extended transit service. 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.

However, 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.

First mile/last mile projects, such as those that resolve the difficulty faced for transit passengers to reach final destinations from transit hubs, are eligible projects and can be accomplished using shuttles, ride-hailing technologies, or taxi services.

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, and expansion of public mass transportation facilities designed to increase use of the system.

Examples:

- Installation of rail feeder facilities, shelters at bus stops or public transit infrastructure, bus pullouts and bus pads, and bus rapid transit facilities.
- Improvements to public transportation facilities designed to increase safety, accessibility, and usability.

Ineligible Expense:

- Use of subvention funds that would develop or improve the infrastructure of privately-owned businesses occupying public transportation facilities.
(4-b) **Information Access Equipment**  
Marketing via kiosks, bus stop displays and other information-providing structures or software.

*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.
- Development of software that tracks transit operations and disseminates transit information to users.
- Procurement of software and infrastructure that provides real-time tracking of public transit fleets that are designed to provide this information to the system users.

(4-c) **Transit Operations**  
Purchase or lease of vans/buses/rail. Projects should utilize zero or near-zero emission vehicles where available and should emphasize new or expanded services not previously encumbered with subvention funds. Public event projects that are of limited duration would be acceptable uses of subvention funds provided the event would otherwise be traffic-impacted through high attendance.

*Examples:*
- Fleet conversion assistance to transit agencies and schools.
- Implementation of shuttle operations or ride-hailing service for residents to and from transit centers.
- Lunchtime or all-day shuttle services that transport underserved community members to nearby activity centers.
- Services that pick up multiple passengers along an established route or at specific locations.

*Ineligible Expense:*
- Use of subvention funds for ongoing transit operations that do not provide expanded or new service.
- Use of subvention funds after three years of new or expanded transit operations.

(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.
- Reimbursement of ride-hailing or taxi services to and from transit centers.

*Ineligible Expense:*
- Indiscriminate reimbursement of ride-hailing or taxi services that do not provide access specifically to and from transit centers.
(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.

Studies that can be utilized by local transit agencies in developing their Zero Emission Bus Rollout Plan, including identifying future vehicle purchases, route planning, site plans for on-route charging stations, and other guidance documents. For more information, please review the Innovative Clean Transit Regulation at https://arb.ca.gov/msprog/ict/ict.htm.

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. Partnerships with adjacent jurisdictions should be considered to maintain traffic flow across municipal boundaries.

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 but spending in this category should be directly related to trip reduction. For example, offering an incentive to an employee when a single occupant vehicle trip is eliminated would be an eligible use of these funds; rideshare marketing materials are eligible expenses but would be noted under project category 10, Public Education.

Subvention fund recipient jurisdictions and County Transportation Commissions (CTCs) 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 rideshare 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. Vanpool subsidies that can encourage ongoing use of third-party or employee-owned vanpools.

(6-d) Park and Ride Lots
Costs for design, construction, 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.
- Improvements to Park and Ride facilities that provide enhanced accessibility or usefulness.

Ineligible Expense:
- Subsequent maintenance of previously developed Park and Ride facilities.

(6-e) Telecommunication
Telecommuting allows employees to work from home or at a satellite work center. An eligible project must have quantifiable emission reductions due to the employees not making the trip to the worksite.

Examples:
- Expenditures may include purchasing telecommuting equipment, materials and other additional computer hardware 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, and facility modifications.
- Implement new or expanded software solutions, including dedicated websites or mobile applications for employees to remotely access, for up to the first three years of operations. On-going funding for maintenance of these solutions beyond the first three years is ineligible.

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. Use of subvention funds for membership in TMA/TMO shall not exceed 10% of the jurisdiction’s total subvention funds received during the fiscal year reporting cycle.

(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

Bike lanes, paths, or routes are projects eligible for AB 2766 subvention funds and are most effective when linked to other bike-friendly policies, places and, practices that help people feel more comfortable about traveling by bicycle. A bike path must eliminate and/or decrease single commuter vehicle trips and miles traveled, while improving safety and accessibility.

Approvable 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. Bicycle projects that are exclusively for recreational use are not eligible for AB 2766 subvention funds.

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.

Ineligible Expense:
- Recreational bicycle paths such as in public parks.

(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 Purchase or Usage
A bicycle purchase or loan 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.
- Bike share program, including bicycle checkout system, bicycle purchases, and regular maintenance on facilities.
- Subsidies for employees to use a third-party bike share program, such as Metro Bike Share

**(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. Repaving of already paved roads is considered a maintenance-related expense and is not an allowable use of subvention funds.

