



Development Services Fund

Centralized Fund Management Will Better Capture Citywide Costs
Presentation to the Finance & Management Committee
October 8, 2024

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Background

The City of Oakland regulates new development in the City to ensure compliance with State Building Code, City amendments to the Building Code, and City planning codes.

The City permits development projects based on reviews of plans and inspections of the projects.



Background

- Applicants pay fees to cover the reasonable cost of the City's development services.
- The City's master fee schedule outlines specific development services administered by the City, and their corresponding fees and charges.
- State law restricts development service fees to cover only the reasonable cost of providing the service.

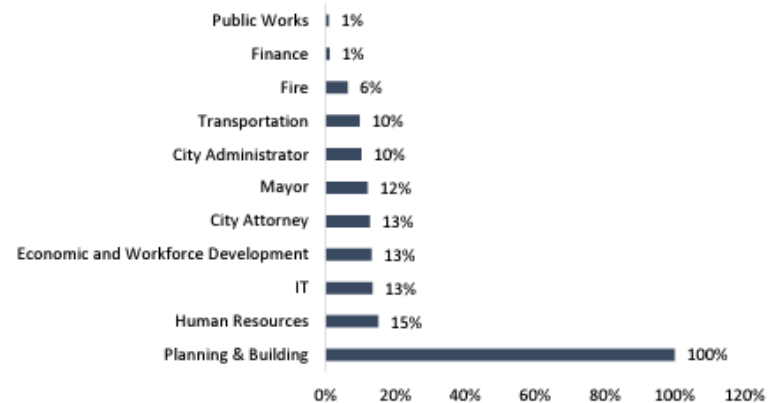
Background

- The Development Services Fund (or Fund 2415) collects money from development service fees.
- The Development Services Fund was created in 2006 to ensure revenues and expenditures followed state law.

Background

- Development fees pay for staff in 11 departments.
- The Budget Bureau and the City Attorney’s Office are responsible for interpreting which department functions may use the Fund based on restrictions within City ordinances, the Oakland Municipal Code, and State law.

Exhibit 2: The Development Services Fund Supports 100 Percent of Planning and Building Staff and Between 1 Percent and 15 Percent of 10 Other City Departments and Offices



Source: Auditor analysis of Position Control Reports as of January 2024.



Audit Objective

To identify reasons for the high year-end balances of the Development Services Fund.

