

INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

TransNet and *TransNet* Extension Activities

Summary of Results

Year Ended June 30, 2019

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Background

TransNet is the half-cent sales tax for local transportation projects that was first approved by voters in 1988. In 2004, the San Diego voters renewed their commitment to the region's transportation improvement program by approving Proposition A, implemented through the Extension Ordinance, and continuing an existing half-cent transportation sales tax for an additional 40 years. Administered by the San Diego Association of Governments (SANDAG), the program has been instrumental in expanding the region's transportation system, reducing traffic congestion, and bringing critical transportation programs to life.

Scope of the Engagement

This engagement was to apply agreed-upon procedures in order to assist the Independent Taxpayer Oversight Committee (ITOC) and SANDAG in determining whether the recipients of *TransNet* funds were in compliance with the *TransNet* Ordinance and the *TransNet* Extension Ordinance for the year ended June 30, 2019. We performed the procedures in accordance with attestation standards established by the American Institute of Certified Public Accountants.

In accordance with SANDAG Board Policy No. 031, Rule #17, Section I, fiscal and compliance audit procedures are to be completed in a timely manner. The Policy recommends that the auditors issue a report of compliance audit results and present them to the ITOC.

The following are the major compliance components included in the scope of the procedures:

- *TransNet* and *TransNet* Extension Expenditures;
- Maintenance of Effort (MOE);
- SANDAG Board Policy No. 031, Rule 17, Section IV, Local Agency Balance Limitations (30% Rule);
- Local Street improvements – Congestion Relief vs. Maintenance;
- Local Street Improvements – Maintenance Monitoring;
- Indirect Costs Allocated to Projects in the Regional Transportation Improvement Plan (RTIP);
- Regional Transportation Congestion Improvement Program (RTCIP); and
- Transit Operator Eligibility for Receipt of Funds.

The procedures performed were approved by the ITOC prior to commencing fieldwork. The sufficiency of those procedures is solely the responsibility of the ITOC. The specific procedures performed and the results of those procedures are included in each of the draft reports for the

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recipient agencies. Following approval of the procedures, we scheduled and performed our fieldwork during the months of September 2019 through December 2019.

Results of Procedures

TransNet and TransNet Extension Expenditures

As required by SANDAG Board Policy No. 031, each recipient agency is required to account for *TransNet* activities in a separate fund, or if an alternative approach is used, it must be approved by SANDAG. All recipient agencies complied with this requirement.

During our fieldwork, we obtained the following items:

- Trial balance including balance sheet and income statement;
- Detailed general ledger including revenue and expenditure details;
- Schedule A – Schedule of Status of Funds by Project; and
- Schedule B – Cumulative Schedule of Status of Funds by Project.

The objectives of the procedures were to ensure the following:

- Expenditures were allowable in accordance with the *TransNet* Ordinance and *TransNet* Extension Ordinance;
- Revenues were recorded and agreed to SANDAG's payment records;
- Interest income allocation methodology was reasonable;
- Explanations were obtained and disclosed for projects that had a negative balance; and
- Proper approvals were obtained for most inter-project transfers. Those that have not obtained approval are scheduled either for jurisdiction approval or RTIP approval prior to issuance of the final report.

Based upon the results of the procedures performed, all recipient agencies were in compliance with the revenue and expenditure requirements. In addition, the Cities of Lemon Grove and Oceanside are in the process of obtaining proper approvals for inter-project transfers during the draft report period. The Cities anticipate obtaining all approvals and be in compliance prior to issuing the final reports.

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Maintenance of Effort (MOE)

In accordance with Section 8 of the *TransNet* Extension Ordinance, each recipient agency receiving revenues pursuant to Section 4(D) shall annually maintain, at a minimum, the same level of local discretionary funds expended for street and road purposes on average over the last three fiscal years (FY) completed prior to the operative date of the *TransNet* Extension Ordinance (FY 2001 through FY 2003), as was reported in the State Controller's Annual Report of Financial Transactions for Street and Roads, and as re-indexed in FY 2015.

During our fieldwork, we obtained the following items:

- From SANDAG, the current MOE requirements for each recipient agency subject to this requirement; and
- From the recipient agencies, Schedule 3 of the Annual Report of Financial Transactions for Streets and Roads.

