

MEASURE M2 LOCAL FAIR SHARE GUIDELINES

Effective April 2026

ORANGE COUNTY TRANSPORTATION AUTHORITY

I. Background and Overview

Background

Renewed Measure M (M2) is a 30-year, multibillion-dollar program extension of the original Measure M (M1) (approved in 1990) with a new slate of planned projects and programs. These include improvements to the County of Orange (County) freeway system, streets and roads network, expansion of the Metrolink system, community transit and senior mobility services, as well as funding for the cleanup of roadway storm water runoff.

There are a number of funding programs which offer funds to local agencies through a competitive process including:

- Regional Capacity Program (Project O)
- Regional Traffic Signal Synchronization (Project P)
- Transit Extensions to Metrolink (Projects S)
- Regional Gateways (Project T) – Closed program
- Community-Based Transit/Circulators (Project V)
- Safe Transit Stops (Project W)
- Environmental Cleanup Program (Project X)

Each of the competitive programs has a specific focus and evaluation criteria as outlined in the Comprehensive Transportation Funding Program (CTFP) guidelines, which are approved and published separately.

There are also two formula programs: the Senior Mobility Program (Project U) and the Local Fair Share (LFS) Program (Project Q). The subject of these guidelines is the LFS Program.

Guidelines Overview

The M2 LFS Guidelines (LFS Guidelines) have been developed to guide and assist Orange County local jurisdictions in understanding eligible and allowable uses of M2 LFS funds. The intent is to enhance and explain general descriptions found in the [M2 Ordinance No. 3](#) (Ordinance).

LFS Guidelines are updated on a periodic basis as part of the M2 Eligibility Guidelines (Eligibility Guidelines).

II. Objectives

The LFS program was developed in the Ordinance to provide flexible funding to help local jurisdictions keep up with the rising costs of repairing the aging public street system. In addition, jurisdictions can use these funds for other local transportation needs, including

residential street projects, traffic and pedestrian safety, signal priority, transit, and public transportation projects and services. Under M1, the comparable turnback funding was limited to support only elements that would also be eligible through [Article XIX](#) of the California State Constitution (Article XIX). However, when developing M2, OCTA, in coordination with the local jurisdictions, expanded eligibility to include transit and active transportation, as well as other transportation programs and projects.

III. Eligibility Requirements

In order to receive LFS funds, local jurisdictions must satisfy certain requirements as outlined in the Ordinance and Eligibility Guidelines. OCTA established the annual eligibility process to ensure that improvements are consistent with regional plans. OCTA worked with the local jurisdictions to develop and approve a process reflecting the eligibility criteria found in M1. Key requirements include:

- Timely use of funds (expend within three years of receipt)
- Meeting the maintenance of effort requirements
- Use of funding consistent with [Article XIX](#), unless otherwise allowed by the Ordinance
- Including projects to be funded with M2 in the seven-year CIP
- Consistency with MPAH, Pavement Management Program, and Traffic Signal Synchronization Master Plan

A complete list of M2 Eligibility requirements and periodic submittal schedule can be found in the M2 Eligibility Guidelines, available for download at OCTA's Eligibility webpage: <http://www.octa.net/M2Eligibility>

IV. Funding

LFS Funding Allocation

The LFS Program is a formula-based allocation provided to eligible jurisdictions for use on allowable transportation, planning, and implementation activities. It is intended to provide flexible funding to help jurisdictions keep up with the rising cost of repairing the aging street system. In addition, local jurisdictions can use these funds for other local transportation needs, such as residential street projects, traffic and pedestrian safety near schools, and signal priority for emergency vehicles. The LFS Program is intended to augment, rather than replace, existing transportation expenditures, therefore local jurisdictions must meet eligibility requirements, as detailed in the Eligibility Guidelines.