Audit Scope

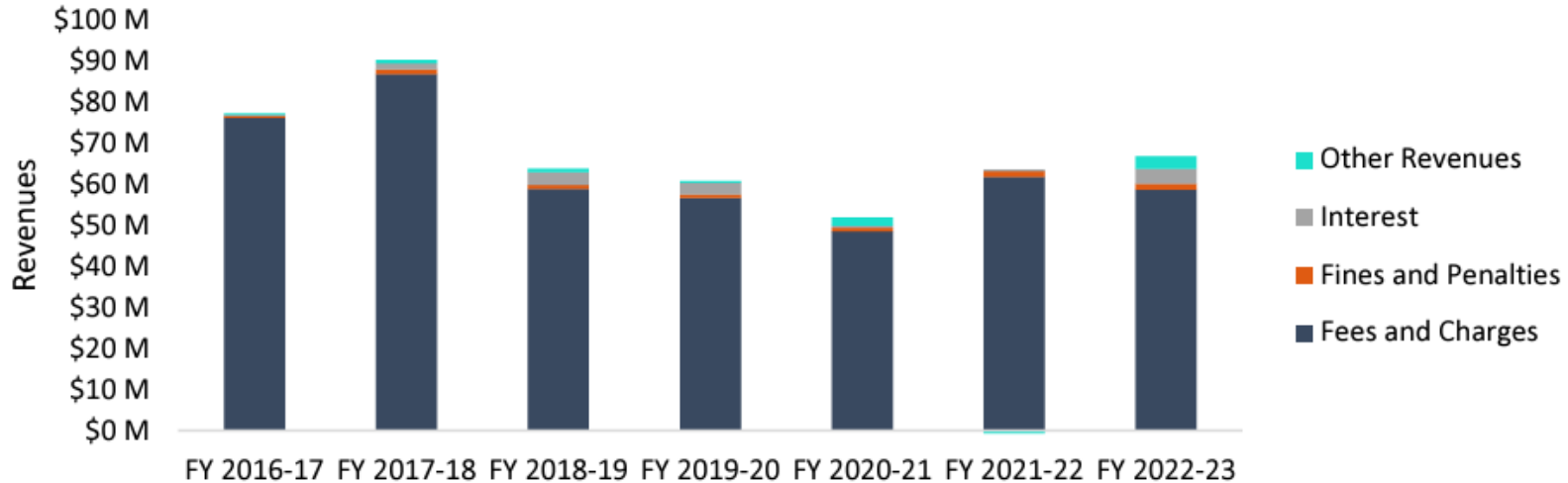
FY 2016-17 through FY 2022-23



FINDING 1

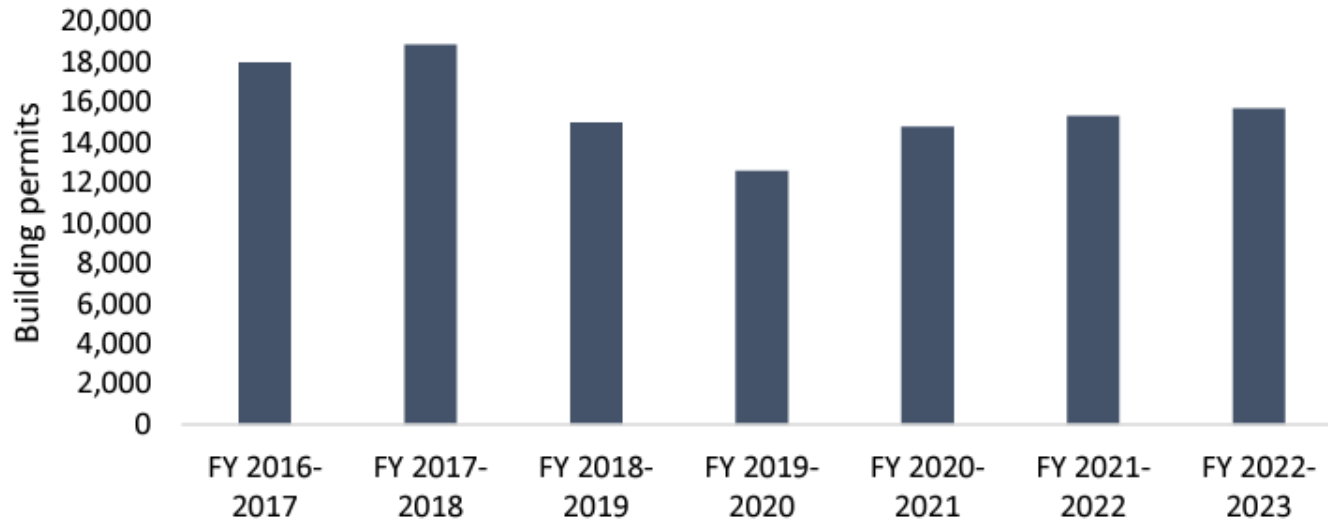
Centralizing Development Services Fund Management will Help Ensure it is Appropriately Recovering Costs

Exhibit 3: Development Services Fund Revenue Ranged Between \$66.7 Million and \$90 Million Over the Last Seven Fiscal Years with Almost All Revenues Coming from Development Fees and Charges



Source: Auditor analysis of Oracle, the City’s financial management system. Note: Chart only includes revenue categories that had positive revenue. The negative revenue consisted of a \$2 million unrealized market loss in FY 2021-22.

Exhibit 4: The Number of Building Permits Issued Fluctuates with Development Patterns



Source: Auditor analysis of data from Accela, the City’s development permitting system.

