



City of Oakland

Assessment of Impact Fees

Results and Recommendations

SEPTEMBER 2020



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Report Overview

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Project Objectives

- Independent evaluation of the assessment, collection and use of Affordable Housing, Jobs/Housing, Transportation, and Capital Improvements Impact Fees.
- Period Covered:
 - Collections and Uses: July 1, 2016 through June 30, 2019
 - Building Permit Applications Submitted: September 1, 2016 through June 30, 2019
- Compliance Criteria: Oakland Municipal Code, Chapters 15.68, 15.72, and 15.74
- This evaluation was conducted between October 2019 and June 2020 in accordance with the Statements on Standards for Consulting Services issued by the American Institute of Certified Public Accountants (AICPA).

Executive Summary

- The City accurately assessed 99.5% of the 14,490 building records tested for impact fees, which were captured in Accela.¹
- 96.41% of the 14,490 building records were exempt from impact fees.
- The City accurately assessed \$50.9 million in impact fees, \$17.6 million of which was accurately collected and reported in Oracle.²
- The City did not correctly assess and record \$1.6 million, representing 115 of the 14,490 building records.

¹ Accela is the IT system used by the Planning and Building Department.

² Oracle is the City's financial reporting system.

Executive Summary

- There were 53 expired building projects that were not correctly assessed by the City, representing an additional \$1.3 million. In all 53 cases, either the permitting process or the project itself was not completed. If the permits are issued or reinstated, there will be an opportunity to assess impact fees on those respective projects.
- Process improvement recommendations were made related to systems and procedures. The City provided responses, which are included at the end of this report.

Methodology

- **Assessed accuracy of the City's Planning and Building System - Accela**
 - Identified building records that should have had impact fee assessments.
 - Determined the amount of impact fees that should have been assessed, collected and recorded by calculating impact fees for applicable records and comparing amount to data in Accela.
- **Assessed accuracy of revenue reporting for impact fees**
 - Reconciled impact fee collections recorded in Accela to the City's financial reporting system (Oracle).
- **Assessed accuracy of financial schedules**
 - Prepared updated financial schedules of revenue projected and collected, interest earned, funds encumbered and expended through the impact fee programs.
- **Assessed effectiveness of impact fee process**
 - Evaluated the risks associated with assessing, collecting, and utilizing impact fees through inquiries, observations and process mapping.

Disclaimer: The lists of records used to assess the City of Oakland's impact fee process were provided by City staff. The lists of records was generated from Accela and Oracle. MGO did not independently verify the completeness of the lists.

City of Oakland Impact Fee Assessment

Results and Recommendations

- Evaluation Results of the Assessment of Impact Fees
- Evaluation Results of Revenue Recorded in Oracle
- Process Improvement Recommendations



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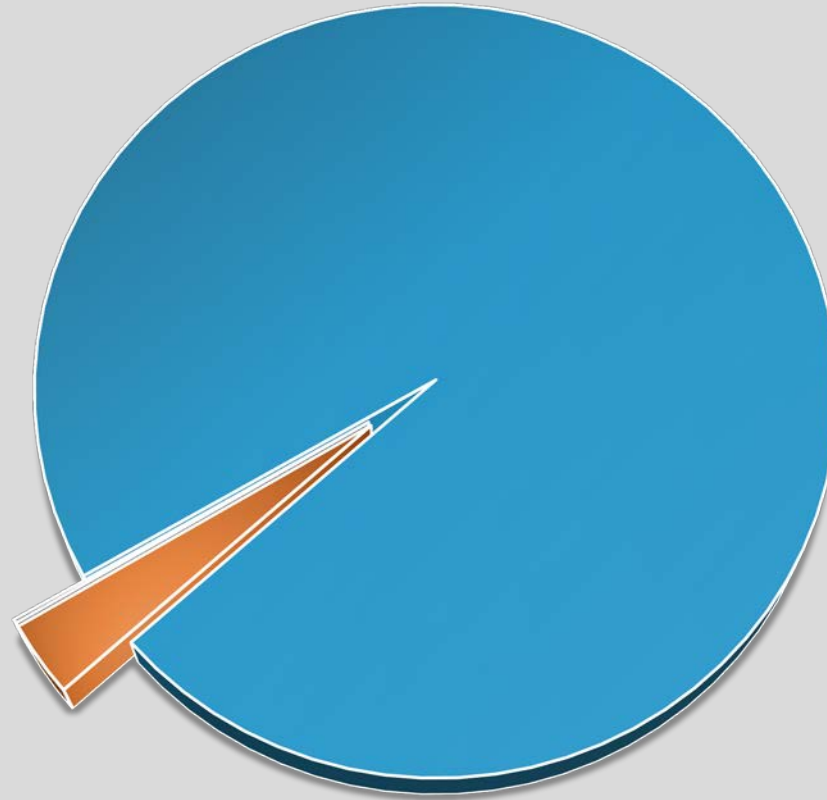
Evaluation Results of the Assessment of Impact Fees