Based upon the results of the procedures performed, all recipient agencies were in compliance with the MOE requirements for the year ended June 30, 2019. See Attachment A for a summary of compliance with the MOE requirements.

SANDAG Board Policy No. 031, Rule #17, Section IV, Local Agency Balance Limitations (30% Rule)

In accordance with the 30% Rule, a recipient agency that maintains a balance of more than 30 percent of its annual apportionment (after debt service payments) must use the remaining balance to fund projects. SANDAG will defer payment until the recipient agency's Director of Finance, or equivalent, submits a certification that the unused balance has fallen below the 30 percent threshold, and will remain below the threshold until such time that a new threshold is determined.

The objectives of the procedures were to ensure that the recipient agency's *TransNet* balance for those programs that receive funding from the annual apportionment (Local Streets and Roads, Local Street Improvements, and Transit Services) is not more than 30% of the recipient agency's current year annual apportionment (net of debt service payments).

In order to ensure compliance with the 30% Rule, we performed the following:

- Obtained the schedule of annual apportionments from SANDAG;
- Obtained and reviewed the balance of the programs that received annual allocations; and
- Compared the balance of the programs noted above to the apportionment schedule to ensure the excess fund balance did not exceed the 30% threshold.

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Based upon the results of the procedures performed, all recipient agencies, with the exception of the City of Imperial Beach and the City of Poway, were in compliance with the 30% Rule. This instance of non-compliance was reported for informational purposes only and not as a finding. However, SANDAG will defer payments to this agency until they are in compliance with the 30% Rule. See Attachment B for a summary of compliance with the 30% Rule.

Local Street Improvements – Congestion Relief vs. Maintenance

As specified in Section 2(C)(1) of the *TransNet* Extension Ordinance, at least 70% of the revenues provided for local street and road purposes should be used for congestion relief, and no more than 30% for maintenance. In order to ensure SANDAG is in compliance with the *TransNet* Extension Ordinance, we performed the following:

- Inquired and obtained source data used to calculate the Local Street Improvements Allocation Schedule in SANDAG's TTrak program (SANDAG's *TransNet* tracking program) and recalculated the total fund distribution per jurisdiction; and
- Reviewed the FY 2019 *TransNet* Streets and Road Fund Allocation Schedule and determined that at least 70% of the revenues provided for local street and road purposes were used for congestion relief purposes and that no more than 30% were used for maintenance purposes.

Based upon the results of the procedures performed, SANDAG was in compliance with the Local Street Improvement requirements. See Attachment C for the Local Street Improvement allocation between congestion relief and maintenance, by recipient agency.

Local Street Improvements: Maintenance Monitoring

At the request of ITOC, we documented the percentage of local street and road revenue cumulatively expended for maintenance. In accordance with the *TransNet* Extension Ordinance, the local jurisdictions receiving local street improvement funds may not spend more than 30% of cumulative funds for Maintenance purposes. All recipient agencies were in compliance with this requirement. Three agencies, the Cities of Lemon Grove, Poway and San Diego each have incurred more than 28.00% of cumulative revenue for maintenance. Results of this procedure are located in Attachment D.

Indirect Costs Allocated to Projects in RTIP

We inquired of management whether indirect costs are allocated to the projects included in the RTIP. If so, we documented the indirect cost rate allocated and the basis of allocation. We documented whether the recipient agency's indirect cost plan had been reviewed by a federal or state agency, or audited by a certified public accounting firm. If not, then we documented the year the indirect cost plan was last updated, the year the methodology was last reviewed, and whether the methodology was reasonable. See Attachment E for the indirect costs allocated to the RTIP.

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Regional Transportation Congestion Improvement Program (RTCIP)

In accordance with Section 9(A) of the *TransNet* Extension Ordinance and Expenditure Plan, each local agency in the San Diego region shall contribute a minimum of \$2,000, subject to an annual adjustment based upon an index, in exactions from the private sector, for each newly constructed residential housing unit in that jurisdiction to the RTCIP. However, each jurisdiction may use their own fee schedule, as long as the fees are at a minimum the adjusted amount as approved by the SANDAG Board of Directors annually. The RTCIP revenue is to be used to construct improvements to the Regional Arterial System.