Project Subcategories & Examples

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

Examples:
- Implementing South Coast AQMD’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.
- Replacement parts related to the specific function of the street sweeper, such as brooms and drag shoes.

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

Ineligible Expense:
- Maintenance of street sweeping equipment, or replacement of parts common to normal vehicle function, such as tires, lubrication, and filters.
- Repaving of previously paved roads.

(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

Raising public awareness about air quality issues in their communities is vital to the success of any emission reduction strategy. Public education campaigns are a useful tool when launching new programs and demonstration projects.

Effective public outreach campaigns inform the public and stakeholders 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 can educate the public about transportation alternatives, can get the public’s attention and interest in air quality issues, and can 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 develop projects that reduce motor vehicle emissions, but are not identified in this Resource Guide. Project description, emission reductions, 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 that don’t conform to the preceding project categories. The Miscellaneous Projects category can be used to report these projects, and those member cities should coordinate with their COGs to receive project descriptions and available emission reduction data that will be included in the individual city or county’s AB 2766 Annual Report.

Jurisdictions are also encouraged to enter into inter-jurisdictional partnerships outside of COG agreements to achieve localized emission reductions with subvention funds.

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.

Ineligible Expense:

- The use of these funds to pay for COG dues.

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.

It is strongly recommended that South Coast AQMD Staff is contacted 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. AB 2766 Financial Administration Introduction

The following is the financial administration guide for local governments that receive AB 2766 fee revenue. The guide starts with an overview but it is imperative that each section is read and understood. All financial administration questions can be directed to John Kampa at 909-396-3026 or emailed to jkampa@aqmd.gov. If there are questions regarding project/program eligibility please contact the AB 2766 Program Staff for your agency listed at the beginning of this document.
13. AB 2766 Financial Administration Overview

- AB 2766 fee revenues are required to be spent on the reduction of air pollution from motor vehicles.

- Local governments are allocated $1.60 for every eligible vehicle registered within the South Coast Air Quality Management District.

- Funds are disbursed based on the ratio of each Local Government’s population to the total population within the District.
  - Populations are derived from the State of California, Department of Finance’s E-1 report.

Accounting (for details see Section 14)

- AB 2766 fee revenues are disbursed to the local governments after a quarter of DMV collections are received.

- Local governments are required to create and maintain a separate Special Revenue Fund for the AB 2766 fee revenue received.

- The AB 2766 fee revenue received is required to be reported in a separate account and cannot be co-mingled with other revenue sources.

Allocation of Interest Income (for details see Section 15)

- Interest earned AB 2766 cash balances need to be allocated to the Special Revenue Fund.
  - Interest revenues are required to be reported separately and cannot be co-mingled with other revenue sources.
  - Interest earnings need to be spent on programs to reduce air pollution from motor vehicles.

Administrative Costs (for details see Section 16)

- Administrative costs are capped at 6.25% of AB 2766 fee revenues received each Fiscal Year (July through June).

Direct Program Costs (for details see Section 17)

- Direct labor charged to the Special Revenue Fund needs to be documented by either time cards, time sheets or a time study.
  - Allocating a fixed or budgeted percentage of time is not allowed.

Direct Program Costs (cont.)

- Expenditures for equipment, materials and subcontractor services must be supported by warrant and source documents that identify the project to establish a clear audit trail.

- Payment of rideshare incentives must be supported with verification of each participant’s program participation.

- Research and development expenditures are limited to 10% of revenue received during a fiscal year.

- Public education expenditures are limited to 10% of revenue received during a fiscal year.

- Website development expenditures are limited to 10% of revenue received during a fiscal year.
Pooling of AB 2766 Funds in Consortiums (for details see Section 18)

- Consortiums that receive AB 2766 funds have the same project spending and financial administration requirements as their member cities.

- Member cities must report their AB 2766 contributions to the consortium in their annual report on program activities.

Audit of AB 2766 Fee Revenue (for details see Section 19)

- Audited Financial Statements must be received by the South Coast AQMD by the first Friday in February.
  - Upon request, an extension can be granted until April 1st.

- Local Governments that receive AB 2766 fee revenue in excess of $100,000 can meet the audit requirement in one of three ways.
  - See Section 19 for complete details.

- Local Governments that receive AB 2766 fee revenue less than $100,000 can meet the audit requirement by submitting their CAFR.
  - 20% of compliant local governments will be audited during the biennial audit.

- Local Governments that do not submit audited financial statements by the due date are automatically audited during the biennial audit.

- Consortiums that receive AB 2766 fee revenue from their members are automatically audited during the biennial audit.