Population: 14,490 Building Records Reviewed

Properly Assessed

96.41% **Not Applicable**
13,970 building records reviewed were exempt and not subject to impact fees.

3.10% **Applicable**
449 building records reviewed had impact fees properly assessed.



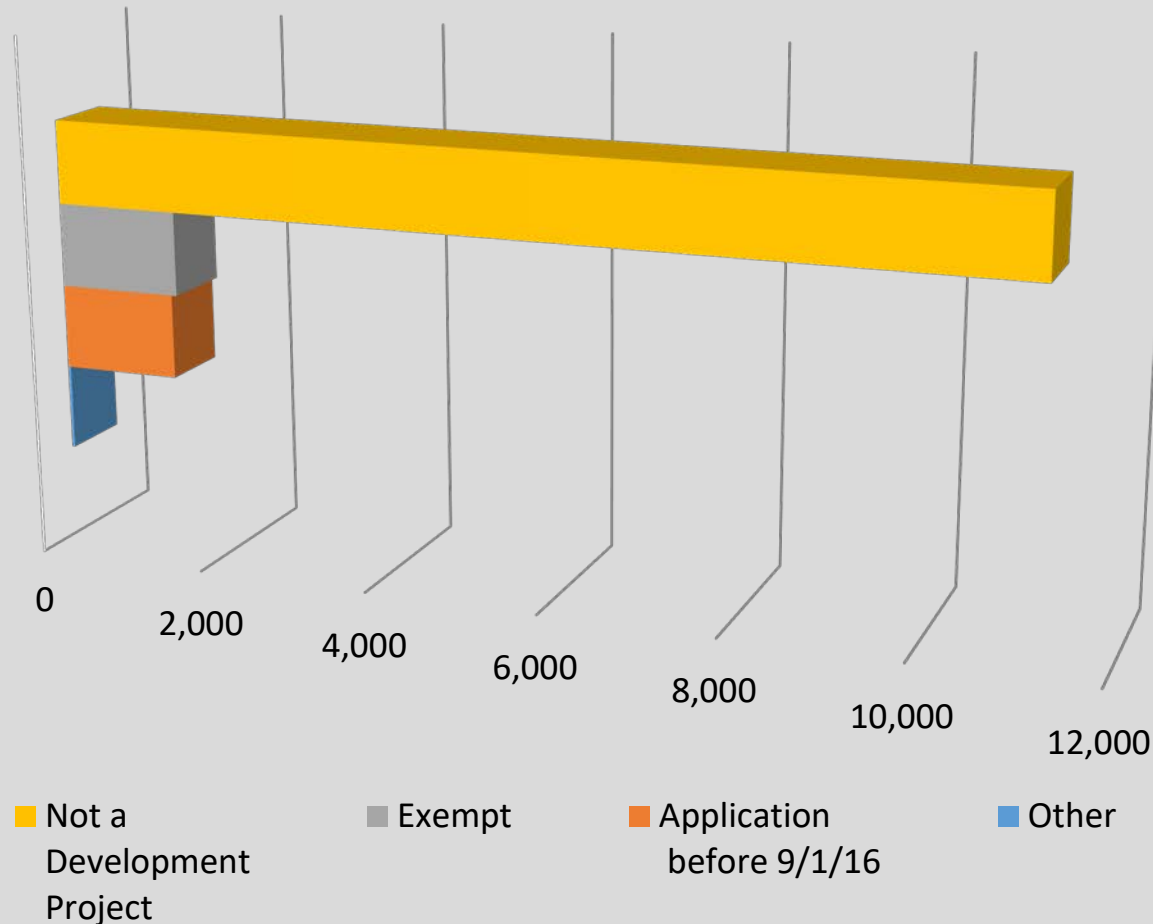
Not Properly Assessed

0.16% **Applicable - No Impact Fees Assessed**
23 building records reviewed were subject to impact fees, however impact fees were not assessed.