The objectives of the procedures were to ensure the following:

- Each recipient agency collected at least the minimum exaction fee of \$2,483 from each newly constructed residential housing unit;
- Documentation was submitted to the ITOC on a timely basis and proper approval was obtained for the exaction fee; and
- Expenditures were allowable in accordance with the *TransNet* Extension Ordinance and Expenditure Plan.

In order to ensure compliance with the *TransNet* Extension Ordinance, we performed the following:

- Obtained a detailed general ledger from the recipient agencies;
- Obtained the RTCIP approved schedule for collecting and/or contributing private sector exactions;
- Obtained the RTCIP schedule (Schedule C of the associated reports) including beginning balance, exactions collected, interest earned, expenditures, and ending balance;
- Verified that the exaction fee being collected was approved by the City Council or Board of Supervisors and is in compliance with the *TransNet* Extension Ordinance and SANDAG Board Policy No. 031; and
- Verified that expenditures, if any, complied with the *TransNet* Extension Ordinance and SANDAG Board Policy No. 031.

Based upon the results of the procedures performed, all recipient agencies, with the exception of the Cities of Lemon Grove, City of Coronado and National City were in compliance with the RTCIP requirements. See the Summary of Findings by Recipient Agency for further information.

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Transit Operator Eligibility for Receipt of Funds

In accordance with the *TransNet* Extension Ordinance, in order for transit operators to maintain eligibility for receipt of funds, the operator must limit the increase in its total operating cost per revenue vehicle hour for bus or revenue vehicle mile for rail services from one fiscal year to the next, to no more than the increase in the Consumer Price Index (CPI) for San Diego County over the same period.

In order to ensure compliance with the *TransNet* Extension Ordinance, we performed the following:

- Calculated the increase in operating cost per revenue vehicle hour for bus services and revenue vehicle mile for rail services between June 30, 2018 and June 30, 2019;
- Calculated the increase in the CPI for San Diego County between June 30, 2018 and June 30, 2019; and
- Compared the increase in total operating cost per revenue vehicle hour for bus services, and revenue vehicle mile for rail services, to the increase in the CPI.

The North County Transit District (NCTD) was not in compliance with the rail operator portion of the eligibility requirements. After NCTD requested the exclusion of costs, the rail operator eligibility was in compliance.

Summary of Findings by Recipient Agency

The following findings were identified during performance of the agreed-upon procedures.

<u>Recipient Agency</u>	<u>Finding</u>	<u>Management Response</u>
City of Coronado	Need to use approved exaction fee	In process of collecting
City of Lemon Grove	Need to use approved exaction fee	In process of collecting
City of National City	Need to use approved exaction fee	In process of collecting

Complete responses from the recipient agencies to the findings identified are included in the individual recipient agency reports.

Compliance With Maintenance of Effort Requirement

Recipient Agency	Fiscal Year 2019				
	In Compliance	Streets and Roads	Specialized Transportation Services	Transit Bus Subsidies	Deficit Amount
Carlsbad	Yes	\$6,023,551	–	–	–
Chula Vista	Yes	3,509,614	–	–	–
Coronado	Yes	863,498	–	–	–
Del Mar	Yes	453,089	20,877	–	–
El Cajon	Yes	1,712,753	–	–	–
Encinitas	Yes	1,932,140	53	–	–
Escondido	Yes	2,889,819	–	–	–
Imperial Beach	Yes	220,018	–	–	–
La Mesa	Yes	1,774,888	–	–	–
Lemon Grove	Yes	181,274	–	–	–
National City	Yes	1,970,841	–	–	–
Oceanside	Yes	2,786,239	–	–	–
Poway	Yes	1,088,158	–	–	–
San Diego	Yes	22,679,581	167,817	903,424	–
San Marcos	Yes	4,489,387	–	–	–
Santee	Yes	567,501	–	–	–
Solana Beach	Yes	457,765	–	–	–
Vista	Yes	2,413,718	–	–	–
County of San Diego (1)	–	–	–	–	–

Yes = In Compliance

No = Not in compliance

– = Not applicable

Note 1 - The County does not have discretionary expenditures or projects that can be reported under the MOE.

