



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

March 14, 2016

The Honorable City Council
Palo Alto, California

Policy and Services Committee Recommendation to Accept the Audit of Parking Funds

The Office of the City Auditor recommends acceptance of the Audit of Parking Funds. At its meeting on December 15, 2015, the Policy and Services Committee approved and unanimously recommended that the City Council accept the report. The Policy and Services Committee minutes are included in this packet.

Respectfully submitted,

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: Audit of Parking Funds (PDF)
- Attachment B: Policy and Services Committee Meeting Minutes Excerpt (December 15, 2015) (PDF)

Department Head: Harriet Richardson, City Auditor



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

December 15, 2015

The Honorable City Council
Attention: Policy & Services Committee
Palo Alto, California

Audit of Parking Funds

In accordance with the Fiscal Year 2015 Annual Audit Work Plan, the Office of the City Auditor has completed the Audit of Parking Funds. The audit report presents two findings with a total of eight recommendations. The Office of the City Auditor recommends that the Policy and Services Committee review and recommend to the City Council acceptance of the Audit of Parking Funds.

We would like to thank management and staff in the Planning, Community, and Environment Department; Administrative Services Department, Public Works Department; Police Department; and Community Services Department for their time, cooperation, and assistance during the audit process.

Respectfully submitted,

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: Audit of Parking Funds (PDF)

Department Head: Harriet Richardson, City Auditor



Audit of Parking Funds

December 2015



Office of the City Auditor

Harriet Richardson, City Auditor

Yuki Matsuura, Senior Performance Auditor

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Office of the City Auditor

EXECUTIVE SUMMARY: Audit of Parking Funds

Purpose of the Audit:

The purpose of the audit was to determine if the City's parking in-lieu and parking permit fees are collected, accounted for, and used in accordance with applicable laws, regulations, policies, and governing documents.

REPORT HIGHLIGHTS

Finding 1: The City does not have policies and procedures to ensure that it accurately calculates and assesses parking in-lieu fees and tracks expenditures related to construction of public parking spaces. (Page 7)

Summary:

The City potentially overcharged parking in-lieu fees on four development projects due to a combination of decentralized processes and clerical errors, including not recalculating the fee until almost four years after garage construction was complete. These overcharges totaled \$272,576. On another project, the City did not collect \$182,250 for three parking spaces that one applicant was required to pay based on its settlement agreement with the City. The table below summarizes the overcharges and undercharges. Garage construction costs that were paid with fees transferred from the Parking In-lieu Fund were also drawn down from the bond proceeds, which left some of the proceeds unused.

Recommendations:

- ASD defease and reduce the bond debt by the \$1,790,295 that was inadvertently drawn down from the garage bond proceeds and the \$240,402 of double-counted garage expenditures.
- PCE work with the City Attorney's Office to initiate refunds for the four overpaid development projects, and bill for the underpayment for the project at 180 Hamilton Avenue.
- PCE, ASD, and Public Works coordinate with each other and the City Attorney's Office to revise the Municipal Code to clarify how to calculate and adjust the parking in-lieu fee, when to collect the fee and the rates to be used, and reporting requirements.
- After updating the Municipal Code, PCE, ASD, and Public Works work together to develop written policies and procedures, and communicate and train staff on the policies and procedures.

Parking In-Lieu Fee Payments Since FY 2012 and Auditor's Recalculation

Project Address	Number of Spaces	Per Space Parking In-Lieu Fee		Total Amount		Potential (Overcharge)/ Undercharge
		Charged	Auditor's Recalculation	Paid	Auditor's Recalculation	
564 University Ave.	8	\$67,100	\$59,158	\$536,800	\$473,264	(\$63,536)
101 Lytton Ave.	22	\$67,100	\$60,460	\$1,476,200	\$1,330,120	(\$146,080)
135 Hamilton Ave.	16	\$60,750	\$60,460	\$972,000	\$967,360	(\$4,640)
240 Hamilton Ave.	8	\$67,750	\$60,460	\$542,000	\$483,680	(\$58,320)
180 Hamilton Ave.	8	\$60,750	\$60,750	\$303,750	\$486,000	\$182,250

Source: PCE records and auditor's analysis

Finding 2: Combining College Terrace RPP and Crescent Park NOP parking permit revenues and not fully tracking and analyzing financial and performance data reduced the ability to make informed decisions. (Page 14)

Summary:

Departments involved in College Terrace RPP fund activities have had little guidance, and their processes evolved over time without sufficient documentation or coordination. As a result, program revenues and expenditures were not tracked and reported accurately, completely, and consistently to allow systematic evaluation of the funds' financial performance over time.

Recommendations:

- PCE and ASD work together to establish supplemental policies and procedures.
- PCE identify financial and performance data required for effective program evaluation, and work with ASD and Police to establish data tracking and monitoring procedures and assignment. This should also occur prior to implementing each new program.

Council designated the permit fees as cost recovery fees for the College Terrace RPP Program, but not for the Crescent Park NOP Program. However, the revenues for both programs were recorded in the College Terrace RPP Program Fund, and the expenditures were not sufficiently tracked to know the actual costs of administering the programs. Having inaccurate or incomplete financial information limits the Council's ability to evaluate program performance and make an informed decision regarding permit fees.

- PCE improve the reliability and usefulness of its annual report to the City Council on the parking programs

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Copies of the full report are available on the Office of the City Auditor website at:

<http://www.cityofpaloalto.org/gov/depts.aud/reports/performance.asp>

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ABBREVIATIONS

ASD	Administrative Services Department
BID	Business Improvement District
CD	Commercial District
CIP	Capital Improvement Program
FY	Fiscal Year
NOP	No Overnight Parking
OMB	Office of Management and Budget Division
PCE	Planning and Community Environment
RPP	Residential Parking Permit

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INTRODUCTION

Objective

The purpose of this audit was to determine if the City's parking in-lieu and parking permit fees are collected, accounted for, and used in accordance with applicable laws, regulations, policies, and governing documents.

Background

The City has several parking activities that are the focus of this audit:

- Parking in-lieu – fees collected for required parking spaces that development projects do not provide; funds are used to fund future construction of public parking spaces.
- College Terrace Residential Parking Permit (RPP) – fees collected to limit on-street parking in the College Terrace neighborhood.
- Crescent Park No Overnight Parking (NOP) trial program – fees collected to prohibit overnight parking in the Crescent Park neighborhood.
- University Avenue and California Avenue parking permits – fees collected for use of public parking spaces. Historically, these fees have been used to operate and maintain public parking facilities.

Each of these parking activities is discussed in more detail below.

Businesses also pay fees to support other activities in assessment districts. We have described these activities to clarify the differences between them and the similarly named parking activities above, but they are not part of this audit:

- University Avenue Area Off-street Parking and California Avenue Parking Assessment Districts – formed to finance the purchase and construction of public parking garages by issuing bonds and levying assessments on the properties within the respective districts to pay for the bonds. As the fiduciary agent for these districts, the City holds money collected from property owners that is awaiting transfer to the districts' bond trustees. The City has no decision-making authority regarding how the districts spend the funds and cannot use the funds for City operations. The bonds for the California Avenue Parking Assessment District will be paid in full in fiscal year (FY) 2016.
- The Downtown Business Improvement District (BID) – established to fund activities such as promotion, marketing, and beautification that benefit businesses located and operating in the district, through the levy of an assessment against those businesses. The Board of Directors of the Palo Alto Downtown Business and Professional Association operates the BID.

Parking In-Lieu Program

Palo Alto Municipal Code sections 18.18.090 and 18.52.070 allow applicants to pay a fee for each required onsite parking space that they do not provide for their development projects, due to site constraints, in the Commercial Downtown (CD) district. Municipal Code Chapter 16.57 describes how the City is to calculate the fee and requires the fees to be used to construct public parking spaces to serve parking needs within the district that were created by the developments that paid the fees.