The LFS Program is funded through an eighteen percent (18%) allocation from M2 Net Revenues and is distributed to eligible jurisdictions on a formula basis as determined by the following:

- Fifty percent (50%) is divided between eligible jurisdictions based on the ratio of each eligible jurisdiction's population for the immediately preceding calendar year to the total County population (including incorporated and unincorporated areas) for the immediately preceding calendar year, both as determined by the State Department of Finance.
- Twenty-five percent (25%) is divided between eligible jurisdictions based on the ratio of each eligible jurisdiction's existing Master Plan of Arterial Highways (MPAH) centerline miles to the total existing MPAH centerline miles within the County as determined annually by the Orange County Transportation Authority (OCTA).
- Twenty-five percent (25%) is divided between eligible jurisdictions based on the ratio of each eligible jurisdiction's total taxable sales to the total taxable sales of the County for the immediate preceding calendar year as determined by the California Department of Tax and Fee Administration.

All LFS expenditures must comply with applicable requirements in the Ordinance and Eligibility Guidelines, as well as applicable state and federal laws.

Funding Projections

OCTA contracts with three universities (California State University, Fullerton; Chapman University; University of California, Los Angeles) to provide a long-range forecast of taxable sales to forecast M2 revenues for the purposes of planning projects and program expenditures. In the past, OCTA has taken an average of the three university taxable sales projections to develop a long-range forecast of taxable sales. On March 28, 2016, as part of the fiscal year (FY) 2016-17 budget development process, the Board of Directors (Board) approved a new sales tax forecast methodology. The new methodology included a more conservative approach by utilizing a five-year forecast from MuniServices, Inc. The resulting revenue estimates are used for programming of competitive funds and as a guide for local jurisdiction planning within their respective Capital Improvement Programs (CIP).

Each year, OCTA also updates and provides an LFS Program Estimate for a minimum five-year period starting with the upcoming fiscal year. This estimate can be found in the "References" section of OCTA's Eligibility webpage: <http://www.octa.net/M2Eligibility>

OCTA's Responsibility

The responsibilities of OCTA are outlined in the Ordinance, which requires OCTA to allocate M2 Net Revenues, including LFS funds, program or project obligations. These responsibilities are further outlined in master funding agreements between local jurisdictions and OCTA. In addition, OCTA conducts reviews of LFS funds. The audit objective is to ensure that M2 Net Revenues are accounted for and expended in compliance with the Ordinance.

Local Jurisdictions' Responsibility

Local jurisdictions are required to expend LFS funds for streets and roads purposes in compliance with the Ordinance and to be accountable for efficient and transparent use of the apportioned funds. These responsibilities are further outlined in master funding agreements between local jurisdictions and OCTA.

V. Use of Funds

Expenditure Authority

Expenditure authority is governed by the Ordinance, which describes allowable uses of LFS funds as part of the Streets and Roads program. In addition, the Ordinance defines a "Street and Road Project" as the planning, design, construction, improvement, operation or maintenance necessary for, incidental to, or convenient for a street or road, or for any transportation purpose, including, but not limited to, purposes authorized by [Article XIX](#).

Eligible Project Types

Only projects or costs that have a clear public transportation benefit are eligible. Any activities that would be eligible as an expenditure through [Article XIX](#), including but not limited to Streets and Roads Gas Tax Expenditures¹, are eligible under the LFS program. Costs related to transit and/or active transportation services and projects are also eligible.

Examples of items that have been allowed in the past, but are not limited to, include:

- Pavement management plan
- Portion of ArcGIS software used for transportation purposes (must be supplemented with a reasonable and documented prorated cost methodology)
- Off-road trail or path used for transportation purposes
- Transit study
- Metrolink station maintenance and improvements
- Road widening
- Public alleys designated as part of the local jurisdiction street and road system
- Street drainage systems (must be clearly for the street)
- Traffic and pedestrian safety near schools

¹ As outlined by the California State Controller's Office. *Guidelines Relating to Gas Tax Expenditures for Cities and Counties* (Gas Tax Fund Guidelines) can be found at https://www.sco.ca.gov/pubs_guides.html.