Compliance With 30 Percent Fund Balance Limitation FY 2017 – FY 2019

Recipient Agency	Fiscal Year 2019				Fiscal Year 2018				Fiscal Year 2017		
	In Compliance	30% Limitation	S&R Balance	Excess Amount	In Compliance	30% Limitation	S&R Balance	Excess Amount	In Compliance	30% Limitation	Excess Amount
Streets and Roads											
Carlsbad	Yes	\$929,023	\$421,824	–	Yes	\$937,479	(\$283,939)	–	Yes	\$841,909	–
Chula Vista	Yes	1,822,896	(1,920,175)	–	Yes	1,812,757	436,127	–	Yes	1,744,293	–
Coronado	Yes	189,695	176,288	–	No	184,344	269,540	85,196	Yes	174,048	–
Del Mar	Yes	2,845	(1,460)	–	Yes	592	(1,460)	–	Yes	1,254	–
El Cajon	Yes	721,601	(1,701,579)	–	Yes	721,877	(188,290)	–	Yes	710,013	–
Encinitas	Yes	511,028	(901,077)	–	Yes	512,643	(174,123)	–	Yes	484,624	–
Escondido	Yes	1,113,951	218,528	–	Yes	1,072,133	(380,740)	–	Yes	1,044,054	–
Imperial Beach	No	209,863	268,974	59,211	Yes	217,951	185,017	–	Yes	204,777	–
La Mesa	Yes	464,269	(685,610)	–	Yes	470,691	(816,963)	–	Yes	341,921	–
Lemon Grove	Yes	213,858	(486,895)	–	Yes	214,923	(1,225,003)	–	Yes	210,877	–
National City	Yes	321,206	304,103	–	Yes	307,387	8,410	–	Yes	298,272	–
Oceanside	Yes	1,176,747	(4,279,916)	–	Yes	1,368,183	(6,757,986)	–	Yes	1,348,902	–
Poway	No	444,262	769,382	325,120	Yes	451,912	181,648	–	Yes	442,600	–
San Diego, City	Yes	10,016,371	641,244	–	Yes	9,742,010	145,045	–	Yes	9,523,915	–
San Marcos	Yes	478,969	(478,192)	–	Yes	474,536	(131,995)	–	Yes	458,310	–
Santee	Yes	146,856	(850)	–	Yes	150,487	(86,005)	–	Yes	141,034	–
Solana Beach	Yes	63,137	(88,258)	–	Yes	66,717	(102,076)	–	Yes	63,316	–
Vista	Yes	720,276	(114,016)	–	Yes	688,109	438,372	–	Yes	668,767	–
County of San Diego	Yes	4,729,350	1,694,096	–	Yes	4,186,676	3,879,380	–	Yes	4,008,581	–
Transit											
Metropolitan Transit System (MTS)	Yes	9,669,606	–	–	Yes	9,387,901	–	–	Yes	9,345,784	–
North County Transit District (NCTD)	Yes	3,886,042	270,813	–	Yes	3,769,526	–	–	Yes	3,750,308	–

Yes = In Compliance

No = Not in compliance and not receiving *TransNet* payment.

Compliance with Allocation of Local Street Improvements Revenues

Recipient Agency	Fiscal Year 2019		
	Allocation of Sales Tax Revenues Received	70% Congestion Relief Allocated	30% Maintenance Allocated
Carlsbad	\$3,096,742	\$2,167,719	\$929,023
Chula Vista	6,076,321	4,253,425	1,822,896
Coronado	632,317	442,622	189,695
Del Mar	205,503	143,852	61,651
El Cajon	2,405,338	1,683,737	721,601
Encinitas	1,703,428	1,192,400	511,028
Escondido	3,713,169	2,599,218	1,113,951
Imperial Beach	699,542	489,679	209,863
La Mesa	1,547,563	1,083,294	464,269
Lemon Grove	712,859	499,001	213,858
National City	1,449,679	1,014,775	434,904
Oceanside	4,424,684	3,097,279	1,327,405
Poway	1,480,875	1,036,613	444,262
San Diego, City	33,387,903	23,371,532	10,016,371
San Marcos	2,262,915	1,584,041	678,874
Santee	1,444,084	1,010,859	433,225
Solana Beach	426,945	298,861	128,084
Vista	2,400,920	1,680,644	720,276
County of San Diego	16,747,187	11,723,031	5,024,156

Result: SANDAG appropriately allocated *TransNet* revenues for the Local Street Improvements program in accordance with the *TransNet* Extension Ordinance.

