PSFSS COMMITTEE: 08-21-08
ITEM: H

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Sharon W. Erickson, City Auditor

SUBJECT: *A Review Of The Department Of Public Works' Oversight Of The Foxworthy Bridge Project*

DATE: August 8, 2008

SUMMARY

The Foxworthy Avenue Bridge Project was a challenging and complex project with multiple funders and stakeholders, including the City, a developer, Federal Highway Bridge Replacement and Rehabilitation (HBRR) Funds, and the Santa Clara Valley Water District. Our review of this project identified several concerns including: an overly broad General Development Plan; required off-site improvements for which findings were not clearly stated in the public record; and use of a City-Private Developer Agreement where a subdivision improvement agreement was more suitable. We also found that the public reporting requirements for City-Private Developer Agreements were not being met. We recommend that the Planning, Building and Code Enforcement Department, in cooperation with the Department of Public Works, ensure that conditions of approval in General Development Plans be sufficiently clear and detailed, that the nexus for public improvements be clearly stated in the public record, and that parameters and reporting requirements for the use of City-Private developer agreements be clarified.

INTRODUCTION

In accordance with the City Auditor's 2007-08 Audit Workplan, we have completed an audit of the Department of Public Works' oversight of the Foxworthy Avenue Bridge Project. This review is a follow-up report to *An Audit Of Department Of Transportation's Efforts To Secure Federal Highway Bridge Replacement And Rehabilitation (HBRR) Funds (2007),* which found that the City could secure a significant amount of Federal funding and interest earnings on future City Bridge Replacement and Rehabilitation Projects. During that audit we noticed that one project, the Foxworthy Bridge, incurred significant costs even though the1998-99 Capital Improvement Program indicated it would be built at no cost to the City. Therefore, this follow-up audit focused on the Foxworthy bridge project to understand the sequence of events that led to the City having to pay a portion of the cost of this bridge.

We conducted this 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 finding and conclusions based on our audit objectives. We limited our work to those areas specified in the Objectives, Scope, and Methodology section of this report.

The City Auditor's Office thanks the Department of Transportation, the Department of Public Works, the Department of Planning, Building and Code Enforcement, and the City Attorney's Office for their time, information, insight, and cooperation during the audit process.

BACKGROUND

In February 1998, the City Council approved Ordinance No. 25508 rezoning certain real property situated on the northeast corner of Hillsdale Avenue and Old Almaden Road, and authorizing the Developer development project called the Rubino Residential Project (Rubino Project). The City Council's rezoning approval allowed the construction of 950 residential units.

According to the Environmental Impact Report (EIR) for the Rubino Project, the Project was expected to substantially increase traffic around the old Hillsdale Avenue Bridge. The EIR suggested the construction of a new four-lane bridge extending Pearl Avenue over the Guadalupe River to minimize congestion and enhance the traffic carrying capability of streets in the proximity of the development. The General Development Plan for the Rubino Project (GDP) anticipated construction of a new bridge over the Guadalupe River located at Foxworthy Avenue (the Foxworthy Avenue Bridge) that would connect Pearl Avenue[1] with Foxworthy Avenue. As discussed on page 5 this report, language was added to the GDP to allow similar improvements as an alternative to bridge construction. The Planned Development (PD) permit for the Rubino Project also required the Developer to demolish the old Hillsdale Avenue Bridge which was upstream from the new structure.

Meanwhile, the Santa Clara Valley Water District (SCVWD) wanted to widen the channel over the Guadalupe River to improve flood control. As a result, the proposed Foxworthy Avenue Bridge Project was expanded to accommodate the size of the future channel that would run under the new bridge. The new bridge was to be 56 feet longer than the bridge that the developer was originally obligated for. In March of 1998, the Federal Highway Administration determined that the proposed relocated Foxworthy Avenue Bridge served the same general traffic corridor as the existing Hillsdale Avenue Bridge and therefore qualified as a bridge replacement project.

[1] After the completion of the Foxworthy Avenue Bridge Project, part of Pearl Avenue starting east from the Guadalupe River was renamed Foxworthy Avenue.

The construction of the Foxworthy Avenue Bridge Project was completed in November 2002.[2] Exhibit 1 shows the fully constructed Foxworthy Avenue Bridge.