- Staff time used for transportation purposes that are readily identifiable with the transportation purpose (direct costs)
- Public transit operations, including local match²
- Overhead incurred for street or road purposes (indirect costs) that is supported by a documented, equitable, and current cost allocation plan

Indirect/Overhead Costs

Indirect costs, or general street or road overhead costs, are expenditures that benefit more than one cost center or object code and are not directly assignable. These expenses should be allocated to the benefitting cost centers or object codes on a basis that produces equitable results, considering the benefits derived.

Examples of indirect costs include allocating information technology overhead costs based on the number of computers assigned to a cost center, allocating supervision labor costs based on direct costs by employees, allocating accounts payable costs based on invoices paid by cost center or object code, and allocating procurement costs based on the number of contracts procured.

A documented, reasonable methodology or cost allocation plan must be on file to support any allocations of indirect costs and should be current (no more than five years old). Allocation of budgeted amounts or deposits to sinking funds are not allowable. Allocation of overhead and/or indirect costs without sufficient support may result in a finding of misspent M2 funds.

Other questionable expenditures are subject to the review and approval of the M2 Program Management Office (PMO). Please contact the PMO Manager, Francesca Ching, at fching@octa.net or (714) 560-5625.

It is critical that LFS funds only be used for transportation purposes. Section 10(4) of the Ordinance clearly states that no Net Revenues shall be used by a jurisdiction for other than transportation purposes authorized by the Ordinance. Any jurisdiction which violates this provision must fully reimburse the Authority for the Net Revenues misspent and shall be deemed ineligible to receive Net Revenues for a period of five (5) years. There is no minimum threshold to this requirement.

² Please double-check applicable grant program guidelines for whether there are limitations on using LFS for match within the grant program.

Time Limit for Use of Net Revenues

Per Attachment B, Section III(A)(10)(b) of the Ordinance, Net Revenues received by local jurisdictions through the LFS program shall be expended within three years of receipt. An extension may be granted but is limited to a total of five years from the date of receipt of funds. For review purposes, OCTA will track expenditures based on the fiscal year of receipt plus two additional fiscal years. Fiscal year means July 1 through June 30. For example, funds received in March 2024, if tracked by fiscal year, should be spent by June 30, 2026. The OCTA Board may authorize an extension of up to 24 months beyond the deadline. Since OCTA is tracking this based on fiscal year, the local jurisdiction would have to provide documentation of the original disbursement date in order for that date to be used for the deadline and would only be required if the funding is not spent before the end of the applicable fiscal year. Requests for extensions shall be submitted prior to expiration and may be considered by the OCTA Board through the CTFP Semi-Annual Review process. Requests for extension must include a plan of expenditure. Refer to the Eligibility Guidelines for additional information regarding expenditure deadlines and extension requests.

Expired Funds

Expired funds, including interest earned and related revenues, must be returned to OCTA. The local jurisdiction will contact OCTA Local Programs and provide the LFS amount for return, per disbursement. For interest earned, documentation supporting the interest amount must also be included. These funds shall be returned for redistribution within the same source program.

Excess Right-of-Way

Local jurisdictions that use LFS funds to acquire project right-of-way (ROW) shall appropriately dispose of land deemed in excess of the proposed transportation use. The jurisdiction shall use any proceeds received from the sale of excess ROW for LFS eligible activities.

Advancement of Funds or Loans

Per Section 5 of the Ordinance, OCTA is authorized to bond against future M2 revenues. Use of LFS revenues for bonding (including debt service) shall be limited to 25 percent (25%) of the jurisdiction's annual LFS revenues unless the OCTA Board approves an exception to this percentage limitation policy on a case-by-case basis. Bonding or loans must clearly support work that is otherwise eligible for LFS funds. Before entering into any agreements to finance against future M2 revenues, local jurisdictions should consult

with the M2 PMO and obtain prior approval. Contact the PMO Manager, Francesca Ching, at fching@octa.net or (714) 560-5625.