0.33% **Not Applicable - Improperly Assessed**
48 building records reviewed were not subject to impact fees, however impact fees were assessed.

Evaluation Results of the Assessment of Impact Fees

Impact Fees Not Applicable



POPULATION

Not Applicable

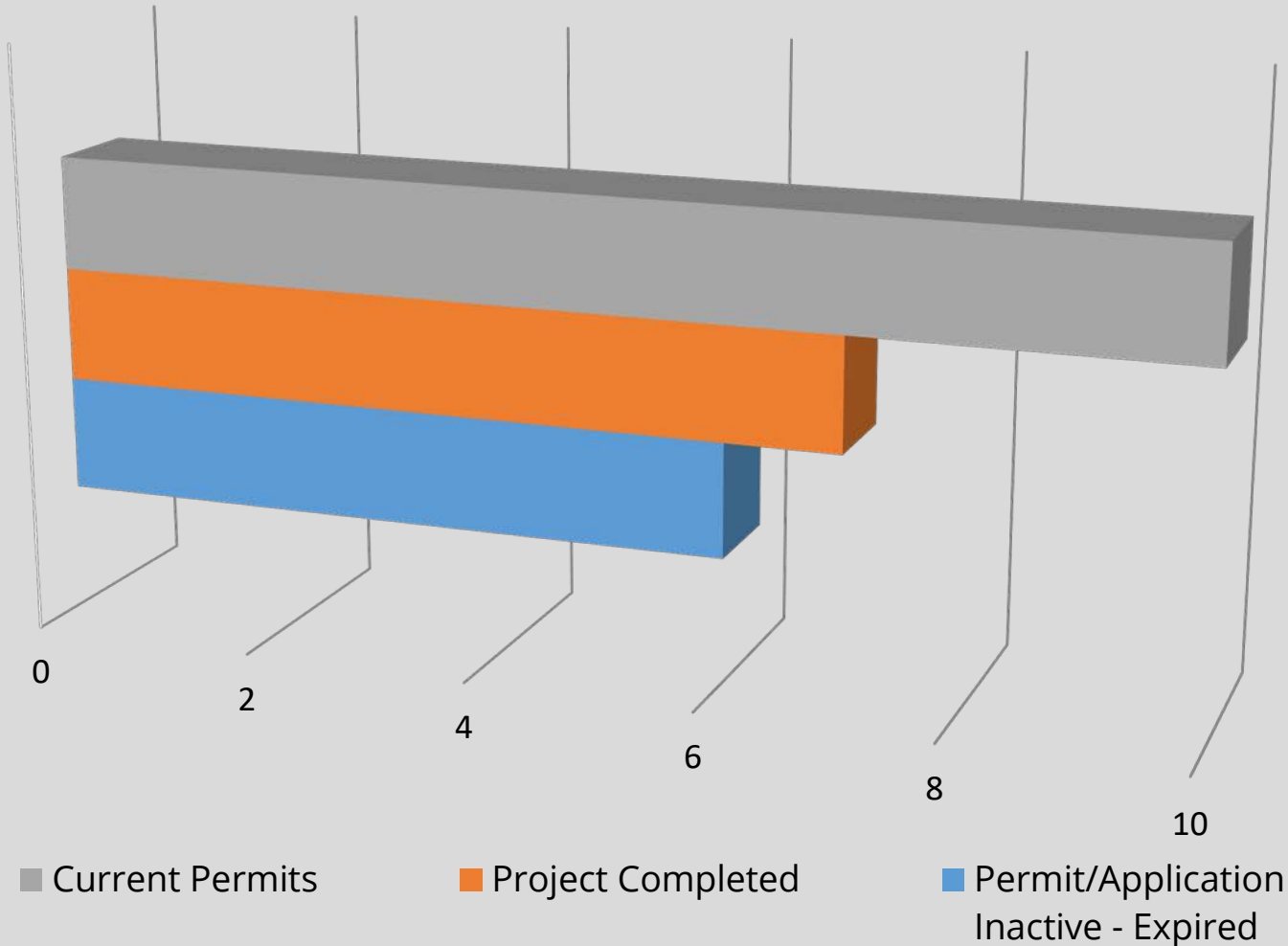
13,970 building records were not subject to impact fee assessment. Records identified primarily represent projects that are not related to development criteria, were exempt, or applications submitted prior to assessment effective date.