Exhibit 1
South Side Of Foxworthy Avenue Bridge[3]

As a result of these and other changes, the bridge ultimately cost over $3.5 million, or $1.25 million more than originally estimated.[4] The City's share of the total was $874,289. The Federal, City, SCVWD, and Developer contributions to the Project included:

- Federal Government HBRR contribution of $1,680,000;
- City of San Jose contribution of $874,289;
- SCVWD contribution of $403,926; and
- Developer contribution of $587,000 plus an undetermined but potentially substantial amount for the completion of plans, specifications and permits related to the construction of the Project

[2] It should be noted that City staff was involved with all phases of the Foxworthy Avenue Bridge Project from July 1997 to August 2006.

[3] Part of the extra span is for a future SCVWD channel widening project. The Rubino Project residential development is shown in the background.

[4] On May 4, 2007, the City Auditor issued *An Audit Of Department Of Transportation's Efforts To Secure Federal Highway Bridge Replacement And Rehabilitation (HBRR) Funds*, finding that the City could secure a significant amount of Federal funding through better estimating practices and revising the grant award amount.

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objective of our 2007 audit was to evaluate whether the City secured the optimum level of HBRR Program funds to reduce the City's cost of transportation projects completed during the five-year period from July 1998 through June 2003. During that period, the City had either received Federal authorization to proceed, was constructing, or had completed six HBRR-funded projects.[5]

The objective of this follow-up audit was to evaluate whether the City secured the optimum level of funding for the Foxworthy Avenue Bridge Project, and whether the City properly approved and disclosed the requirements it placed on the developer responsible for constructing the Foxworthy Bridge Project. To meet these objectives, we:

- Interviewed Department of Public Works (DPW), Department of Transportation (DOT), and Department of Planning, Building and Code Enforcement (PBCE) staff;
- Reviewed the work that DPW and PBCE staff performed to determine if the City was securing all Developer's contributions;
- Reviewed Federal and Municipal Code regulations; and
- Met with the City Attorney's Office to clarify regulatory requirements;
- Developed and analyzed cost and reimbursement information on the completed bridge replacement project which received Federal Highway Bridge Replacement and Rehabilitation (HBRR), Santa Clara Valley Water District (SCVWD), and developer funding;
- Determined the total cost of projects by obtaining annual project cost information from the Financial Management System (FMS); and
- Compared the anticipated reimbursements to the actual Federal reimbursement, actual SCVWD reimbursement, and actual developer contribution.

[5] Another audit objective was to assess whether the City was billing the California Department of Transportation (CALTRANS) in a timely manner to ensure it maximized its cash flow and interest earnings. Furthermore, we calculated the amount of interest revenues the City would have received if it had billed CALTRANS in a more timely manner.

FINDING I: THE CITY-PRIVATE DEVELOPER AGREEMENT PROCESS CAN BE IMPROVED

The Foxworthy Avenue Bridge Project was a challenging and complex project with multiple funders and stakeholders, including the City, a developer, Federal Highway Bridge Replacement and Rehabilitation (HBRR) Funds, and the Santa Clara Valley Water District. Our review of this project identified several concerns including: an overly broad General Development Plan; required off-site improvements for which findings were not clearly stated in the public record; and use of a City-Private Developer Agreement where a subdivision improvement agreement was more suitable. We also found that the public reporting requirements for City-Private Developer Agreements were not being met. We recommend that the Planning, Building and Code Enforcement Department, in cooperation with the Department of Public Works (DPW), ensure that conditions of approval in General Development Plans be sufficiently clear and detailed, that the nexus for public improvements be clearly stated in the public record, and that parameters and reporting requirements for the use of City-Private developer agreements be clarified.

The General Development Plan For The Rubino Project Was Overly Broad

In anticipation of securing additional funds for the Foxworthy Bridge Project, the DPW recommended adding the following new language, as underlined below, to the General Development Plan for the Rubino project (GDP) sometime after the Planning Commission recommendation for approval in January 1998, but before City Council approval in February 1998:

> *"Pearl Avenue Bridge. The applicant shall construct a four (4) lane bridge along Pearl Avenue across the Guadalupe River and/or a combination of alternative traffic improvements to the satisfaction of the Director of Public Works and the Santa Clara Valley Water District. Prior to the issuance of the building permit for the 701st unit, the Developer shall enter into a contract with the City of San Jose for the construction of the bridge. The developer shall be responsible for the preparation of plans, specifications and permits related to the construction of the bridge."* (Emphasis added).

This new language did not specify the alternative traffic improvements that the City expected the developer to provide.