There may also be limited opportunities to receive Board approval for advancements of LFS funds through OCTA for large transformative, regional projects. If you believe you have a project that might qualify for consideration, please contact the PMO Manager, Francesca Ching, at fching@octa.net or (714) 560-5625.

Interest Derived from Net Revenues

- Interest from any M2 competitive funding program and LFS must be held in separate accounts.
- Local M2 interest proceeds must be spent by the local jurisdiction on transportation activities consistent with LFS eligible transportation activities.
- All interest accumulated at the conclusion of M2 is to be expended within three years of the program sunset date (March 31, 2041) or consistent with a Board-approved extension request.

VI. Safeguards of Revenues

General Provisions from Attachment B, Section 10 of the Ordinance

- Receipt, maintenance, and expenditure of LFS funds, including interest, shall be distinguishable in each jurisdiction's accounting records from other funding sources, and expenditures shall be distinguishable by program.
- All entities receiving M2 funds must report annually on expenditures.
- LFS shall only be used by a jurisdiction for transportation purposes. If it is determined that the jurisdiction did not comply with this requirement, the jurisdiction would be required to pay the funding back and **would not be eligible to receive any M2 funding for a period of five years.**
- No supplanting of funds. No funds may be used to supplant developer funding which has been or will be committed for any transportation project.
- Every effort shall be made to maximize matching state and federal transportation dollars.

Reporting of LFS

For the purposes of reporting non-project work (maintenance, repair, and other non-project related costs) funded by LFS funds, the annual M2 Expenditure Report cited in Attachment B, Section III(A)(8) of the Ordinance shall satisfy reporting requirements. If LFS funds are used for CTFP projects, the local jurisdiction shall also include a list of those

funds and/or other M2 funds in the Final Project Report cited in Attachment B, Section III (A)(9) of the Ordinance.

Independent Audit Process Overview

Independent audits of a local jurisdiction's use of LFS in compliance with the Ordinance and LFS Guidelines may be initiated by OCTA's Internal Audit Department (or agent thereof).

Accurate records detailing specific expenditures of LFS funds must be maintained by local jurisdictions. These records must show that proper accounting and cash management procedures were followed, the use of funds was completed in accordance with the LFS Guidelines, and that all records and documentation related to LFS expenditures were adequately maintained. Consistent with the Ordinance, local jurisdictions must also establish a separate fund accounting system for LFS funds transactions and expenditures.

Local jurisdictions must maintain a complete set of records in accordance with generally accepted accounting principles, and with reasonable notice, shall permit the authorized representative(s) of OCTA to inspect and audit all work, materials, payroll, contracts, books, accounts, and other data for a period of five (5) years after expenditure of funds or five (5) years after final payment of debt service where LFS revenues were pledged, whichever is longer. OCTA has the right to reproduce any such books, records, and accounts. The provision with respect to audits should be extended to/and included in contracts with the local jurisdiction's contractor(s).

At a minimum, local jurisdictions are responsible for maintaining the records listed below.

Contracts

For all contract expenses the following records must be maintained:

1. The original executed contract
2. Contractor invoices and proof of payment

Materials and other

For all materials and other miscellaneous expenses funded through LFS, the following records must be maintained:

1. Original invoice (s) and/or purchase order and/or similar documents
2. Proof of payment

Direct labor

For all direct labor charged to a project that is funded through LFS, including engineering labor, the following records must be maintained:

1. Time sheets showing total time charged to the transportation project, service, or ongoing transportation-related work
2. Payroll reports

Equipment

Equipment rental charges related to a project shall be documented by the following records:

1. Vendor's or local agency's invoice
2. Confirmation of eligible transportation need for equipment

Additional information may be requested.