Local Street Improvements: Maintenance Monitoring

Recipient Agency	Cumulative Revenue	30% of Cumulative Revenue	Cumulative Maintenance Expenditures	Available Maintenance Funds	Cumulative % Expended for Maintenance	In Compliance
Carlsbad	\$38,631,892	\$11,589,568	\$ (575,155)	\$11,014,413	1.49%	Yes
Chula Vista	63,843,173	19,152,952	(14,099,644)	5,053,308	22.08%	Yes
Coronado	6,813,939	2,044,182	(283,272)	1,760,910	4.16%	Yes
Del Mar	6,475,690	1,942,707	(394,270)	1,548,437	6.09%	Yes
El Cajon	26,051,596	7,815,479	(4,846,103)	2,969,376	18.60%	Yes
Encinitas	20,350,884	6,105,265	(1,117,046)	4,988,219	5.49%	Yes
Escondido	43,372,981	13,011,894	(10,619,298)	2,392,596	24.48%	Yes
Imperial Beach	8,157,405	2,447,222	(2,234,527)	212,695	27.39%	Yes
La Mesa	23,307,394	6,992,218	(4,056,375)	2,935,843	17.40%	Yes
Lemon Grove	7,661,280	2,298,384	(2,171,494)	126,890	28.34%	Yes
National City	18,629,526	5,588,858	(0)	5,588,858	0.00%	Yes
Oceanside	57,996,330	17,398,899	(14,664,792)	2,734,107	25.29%	Yes
Poway	16,188,372	4,856,512	(4,750,585)	105,927	29.35%	Yes
San Diego, City	343,180,728	102,954,218	(99,709,303)	3,244,915	29.05%	Yes
San Marcos	38,453,189	11,535,957	(3,723,704)	7,812,253	9.68%	Yes
Santee	29,458,856	8,837,657	(3,139,041)	5,698,616	10.66%	Yes
Solana Beach	10,451,294	3,135,388	(289,587)	2,845,801	2.77%	Yes
Vista	26,733,486	8,020,046	(4,894,162)	3,125,884	18.31%	Yes
San Diego, County	173,933,240	52,179,972	(10,254,585)	41,925,387	5.90%	Yes

Indirect Costs Allocated to RTIP

Recipient Agency	2019 Total <i>TransNet</i> Expenditures	2019 Indirect Costs Charged to <i>TransNet</i>	2019 Indirect Costs as a % of Total <i>TransNet</i> Expenditures	Last Allocation Plan Approval	2018 Indirect Costs as a % of Total <i>TransNet</i> Expenditures
Carlsbad	\$1,501,458	\$84,680	5.64%	n/a	3.69%
Chula Vista	5,679,132	736,165	12.96%	n/a	10.66%
Coronado	143,659	0	0.00%	n/a	18.32%
Del Mar	196,019	0	0.00%	n/a	0.00%
El Cajon	2,467,347	17,416	0.71%	n/a	1.42%
Encinitas	1,515,958	0	0.00%	n/a	0.00%
Escondido	5,298,941	174,058	3.28%	2018 ¹	2.99%
Imperial Beach	1,030,835	0	0.00%	n/a	0.00%
La Mesa	4,670,150	0	0.00%	n/a	0.00%
Lemon Grove	643,474	78,186	12.15%	2019 ¹	6.21%
National City	1,441,718	0	0.00%	n/a	0.00%
Oceanside	8,066,440	833,483	10.33%	n/a	11.47%
Poway	902,196	0	0.00%	n/a	0.00%
San Diego, City	40,873,762	2,950,199	7.22%	n/a	9.06%
San Marcos	356,997	0	0.00%	n/a	0.00%
Santee	1,115,637	3,645	0.33%	n/a	0.66%
Solana Beach	422,069	0	0.00%	n/a	0.00%
Vista	1,755,561	0	0.00%	n/a	0.00%
Caltrans	32,708,403	3,090,191	9.45%	2018 ²	10.58%
San Diego, County	7,467,076	931,170	12.47%	n/a	10.31%
SANDAG	248,223,649	3,531,959	1.42%	2018 ²	0.57%

n/a – not applicable because there is no plan or the plan is not formally approved

¹ – approved by City Council

² – approved by federal cognizant agency