The City established the parking in-lieu fee in 1995. The initial fee was \$17,800 and was revised to \$30,250 in 1998 to reflect the estimated combined construction costs for the parking garages to be built at 528 High Street and 445 Bryant Street, divided by the number of spaces to be built. The Municipal Code requires the Chief Transportation Official in the Planning and Community Environment (PCE) Department to:

- Recalculate the fee when the construction contract is awarded to reflect actual design costs plus the estimated construction costs.
- Recalculate the fee after construction is complete and the final payment is made to reflect the total project costs. The recalculated fee may be higher or lower than the initial fee.
- Adjust the fee annually by an amount equal to the change in the construction cost index for the preceding year.

The Municipal Code requires applicants to pay required parking in-lieu fees prior to receiving a building permit. However, it allows payment to be deferred to the final building inspection approval date if the applicant enters into an extended payment agreement with the City. Administrative Services Department (ASD) staff track parking in-lieu payments received.

The City tracks the parking in-lieu fees collected in a dedicated fund. Since FY 2012, the City has collected \$4,455,750 in parking in-lieu fees from five development projects. Exhibit 1 shows the fees received and net funds available as of the end of each fiscal year.

**EXHIBIT 1: Parking In-Lieu Fees Collected and Net Funds Available
(as of December 31, 2014)**

	<u>Prior to</u>				
	<u>FY 2003¹</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Parking in-lieu fee collected	\$1,627,573	\$536,800	\$0	\$1,275,750	\$2,643,200 ⁴
Net Funds Available as of June 30 ^{2,3}	\$100,592	\$642,432	\$657,961	\$1,961,600	N/A

¹ No parking in-lieu fees were collected from FY 2003 through FY 2011 because development projects used parking exemptions available at the time.

² The net funds available at the end of FY 2011 was based on a combination of gains on investments and disbursements to the garage capital project.

³ The net funds available exceed the prior year's balance plus the current year's net revenue due to gains on investments.

⁴ Includes a financial contribution of \$625,000 that the City collected from the project at 101 Lytton Avenue, as required by Ordinance No. 5158.

Source: City's financial records

***College Terrace Residential
Parking Permit (RPP) Program***

The City Council adopted Municipal Code chapter 10.46 in October 2009 to implement a RPP program in the College Terrace neighborhood. The program limits on-street parking to two hours on Monday through Friday, from 8 a.m. to 5 p.m. Residents can purchase a permit to be exempt from the time restriction for \$40 a year or \$5 a day. The program was initially funded by \$100,000 that the City received as a condition of approval for Stanford's General Use Permit. The City tracks the program's revenues and expenditures in the College Terrace RPP Program Fund, a special revenue fund.

***Crescent Park No Overnight
Parking (NOP) Trial Program***

In September 2013, the City Council adopted a resolution that established a one-year trial program that prohibited overnight parking from 2 a.m. to 5 a.m. in the Crescent Park neighborhood and later extended the trial program. The program allows residents to purchase up to two overnight parking permits per household for \$100 each and additional single-use permits for \$5 each. Enforcement is primarily by request. There is not a dedicated fund to track revenues collected from these permits.

***University Avenue and
California Avenue Parking
Permits***

Employees of businesses in the University Avenue and California Avenue assessment districts may purchase annual or quarterly parking permits, and the public may purchase daily permits. The City tracks the fees collected from these permits in separate, dedicated funds. Historically, the fees are used to operate and maintain parking facilities and public areas, including sweeping, landscaping, signage, and lighting, and for Capital Improvement Program (CIP) projects such as resurfacing and restriping. Exhibit 2 shows the permit fee revenue and net funds available as of fiscal year end.

**EXHIBIT 2: University Avenue and California Avenue Parking Permit Funds
Permit Revenue and Net Funds Available**

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
University Avenue Parking Permit Fund					
Permit Fee Revenue ¹	\$1,109,648	\$1,200,661	\$1,378,138	\$1,674,352	\$1,762,351
Net Revenue (Net Expenditure)	\$157,641	\$21,772	(\$139,194)	\$133,141	\$454,748
Net Funds Available as of June 30 ²	\$608,202	\$628,602	\$472,059	\$628,656	\$1,006,181
California Avenue Parking Permit Fund					
Permit Fee Revenue ³	\$128,891	\$174,476	\$175,704	\$135,521	\$206,105
Net Revenue (Net Expenditure)	(\$34,025)	\$39,716	(\$22,705)	\$18,493	(\$123,815)
Net Funds Available as of June 30 ²	\$336,344	\$378,406	\$354,882	\$387,283	\$254,942

¹ Permits for off-street parking lots and garages in the downtown business district, including a total of 92 public benefit permit parking spaces in the 800 High Street garage and the Sheraton lot (shown as Lot X on the City's parking map).

² The net funds available do not equal the prior year's balance plus the current year's net revenue due to gains and losses on investments.

³ Permits for off-street parking lots and garages in the California Avenue business district.

Source: City's financial records

Scope

We reviewed the Parking In-Lieu Fund, College Terrace RPP Program Fund, revenues and expenditures for the Crescent Park NOP Trial Program, and the University Avenue and California Avenue Parking Permit Funds. We focused on the five development projects that were subject to the parking in-lieu fee from FY 2012 through December 2014, and on fund and financial activities during FY 2014 for the other parking funds and activities. We reviewed additional data and documents dating back to FY 1997 to understand and evaluate relevant information but were unable to review data that was in IFAS, the City's financial system prior to FY 2004, because it was no longer accessible. We did not evaluate whether development projects met the eligibility criteria in Municipal Code section 18.18.090 for participation in the Parking In-lieu Program.

Methodology

To accomplish our audit objective, we:

- Interviewed staff from the PCE, ASD, Public Works, Police, and Community Services Departments to understand the City's parking funds and the processes to administer them.
- Reviewed applicable sections of the Palo Alto Municipal Code, California Government Code, City Council resolutions and ordinances, and City policies and procedures to understand the regulatory environment and requirements over parking funds.
- Consulted with the City Attorney's Office regarding relevant legal and regulatory issues and criteria for compliance.

- Reviewed the City’s Comprehensive Annual Financial Reports, Operating and Capital Budget documents, SAP¹ system records, and other departmental records to understand parking funds’ financial status.
- Identified risks that could prevent achieving the program objectives and procedures implemented to mitigate the risks.
- Mapped relevant processes in coordination with PCE staff.
- Analyzed the parking in-lieu fund:
 - o Reviewed ASD’s and Public Works’ supporting documentation and records regarding construction costs for the parking garages at 528 High Street and 445 Bryant Street.
 - o Reviewed the parking in-lieu fee schedules and supporting documentation to determine if the fees were calculated and adjusted as required by the Municipal Code.
 - o Reviewed PCE’s supporting documentation and SAP and Accela² system records to determine if the parking in-lieu fees were collected accurately and timely in accordance with the Municipal Code.
 - o Reviewed ordinances, staff reports, and supporting documentation to determine if the parking in-lieu fund was used and reported in accordance with the Municipal Code.
- Analyzed the parking permit funds:
 - o Reviewed the Police Department’s semiannual reports of College Terrace RPP revenues and costs and compared them to SAP and Inglewood Citation Management System³ records to determine if the revenues that Police reported were recorded accurately and timely.
 - o Reviewed SAP system records and supporting documentation, compared budgeted to actual revenues and expenditures, and worked with the responsible departments to follow up on significant variances to identify the cause.
 - o Reviewed staff reports on parking permit funds and evaluated their reliability and usefulness by comparing them to SAP system records and other documents.

¹ SAP is the City’s enterprise resource planning system that supports the City’s core business functions, including accounting, purchasing, and utilities.

² Accela is the planning and permitting system that PCE uses to track development applications, projects, and code enforcement cases.

³ The City purchases parking citation processing services from the City of Inglewood, CA, under a government shared-service program.