Section 20 - Budgeting of AB 2766 Fund (for details see Section 20)

- All local governments are required to obtain approval from their respective City Councils or Board of Supervisors for projects/programs funded with AB 2766 fee revenue.
14. Accounting of AB 2766 Fee Revenues

*Special Revenue Fund* - Health and Safety code Section 44243(b)(1)(C) (AB 2766) requires local governments to establish a separate Air Quality Improvement Special Revenue 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.”

**Fiscal Year for accounting of AB 2766 revenues** - South Coast AQMD’s fiscal year for AB 2766 revenues is July 1 of a given year through June 30 of the following year. The total amount disbursed for those four quarters should equal the annual AB 2766 revenues for the city/county. 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 receivable amount of the estimate must be made prior to the close of the fiscal year ending June 30.

**South Coast AQMD disbursement of AB 2766 revenues to Cities/Counties** – South Coast AQMD disburses AB 2766 revenue after a quarter of DMV collections are received. After the last month of a quarter is received, the South Coast AQMD will process the quarterly disbursement within two (2) weeks. The table below summarizes the anticipated timing of the quarterly disbursements.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>DMV Collections</th>
<th>Anticipated Disbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Quarter</td>
<td>July-September</td>
<td>Mid-December</td>
</tr>
<tr>
<td>2nd Quarter</td>
<td>October-December</td>
<td>Mid-March</td>
</tr>
<tr>
<td>3rd Quarter</td>
<td>January-March</td>
<td>Mid-June</td>
</tr>
<tr>
<td>4th Quarter</td>
<td>April-June</td>
<td>Mid-August</td>
</tr>
</tbody>
</table>

*AB 2766 revenues must be reported separately in the Special Revenue Fund* - AB 2766 revenues are required to be reported in a separate account in the Special Revenue Fund. AB 2766 revenues may not be combined with revenues from other revenues sources. 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 Special Revenue Fund as long as they are reported in separate accounts. MSRC funds are provided to agencies on a reimbursement basis as the projects are completed and invoices are submitted to the South Coast AQMD for payment out of the discretionary portion of the AB 2766 Fund. It is the responsibility of the city/county to provide accurate and adequate documentation to maintain segregated balances of both revenue and expenditure allocations for reporting and audit purposes.
Loaning or advancing AB 2766 Special Revenue Fund available funds to other city/county funds is not allowed - AB 2766 fee revenues are legislatively mandated to be spent to implement programs to reduce air pollution from motor vehicles. 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 program is approved and implemented and an advance is a necessary and material factor in the implementation of the program, then such an advance may be made against a contractual agreement to implement the program to reduce air pollution from motor vehicles.

Assets purchased with AB 2766 funds - Assets purchased by the city/county from AB 2766 monies must be identified as AB 2766 assets. Ownership of these assets rests with the city/county and do not belong to the South Coast AQMD. Proceeds on the disposition of the asset must be returned to the Special Revenue Fund.

Assets do not revert to the South Coast AQMD if the program is canceled or the asset is not being used to reduce air pollution from motor vehicles - If the program for which an asset was purchased is canceled, the money expended on the purchase of the asset must be reimbursed to the Special Revenue Fund.

Revenues generated from the implementation of a program to reduce air pollution from motor vehicles (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 programs to reduce air pollution from motor vehicles. 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 program or to fund other programs to reduce air pollution from motor vehicles.

Local Governments are never allowed to purchase or sell AB 2766 funds – Selling or trading AB 2766 funds with another local government for a different source of funds is not allowed. AB 2766 funds received need to be spent on programs that reduce air pollution from motor vehicles and provide a benefit to the citizens of local government receiving the funds.
15. Allocation of Interest Income

*Interest earned on AB 2766 funds must be deposited in the Special Revenue Fund and reported separately* - 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 Special Revenue Fund is legally restricted to expenditures for the designated purpose to implement programs to reduce air pollution from motor vehicles. Interest earned on cash balances held in this fund must therefore be put to the same use.

**Calculating Interest Income** - 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 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.

To mitigate having to segregate earned interest on funds transferred to other city/county funds for authorized AB 2766 projects, these transfers should be performed on an expense reimbursement basis.

**Loans to the Special Revenue Fund** - Funds advanced to the AB 2766 Special Revenue Fund are to be reimbursed as AB 2766 funds become available. *Charging interest expense to the Special Revenue Fund is not allowed.* However, investment losses are allocable based on an equitable distribution of losses among all funds.
16. Administrative Costs

**Administrative Costs** - A reasonable definition of administrative costs are 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 documented separately from project costs. Documentation of the hourly charges may be provided either in the form of time cards, time sheets or any other generally accepted mechanism to allocate and document staff time. *Allocating a fixed or budgeted amount of staff time and associated salary expense will not meet the requirements for the audit and is not allowed.*

**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 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.

**Limitations on Administrative Costs** - AB 2766 legislation limits expenditures on administrative costs to 6.25 percent of the fee revenue received in a fiscal year. 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 programs to reduce air pollution from motor vehicles.