Legend:

- Not a development project – in accordance with Oakland Municipal Codes 15.72.040 or 15.74.040, these are projects that did not result in (1) new construction to a new or existing building, (2) change and Intensification of use of an existing building, or (3) additional housing units in a new or existing building.
- Exempt – these projects qualified for an exemption listed in accordance with Oakland Municipal Codes 15.72.040 (C) or 15.74.040 (C).

Evaluation Results of the Assessment of Impact Fees

Impact Fees Applicable - Not Assessed



POPULATION

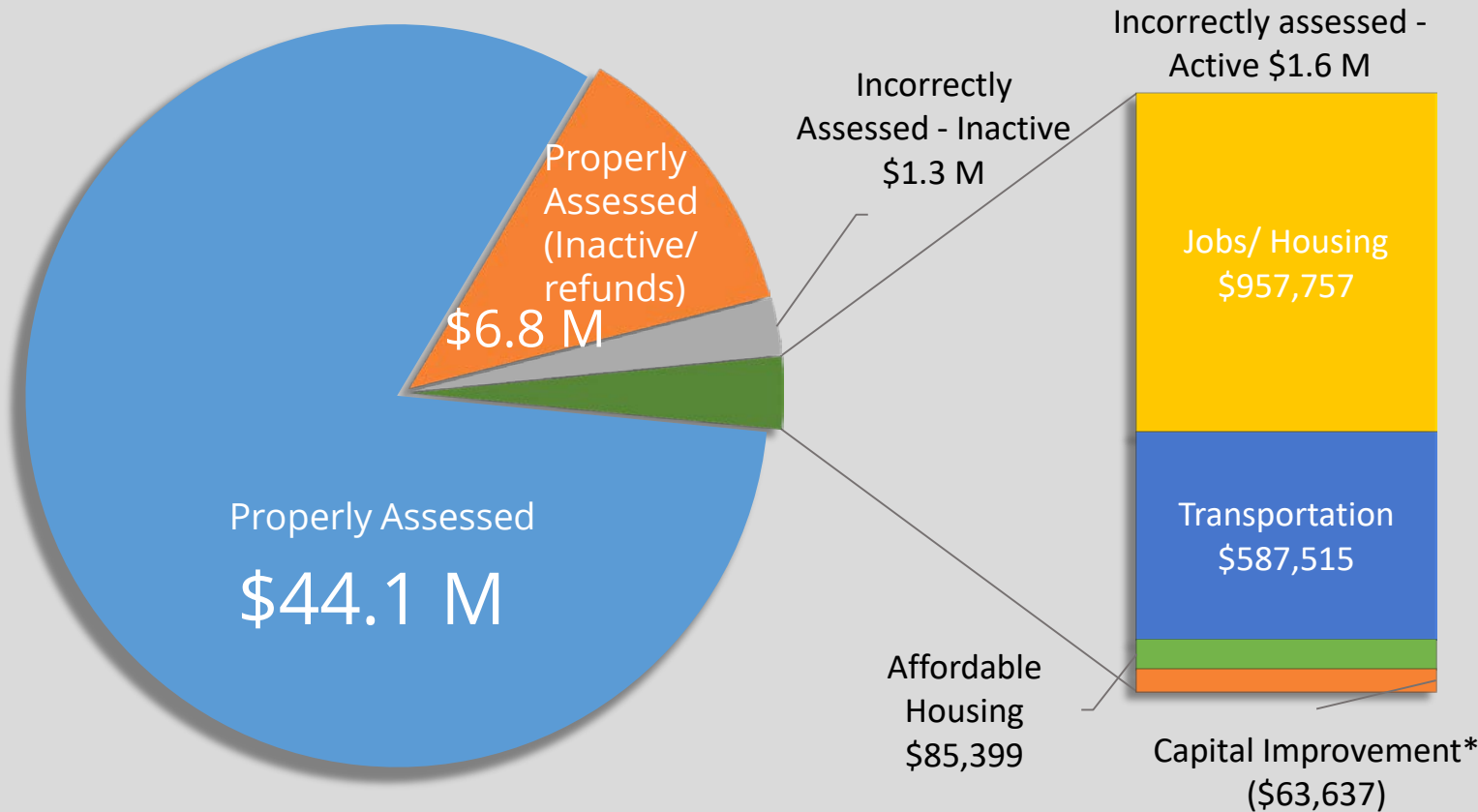
Applicable - Not Assessed

23 building records were subject to impact fee assessment but were not assessed.