Initially, The Developer Had Been Expected To Pay For The Full Costs Of The Foxworthy Avenue Bridge Project, And The City Was Not Supposed To Incur Any Costs On The Project

The City of San Jose's 1998-99 Adopted Capital Budget shows the project as follows: *"Constructs new Pearl Avenue bridge over Guadalupe River. Supports new housing development project. Costs will be fully reimbursed by grants, SCVWD, and developer contributions."* (Emphasis added).

After the City Council approved the GDP in February 1998, the City was able to secure additional funding for the Foxworthy Avenue Bridge Project. Specifically, the Federal Government and the SCVWD agreed to provide funding. In July 1997, the City estimated the total cost of the Foxworthy Avenue Bridge Project at $2.25 million.[6] The HBRR share was expected to be $1,680,000 and the SCVWD's share was expected to be $176,400, while the developer's share would be $393,600 or 17 percent of the total project cost. Since the Foxworthy Avenue Bridge Project ultimately cost over $3.5 million one possibility would have been for the developer to cover the added cost. The supporting documentation for the GDP states, *"Construct a four-lane bridge along Pearl Avenue over existing Guadalupe River to the satisfaction of the Director of Public Works. ...Developer shall enter into a contract with the City of San Jose to construct the bridge. Developer is responsible for the preparation of plans & specifications and permits necessary to construct the bridge."* (Emphasis added).

However, according to the DPW, this wording was not intended to support a scenario in which the developer would cover the difference between the $3.5 million bridge and the $2.25 million bridge that was originally proposed. According to the DPW, the intended requirement for the Developer was to build a bridge over the "existing" Guadalupe River. The City therefore cost shared with the SCVWD for the additional length required for the SCVWD's channel widening project.

Finally, according to the DPW, the City's effort to secure additional funding was not intended to relieve the Developer of liability for the Foxworthy Avenue Bridge Project (originally estimated at between $850,000 to $1 million). So the DPW recommended that the PD permit require the Developer to widen Hillsdale Avenue at an estimated cost of $500,000, in addition to a $210,000 cash contribution to the Foxworthy Avenue Bridge Project, the completion of the design and permitting for the bridge project, and an undetermined amount for approach work and signaling.

As The Scope And Available Funding For The Foxworthy Avenue Bridge Project Changed, Staff Used A PD Permit To Clarify The Developer's Financial Obligation

After securing Federal funding for the Foxworthy Avenue Bridge Project in June 1998, City staff established new financial terms with the Developer. Specifically, the City staff set the Developer's cost on the Foxworthy Avenue Bridge Project at $210,000, plus the completion of plans, specifications and permits related to the construction of the bridge and an undetermined amount for the approach work and intersection signalization. In lieu of any additional cash contributions for the Foxworthy Avenue Bridge Project, the City staff required the Developer to widen a portion of Hillsdale Avenue to its ultimate configuration between Narvaez Avenue and Canoas Creek.

[6] However, participating cost allowable for reimbursements from HBRR and SCVWD was estimated at $2.1 million. HBRR share is 80 percent of participating cost and SCVWD is 42 percent of the remaining participating cost.

At the suggestion of DPW staff, the PBCE Director used the PD permit to administratively clarify the Developer's financial obligations on the Foxworthy Avenue Bridge Project from the obligation specified in the GDP and legislatively adopted by the City Council. The PD permit approved on July 2, 1998 specified the Developer's actual financial obligation for the Foxworthy Avenue Bridge Project. The PD permit (PD 98-03-020) condition 15, part m. states:

> *"Pearl Avenue Bridge[7]. The developer shall contribute $200,000 toward the construction of Pearl Avenue bridge over Guadalupe River and $10,000 toward the removal of existing Old Hillsdale Bridge deck prior to approval of the first final map."*

The PD permit also required the Developer to improve Hillsdale Avenue to its ultimate configuration between Narvaez Avenue and Canoas Creek and required the Developer to pay an unspecified amount for construction costs for the Foxworthy Avenue Bridge Project for approach work (ultimately costing $219,000) and contribute towards the design and construction of the traffic signal at the intersection of Old Almaden Road and Foxworthy Avenue (ultimately costing $158,000). Including the PD permit-required payment of $210,000, all Developer contributions relating to the Foxworthy Avenue Bridge Project totaled $587,000. The Developer also paid an undetermined but potentially substantial amount for the completion of plans, specifications and permits related to the construction of the Foxworthy Avenue Bridge Project.