Exhibit 5: Development Service Expenditures Increased 129 Percent Over the Same Period

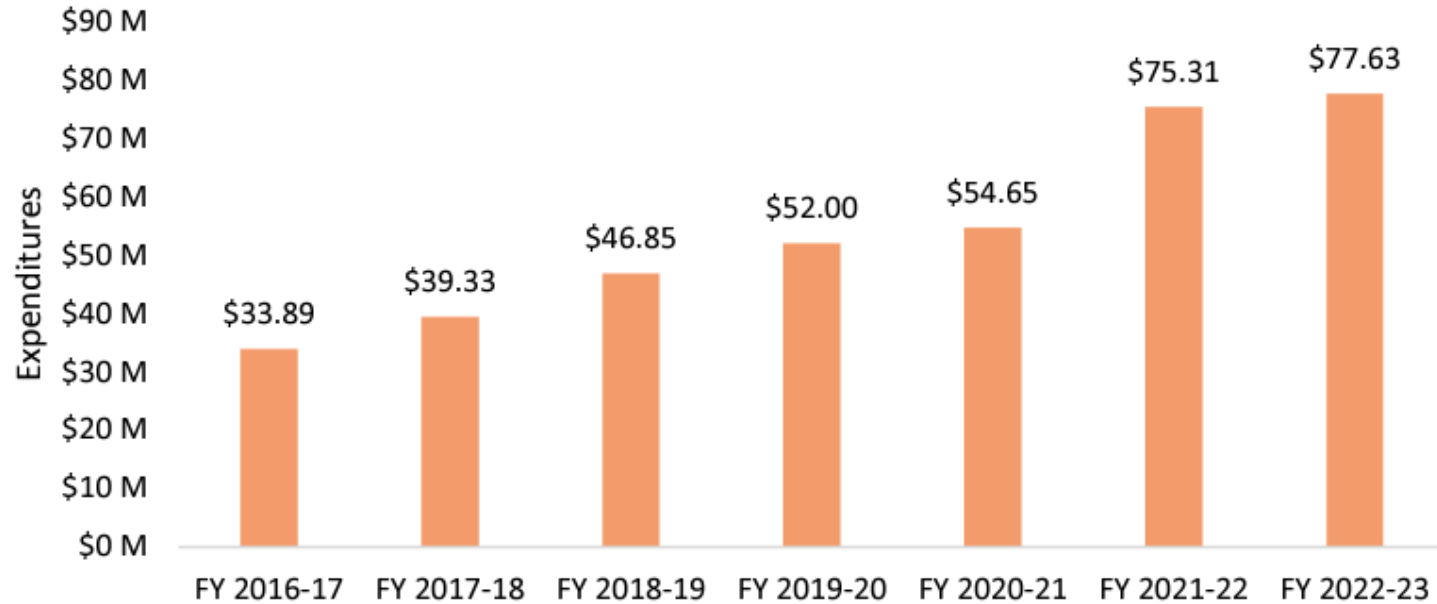
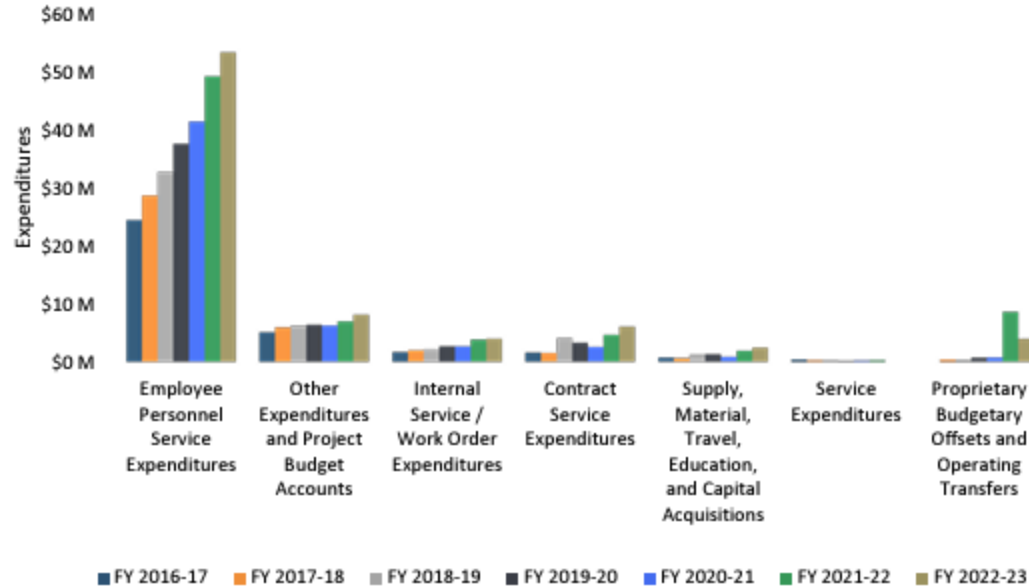