- 10 records (\$60,618.75) represent active permits.
- 7 records (\$22,965.00) represent completed projects that are not collectible.
- 6 records represent inactive/ expired permits and applications. Collection is dependent on project renewal.

Evaluation Results of the Assessment of Impact Fees

Calculation of Impact Fees



POPULATION

\$50.9 M Correctly Assessed

- \$44.1 million: Correctly assessed active or completed permits.
- \$6.8 million: Projects were properly assessed but due to inactivity, the permits have expired.

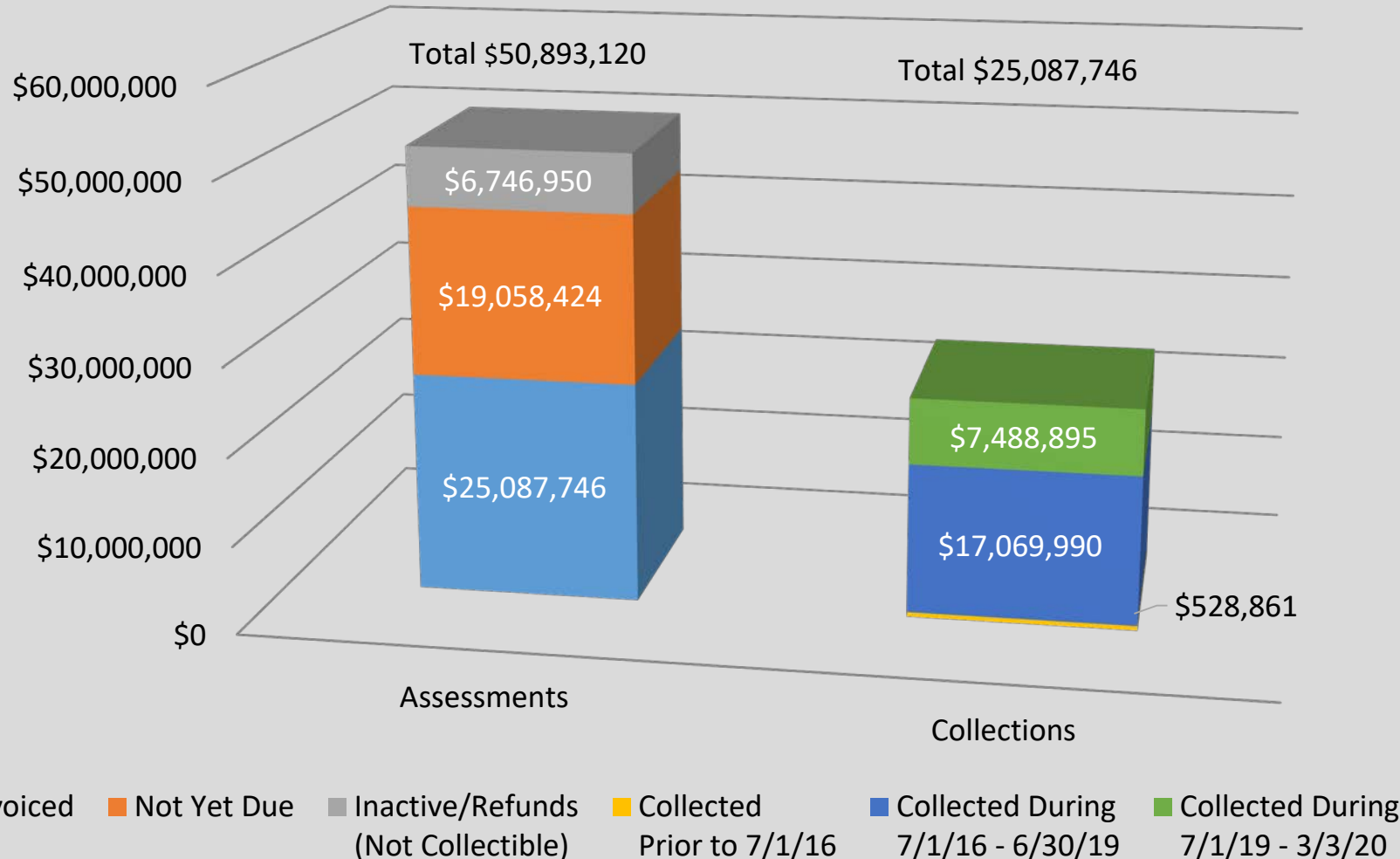
\$2.9 M Incorrectly Assessed

- \$1.6 million, representing building records for 111 active and 4 completed projects that were not assessed correctly.
- \$1.3 million, representing 53 building records that are projects with applications or permits that are inactive, expired or withdrawn. Collection is dependent on project renewal.