Data reliability

To assess the reliability of the data needed to answer the audit objectives, we interviewed City staff, reviewed relevant documentation, and cross-referenced data from multiple sources.

We could not independently verify the reliability of information that was recorded in IFAS prior to FY 2004 for the garages built at 528 High Street and 445 Bryant Street because the system is no longer accessible. However, we compared reports that ASD had obtained from IFAS and retained to support bond drawdowns for the garages with other available documents to determine data consistency and reasonableness. When we identified discrepancies, we discussed them with City staff and made appropriate adjustments to the transaction data used in our analysis.

From these efforts, we believe that the data were sufficiently reliable for the purposes of this report.

Compliance with government auditing standards

We conducted this audit of parking funds in accordance with our FY 2015 Annual Audit Work Plan and generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We would like to thank management and staff in the Planning, Community, and Environment Department; Administrative Services Department; Public Works Department; Police Department; and Community Services Department for their time, cooperation, and assistance during the audit process.

Finding 1

The City does not have policies and procedures to ensure that it accurately calculates and assesses parking in-lieu fees and tracks expenditures related to construction of public parking spaces.

Finding Summary

The City potentially overcharged parking in-lieu fees on four development projects due to a combination of decentralized processes and clerical errors, including not recalculating the fee until almost four years after garage construction was complete. These overcharges totaled \$272,576. On another project, the City did not collect \$182,250 for three parking spaces that one applicant was required to pay based on its settlement agreement with the City. Garage construction costs that were paid with fees transferred from the Parking In-lieu Fund were also drawn down from the bond proceeds, which left some of the proceeds unused.

Parking in-lieu fees not accurately calculated or collected in a timely manner

A combination of errors occurred in calculating or collecting parking in-lieu fees because processes are decentralized and neither the Municipal Code nor policies and procedures clearly define the roles of each department involved. The Municipal Code assigns responsibility for calculating the fee to the Chief Transportation Official in the Planning, Community, and Environment Department (PCE), but the Administrative Services and Public Works Departments also have roles in administering the parking in-lieu program. The fee was incorrect because:

- PCE did not recalculate the parking in-lieu fee when garage construction was complete as required by the Municipal Code, which resulted in a higher fee for FY 2012, when development projects started using the parking in-lieu provision again.
- ASD overstated the total garage construction costs by \$306,772, which caused the parking in-lieu fee to be overstated.
- PCE did not consistently apply and monitor payment terms required by the Municipal Code to ensure their accuracy and timeliness.
- The City did not assign responsibility for collecting additional parking in-lieu fees required in a settlement agreement.

Each of these issues is discussed below.

Parking in-lieu fee not recalculated when garage construction was complete

The fee established in 2003 was based on the estimated costs to design and construct the parking garages at 538 High Street and 445 Bryant Street, which added a total of 704 parking spaces. PCE did not recalculate the fee to reflect the actual costs upon completion of garage construction in July 2008. The lack of adjustments did not have an immediate impact because the City did not assess any

parking in-lieu fees from FY 2003 through FY 2011 when most downtown development projects used parking exemptions available at the time. However, as discussed later in this finding, it did affect projects beginning in FY 2012.

This oversight was partially remedied in January 2012 when ASD staff assisted PCE in adjusting the FY 2012 fee for the past construction cost indices. However, the recalculated fee of \$67,100 per parking space did not incorporate the actual construction costs, which were less than the estimated costs.

Overstated garage construction costs caused a higher parking in-lieu fee

After receiving a public inquiry, ASD staff recalculated the fee in April 2012 to reflect the actual garage design and construction costs. However, the revised calculation of \$31.8 million overstated the total cost by \$306,772 due to double counting of some expenditures. This caused the fee to be overstated by \$436 per parking space. Double counting the expenditures also caused ASD staff to draw down \$240,402 more from the bond proceeds than the actual project expenditures, leaving unused funds in the Capital Improvement Fund.

Incorrect parking in-lieu fee applied to two projects after ASD's April 2012 recalculation

ASD's April 2012 calculation reduced the fee to \$60,750 per parking space, which Council approved in June 2012, to be effective in August 2012 for FY 2013.⁴ However, before the corrected fee became effective, PCE project planners assessed parking in-lieu fees of \$67,100 per space on two development projects – 564 University Avenue in May 2012 and 101 Lytton Avenue in July 2012 – because they were not aware that the fee had been corrected.

Exhibit 3 shows our recalculation of the parking in-lieu fee based on both the final construction costs and the published construction cost index for each year.

⁴ The parking in-lieu fee is adopted annually as part of the City's municipal fee schedule but is not effective until 60 days after adoption, in accordance with California Government Code.

EXHIBIT 3: Parking In-Lieu Fee Schedule – City Records and Auditor’s Recalculation

Fiscal Year	ASD Calculations				Auditor’s Recalculation (based on actual construction costs and construction cost indices)	
	January 2012 Calculation (based on the estimated construction costs upon contract award)		April 2012 Calculation (based on ASD’s records of actual construction costs)			
	CCI ¹ %	Fee	CCI % ⁴	Fee	CCI %	Fee
2003		\$50,994		\$45,239		\$44,803
2004	3.3	\$52,677	2.0	\$46,144	2.0	\$45,699
2005	2.0	\$53,730	2.0	\$47,067	2.5 ⁴	\$46,842
2006	4.0 ²	\$55,880 ²	2.4	\$48,196	2.4	\$47,966
2007	2.4	\$57,221	2.6	\$49,449	2.6	\$49,213
2008	2.1	\$58,422	7.8	\$53,306	7.8	\$53,051
2009	3.2	\$60,292	0.5	\$53,573	0.5	\$53,317
2010	6.6	\$64,271	6.6	\$57,109	6.6	\$56,836
2011	(0.3) ³	\$64,271 ³	(0.3)	\$56,937	(0.3)	\$56,665
2012	4.4	\$67,100	4.4	\$59,442	4.4	\$59,158
2013			2.2	\$60,750	2.2	\$60,460
2014			0	\$60,750	0	\$60,460
2015			5.1	\$63,848	5.1	\$63,543

¹ CCI means Construction Cost Index.

² ASD adjusted the 2006 fee by 4.0%, although their spreadsheet showed that they used the 2005 CCI increase of 2.4%.

³ The 2011 fee was not adjusted by the CCI decrease.

⁴ The January 2012 calculation used a different CCI for some years, which staff revised upon recalculation in April 2012. This may have been due to the published CCI being updated after its initial publication. We reviewed the revised percentages for consistency with the published CCI, and further revised the FY 2005 percentage in our recalculation.

Source: City’s financial records, PCE records, ASD records, and auditor’s analysis

Overcharging of four projects occurred for various reasons

PCE did not always ensure that applicants paid their parking in-lieu fees prior to the City issuing a building permit or, if the owner entered into a written deferred-payment agreement with the City, require payment based on the rate in effect on the payment date, as required by the Municipal Code:

- 564 University Avenue – PCE issued the first building permit for this project in April 2009, although the applicant had not paid the parking in-lieu fees and there was not a deferred-payment agreement. The applicant subsequently sold the property, and the new owner paid the parking in-lieu fees in May 2012, prior to the City issuing a new building permit. The amount paid was based on the fee in effect that, as stated above, had not been updated to reflect the final garage construction costs.
- 101 Lytton Avenue – PCE approved this project in July 2012, but did not enter into an agreement with the applicant to defer the parking in-lieu fee payment until November 2012, three months

after the effective date of the FY 2013 fee. PCE issued the building permit two weeks after entering into the agreement. The agreement required the applicant to pay the fees within 18 months of obtaining the building permit (i.e., May 2014), but the City did not receive payment until July 2014. The agreement did not specify that the fee would be calculated at the rate in effect on the deferred payment date, as required by the Municipal Code, and instead specified the rate in effect on the project approval date.