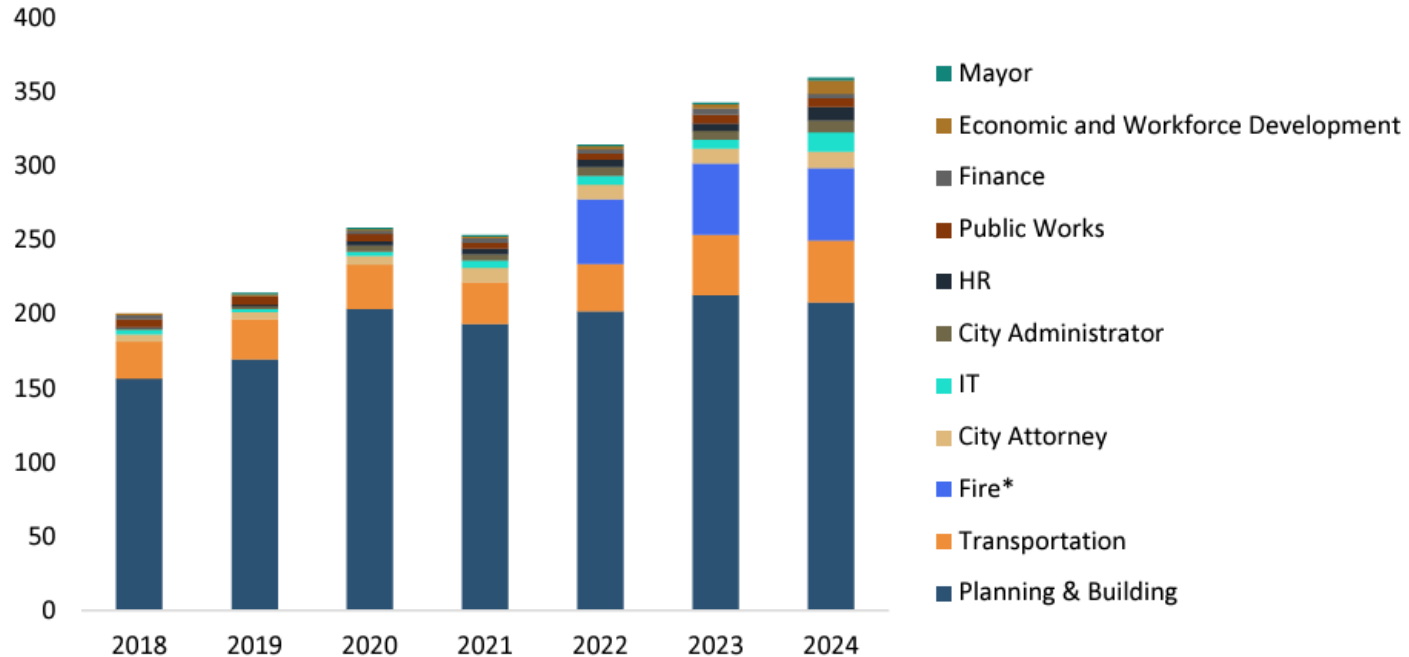
Exhibit 6: Most Development Service Expenditures Increased, With Most Expenditures Going Toward Employee Personnel Services



Source: Auditor analysis of Oracle, the City's financial management system.