* Capital Improvement negative due to overassessment.

Evaluation Results of the Assessment of Impact Fees

Assessments | Invoicing | Collections



POPULATION

Assessments, Invoicing and Collections

Impact fees go through three steps: assessment, invoicing and collections (i.e. payment). In order for impact fees to be paid by the builder, they must be assessed and invoiced in Accela.

- **Not Yet Due:** These are building records with impact fees that have been assessed but not invoiced because 1) the permit is not ready to issue, 2) the final installment of Affordable Housing Impact Fee is not due, or 3) the 2nd and/or 3rd installment of Jobs/Housing Impact Fee are not due.
- **Inactive/Refunds (Not Collectible Unless Project is Active):** These are building records assessed impact fees but the application or permit is inactive. Collection is dependent on project renewal.

Evaluation Results of the Assessment of Impact Fees

OBSERVATIONS:

Calculation elements used in the assessment of impact fees

MGO's independent evaluation included recalculation of impact fees to determine the accuracy of the original assessment made by the City. As a result, MGO noted errors and inconsistencies in the data elements used to calculate the impact fees. Below is a summary of these errors and inconsistencies:

- Ground floor retail or commercial square footage for mixed use developments less than 5,000 square feet were not considered in the assessment calculation.
- The zone for residential development projects was not properly applied in the calculation of impact fees.
- The number of additional housing units used in the calculation was not accurate for 12 building records.

Evaluation Results of the Assessment of Impact Fees

OBSERVATIONS:

Calculation elements used in the assessment of impact fees

MGO's independent evaluation included recalculation of impact fees to determine the accuracy of the original assessment made by the City. As a result, MGO noted errors and inconsistencies in the data elements used to calculate the impact fees. Below is a summary of these errors and inconsistencies:

- 25,000 square feet was not subtracted as required from total building square feet when calculating the Jobs/Housing Impact Fee for three of 11 building records.
- Affordable housing units were not subtracted from the total additional housing units when calculating the Capital Improvement Impact Fee for three of 19 building records.

Evaluation Results of the Assessment of Impact Fees

OBSERVATIONS:

Current assessment process

MGO evaluated the process of assessing impact fees and identified the following observations, which increase the risk of errors in accurately assessing impact fees:

1. The determination of impact fee applicability requires specialized knowledge and experience. City staff were not adequately trained, and the process was not documented in a comprehensive operational manual for staff's reference.
2. The calculation of impact fees is currently a manual process, which is complex and burdensome.
3. Critical data elements needed to properly calculate impact fees were not consistently captured and/or documented/retained in Accela.

Evaluation Results of the Assessment of Impact Fees

OBSERVATIONS:

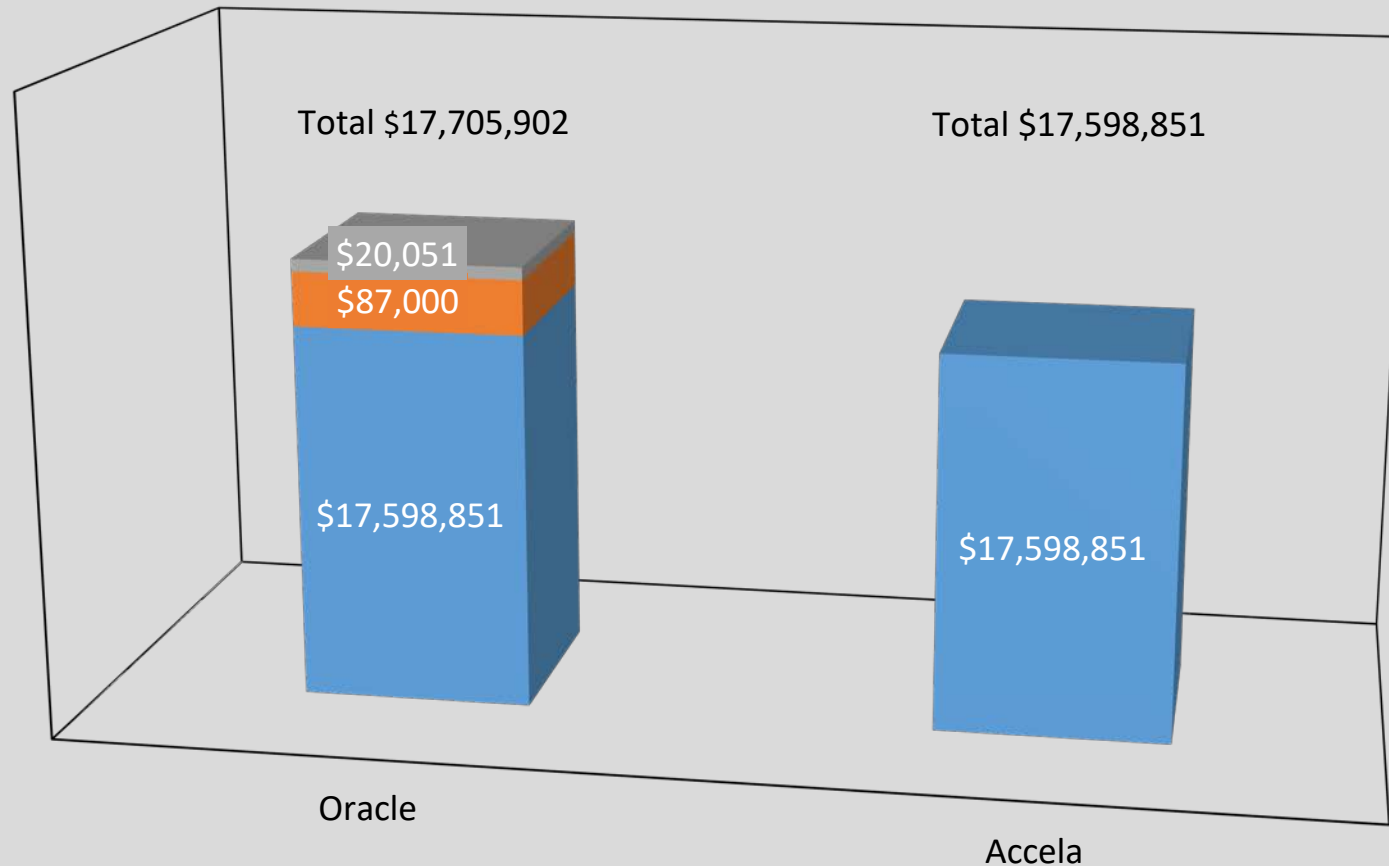
Current assessment process (cont.)

Impact fees in Accela:

1. Critical information fields are not required and can be left blank.
2. Each impact fee activity requires manual selection for fee assessment in the system.
3. There are no system triggers or prompts to remind staff to assess impact fees.
4. There are no system fields to indicate review of impact fees assessed.
5. Impact fees can be voided or credited without explanations and approvals documented in the system.
6. There are multiple date fields in Accela that are similar but return different results in reporting, which could cause data inconsistencies between reports.

Evaluation Results of Revenue Recorded in Oracle

Revenue Compared to Collections



FINANCIAL REPORTING

Revenue Recognition

Revenues are recognized based on cash collections.

During the period of July, 1, 2016 through June 30, 2019, the City collected and recorded \$17.6 million in assessed impact fees.

Revenue for \$87,000 was moved to its correct fund in fiscal year 2020.

An additional amount of \$20,051 was reported as revenue in Oracle without an associated collection record in Accela.

Process Improvement Recommendations

Based on observations and evaluation of the impact fee assessment process, MGO recommends the following:

System Changes/Upgrades to Accela

- Requiring critical data fields to be completed.
- Adding fields to document supervisory review of impact fees.
- Adding system prompts to notify staff when to invoice for the final Affordable Housing Impact Fees and Jobs/Housing 2nd and 3rd installments.
- Adding fields requiring documentation for voided and credited fees. Develop system reports to identify these items for management review and approval.

Process Improvement Recommendations

Process Changes

1. Develop and implement written policies and procedures for the impact fee assessment process, including procedures for preparation of the annual report, and supervisory review.
2. Implement a supervisory review process of the impact fee assessment fields to ensure completeness and accuracy.
3. Develop and implement a desktop manual with detailed steps on entering and updating information in Accela, including all required fields, calculating impact fees, and required documentation for voided/credited fees.
4. Provide training to staff to communicate process changes and documentation requirements.
5. Review building records with applications submitted after 6/30/19 to ensure impact fees were properly and accurately assessed.