- 135 Hamilton Avenue and 240 Hamilton Avenue – The applicants paid their parking in-lieu fees for these projects prior to the City issuing the building permits. The overcharges were due to the overstated garage construction costs, which caused a higher parking in-lieu fee, as described above. There was an additional clerical error for 240 Hamilton Avenue; PCE assessed a parking in-lieu fee of \$67,750 per parking space instead of the approved FY 2013 fee of \$60,750.

The City did not collect additional parking in-lieu fees resulting from a settlement agreement

PCE assessed only \$303,750, instead of \$486,000, for the project at 180 Hamilton Avenue. The City Attorney’s Office entered into a settlement agreement with the applicant that required parking in-lieu fees for eight parking spaces, at \$60,750 per space, instead of the five spaces specified in the conditions of approval. The PCE project planner was not aware of the agreement and did not charge for the three additional spaces, which resulted in an undercharge of \$182,250.

Exhibit 4 summarizes our recalculation of the overcharges and undercharge, and Appendix 1 provides additional details of our recalculation.

EXHIBIT 4: Parking In-Lieu Fee Payments Since FY 2012 and Auditor’s Recalculation

Project Address	Number of Spaces	Per Space Parking In-Lieu Fee		Total Amount		
		Charged	Auditor’s Recalculation	Paid	Auditor’s Recalculation	Potential (Overcharge)/ Undercharge
564 University Ave.	8	\$67,100	\$59,158	\$536,800	\$473,264	(\$63,536)
101 Lytton Ave.	22	\$67,100	\$60,460	\$1,476,200	\$1,330,120	(\$146,080)
135 Hamilton Ave.	16	\$60,750	\$60,460	\$972,000	\$967,360	(\$4,640)
240 Hamilton Ave.	8	\$67,750	\$60,460	\$542,000	\$483,680	(\$58,320)
180 Hamilton Ave.	8	\$60,750	\$60,750	\$303,750	\$486,000	\$182,250

Source: PCE records and auditor’s analysis

More effective guidance needed to administer the parking in-lieu fee

Many of these issues occurred because some parts of the Municipal Code are outdated and inconsistent with actual responsibilities and requirements and because there were not policies and procedures to effectively administer the parking in-lieu fee, which is complex and necessitates coordination among several departments. For example:

- The Municipal Code states that the eligibility criteria for the parking in-lieu fee is in section 18.49.100, which was repealed and replaced with section 18.18.090 in 2006.
- The Municipal Code requires the Chief Transportation Official to calculate and adjust the parking in-lieu fee. However, the Chief Transportation Official's responsibilities did not involve estimating garage construction costs or awarding the construction contracts and, therefore, meant the incumbent would have had to rely on other departments to obtain those costs.
- Organizational changes and turnover of key positions, including the Director, Assistant Director, and Chief Transportation Official in PCE during the last decade caused a lack of continuity and loss of knowledge.
- The Municipal Code requires the Chief Transportation Official to review and report the findings to the City Council at a noticed public hearing regarding the reasonable relationship between the continued need for parking and the impacts of pending or anticipated nonresidential development within the University Avenue Assessment District. Although the City Council reviews and accepts the annual report on impact fees provided by ASD, which includes the parking in-lieu fee and is designed to comply with state law, the annual noticed public hearing to satisfy the Municipal Code requirement has not been held.
- Communication and coordination do not always occur at key points among those involved with the Parking In-Lieu Program. PCE staff calculate and assess parking in-lieu fees; Public Works staff track project expenditures as garages are built; and ASD staff receive parking in-lieu fee payments, draw down bond funds as expenditures occur, and prepare the annual status report on parking in-lieu fees to the City Council.

Because the Municipal Code provides only general requirements, written policies and procedures for how to apply the requirements likely would have reduced the confusion over roles and responsibilities for administering the parking in-lieu fee and ensured continuity and effective oversight.

Costs paid with transferred parking in-lieu fees were also drawn down from bond proceeds

The City collected parking in-lieu fees totaling \$1.7 million from development projects during FYs 1996 through 2002 while the garages at 528 High Street and 445 Bryant Street were in the early planning stages. The fees accrued interest while in the parking in-lieu fund. The City made three transfers from the fund, totaling \$1,790,295, to the CIP project to fund costs associated with planning and designing the garages. After the assessment district was formed and the special assessment bonds were issued, the City deducted those same initial project costs from the bond proceeds. Doing that caused the bond proceeds allocated to the project to exceed the cost of the project by the \$1,790,295 that was transferred from the Parking In-lieu Fund. Exhibit 5 shows the parking in-lieu fees collected during those early years, the interest earned on those fees, and the disbursements made to the garage CIP project.

EXHIBIT 5: Parking In-Lieu Fund – Fees Collected and Used From FY 1996 Through FY 2002

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	TOTAL
Parking in-lieu fee collected	\$231,400	\$517,590	\$0	\$235,614	\$432,120	\$201,201	\$65,796	\$1,683,721
Interest and unrealized gain/loss on investment	\$1,698	\$28,467	\$42,296	\$14,484	\$26,394	\$56,886	\$9,648	\$179,873
Transfer to the garage construction project	\$0	\$0	(\$798,000)	\$0	\$0	(\$766,295)	(\$226,000)	(\$1,790,295)
Fund Balance	\$233,098	\$779,155	\$23,451	\$273,549	\$732,063	\$223,855	\$73,299	\$73,299

Source: ASD records

Recommendations

We recommend that:

- 1.1. ASD defease and reduce the bond debt by the \$1,790,295 that was inadvertently drawn down from the garage bond proceeds and the \$240,402 of double-counted garage expenditures.
- 1.2. PCE work with the City Attorney’s Office to initiate refunds for the four overpaid development projects shown in Exhibit 4.
- 1.3. PCE bill for the underpayment shown in Exhibit 4 for the project at 180 Hamilton Avenue.
- 1.4. PCE, ASD, and Public Works coordinate with each other and the City Attorney’s Office to revise the Municipal Code to clarify:
 - How to calculate and adjust the parking in-lieu fee, including clarifying what costs should be included when calculating the fee.
 - When to collect the fee and the rate to be used.

- Reporting requirements.
 - Other updates, if necessary, that could help ensure that the fee will reasonably reflect the approximate cost of constructing new garage spaces.
- 1.5. After updating the Municipal Code, PCE, ASD, and Public Works work together to develop written policies and procedures to:
- Clarify roles and responsibilities for applying the Municipal Code requirements and monitoring compliance.
 - Ensure that the parking in-lieu fee is calculated, collected, and reported accurately, consistently, and timely.
 - Ensure that appropriations, funding sources, actual revenues, and capital expenditures are accurately and completely tracked during the life of each CIP project.
 - Verify final project costs for accuracy, close out the project, and release unused project funds upon completion of the project.
 - Ensure that complete records related to the costs of planning and constructing a garage(s) are retained for the entire period for which they serve as the basis for calculating the parking in-lieu fee.
- Communicate and train staff on the policies and procedures.

Finding 2

Combining College Terrace RPP and Crescent Park NOP parking permit revenues and not fully tracking and analyzing financial and performance data reduced the ability to make informed decisions.

Finding Summary

Departments involved in College Terrace RPP fund activities have had little guidance, and their processes evolved over time without sufficient documentation or coordination. As a result, program revenues and expenditures were not tracked and reported accurately, completely, and consistently to allow systematic evaluation of the funds' financial performance over time.

Council designated the permit fees as cost recovery fees for the College Terrace RPP Program, but not for the Crescent Park NOP Program. However, the revenues for both programs were recorded in the College Terrace RPP Program Fund, and the expenditures were not sufficiently tracked to know the actual costs of administering the programs. Having inaccurate or incomplete financial information limits the Council's ability to evaluate program performance and make an informed decision regarding permit fees.

Financial data for College Terrace RPP and Crescent Park NOP Programs not reliable and useful

City staff have not tracked and analyzed financial data for the College Terrace RPP or Crescent Park NOP programs to provide reliable and useful information for setting fees and determining the amount, if any, of General Fund subsidies.

