

Audit of Street and Utility In-Lieu Fees:

Transparency and Coordination Can Improve
the Administration of Fee Programs

A Report by the San José City Auditor
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- To finance capital and facility improvements relating to the site, developers may be required to:
 - construct a portion of a public improvement
 - pay an in-lieu fee to cover a portion of the costs of the improvement
- We reviewed in-lieu fees for:
 - Traffic impacts
 - Utility undergrounding
 - Traffic signals
 - Landscaped median islands
 - Street improvements
 - Storm collection system improvements

Exhibit 3: San José Requires Payment of TIFs in Four Areas

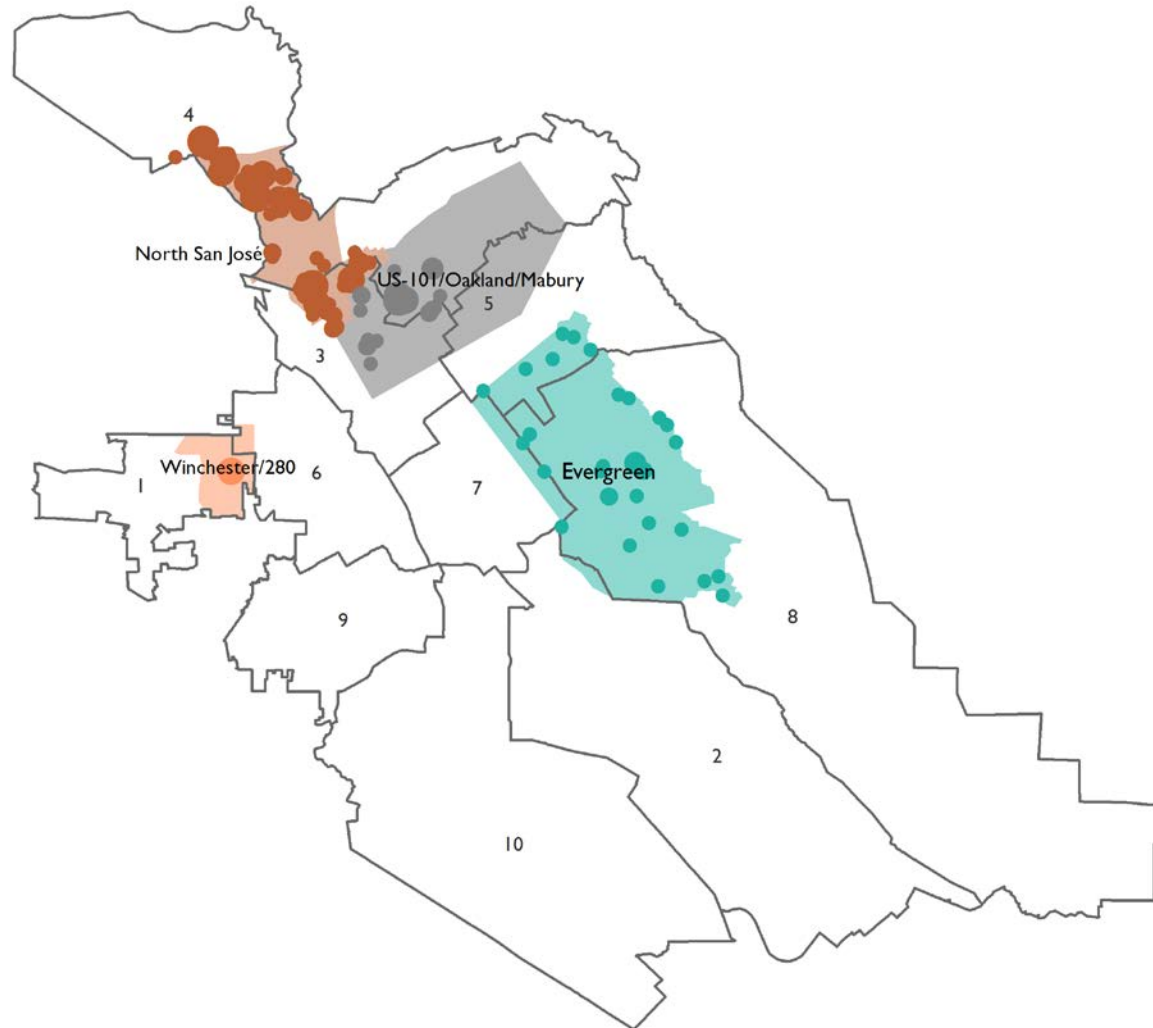


Exhibit 4: Locations of Projects Charged Utility Undergrounding In-Lieu Fees



Exhibit 5: Locations of Projects Charged Other Street-Related In-Lieu Fees

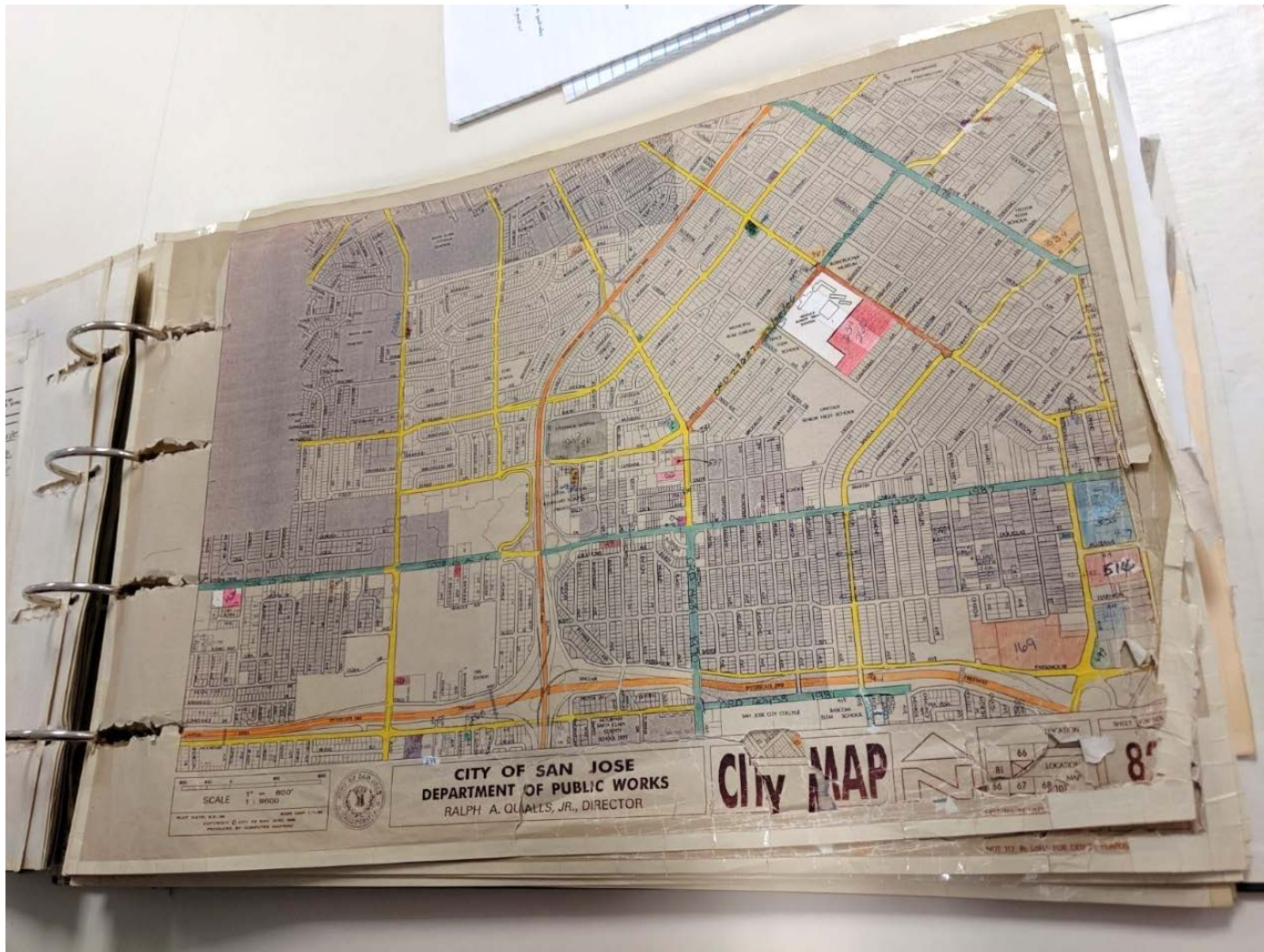


Finding I: Consistency and Transparency in Fee Calculation Can Be Improved

We found:

- Calculating in-lieu fees can be a complex process
- Lack of documentation limits staff's ability to use fee revenues and track program goals
- Better tools could improve utility undergrounding fee assessment process

Exhibit 11: Aged Binder Is Definitive Source of Undergrounding Fees Paid



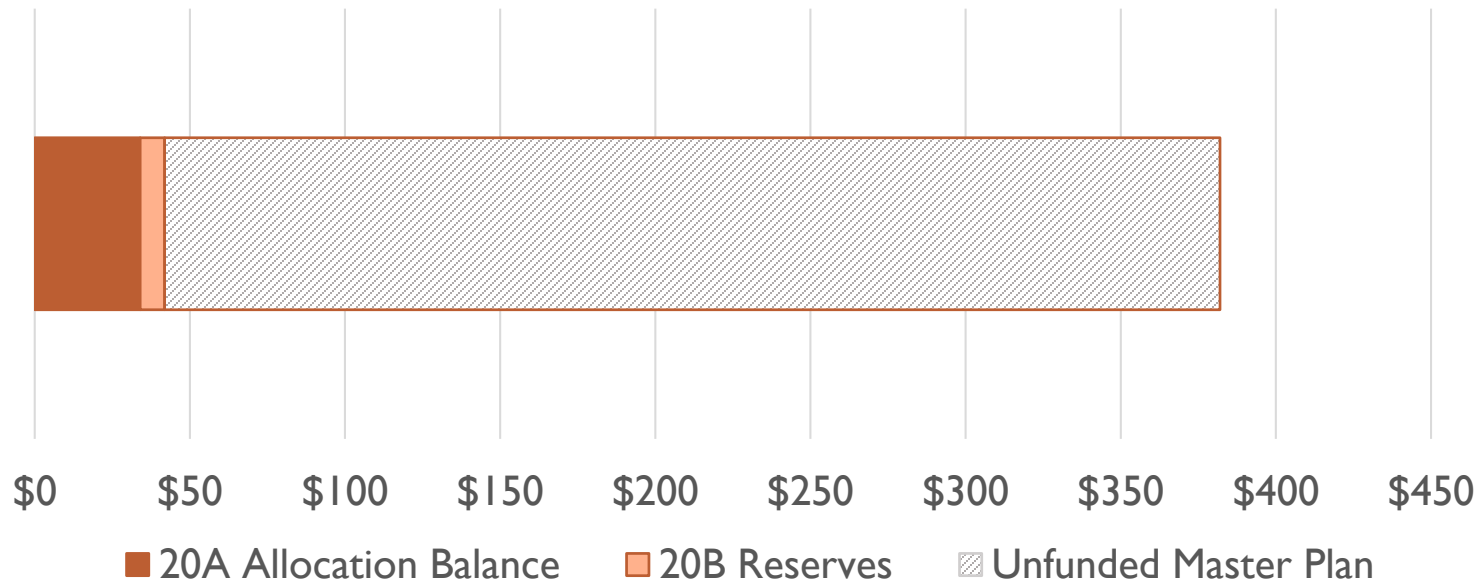
Finding 2: Improved Tracking and Coordination Would Enable Program Staff to Better Use In-Lieu Fee Revenue

We found:

- Some in-lieu fee revenues should have been spent on already-constructed improvements
 - We identified \$810,000 in unspent in-lieu fee revenues that relate to already-constructed improvements
- Improved coordination and reporting could help prevent problems from occurring again
- The Depositor Fund may have some in-lieu fee revenues

Finding 3: The City Should Clarify Expectations of the Utility Undergrounding In-Lieu Fee Program

Exhibit 15: The City's Undergrounding Master Plan Project Costs Total \$382 Million (\$millions)