In our opinion, the DPW should not use overly broad language in the GDPs that is not clear on the scope of the improvement being agreed to by City Council. As stated in the PD permit, the DPW recommended the Developer perform additional work in addition to a cash contribution, effectively capping Developer contributions without anticipating the possibility of higher cost. In our opinion, a significant shift in the financial burden should not have been imposed without clearly and sufficiently detailing the conditions for City Council approval.

Therefore, we recommend that in the future the Planning, Building and Code Enforcement Department, in cooperation with the Department of Public Works:

Recommendation #1

Ensure that the language in the General Development Plans conditions of approval is clear and sufficiently detailed as to what conditions have been approved by the City Council, and that significant changes are returned to the City Council. (Priority 2)

[7] The Foxworthy Avenue Bridge Project was originally called the Pearl Avenue Bridge Project.

Findings For Requiring Off-Site Improvements Should Be Clearly Stated In The Public Record

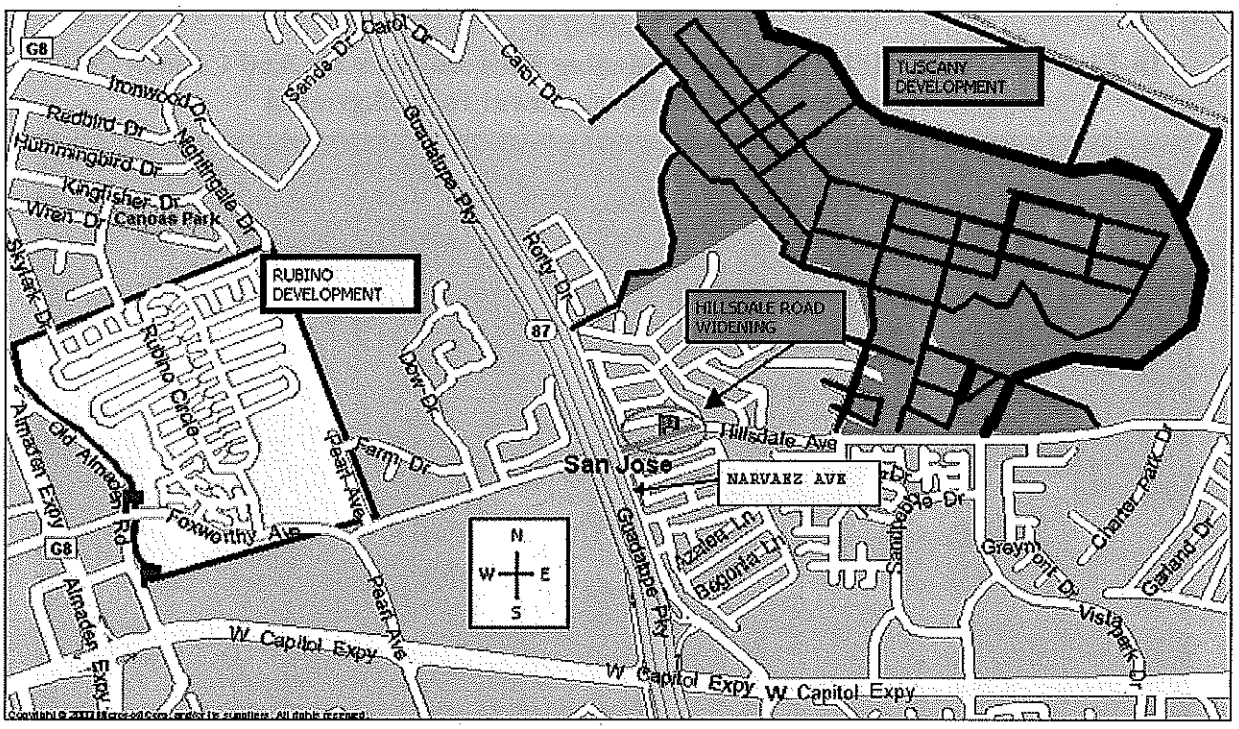
Our review of project documentation revealed that the City did not publicly state the findings for requiring the Developer to widen Hillsdale Avenue east of Narvaez Avenue as a condition in the Rubino Project PD permit. By law, the Developer is required to mitigate impacts resulting from or having a nexus to its project. State Government Code Section 66001 Section (a) part 4 states the City shall, *"Determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed."* In other words, there must be a connection (a nexus) between the impact created by the specific project, and the conditions in the land use permits to address that impact. In this case, we were unable to find documentation addressing or requiring the widening of Hillsdale Avenue.[8]

In our opinion, the Developer may not have objected to the requirement to widen Hillsdale Avenue because that widening ultimately benefited one of their future projects. About 16 months after the City issued a PD permit for the Rubino Project, the same Developer filed a PD permit application for another otherwise unrelated project called the Tuscany Project.[9] Exhibit 3 below shows the proximity of the Hillsdale Avenue widening to the Tuscany Project and the distance from the Rubino Project.