College Terrace RPP permit fees intended to recover costs of program; Crescent Park NOP permit fees are not

Permit fees for the College Terrace RPP Program were intended to recover the program's costs. The City established a special revenue fund to track revenues and expenditures for the program and to maintain General Fund neutrality. In contrast, the Council adopted fees for the Crescent Park NOP Trial Program at a level that would require General Fund subsidies to cover the costs, and the City did not establish a separate fund for this program. Instead, the intent was to record permit revenues in the General Fund, charge the initial program costs to a capital improvement project, and reimburse the capital project from the General Fund.

Crescent Park NOP permit fees recorded in College Terrace RPP Program Fund

Expenditures for the Crescent Park NOP Program were recorded in a CIP for parking and transportation improvements, but an estimated \$24,000 in program revenues were recorded in the College Terrace RPP Program Fund and have not been used to reimburse the CIP project for the Crescent Park costs. The FY 2014 expenditures recorded in the CIP project included \$23,210 for new signs and installation and \$3,386 for permit costs.

Initial College Terrace RPP funding differed from what was reported to Council

The College Terrace RPP Program was initially funded by the \$100,000 received from Stanford in 2001 as a condition of its general-use permit, of which \$46,200 was used for consultant fees related to developing the RPP program. PCE reported to Council in 2010 that the balance of \$53,800, plus \$36,839 of interest earned, would be used to implement the program. However, only \$53,139 of the \$90,639 was transferred into the College Terrace RPP Program Fund. Current PCE staff did not know why the remaining \$37,500 was not transferred into the fund.

General Fund subsidized both the College Terrace RPP and Crescent Park NOP Programs

The General Fund has consistently absorbed a portion of PCE's program administration costs, the Police Department's enforcement costs, and ASD's permit processing costs for the College Terrace RPP Program, which was intended to be a cost-recovery program. For example, the General Fund absorbed approximately \$53,650 of the Police Department's enforcement costs and \$37,500 of ASD's permit processing costs in FY 2010. The annual permit initially cost \$15, was increased to \$40 in FY 2011, and was \$40 through FY 2015. The higher permit fee has contributed to a decrease in General Fund subsidies. For example, we estimated that the General Fund absorbed approximately \$9,400 of the Police Department's enforcement costs and \$19,700 of ASD's permit processing costs in FY 2014. The General Fund has also subsidized the Crescent Park NOP Program, which is a trial program and not expected to be a cost-recovery program.

Financial data not tracked or analyzed for either program

Although PCE staff initially tracked and analyzed the General Fund subsidies for the College Terrace RPP Program, they have not done so in recent years for either program to determine if they are reasonable or aligned with Council direction. PCE has reported that the College Terrace Program operates at a loss, but the net funds available in the College Terrace RPP Program Fund have increased over the last five years. The increase was due to the General Fund subsidies and the Crescent Park NOP Program revenues being recorded in the College Terrace RPP Program Fund during FY 2014, as described above. The net funds available is an important component, in addition to knowing full program costs, for determining the permit fee for the following year. Exhibit 6 shows the net revenues (expenditures) and net funds available as of fiscal year end for 2010 through 2014.

EXHIBIT 6: College Terrace RPP Program Fund Net Revenue and Net Funds Available

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Net Revenue (Net Expenditures)	\$58,062	\$9,527	\$24,942	(\$6,437)	\$4,980
Net Funds Available as of June 30*	\$51,694	\$67,590	\$92,530	\$86,093	\$91,064

* Net funds available does not equal the prior year’s balance plus the current year’s net revenue due to rounding and \$6,368 set aside as reserve for encumbrances in FY 2010.

Source: City’s financial records and municipal fee schedules

The City also has not established an effective system to capture and monitor performance data, which requires staff to manually produce requested data. For example:

- Number of citations – Police staff relied on a manual process to determine the number of citations issued and paid for the College Terrace RPP Program instead of extracting system data for more efficient and accurate analysis. In addition, the citation codes used to enforce Crescent Park NOP Program violations are not unique to the program. Therefore, Police can only estimate the number of citations by counting those that have applicable codes on citations issued between 2 a.m. and 5 a.m.
- Number of permits sold – The City's parking permit system captures vehicle and permit information, while the payment processing system captures the purchase date and amount. Neither system tracks both the number of permits sold by permit type and the corresponding revenue. ASD staff maintained manual records of annual permits sold for each program and estimated the corresponding revenue. The number of day-use permits sold for each program cannot be determined because they have not been separately tracked.

When multiple departments have a role in overseeing activities such as these parking permit programs, a coordinated and holistic approach is needed to systematically monitor and analyze financial and performance data for effective decision making. For example, because citation revenues are recorded when paid rather than when the citation is issued, the actual revenues have to be monitored and analyzed in combination with the trend in the number of citations issued to predict future revenues. Exhibit 7 shows that the program budget and performance data is not aligned. Also, the projections have not always been developed before the upcoming fiscal year's budget and approval of municipal fees because the program year is different from the City's fiscal year.

EXHIBIT 7: College Terrace RPP Program Fund Citation Revenues and Performance Data

Revenues and Performance Data		FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Citation Revenue	Budget	\$28,800	\$43,200	\$43,200	\$43,200	\$15,000
	Actual	\$29,714	\$49,359	\$29,228	\$12,044*	\$35,546*
Number of Citations Issued	Actual	1,193	988	793	606	613

*\$10,627 of the FY 2014 citation revenues was not recorded until FY 2015.

Source: City’s financial records and Inglewood Citation Management System data

Recommendations

We recommend that:

- 2.1. PCE and ASD work together to establish supplemental policies and procedures to ensure that:
 - Roles and responsibilities for managing parking programs and parking permit funds are clearly defined and assigned, including responsibility for tracking all expenditures associated with each parking permit program activity.
 - Budgeting and fee-setting procedures are coordinated among PCE, ASD, and Police and are based on analysis of budgeted and actual revenues and expenditures, including trend analysis.

- 2.2. PCE identify financial and performance data required for effective program evaluation, and work with ASD and Police to establish data tracking and monitoring procedures and assignment. This should also occur prior to implementing each new program. This includes:
 - Defining and communicating which cost center and general ledger account is used to budget and capture each revenue and expenditure item in the SAP system to allow effective monitoring of program performance.
 - Ensuring that financial transactions are recorded in the SAP system and necessary reporting capabilities are made available to allow efficient monitoring of program revenues and expenditures.
 - Aligning the program year with the City’s fiscal year to improve use of existing data and simplified program analysis.
 - Exploring opportunities to streamline and reduce manual processes, where possible.

- 2.3. PCE improve the reliability and usefulness of its annual report to the City Council on the parking programs by:
 - Including financial and performance data for effective program decision making.
 - Assigning staff with fiscal responsibility and knowledge to review the Resource Impact section of the report.