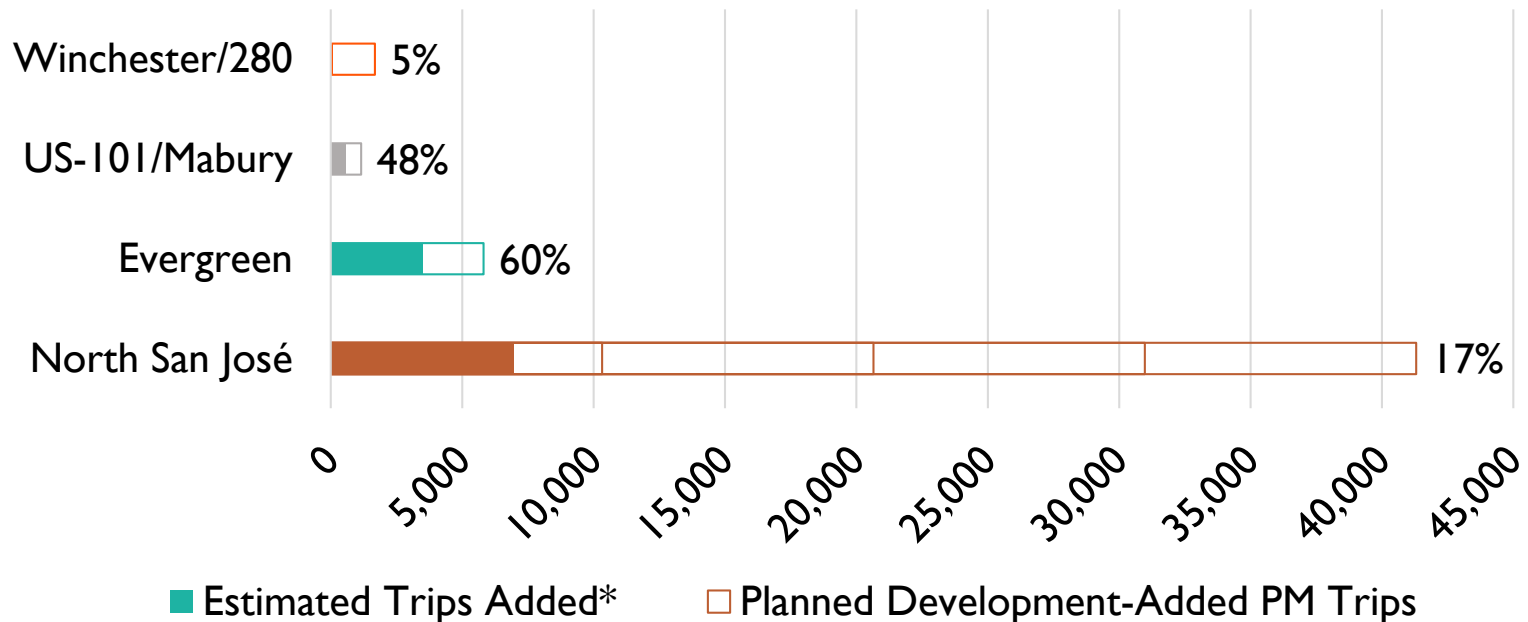


We found:

- Utility undergrounding fees are only charged when a parcel is developed (with increased intensity of use) and only cover half the cost of undergrounding the frontage
- Annual reports have unclear expectations on scope, timelines, and funding, making evaluation of success difficult
- Base utility undergrounding fee should be reviewed to ensure it compares to actual cost of undergrounding
- If the City wants to pursue utility undergrounding more aggressively, it will need to identify additional funding

Finding 4: The City Has Improved Management of Revenues for Traffic Impact Fee-Funded Areas, But TIF Funding Will Remain Slow

Exhibit 19: Most Policy Areas Have Not Yet Built Out



**Note that some developments with waived fees have not yet pulled building permits.*

We found:

- Incoming TIFs have been slow due to
 - the pace of development
 - trip credits
 - incentive programs
- Staff corrected reconciliation of additional revenues intended to supplement reduced fees
- Public Works and OED should improve coordination on the application of incentive programs
- Criteria for incentive waivers in the US-101/Oakland/Mabury area can be more transparent

Conclusion

- Our audit report includes a total of 8 recommendations to improve the collection, tracking, and use of street and utility in-lieu fees.
- We would like to thank the Public Works, DOT, PBCE, OED, the City Attorney's Office, and the Budget Office for their time and insight.

The audit report is available at: www.sanjoseca.gov/auditor