



**Proposition 1B (Transportation Bond):
Implementation of the \$2 Billion Local Streets and Roads Account
A Guide for Cities and Counties**

Budget Bill: SB 78 (Chapter 172, Statutes of 2007)

Trailer Bill: SB 88 (Chapter 181, Statutes of 2007)

Clean-Up Measures: AB 193 & AB 196

September 14, 2007

Outlined below are key elements regarding the Local Streets and Roads Account (LSR) from Proposition 1B, including the appropriation levels for FY 2007-08, key provisions, the process for triggering the allocation of the funds, as well as accountability requirements.

Appropriation Levels: \$400 Million to Counties and \$550 Million to Cities

The Budget Bill (SB 78) included a \$600 million appropriation for cities and counties from the Local Streets and Roads Account (LSR) contained in Proposition 1B, the Transportation Bond. SB 88, the trailer bill, which provides for the implementation of Prop. 1B, also included an additional appropriation of \$350 million for this purpose for a total of \$950 million for cities and counties in fiscal year (FY) 2007-08. AB 196 (Prop. 1B: LSR Implementation Clean-Up) specifies that the \$950 million is to be appropriated \$400 million for counties and \$550 million for cities as agreed to by the League and CSAC.

Use it or Lose it Requirement

The clean up language also codified a three-year use it or lose it provision that specifically requires the funds to be expended within three fiscal years after the FY in which the Controller makes the allocation. This means that all Prop. 1B LSR monies appropriated in FY 2007-08 must be expended by June 30, 2011. This provision will also dictate the timing for eligible expenditures, thus only those made after allocation of the funds would be eligible.

What is Required of Local Agencies to Trigger the Allocation by the Controller?

Each city and county must submit to the Department of Finance (DOF) a list of projects expected to be funded with bond funds before an allocation is made.

CSAC and the League are recommending that cities and counties submit project lists for the entirety of their FY 2007-08 allocations. The list of projects must include, at a minimum, the following:

- A description and location of the proposed project
- A proposed schedule for the project's completion
- The estimated useful life of the capital improvement

The DOF, in consultation with the League and CSAC, is developing a template or form identifying information that would meet this requirement. The information

requested will be listed in three categories; mandatory, highly recommended, and optional. The League and CSAC will provide this information as soon as it is available.

Inclusion in County/City Budgets

All projects included on the project list submitted to DOF must also be included in a city, county, or city and county budget that has been adopted by the jurisdiction's council or board at a regular public meeting. Projects included in the FY 2007-08 local budgets or addendums to existing budgets would both meet this requirement. Please note that the project lists submitted to the DOF are flexible and substitutions are allowed to respond to local priorities.

The League and CSAC have received questions about utilizing a lump sum or list of specific projects in the budget to meet this requirement. It is recommended that cities and counties generate a Prop. 1B list, which is then approved by the Board or Council, and as part of that action, state that the projects were included within the adopted budget or specifically named within the capital improvement plan (major project).

The DOF is required to collect each local agency's list of potential projects and will, on at least a monthly basis, notify the State Controller's Office as to which agencies have complied with this requirement, (set forth in SB 88) and are now eligible for an allocation. Upon receipt of the information from the DOF, the Controller must allocate the funds to all of the agencies that have submitted project lists.

What is Required After Cities and Counties Receive Prop. 1B Funds?

Each fiscal year upon expending funds, a local agency must submit further documentation regarding project expenditures to the DOF. This documentation shall include, at a minimum, the following:

- A description and location of each project
- The amount of funds expended on the project
- The completion date
- The project's estimated useful life

Project expenditure reporting must occur on an annual basis at the end of each fiscal year until all bond funds are exhausted. As noted above, this documentation must be consistent with a format developed and approved by the DOF, which is to follow upon availability.

What Types of Projects are Eligible for Funding?

The language contained in Proposition 1B is very broad with respect to eligible uses of the LSR bond proceeds. The bond language states that the proceeds can be used for "*projects that will assist in reducing local traffic congestion and further deterioration, improving traffic flows, or increasing traffic safety that may*

include, but not be limited to, street and highway pavement maintenance, rehabilitation, installation, construction and reconstruction of necessary associated facilities such as drainage and traffic control devices, or the maintenance, rehabilitation, installation, construction and reconstruction of facilities that expand ridership on transit systems, safety projects to reduce fatalities, or as a local match to obtain state or federal transportation funds for similar purposes.”

Additionally, the DOF suggests review of Government Code Section 16727 (included below), which details project “useful life” requirements that the DOF suggested that we provide to cities and counties. However, it should be noted that the Prop. 1B language approved by the voters dictates if there are any conflicts regarding this provision. Thus, maintenance is eligible (utilizing force accounts), as well as activities associated with eligible projects such as project design, environmental review, right-of-way, and landscape improvements within the right of way. DOF asked that cities and counties remain cognizant of the fact that these are bond monies and useful life should be considered for prudent use of the funds.

Lastly, pursuant to discussions with the State Controller’s Office, (which under the provisions of Prop. 1B maintains authority to audit local governments on project expenditures), projects within the ‘right-of-way’ is another good rule of thumb when determining what types of projects are eligible to be funded with bond monies.

Government Code Section 16727.

Proceeds from the sale of any bonds issued pursuant to this chapter shall be used only for the following purposes:

(a) The costs of construction or acquisition of capital assets. "Capital assets" mean tangible physical property with an expected useful life of 15 years or more. "Capital assets" also means tangible physical property with an expected useful life of 10 to 15 years, but these costs may not exceed 10 percent of the bond proceeds net of all issuance costs. "Capital assets" include major maintenance, reconstruction, demolition for purposes of reconstruction of facilities, and retrofitting work that is ordinarily done no more often than once every 5 to 15 years or expenditures that continue or enhance the useful life of the capital asset. "Capital assets" also include equipment with an expected useful life of two years or more. Costs allowable under this section include costs incidentally but directly related to construction or acquisition, including, but not limited to, planning, engineering, construction management, architectural, and other design work, environmental impact reports and assessments, required mitigation expenses, appraisals, legal expenses, site acquisitions, and necessary easements.

(b) To make grants or loans, if the proceeds of the grants or loans are used for the costs of construction or acquisition of capital assets. Bond proceeds may also be used to pay the costs of a state agency for administering the grant or loan program.

(c) To repay funds borrowed in anticipation of the sale of the bonds, including interest, or to pay interest on the bonds themselves.

(d) To pay the costs of a state agency with responsibility for administering the bond program. These costs include those incurred by the Treasurer, the Controller, the Department of Finance, and the Public Works Board for staff, operating expenses and equipment, and consultants' costs.

(e) The costs of the Treasurer's office directly associated with the sale and payment of the bonds, including, but not limited to, underwriting discounts, costs of printing, bond counsel, registration, and fees of trustees. Nothing in this section is intended to prohibit the investment of bond proceeds or the use of proceeds of those investments in any manner authorized by law.

It should be noted that there is no maintenance of effort provision as this is one-time money. However these revenues are intended to supplement existing investments in local streets and roads. One of the goals is to demonstrate to the public the benefit of these investments and reinforce the importance of their vote for the bond package. We know this revenue is a minimal investment compared to the need and must keep their faith to obtain further public support for future investments.

In addition, cities and counties are dependent upon future appropriations in the state budget process requiring support from both the Governor and the Legislature in order to draw down any further revenue from our \$1 billion each. It will be imperative that cities and counties utilize bond funds prudently and expeditiously in order to warrant future appropriations.

For additional information, please contact:

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