APPENDIX 1 – Parking In-Lieu Payments Since FY 2012 and Details of Auditor’s Recalculation

Project Address	Number of Spaces	Project Approval Date(s)	Building Permit Issue Date(s)	Payment Date	Deferred Payment Agreement	Parking In-Lieu Fee ¹		Total Amount			Notes
						Charged	Auditor’s Recalculation	Paid	Auditor’s Recalculation	Potential Revenue Recovery (Refund)	
564 University Avenue	8	7/1/08 7/16/12	4/22/09 8/30/12	n/a 5/16/12	None None	\$67,100	\$59,158	\$536,800	\$473,264	(\$63,536)	The first building permit was issued prior to payment. The rate in effect as of the payment date (FY 2012 fee) was charged.
101 Lytton Avenue	22	7/12/12	11/26/12	7/14/14	Executed on 11/13/12	\$67,100	\$60,460	\$1,476,200	\$1,330,120	(\$146,080)	The agreement specified the amount, which was calculated using the FY 2012 rate of \$67,100. The payment was made two months after the agreed-upon due date of May 2012. We recalculated the fee using the rate in effect as of the payment date (FY 2014 fee), which is a Municipal Code requirement and overrides the agreement terms.
135 Hamilton Avenue	16	2/7/13	2/26/14	12/31/13	None	\$60,750	\$60,460	\$972,000	\$967,360	(\$4,640)	The rate in effect as of the project approval date (FY 2013 fee) was charged because the payment was made prior to building permit issuance.
240 Hamilton Avenue	8	7/23/13	11/21/14	10/10/14	None	\$67,750	\$60,460	\$542,000	\$483,680	(\$58,320)	An incorrect rate was charged. The rate in effect as of the project approval date (FY 2013 fee) was \$60,750.
180 Hamilton Avenue	5+3	7/23/12	4/5/13	2/7/14	Oct. 2012 Settlement Agreement ²	\$60,750	\$60,750	\$303,750	\$486,000	\$182,250	The conditions of approval required five parking spaces, but the settlement agreement required an additional three and the applicant only paid for five. The settlement agreement specified the FY 2013 rate of \$60,750. Because this was a settlement agreement, it overrides the Municipal Code requirements.

¹ The parking in-lieu fee is adopted annually as part of the City’s municipal fee schedule but becomes effective 60 days from the adoption along with other impact fees.

² This was a settlement agreement rather than a deferred-payment agreement.

Source: PCE records and auditor’s analysis

APPENDIX 2 – City Manager’s Response



CITY OF
**PALO
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OFFICE OF THE CITY MANAGER

250 Hamilton Avenue, 7th Floor
Palo Alto, CA 94301
650.329.2392

Date: November 19, 2015

To: Harriet Richardson, City Auditor

From: Ed Shikada, Assistant City Manager

The staff appreciates the work of the City Auditor in assessing parking funds and programs and agrees with many of the findings and recommendations of the audit. The audit looks at two main areas: Parking In-Lieu fees and fund, and residential parking programs.

The issues identified in both areas are directly related to the complexity of the system. Staff agrees that the Municipal Code covering Parking In-Lieu fees is outdated and not uniform with the Municipal Code for the other In-Lieu and Development Impact Fees. Planning and Community Environment (PCE) has already undertaken a project to align calculation and payment of these fees. Working with other departments, PCE will examine the code to identify additional changes that bring clarity to the assessment, application, and collection of fees.

Residential parking programs are established to address a pressing need in the community and by necessity, make use of the City’s existing organizational structure, involving multiple departments to handle everything from fee collection to record keeping and maintenance, data collection, and enforcement. Staff from these departments work together to manage these programs and respect the urgency with which the City Council would like to address the community need.

Impact fee and assessment programs require significant ongoing administration and need to be resourced accordingly. PCE will be requesting a Parking Analyst position in the Fiscal Year 2017 Operating Budget. The request will need to go through the budget process, with due consideration to level of effort required and contractual options.

My office has reviewed the audit and provided the responses in Appendix 2 and will report progress on implementation six months after the Council accepts the audit report, and every six months thereafter until all recommendations have been addressed.



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APPENDIX 2 – City Manager’s Response - continued

The City Manager has reviewed and provided the following responses to the audit recommendations in this report. The City Manager will report progress on implementation six months after the Council accepts the audit report, and every six months thereafter until all recommendations have been addressed.

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	Status
Finding 1: The City does not have policies and procedures to ensure that it accurately calculates and assesses parking in-lieu fees and tracks expenditures related to construction of public parking spaces.			
<p>1.1. ASD defease and reduce the bond debt by the \$1,790,295 that was inadvertently drawn down from the garage bond proceeds and the \$240,402 of double-counted garage expenditures.</p>	<p>Administrative Services</p>	<p>Concurrence: Partially agree Target Date: Depends upon action. If Council prefers to transfer, this can be done as part of the midyear budget adjustment, which will be completed in March or April. If Council chooses to defease the bonds, this should be completed by June. If the decision is to offset debt service, then property owners will see in 2016/2017 property tax bills. Action Plan: City staff will explore with its Financial Advisor whether it is more efficient and cost-effective to follow the Audit’s recommendation to defease \$1.79 million in assessment district bonds or to offset annual upcoming assessments to downtown property owners. This information will be presented to Council prior to receiving Council direction.</p>	
<p>1.2. PCE work with the City Attorney’s Office to initiate refunds for the four overpaid development projects shown in Exhibit 4.</p>	<p>Planning and Community Environment; City Attorney</p>	<p>Concurrence: Partially agree Target Date: Begin immediately Action Plan: The City Attorney will examine 101 Lytton to determine if some of the alleged overpayments could be construed as community benefits under the PC ordinance, rather than in-lieu fees. In the case of 240 Hamilton, PCE caught the clerical error and refunded \$56,000 in June, 2015 for the overpayment of \$7,000 for each of the eight spaces.</p>	

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	Status
<p>1.3. PCE bill for the underpayment shown in Exhibit 4 for the project at 180 Hamilton Avenue.</p>		<p>Concurrence: Agree Target Date: Completed March 2015 Action Plan: The \$182,250 in parking in-lieu fees that was inadvertently not billed under the agreement cited in this report has been collected by the City. Payment was received and revenue posted on March 12, 2015.</p>	
<p>1.4. PCE, ASD, and Public Works coordinate with each other and the City Attorney’s Office to revise the Municipal Code to clarify:</p> <ul style="list-style-type: none"> • How to calculate and adjust the parking in-lieu fee, including clarifying what costs should be included when calculating the fee. • When to collect the fee and the rate to be used. • Reporting requirements. • Other updates, if necessary, that could help ensure that the fee will reasonably reflect the approximate cost of constructing new garage spaces. 	<p>Planning and Community Environment, Public Works, City Attorney, Administrative Services</p>	<p>Concurrence: Agree Target Date: Impact fee collection process – In Process; Municipal Code review - Begin Immediately; Updating Fee - Defer Action Plan: PCE initiated an impact fee project almost a year ago to automate the calculation and collection of impact and in-lieu fees using Accela, the City’s permit system. This will ensure consistent calculation and improve tracking and monitoring of these fees. The final step of this project is aligning the Municipal Code with Accela by revising the Municipal Code for all impact and in-lieu fees to make them as uniform as possible for rate calculation and time of payment. The department has been working with the City Attorney’s office to develop suggested Municipal Code changes for consideration by the City Council. This is a major work effort which has taken a backseat to other initiatives. Departments will work together to review the Municipal Code and recommend additional changes to update the code, clarifying reporting requirements and removing areas of contradiction and confusion. Updating the parking in-lieu fee will be deferred until final design is completed for new parking garage(s). Changes to the in-lieu fee amount and calculation method may require a nexus study.</p>	

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	Status
<p>1.5. After updating the Municipal Code, PCE, ASD, and Public Works work together to develop written policies and procedures to:</p> <ul style="list-style-type: none"> • Clarify roles and responsibilities for applying the Municipal Code requirements and monitoring compliance. • Ensure that the parking in-lieu fee is calculated, collected, and reported accurately, consistently, and timely. • Ensure that appropriations, funding sources, actual revenues, and capital expenditures are accurately and completely tracked during the life of each CIP project. • Verify final project costs for accuracy, close out the project, and release unused project funds upon completion of the project. • Ensure that complete records related to the costs of planning and constructing a garage(s) are retained for the entire period for which they serve as the basis for calculating the parking in-lieu fee. <p>Communicate and train staff on the policies and procedures.</p>	<p>Planning and Community Environment, Administrative Services, Public Works, City Clerk</p>	<p>Concurrence: Partially agree Target Date: 2016 Action Plan: Staff concurs that enhanced coordination and communication should occur among PCE, PW, and ASD regarding the parking in-lieu fee. However, rather than creating detailed procedures, staff recommends prioritizing the code amendments referenced above and developing a simple, high level protocol that briefly outlines the steps and responsibilities for calculating and charging the parking in-lieu fee.</p> <ul style="list-style-type: none"> • The PCE impact fee and in-lieu fee project mentioned above will ensure consistent and timely fee calculation. Accela will flag the need for fee payment before permit signoff. • Ensuring that appropriations, funding sources, actual revenues, and capital expenditures are accurately and completely tracked during the life of each CIP project is the goal of every department. • A process for verifying final project costs and identification of the responsible department will be included in the high level protocol mentioned above. • The goal of retaining complete records related to the costs of planning and constructing garages will require a clarification in the City's Records Retention Policy. The Policy does not clearly identify the need to retain these records in perpetuity nor does it identify the responsible department. The responsible departments will raise this issue with the City Clerk's office. 	