- Interest earnings are not included in the base used to calculate the limitation.

- AB 2766 fee revenue that is passed on to a consortium or joint powers authority cannot be included in the base to calculate the limitation.

- Keeping administrative costs below the 6.25 percent cap does not qualify the unused amount to carry over into the following fiscal year.

- If the Special Revenue Fund does not incur costs during the year, then allocating administrative costs to the fund is not allowed. Administrative costs charged to the fund need to be on a cost allocation basis.
Projecting 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 project the cap on administrative expenses. Motor Vehicle Registration revenues do not fluctuate significantly from year to year.
17. Direct Program Costs

Direct program costs are those associated specifically with planning, monitoring and implementing programs to reduce air pollution from motor vehicles. 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.

**Staffing Costs** - Direct and indirect (fully burdened) costs of staff working on programs to reduce air pollution from motor vehicles are allowable program costs.

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.

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.

If an individual spends time on both administrative and program activities, fully burdened salary and benefits for that individual needs be reported between the two costs. The staff person must keep detailed records of time spent on different activities to calculate administrative and program allocations.

**Documentation Required to Support Direct Cost Expenditures** -

- Expenditures for equipment, materials, and subcontractor services must be supported by a warrant and other source documentation clearly showing that the payment was for an expenditure charged against the fund and included in the annual program report to the South Coast AQMD. 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 cards or time sheets. If time cards/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 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.

• All research and development projects (including environmental impact reports, related studies for goods movement and major transportation projects) shall not exceed 10% of the revenue received by the city/county for a fiscal year beginning July 1 of a given year and ending June 30 of the following year.
  o The 10% limitation includes AB 2766 funds passed through to a Council of Government.
  o Unexpended funds do not carry over into the next fiscal year.
  o See the Project Implementation Section of this document for complete details.

• Public education and website development projects shall not exceed 10% of the revenue received by the city/county for a fiscal year beginning July 1 of a given year and ending June 30 of the following year.
  o The 10% limitation includes AB 2766 funds passed through to a Council of Government.
  o Unexpended funds do not carry over into the next fiscal year.
  o See the Project Implementation Section of this document for complete details.
18. Pooling of AB 2766 Funds in Consortiums

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). The JPA or consortium that receive AB 2766 fee revenues must use these funds to undertake programs to reduce pollution from motor vehicles.

Responsibilities of the Consortiums - The consortiums are subject to the same requirements as the member cities.

1. Spend the AB 2766 fee revenue received on the reduction of air pollution from motor vehicles.
2. Create and maintain a separate Special Revenue Fund for the AB 2766 fee revenue received.
3. AB 2766 fee revenue must be reported in a separate account and not combined with other revenue sources.
4. Administrative expenses are limited to 6.25%.
5. Interest earned on AB 2766 cash balances must be allocated to the Special Revenue Fund and spent on the reduction of air pollution from motor vehicles.
6. Submit annual reports to the South Coast AQMD.
7. Must maintain the appropriate supporting documentation for direct and administrative expenses.
8. Consortiums are automatically audited once every two years by auditors selected by the South Coast AQMD.

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 report on program activities provided to the South Coast AQMD. 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.
19. 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 South Coast AQMD and that the cost of the audit is to be deducted prior to distributing AB 2766 fee revenues to local governments.

To assist local governments in complying with the requirements of the Health and Safety Code Sections 44220 et seq., the South Coast AQMD 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 South Coast AQMD 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 guidelines require that each agency receiving motor vehicle registration fee revenues must submit:

- an annual report on program activities; and
- an annual audited financial statement of AB 2766 funds

These reports must be received by the South Coast AQMD no later than the first Friday in February of each year. If audited financial statements have not been completed by the first Friday of February, local governments can request an extension until April 1st 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 South Coast AQMD. The cost of the audit will be deducted from the amount distributed to the non-compliant local governments.
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 three ways:

**Option 1:**
Submit a Comprehensive Annual Financial Report (CAFR) that separately discloses the Air Quality Improvement Special Revenue Fund (AQIF) financial results and balance sheet in their combining financial statements. General purpose financial statements, which present the AQIF results on a combined basis are not deemed adequate disclosure. Also the following needs to be included to meet the AB 2766 audit requirement for Option 1:

a. The general purpose financial statements must receive an unmodified/unqualified opinion;
b. An Independent Auditor’s Report on the internal control structure of the AQIF must be submitted; and
c. An Independent Auditor’s Compliance Report with the laws and regulations required by AB 2766 must be submitted.