[8] The Rubino Project EIR did require a traffic signal at the intersection of Hillsdale and Narvaez because the intersection is used for northbound traffic accessing Highway 87 from the Rubino Project. However, the Rubino Project EIR did not identify any traffic impacts from the Rubino Project to the east of this intersection that needed to be mitigated.

[9] The Tuscany Project was developed in accordance with the Communications Hill Specific Plan, which the City Council had adopted in 1992. The EIR for the Tuscany Project identified Hillsdale Avenue as the primary access to the project. The Tuscany Project Supplemental EIR which was completed in 2000 and was certified by the City Council in March 2001, specifically mentioned the upcoming Rubino Project residential development requirements that were necessary and pertinent to the Tuscany Project. The EIR for the Tuscany Project stated *"as part of the Rubino residential development, the section of Hillsdale Avenue from SR 87 to Canoas Creek will be widened to four lanes and sidewalks will be constructed."*

Exhibit 2
Hillsdale Widening Project Between The Developer's Rubino And Tuscany Developments[10]

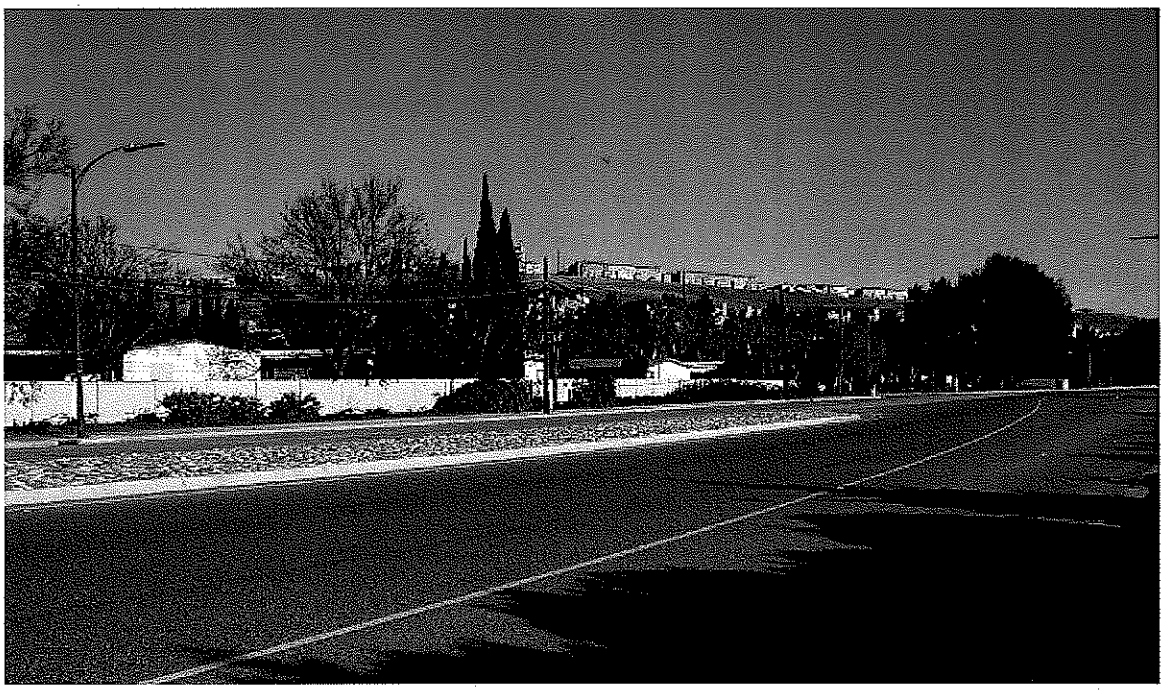


- FOXWORTHY AVENUE BRIDGE
- HILLSDALE WIDENING BETWEEN NARVAEZ AND CANOAS
- SITE OF OLD HILLSDALE AVENUE BRIDGE

[10] This map is a composite from source information provided by DPW and was prepared by the City Auditor's Office.