Note: In FY 2017-18 and 2018-19, payments into the City's self-insurance fund (found in the proprietary budgetary offsets and operating transfers) cost around \$375,000. Then, in FY 2021-22, the self-insurance cost increased over a thousand percent to \$8.6 million. In FY 2022-23, it decreased to approximately \$4 million. According to staff, this increase was due to large legal claims against the Development Services Fund in FY 2019-20 and FY 2020-21, on top of insurance premiums increasing approximately 15 percent.

Exhibit 8: The Number of Budgeted City Staff Positions Allocated to Development Services Fund Grew 80 Percent Between 2018 and 2024



Source: Auditor analysis of Position Control Reports for January of each year. Note: Prior to 2021-22, Fire Prevention staff were funded by the General Purpose Fund. The chart does not include \$43,802 budgeted in 2022-23 to cover one-time funding for 20 percent of a senior performance auditor position.

Exhibit 9: Actual Expenditures Have Been Less than the Budgeted Expenditures

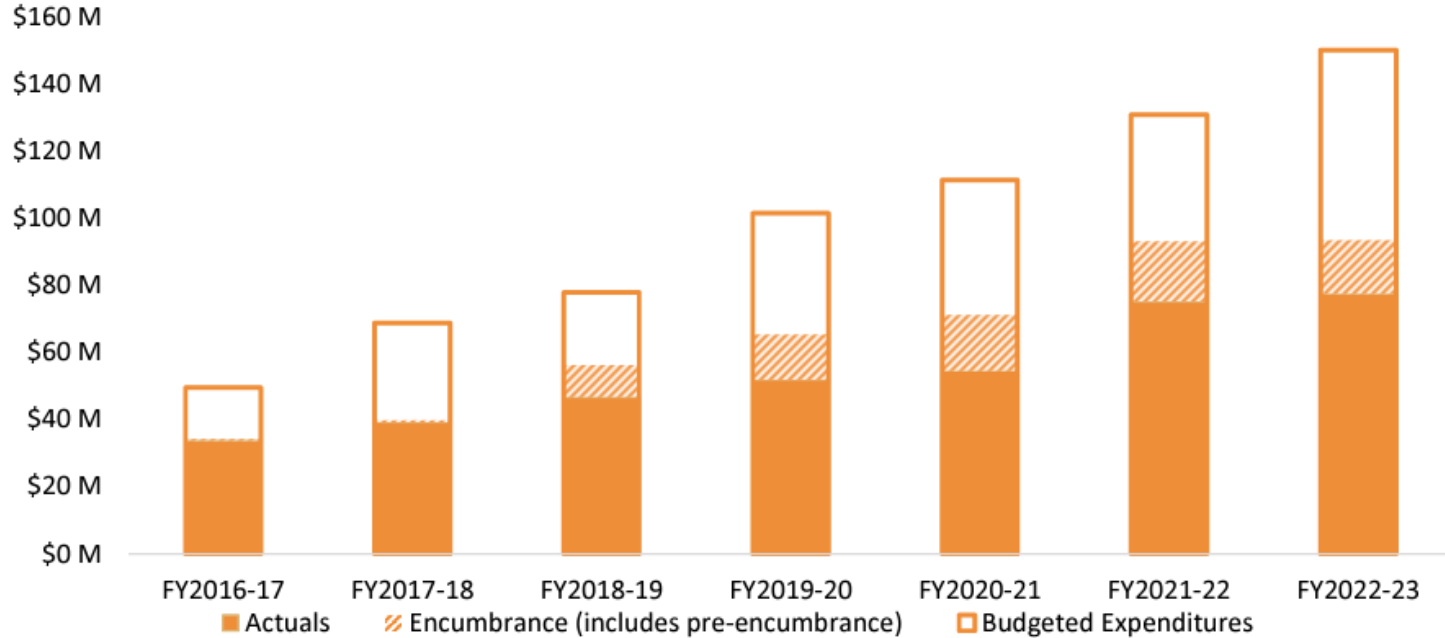
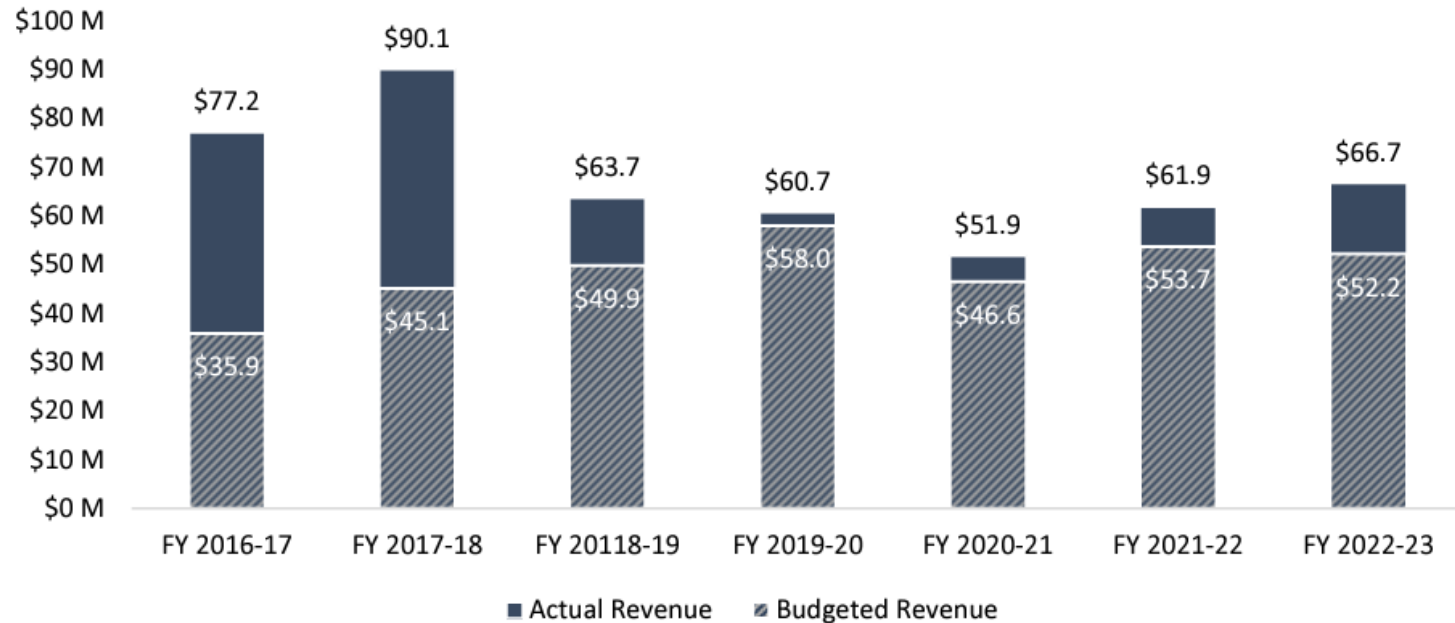
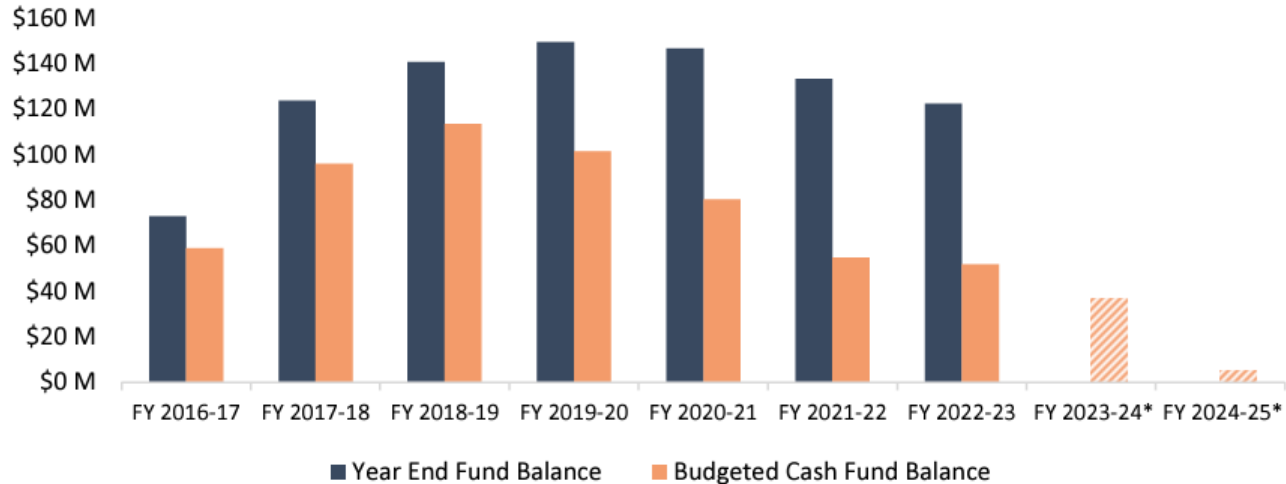