**Option 2:**
Issue independent audited financial statements specific to the Air Quality Investment Fund (AQIF) that includes:

a. Balance sheet:
   a. Statement of revenues, expenditures, and changes in fund balances;
   b. An Independent Auditor’s Report on the internal control structure of the AQIF must be submitted; and
   c. An Independent Auditor’s Compliance Report with the laws and regulations required by AB 2766 must be submitted.

**Compliance Reports (Options 1 & 2)** - In accordance with Statement on Auditing Standards Number 117, Compliance Audits (SAS-117), the independent auditors report must make specific reference to tests for compliance with provisions of Assembly Bill 2766 Chapter 1705 [44220 through 44247].
**Option 3:**
Submit to an independent audit by an auditor selected by the South Coast AQMD. Large recipients that select this option are required to notify the South Coast AQMD Finance contact person, in writing, by the first Friday in February.

<table>
<thead>
<tr>
<th>Large Recipient – Financial Reporting Requirements Summary</th>
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<tbody>
<tr>
<td><strong>Type of Audit</strong></td>
</tr>
<tr>
<td>Submit CAFR with Unmodified Opinion that separately reports the AQIF</td>
</tr>
<tr>
<td>Submit independent audited financial statements specific to the AQIF</td>
</tr>
<tr>
<td>Submit Independent Auditor’s Report on the Internal Control Structure of the AQIP</td>
</tr>
<tr>
<td>Submit Independent Auditor’s Compliance Report on the AQIP</td>
</tr>
<tr>
<td>Submit to an audit by an auditor selected by the SOUTH COAST AQMD</td>
</tr>
</tbody>
</table>

(a) Large recipients that elect Option 3 will bear the cost of their audit.

(b) Non-compliant recipients will bear the cost of their audit and will have an audit finding for failure to meet the financial reporting requirements.

**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 their AQIF. All small recipients that comply with the reporting requirements will be placed in a pool of cities, from which a sample of approximately 20 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.

**Resolving audit findings** - If an audit finding determined that an expenditure did not result in the reduction of pollution from motor vehicles, the South Coast AQMD shall notify the affected agency of the determination. The city/county can resolve the audit finding by either reimbursing their Special Revenue Fund or having the funds withheld from future AB 2766 fee revenue disbursements.

If a city/county disagrees with the finding, the South Coast AQMD will do the following:

- Within 45 days of the 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 South Coast AQMD determines that the expenditure was contrary to the intent of Health and Safety Code sections 44240 et seq., the South Coast AQMD will withhold these revenues from the agency in the amount that was inappropriately expended.

For non-monetary findings, the affected agency must demonstrate that corrective actions will be implemented.

The audit reports are available to the affected agency and the public upon request.

**Consortiums/JPAs** – The primary recipient of AB 2766 funds is the party subject to audit and thus responsible for providing South Coast AQMD 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.

Member cities/counties that pass through AB 2766 funds to consortiums/JPAs share equally in the cost of their audit.

If a consortium/JPA incurs a monetary audit finding, it is the primary recipient’s responsibility to resolve the finding. The primary recipient will be notified of the finding by South Coast AQMD. The consortium/JPA must provide a copy of the audit which addresses the finding to the member cities/counties. The primary recipients have the option of reimbursing their Special Revenue Fund for their prorated share of the amount of the finding or have the said amount deducted by South Coast AQMD from future remittances.

**Common Audit Findings**

- Late or non-submittal of audited financial statements by the first Friday of February.
- Direct labor is not supported by time sheets, time cards or time studies.
- Administrative expenses exceed the 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.
- Failure to maintain a separate Air Quality Improvement Fund (AQIF) for AB 2766 receipts and expenditures.
20. Budgeting of AB 2766 Funds

City Councils or Board of Supervisors approval to fund projects and/or programs using AB 2766 funds - 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.

Supplanting of funding is not allowed - If an eligible program/project is being funded from another source and the local government wants to switch funding to utilize AB 2766 fee revenue, then the local government must get City Council/Board of Supervisors approval and expenditures must occur within the fiscal year or after. The switching of program/project costs incurred in prior fiscal years cannot be reimbursed with AB 2766 fee revenue.

Projecting 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. Motor Vehicle Registration revenues do not fluctuate significantly from year to year. In addition, the city/county can contact the AB 2766 Financial Staff for the latest projections.