Exhibit 4 shows the completed Hillsdale Road widening between Navarez and Canoas Creek as required in the PD permit for the Rubino Project.

Exhibit 3
In-Lieu-Of Work: Hillsdale Road Widening Between Narvaez And Canoas Creek With Tuscany Hills Development In Background



In our opinion, the City should have affirmatively stated the findings requiring the widening of Hillsdale Road.

We recommend that in the future the Planning, Building and Code Enforcement Department:

Recommendation #2

Affirmatively state findings for required off-site improvements ("exactions") when the substitution of improvements or mitigation is included in the permit. Furthermore, such findings should show a reasonable connection ("nexus") between the impact caused by the project and the exaction. This may require the City Council to revise Title 20 of the Municipal Code. (Priority 2)

The DPW Inappropriately Used A City-Private Developer Agreement Instead Of A Subdivision Improvement Agreement To Require Certain Improvements

Section 14.04.330 of the Municipal Code authorizes the Director of Public Works to enter into an agreement with a private developer, using a "City-Private Development Agreement", to make limited public improvements incidental to the development project subject to all of the following three conditions:

> *"1. The work to be done for the city under such contract or contracts is to be done by the contracting subdivider, developer, or owner in connection with the subdivision or development of any real property; and*
>
> *2. In the opinion of the director such work can be best or better performed, or more efficiently or expeditiously performed, or performed with less inconvenience to the public by such subdivider, developer, or owner than by the city or its contractor; and*
>
> *3. In the opinion of the director, the cost to the city of having the work done by such subdivider, developer, or owner will not be greater than what would have been the cost if the work was done by the city or its contractor."*

Section 14.04.390 of the Municipal Code states that work contemplated should be in the City's budget or other appropriation ordinance approved by the City Council. Also, Section 14.04.400 says there must be funds available sufficient for reimbursements to the developer. And finally, Section 14.04.500 states that the Director of Public Works shall solicit informal bids for the work to be done, to ensure the City is getting a good deal.[11]

In our opinion, the DPW inappropriately used the City-Private developer agreement format beyond the scope authorized in the San Jose Municipal Code.[12] Specifically, the DPW used a City-Private developer agreement to contract with the Developer for the widening of Hillsdale Avenue and for the required traffic signaling, even though the Developer was required to make these improvements as a condition of the development per the Rubino Project PD permits, and therefore a subdivision improvement agreement should have been used. Title 14 of the Municipal Code states that a City-Private developer agreement should not be used as a condition of a development.[13]

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[11] The Municipal Code authorizes the Director of Public Works to execute City-Private developer agreements on behalf of the City under certain specified conditions without going through the public bidding process. Title 14 Public Works and Improvements of the San Jose Municipal Code defines the term "City-Private developer contract" and when these contracts can and cannot be used.

[12] These contracts are commonly known in the City as 3-Dash agreements. In this review, we will refer to them as City-Private developer agreements. According to DPW management, DPW project managers occasionally use City-Private Developer Agreements when the developer or subdivider wants to construct the public improvements, or some discrete portion of the public improvements, prior to the approval of the final subdivision map even though those improvements might be of the same type that would be constructed under a subdivision improvement agreement.

[13] Specifically, the Municipal Code reads "...that said type of contract shall **not** be deemed to include any contract entered into between the city and any subdivider of land whereby the subdivider, as a condition of approval of his subdivision map, is required at his own cost to make certain improvements and, upon completion, to dedicate or otherwise turn them over to the city as public improvements." (Emphasis added).

The subdivision of property, the approval process, and the agreements and bonds for related public improvements are governed by the Subdivision Map Act and Title 19 of the Municipal Code. Thus, the appropriate format for requiring those improvements is a subdivision improvement agreement as specified in Title 19 of the Municipal Code. [14]

We recommend that the Department of Public Works:

Recommendation # 3

Use Title 19 procedures to require off-site improvements, and develop procedures that limit use of City-Private developer agreements to insure consistency and conformity with: (1) the requirements of the land use approvals for the project and (2) all the requirements needed for Council authorization for such agreements under the circumstances specified in Title 14 of the Municipal Code. (Priority 3)

Reporting Requirements For City-Private Developer Agreements Should Be Streamlined

Title 14 of the Municipal Code includes other requirements on the use of City-Private developer agreements. Specifically, Section 14.04.490 of the Municipal Code requires the Director of Public Works to file copies of the contract with the Department of Finance within five days of executing the contract, and Section 14.04.510 of the Municipal Code requires the Director of Public Works to file a quarterly report with the City Council that includes all City-Private developer agreements.