Exhibit 10: The City Took in More Money than Expected from FY 2016-17 through FY 2022-23, as Development Service Revenues Exceeded Budgeted Amounts



Source: Auditor analysis of Oracle, the City's financial management system. Note: The budgeted revenue excludes the transfers from designated and undesignated fund balances, which represent budgetary recognition of previous revenues rather than revenues anticipated in each fiscal year.

Exhibit 11: The Budgeted Cash Fund Balance Peaked at \$113 Million in FY 2018-19 and is Projected to Decrease to \$5.4 Million in FY 2024-25



* FY 2023-24 and FY 2024-25 are Budget Bureau projections representing the City’s anticipated fund balance less encumbrance and project carryforwards.

Source: Auditor analysis of Oracle, the City’s financial management system, and the FY 2022-23 Adopted Operating Budget. Note: The budgeted cash fund balance is an estimate and excludes encumbrances and project carryforwards, which represent anticipated expenditures in addition to other expenditures that were not spent in the previous fiscal year. The year end fund balance is the actual amount of money that remains in the fund at the end of the year.

The City is Working to Complete a Planning and Building Fee Study in 2024, With a Follow Up Study on Other Departments Within the Next Year

- Fee studies ensure fees are limited to the “estimated reasonable cost of providing a service” and appropriately recover costs.
- Best practice to conduct a fee study every two to five years.
- Governments should update fees periodically based on factors such as the impact of inflation, other cost increases (like cost-of-living adjustments), adequacy of cost recovery, and the use of services.



Recommendation 1

The City Administrator's Office should issue a policy to have periodic development service fee studies to cover all departments that contribute to and draw from the Development Services Fund to ensure the fees meet cost recovery goals and the expenses it covers are reasonably related.

Recommendation 2

The City Administrator should coordinate with the City Attorney to establish criteria for what types of staff may be funded by the Development Services Fund, review the appropriateness of using the Development Services Fund to pay for positions, and identify alternative funding sources for any positions that do not provide direct services for development permitting, or are disallowed under the ordinance establishing the Development Services Fund.

Questions?

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Photo: Greg Linhares, City of Oakland

**PERFORMANCE AUDIT OF THE DEVELOPMENT
SERVICES FUND: CENTRALIZED FUND
MANAGEMENT WILL BETTER CAPTURE
CITYWIDE COSTS**

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June 28, 2024