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	Status
<p>Finding 2: Combining College Terrace RPP and Crescent Park NOP parking permit revenues and not fully tracking and analyzing financial and performance data reduced the ability to make informed decisions.</p>			
<p>2.1. PCE and ASD work together to establish supplemental policies and procedures to ensure that:</p> <ul style="list-style-type: none"> • Roles and responsibilities for managing parking programs and parking permit funds are clearly defined and assigned, including responsibility for tracking all expenditures associated with each parking permit program activity. • Budgeting and fee-setting procedures are coordinated among PCE, ASD, and Police and are based on analysis of budgeted and actual revenues and expenditures, including trend analysis. 	<p>Administrative Services, Planning and Community Environment, Public Works, Police</p>	<p>Concurrence: Partially agree Target Date: Immediate Action Plan:</p> <ul style="list-style-type: none"> • Staff concurs that enhanced coordination and communication should occur among PCE and ASD regarding residential parking programs and funds. Staff has taken steps to start this process with the development of the Fiscal Year 2017 budget. • Staff will coordinate to determine budgeting and fee-setting procedures based upon analyses. Practically, these are often based on estimates due to limitations inherent in the program's structure and the inconsistent timing of revenue receipts. 	
<p>2.2. PCE identify financial and performance data required for effective program evaluation, and work with ASD and Police to establish data tracking and monitoring procedures and assignment. This should also occur prior to implementing each new program. This includes:</p> <ul style="list-style-type: none"> • Defining and communicating which cost center and general ledger account is used to budget and capture each revenue and expenditure item in the SAP system to allow effective monitoring of program performance. • Ensuring that financial transactions are recorded in the SAP system and necessary reporting capabilities are made available to allow efficient monitoring of program revenues and expenditures. 	<p>Planning and Community Environment, Administrative Services, Police</p>	<p>Concurrence: Partially agree Target Date: Fiscal Year 2017 Action Plan:</p> <ul style="list-style-type: none"> • PCE currently works with OMB to establish separate cost centers for new programs prior to initiation. For example, before the launch of the Downtown RPP, cost center 60239020 was established to isolate program expenses and revenues. • PCE will work with other departments building the budgets for parking programs so that transactions can be more accurately captured in the financial system. PCE will request a Parking Analyst position in the Fiscal Year 2017 budget in order to efficiently monitor programs and provide reporting information. • Aligning the program year with the fiscal year 	

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	Status
<ul style="list-style-type: none"> Aligning the program year with the City’s fiscal year to improve use of existing data and simplified program analysis. Exploring opportunities to streamline and reduce manual processes, where possible. 		<p>will have a significant impact on the capacity of Revenue Collections staff. The biggest renewal of parking permits for City garages is in the December/January and June/July timeframes. Moving the program year will result in parking permit renewals to be due in July, adding to the already significant workload of Revenue Collections and impacting customer service. Aligning the program year with the fiscal year should be considered once all permits are fully available online.</p> <ul style="list-style-type: none"> Staff concur that streamlining and reducing manual processes would be beneficial. While it is not feasible to completely automate all programs immediately, staff’s eventual goal is to accurately and completely streamline processes through automation. 	
<p>2.3. PCE improve the reliability and usefulness of its annual report to the City Council on the parking programs by:</p> <ul style="list-style-type: none"> Including financial and performance data for effective program decision making. Assigning staff with fiscal responsibility and knowledge to review the Resource Impact section of the report. 	<p>Planning and Community Environment</p>	<p>Concurrence: Agree</p> <p>Target Date: Fiscal Year 2017</p> <p>Action Plan: Staff concurs that financial and performance data should be included in the annual report. Staff also concurs that resource impact sections should be reviewed by knowledgeable staff.</p>	



POLICY AND SERVICES COMMITTEE TRANSCRIPT

Special Meeting
December 15, 2015

Chairperson Burt called the meeting to order at 7:03 P.M. in the Council Chambers, 250 Hamilton Avenue, Palo Alto, California.

Present: Berman, Burt (Chair), DuBois, Wolbach

Absent:

Agenda Items

3. Audit of Parking Funds.

Chair Burt: Our next item is the audit of Parking Funds.

Council Member Berman: I know we're all doing this, but if we can just keep an eye on the clock. These are two meaty items that are coming up.

Council Member DuBois: I think we could all assume we all read this item. I don't know if we need to ...

Chair Burt: I'm sorry?

Council Member DuBois: Can we assume we all read this item on the parking?

Chair Burt: Harriet, go ahead and assume that the Committee has read the item.

Harriet Richardson, City Auditor: (inaudible) you have it there in front of you. Do you want us to go through it? It's 9:00. I'm not sure what you're thinking as far as time. It would just summarize the information that's in the audit.

TRANSCRIPT

Chair Burt: Maybe with an emphasis on any Committee input that you're seeking.

Ms. Richardson: Good evening, Harriet Richardson, City Auditor. With me is Yuki Matsuura, Senior Performance Auditor, who conducted this audit. I think primarily while we would want a motion at the end, primarily we'd want to go over some of the reasons the Parking In-Lieu Fee—that's the major finding in here—was miscalculated and really kind of summarizing that you've got multiple departments involved. Planning is the one who tells the developer, "You need to pay a parking in-lieu fee based on the number of spaces that you are required to provide and the number of spaces you can provide based on the site conditions." Public Works is responsible for constructing the garages. They have the records as far as the contract, what records are being kept during the time of construction. When the final payment is made, the fee is supposed to be recalculated. At that point it's supposed to go back to Planning to calculate the fee. In this particular instance, there were bonds. ASD tracked the bond draw downs as they were made. That ended up becoming the primary source of our information for what did the garages cost. I think the main issue here is really you've got multiple departments involved. It's a complex process. You don't necessarily have a good coordination process. There was turnover in Planning that affected the issue. Turnover in Public Works that affected the issue. Our recommendation really—there were four projects that were overcharged, one project that was undercharged. Planning has corrected two of those already. One of them, they want to look at to see—101 Lytton, they want to have the City Attorney look at it to see was that part of the parking or the public benefits that the developer was supposed to pay. I think our real focus for this particular finding would be resolving the issue about what to do with the overpaid bond—unused bond proceeds. Also how to in the future make sure, especially because there's some discussion in the works about new garages, to make sure that the fee is calculated correctly throughout the life of a project and beyond. For the College Terrace RPP and Crescent Park no overnight parking programs, the main issue on that one is really segregating the costs so that you know the cost of each program and really know are you setting the fee at a reasonable amount. In a nutshell, that summarizes what we have in all the slides.

Chair Burt: Thank you. It was a very informative report. Anyone like to follow up with questions or comments? I guess one that I would have is I think there was a concern that we were perhaps undercharging. What we found is a higher pattern of overcharging than undercharging. This other big one that we basically double billed on this cost paid with transferred parking in lieu fees were also reimbursed by the bond?

TRANSCRIPT

Ms. Richardson: Correct.

Chair Burt: That's pretty interesting. Do you feel like we have the corrective mechanisms to get this operating (crosstalk).