DPW management informed us that neither of these requirements is being followed. According to the DPW staff, the City Council already receives information on all City contracts over $100,000, and that the sheer number of City-Private Developer Agreements less than $100,000 (including miscellaneous utility improvements, etc.) would make reporting voluminous and burdensome. In addition, the Finance Department informed us that they already have a process in place that captures the information that it needs concerning these transactions.

[14] Title 19 of the San Jose Municipal Code, addresses subdivision improvement agreements. These agreements are the means by which the City contracts with developers to construct required public improvements for the project, and the agreement is required to be approved before the final subdivision map can be approved and recorded.

Therefore, we recommend that the Department of Public Works:

Recommendation # 4

Propose revisions to Municipal Code Sections 14.04.490 and 14.04.510 to streamline the quarterly reporting requirements for City-Private Developer Agreements, and to delete the requirement for DPW to file the City-Private developer agreements with the Department of Finance within five days of executing the agreements. (Priority 3)

CONCLUSION

Although the Foxworthy Avenue Bridge Project was constructed in November 2002, lessons learned from the handling of that project can help improve future operations by ensuring that conditions of approval be sufficiently clear and detailed, that the nexus for public improvements be clearly stated in the public record, and that parameters and reporting requirements for the use of City-Private developer agreements are clarified.

Sharon W. Erickson
City Auditor

SE:bh
0677M

cc: Katy Allen
Debra Figone
Christine Shippey
Deanna Santana
Timm Borden
Joseph Horwedel
Mike Enderby
Scott P. Johnson
Vera Todorov

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: Sharon W. Erickson
City Auditor

FROM: Katy Allen

SUBJECT: **RESPONSE TO FINAL DRAFT AUDIT OF FOXWORTHY BRIDGE PROJECT**

DATE: July 31, 2008

Approved Christine J. Shippey Date 8-4-08

Thank you for the final draft report of *An Audit of the Department of Public Works' Oversight of the Foxworthy Avenue Bridge Project.* We appreciate your willingness to continue to collect relevant information and to discuss the background on this complex project. We also appreciate that you have clearly understood the one-of-a-kind complexities associated with this project that ultimately had a very successful outcome for the City, the developer, and the surrounding neighborhoods. Your recommendations for changes to our procedures are acceptable and add clarity for benefit of the Council, the developer, and the public. We concur with the summary and are providing minor additional comments to add clarity to the facts included in the report:

1. Page 8, Last paragraph and Footnote 9 – The Communication Hill Specific Plan had been discussed for many years, and as far as staff knew, the implementation could have easily drawn out at least another five or ten years, and the Hillsdale Avenue widening (an improvement desired by the community and the Council Office) would have languished. The fact that the same developer ultimately built the Tuscany development seems irrelevant and without merit as a useful lesson-learned in this report.

2. Page 11 - The Municipal Code language quoted relates to situations where the City is reimbursing the developer for improvements with City funds. This was not applicable to the Rubino project. However, we do agree with the recommendation, and in fact we have begun working with the City Attorney's Office to amend the Municipal Code to allow discreet improvements to be completed by agreement prior to the recordation of the Final Subdivision Map as secured by the subdivision improvement agreement per Title 19 of the Code.

3. Recommendations #1-3 - We agree with these recommendations

4. Page 13, Recommendation #4 - We agree with the recommendation and we intend to streamline the quarterly reports by only reporting on agreements that include City-Private Developer Agreements that include reimbursements to the developer from the City, which would also necessitate a clarification in Title 14 of the Municipal Code.

If you have any questions regarding this memo please contact me at (408) 535-8444.

Katy Allen

Katy Allen
Director, Public Works Department

cc Debra Figone
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APPENDIX A

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The City of San Jose's City Policy Manual (6.1.2) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class[1]	Description	Implementation Category	Implementation Action[3]
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.[2]	Priority	Immediate
2	A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists.[2]	Priority	Within 60 days
3	Operation or administrative process will be improved.	General	60 days to one year

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1 The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

2 For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of $50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of $100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens.

3 The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.