City of Oakland Impact Fee Assessment

City's Responses to Recommendations



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City's Responses to Recommendations

Overall City Response:

After reviewing the MGO evaluation, the City was able to make reassessments in all but 11 cases where the projects were completed, resulting in a non-collectable amount of \$32,675. The City has reviewed and adopted the recommendations that were made by MGO.

Recommendation: The determination of impact fee applicability requires specialized knowledge and experience. City staff were not adequately trained and the process was not documented in a comprehensive operational manual for staff's reference.

City's Response: Extensive training was provided in the 1st quarter of FY 2020. An Impact Fee digital SOP is available now for all staff for reference. A new Accela update is scheduled to go live on August 17, 2020. PBD subject matter experts will develop a new comprehensive SOP that will incorporate the new Accela updates. In addition to training sessions that will accompany any changes in the process, there will be annual training sessions for all PBD staff that are involved in the Impact Fees process.

City's Responses to Recommendations

Recommendation: The calculation of impact fees is currently a manual process, which is complex and burdensome.

City's Response: An Accela update that will go live on August 17, 2020 will automate this process, which will address this issue.

Recommendation: Critical data elements needed to properly calculate impact fees were not consistently captured and/or documented/retained in Accela.

City's Response: An Accela update that will go live on August 17, 2020, in addition to an update that was implemented in November 2019, will automate the calculation and correctly capture the information related to impact fees.

City's Responses to Recommendations

Recommendation: Critical information fields are not required and can be left blank.

City's Response: An Accela update that will go live on August 17, 2020 will require all relevant fields are filled before moving forward.

Recommendation: Each impact fee activity requires manual selection for fee assessment in the system.

City's Response: An Accela update that will go live on August 17, 2020 will automate the impact fee activity.

Recommendation: There are no system triggers or prompts to remind staff to assess impact fees.

City's Response: An Accela update that will go live on August 17, 2020 will automatically assess the impact fees.

City's Responses to Recommendations

Recommendation: There are no system fields to indicate review of impact fees assessed.

City's Response: Semi-annual reviews of staff assessments shall be conducted and noted in Accela.

Recommendation: Impact fees can be voided or credited without explanations and approvals documented in the system.

City's Response: An adjustment was made to the system in October 2019 that requires an explanation to be entered.

Recommendation: There are multiple date fields in Accela that are similar but return different results in reporting, which could cause data inconsistencies between reports.

City's Response: An adjustment is being made to the system that will distinguish data entries and a report request form is being developed to identify the purpose and need of the form.

City's Responses to Recommendations

Recommendation: An additional amount of \$20,051 was reported as revenue in Oracle without an associated collection record in Accela.

City's Response: PBD staff are working to identify the source of an additional amount of \$20,051 that was reported as revenue in Oracle without an associated collection record in Accela.

Recommendation: System Changes/Upgrades to Accela.

City's Response: The system changes/upgrades to Accela recommended are being adopted.

Recommendation: Develop and implement written policies and procedures for the impact fee assessment process, including procedures for preparation of the annual report, and supervisory review.

City's Response: PBD's subject matter experts have started meeting in July 2020 to develop a comprehensive updated SOP and to develop policies and procedures that include procedures for the preparation of the annual report.

City's Responses to Recommendations

Recommendation: Implement a supervisory review process of the impact fee assessment fields to ensure completeness and accuracy.

City's Response: Accela will add a supervisory review field that is scheduled to go live on August 17, 2020.

Recommendation: Develop and implement a desktop manual with detailed steps on entering and updating information in Accela, including all required fields, calculating impact fees, and required documentation for voided/credited fees.

City's Response: PBD's subject matter experts will create a detailed manual that will take into account the process improvements that will take place when the Accela update that is scheduled to go live on August 17, 2020 is implemented. In addition to training sessions that will accompany any future changes in the process, there will be an annual training sessions for all PBD staff members that are involved in the Impact Fees process.

City's Responses to Recommendations

Recommendation: Provide training to staff to communicate process changes and documentation requirements.

City's Response: Staff has received extensive training on the impact fee process in October 2019. Process change communication and training related to the changes will be part of PBD's process.

Recommendation: Review building records with applications submitted after 6/30/19 to ensure impact fees were properly and accurately assessed.

City's Response: PBD will institute a semi-annual review process of all records moving forward.

City of Oakland Impact Fee Assessment

Appendices

Separate attachments:

- Updated annual impact fee schedules
- Process maps for impact fee processes as of 6/30/2019
- Listing of all residential and mixed-use projects issued building permits during the assessment period



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