Ms. Richardson: I think the City Manager's response to the recommendations will fix the problems. I don't think it's a simple overnight fix. There's definitely some work that needs to be done in correcting the Muni Code, and then some decisions be made about who's really responsible for what and getting a good mechanism in place for tracking costs as you're constructing a project.

Chair Burt: Ed.

Ed Shikada, Assistant City Manager: To that point, I would note that having experience with impact fees in a number of other contexts, this is the most complex system I've ever encountered. The requirement for both the pre-estimate, the payment and the reconciliation on the tail end is a very labor intensive system. As a result, part of the recommendation coming out of Planning is the necessity of some Staff to track this on an ongoing basis and do reconciliations as is necessary. Unfortunately, that's the system we've got in place, so we will have ensure that the resources are provided on an ongoing basis including some of the historical knowledge that will be necessary in order to track projects over the course of years. Again, that's the system as it's designed. Following through on the administrative requirements will involve those next steps.

Ms. Richardson: One more thing I think is worth mentioning. One of the reasons we had difficulty in making sure that the costs we capture were accurate was that there was a system change from the old IFIS system to SAP at some point in time. As we look at in the future moving to a new ERP system, making sure that information transitions in a way or that the legacy system stays available where, if necessary, people can go back and get those costs. We were not able to go into the old system and get the costs.

Chair Burt: Marc, did you have something?

Council Member Berman: Yeah, just a quick question. I guess two quick questions now. Ed, I don't know if this possible given the complexity. Is there a time when we could shift from our current complex setup to a more streamlined, simple approach? I'm sure that's complicated with previous obligations.

TRANSCRIPT

Mr. Shikada: Right. I suspect it would be difficult to unwind the complexity that exists. To a certain extent perhaps thinking big picture, that the—in the longer term perhaps transitioning to one that does not necessarily require the reconciliation on the tail end would be simpler administratively, as long as we could identify some assurance for the payers that the funds they're depositing into the in lieu fee accounts will be used in a manner that's consistent with the original intent.

Council Member Berman: I just want to make sure that we're providing guidance on any decision points that we're supposed to be providing guidance on. One that pops up is in the City Manager's response matrix on 1-1. It says ASD defease and reduce the bond debt by the \$1.8 million that was inadvertently drawn down. Blah, blah, blah. Then target date depends upon action. If Council prefers to transfer, this can be done as part of the midyear budget adjustment, etc. If Council chooses to defease the bonds, this should be complete by June. Do you guys need an answer from us? If you do, then I need a little more explanation of what that means and what the ramifications of it are.

Joe Saccio, Administrative Services Assistant Director: Joe Saccio, Assistant Director of ASD. As Council Member Burt said, we used bond proceeds when we should not have and have used in lieu fees. The appropriate thing to do in our opinion is to take those monies and defease bonds, because it provides relief to the property owners Downtown that would otherwise have to pay—it would pay for these bonds unless we defease them. Rather than offset debt service, it would seem that we really need to reduce the bonds and the burden in the future. Just a little history. On the two garages, we had excess bond funds. We did defease bond funds. The project came in way under cost. We defeased bonds. Staff took the initiative in 2012 to refinance those bonds, and we did. We save the Downtown people \$2 million in net present value savings. In this instance, it's more appropriate, we think, to defease the bonds than to do anything else.

Council Member Berman: Thank you, Joe. Does the City Auditor's Office have an opinion?

Ms. Richardson: That was our initial recommendation to defease the bonds. We didn't look at the other options as much. We felt like just reducing the bonds now was the way to go.

Council Member Berman: I'm glad everyone's on the same page on that. I think that's it.

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Chair Burt: Tom.

Council Member DuBois: Thank you for the audit. It seemed to be a really good audit. The recommendations were clear, and it was very understandable. I think most of my comments are really about the actions we're taking. I had a question about how we can simplify the system. That's been asked. What does it mean to defease a bond? Does it just affect future payments? Are we actually refunding money?

Ms. Richardson: I'll let ASD answer that, because they deal with that part of it.

Mr. Saccio: I'll sit over so I can answer your questions more quickly. What we need to do on this is put these monies into an escrow account so that they can grow over time. The recommendation of the financial adviser is we keep them in escrow, they grow, and then we defease a certain portion of the outstanding bonds in the future. You're basically relieving the property owners of paying the principal and the interest on that set of bonds. There are always requirements about when you can call bonds back and defease them. The financial adviser has provided us with guidance on when we should do that. Basically the bonds will be called back, and we will not have to pay—the bondholders get paid. I'm sorry. The property owners will not have to pay the principal and interest on that.

Council Member DuBois: Thanks.

Chair Burt: Explain to me how this affects our financial statements. Do these dollars that will be paid back, is it really just a balance sheet adjustment and not a one-time (crosstalk)?

Mr. Saccio: Right now, the funds that we need to use to repay the bonds are sitting in our Capital Improvement Fund. We need to reduce that fund in order to take out the money to put in escrow to defease the future bonds. I don't have a real clear answer for how it's going to affect the financial statements. It's not as though the money isn't there; it's just going to be less than what we would have liked it to be.

Chair Burt: It'll be that much less in the Capital Improvement Fund.

Mr. Saccio: Yes, that is true. That's correct.

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Council Member DuBois: Thank you. Some different questions. The net revenue on the University Avenue and Cal. Avenue parking garages, did you guys make any judgment on whether the expenses are reasonable compared to what's typical for a garage?

Yuki Matsuura, Senior Performance Auditor: What we found was it was really a policy decision. Annually, you review as Council Members the Budget is presented and you review, so that's the process. We didn't find inappropriate expenditures. It seems like what was approved was being spent for that purpose.

Council Member DuBois: It seemed to vary quite a bit year to year, but you're saying it's a policy decision, what gets spent. I see that the money that we wrote has already been paid.

Ms. Richardson: Which money has already been paid?

Council Member DuBois: The money that we undercharged. It says it's already been collected.

Ms. Richardson: Yes, yes.

Council Member DuBois: I guess the last question was really on the separation of the Crescent Park from College Terrace. The concurrence said partially agree. Are we definitely separating those accounts going forward? That's 2.2.

Mr. Saccio: Planning and budget group will work together. We have established cost centers. Sherry can speak to this, because Planning Department is in charge of those cost centers. We're going to establish cost centers for Crescent Park, College Terrace and the RPP piece. We have funds for the University Avenue Parking Permit Fund and the Cal. Avenue Parking Permit Fund. At the very beginning with College Terrace, especially Crescent Park—Crescent Park is really small in terms of expenditures and revenues. I'll look to Sherry, but we're going to implement in this next budget process make sure these cost centers are separate and try with our best efforts to separate out the revenues and expenses for each.

Sherry Nikzat, Senior Management Analyst: Sherry Nikzat, Planning and Community Environment. I'm the Senior Management Analyst in that department. We actually did set up—when we started RPP, we set up a separate cost center. At that point the Office and Management and Budget

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separated cost centers for College Terrace, Crescent Park and RPP. That is the approach we will be taking for any other future parking programs.

Council Member DuBois: Thank you. I think it's the last question. Yeah, last question. There was a discussion on 1.5 about the record retention policy which we just updated. I wondered if that actually got included.

Ms. Richardson: I don't believe it did. This recommendation hadn't been finalized by the time that was submitted. I don't think that's included in there. We'd have to go back and double check.

Council Member DuBois: It'll be caught the next time, I guess. It sounds like. Thank you.

Chair Burt: If we don't have any other questions, we need a motion that would recommend that Policy and Services Committee recommend to the City Council acceptance of the Audit of the Parking Funds.

Council Member Wolbach: So moved.

Council Member Berman: Second.

MOTION: Council Member Wolbach moved, seconded by Council Member Berman to recommend the City Council accept the Audit of Parking Funds.

Chair Burt: Any discussion? All in favor. That passes unanimously. Thank you very much.

MOTION PASSED: 4-0