

## **Managerial Summary**

### **A. Objectives, Scope and Methodology**

We have completed our review of the Traffic and Drainage Pro Rata for January 1, 2016 – December 31, 2016. Our review was conducted for the purpose of evaluating pro rata practices in the City of Chesapeake (City) in all areas that received pro rata payments, any revenue related pro rata issues, and whether the City was complying with applicable department, city, state, and federal requirements and procedures related to pro rata procedures.

We conducted this performance audit in accordance with 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.

Pro rata was established by the Commonwealth of Virginia as a method to allow municipalities to have developers construct large water/sewer, and drainage, projects that benefited more than one development and share the cost with each subsequent developer. The City utilized pro rata for the construction of various water/sewer, drainage, and traffic projects within the City. As of September 30, 2016, the City held \$4,860,480 on deposit for drainage pro rata, and \$85,000 for traffic pro rata projects.

To conduct this audit, we reviewed and evaluated City and Department policies and procedures, and operations documents and reports, both internal and external, as well as State code. We also conducted interviews with various Public Works staff and conferred with the City Attorney's office.

### **Major Observations and Conclusions**

Based on our review, we determined that Drainage Pro Rata procedures were functioning as expected. However, we did identify some issues related to tracking the length of time deposits were kept, viability of certain basins, and missing reference to the twelve year refund period in the departmental regulations. Our review of Traffic Pro Rata determined that the program was not in compliance with State Code.

This report, in draft, was provided to the Public Works Department for review and response. Their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. Department management and staff were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

## **Methodology**

To conduct this audit, we reviewed and evaluated City policies and procedures, and operations documents and reports, both internal and external. We reviewed applicable City Ordinances and State Code. We also conducted interviews with various department staff. We observed various processes and records. We reviewed prior audits in Chesapeake and of other municipalities. We reviewed other municipalities oversight and control of pro rata. Finally, we reviewed data obtained from PeopleSoft.

## **B. Performance Information**

The Commonwealth of Virginia and City Ordinances allowed the City to establish water and sewer improvement and/or drainage improvement plans for areas having related and common water and sewer and/or drainage conditions and where improvements were constructed by an initial developer to serve the demands generated by subdivisions and developments within that area. Subsequent subdividers or developers whose projects were served by such improvements would be required as a condition of subdivision or development approval to pay their pro rata share of the cost of providing such improvement.

The pro rata drainage program was implemented in 1988 by Public Works. The pro rata program apportioned the cost of major infrastructure to the developers using the improvements. The intent was to encourage continued development in Chesapeake and equitably allocate those costs to the parties who received the benefit. For the pro rata drainage program, the City would develop a project once sufficient funds, generally over \$100,000, were available in the pro rata deposit account for the appropriate basin.

Traffic pro rata was used from approximately 1997 through 2014 and was subsequently discontinued after the completion of the Volvo Parkway and Independence intersection project. A total of \$85,000 remains on deposit. The pro rata sewer/water program was created in 1984 by Public Utilities and was noted in our FY 2016 audit.

## **C. Pro Rata Programs**

### **1. Drainage Pro Rata**

**Finding** - The City's pro rata drainage program had multiple pro rata deposits in drainage basins that may not be viable for future projects. The basins were located mainly in areas of the City that had already been developed making further development unlikely. There was no method in Public Works to track the length of time deposits had been received and not used. There was also no mention in Public Works Departmental Regulation 906 that drainage pro rata could only be kept for twelve years.

**Recommendation** – Public Works should set up an “aging schedule” or other method to track the length of time that pro rata deposits have been held by the City and review each basin to determine if there are any deposits that have been held for more than twelve years. If any such deposits are found, Public Works should work with the City Attorney's Office to determine what should be done with those deposits. The City may also wish to evaluate the future of the program in more fully developed areas or the possibility of funding stormwater quality retrofits in those areas.

**Response** - **Public Works believes the drainage pro-rata program to be a very effective method of mitigating the impacts of new development on the existing drainage system and providing a pro-rata contribution to the costs of developing improved drainage infrastructure to support the development and surrounding area.**

**Comprehensive engineering drainage studies (Master Drainage) identify the ultimate drainage system configuration at city build-out in accordance with the approved City land use plan, these calculations are detailed in the Public Facilities Manual.**

**We concur that Public Works regulations outlining the program require updating to clearly show the 12 year limit and the process for reimbursing development as appropriate. Public Works, as we have done regularly in the past, will soon present a significant budget action to City Council to program additional projects to utilize drainage pro-rata funds and to reimburse the general fund and stormwater utility in order to maximize the use of the pro-rata contributions and ensure that few funds lapse under the 12 year limit. As part of our quarterly review we will continue to identify projects and reimbursements as additional pro-rata funds are received. (Note: the full text of their response is included in the audit report.)**

### **2. Traffic Fee Pro Rata**

**Finding** - The City continued to carry pro rata traffic fees on the general ledger even though it was not authorized to collect those fees, and Public Works maintained a policy for Pro Rata Traffic Fees even though the City was not authorized to collect them.

**Recommendation** – The City should remove the pro rata traffic fees from the general ledger, and Public Works should rescind its policy for Pro Rata Traffic Fees.

**Response** – This Audit report has conflated several items into one category “Traffic Pro-rata,” when really there has been three different types as follows:

1. Voluntary Road Cash proffers.
2. Proffered traffic signal contributions, sometimes called pro-rata because it is a proportionate share, as part of a conditional rezoning.
3. We did have an older requirement for traffic signal pro-rata for site development that was going through code compliance review. This program was not consistent with state code and had been discontinued many years ago.

We concur that the Public Facility Manual (PFM) Chapter 16 “Access Management” and Public Works Regulation 906 “Pro-Rata Fees” require updating to clarify these distinctions. During the last round of PFM updates in November of 2016, we removed the traffic pro-rata section from chapter 16 but we were contemplating making additional changes to this chapter and neglected to send out this chapter at that time. The revised chapter has now been posted for public comment. Public Works regulations will be updated to distinguish between voluntary cash proffers for road improvements and individually proffered contributions for traffic signals and clarify that the account is for “Traffic Signal/Improvements Cash Proffers” rather than “Traffic Signal Pro-rata”.