Client Memorandum

To: Board Audit Committee, Santa Clara Valley Water District

From: George Skiles, Partner, Sjoberg Evashenk Consulting, Inc.

Date: January 14, 2026

Subject: **Update on Audit Follow-Up of the 2020 Real Estate Services Performance Audit**

As the Independent Board Auditor for Santa Clara Valley Water District (Valley Water), the Board Audit Committee (BAC) asked that Sjoberg Evashenk Consulting, Inc. (SEC) conduct a follow-up review of the 2020 Real Estate Services Audit report, and Real Estate Services Unit's (RESU) implementation of the audit recommendations.

In 2020, Valley Water contracted with TAP International, Inc. to conduct an audit on their Real Estate Services Unit (RESU) to determine how RESU could improve its financial and service delivery performance; and made 12 recommendations and identified one matter for consideration to minimize undue hardships to property owners, enhance the timeliness of real estate transactions, increase revenue, and improve transparency and accountability of RESU's current operations.

In February 2023, Valley Water management informed the BAC that the 12 recommendations had been fully implemented. In September 2024, we presented to the BAC our conclusion that some recommendations remained unimplemented, and recommended that the BAC keep this performance audit open until full resolution of the audit's findings and recommendations can be confirmed.

This memo supplements our prior assessment and presents the current implementation status of all 12 recommendations as of December 2025. The status of the 12 recommendations is presented in Exhibit 1.

EXHIBIT 1. RESU'S STATUS IN IMPLEMENTING 12 RECOMMENDATIONS

Implementation status	Number of recommendations
Implemented	6 recommendations
Implemented in a different manner	2 recommendations
In process	4 recommendations
Not implemented	0 recommendations

Recommendation #1: To improve RESU's timeliness of the real estate transactions process, Valley Water's CEO should ensure annual training is provided to all Valley Water divisions about the Valley Water real estate acquisition process, key steps, common pitfalls, and strategies to avoid these pitfalls. The training should include a planning guide for use by Valley Water that shows the timeline for requesting services the information needed by RESU staff, and the time required to complete the service request.

> **Implemented in a Different Manner:** RESU prepared an intranet-based Real Estate Services training video available to Valley Water employees, and this training video contained the recommended content. While the audit report recommended that management "ensure annual training is provided to all Valley Water divisions," RESU could not demonstrate that every division within Valley Water reviewed the training video every year. Nevertheless, we find that the posting of the training video makes the information available and accessible to those that need it, and that the intent of this recommendation has been satisfied.

Recommendation #2: To enhance transparency and accountability of RESU current operations, the RESU Manager should:

A. Stipulate which form is to be used across all projects and acquisitions that RESU, project managers, and project owners come to an agreement on "just compensation."

B. Define what information defines "just compensation."

C. Establish and routinely monitor and report on key performance measures, such as acquisition turn-around times, status of project manager requests, and outstanding "acquisition related" items needed by other Valley Water units.

> **Partially Implemented:** RESU implemented the corrective actions associated with Recommendations 2(A) and 2(B) by providing the updated "Just Compensation" form (Engineering Unit Manager Authorization Form/Just Compensation Report) and a list of property acquisitions intended to demonstrate improved timeliness. Currently, RESU's real estate acquisition timeline goal is about 12 months to complete a real estate acquisition transaction from the identification of the property to close of escrow. The 2020 audit report reported RESU's acquisition timeline from appraised value to close of escrow was about six (6) months to complete the transaction. Based on our assessment, the average real estate acquisitions in 2025 took approximately 13 months, an improvement from 16 months in 2020. However, the real estate acquisition process remains short of RESU's acquisition timeline goals.
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> This review also found that the corrective actions cited by RESU in response to Recommendation 2(C) have not been fully implemented. The tracking sheet used by RESU to monitor timeliness does not include key performance information such as key acquisition-related turnaround times, the status of project manager requests, or outstanding acquisition-related items needed from other Valley Water units. According to RESU management, for recent projects, RESU and the project team have maintained spreadsheets that list key dates, costs, and communications with owners.

Recommendation #3: To increase the effectiveness of RESU's property management, the RESU Manager should update Valley Water's RESU policies and procedures for property management to include residential property management, including procedures to ensure tenants have updated insurance, how staff will conduct physical inspections, and the payment of HOA fees when Fees are collected.

Implemented: RESU provided the updated *Nonresidential and Residential Property Management (W-630-099)* procedures, which now incorporate residential property management. Management also implemented oversight procedures to track non-residential insurance expirations and established regular property management meetings to address insurance, inspections, Home Owner Association (HOA) fees, and other property management issues. Additionally, Senior staff will oversee and address any insurance related issues that may arise and conduct regular property inspections.

Recommendation #4: To increase the effectiveness of RESU's property management, the RESU manager should establish procedures to track all staff costs, property maintenance expenses and revenue for all rental properties. RESU's annual report to the CEO should include financial analysis to determine whether Valley Water is covering its costs to maintain the leased/licensed properties to owns and the cost to lease/license property owned by others is fiscally prudent.

Partially Implemented: RESU provided copies of the Annual Net Income and Expense reports for Valley Water rental properties, which includes cost information related to property management and maintenance, but it does not include direct or indirect costs associated with RESU's in-house operating costs, including staff costs, as recommended. RESU indicated that it does not have sufficient staffing resources, such as a Staff Analyst, to identify, track, and analyze these cost components. Because of this, RESU has not captured the information needed to determine its own cost-effectiveness, including whether revenues fully support operating costs, and information needed to ensure licensing and lease rates are sufficient to fully cover costs.

Recommendation #5: To facilitate effective delivery of RESU services, the RESU Manager should develop a risk assessment to process to help Valley Water staff identify real estate transactions that will need extensive participation and review by Valley Water District Counsel and a plan for key consultation points.

Implemented in a Different Manner: RESU reported that such a risk assessment process is atypical in the industry and that a more typical practice is to ensure RESU management is incorporated into project meetings early in the process to ensure productive communication and time to facilitate the acquisition process. RESU management provided examples of project meetings via an excel spreadsheet, and reports that they believe other stakeholder divisions are incorporating the RESU team at appropriate times to facilitate the acquisition process. Based on this, we believe the intent of the recommendation has been met.

Recommendation #6: To increase service delivery timeliness, Valley Water's CEO, in coordination with RESU's Manager, should work with District Counsel to evaluate the costs and benefits of developing additional templates for the different types of right of way agreements, with a goal of minimizing changes to these pre-approved standard contracts and reducing District Counsel's review time.

Implemented: RESU provided the updated right-of-way agreement template that was developed with District Counsel. The documentation demonstrates completion of the correction actions.

Recommendation #7: To enhance the effectiveness of capital project planning, the CEO should ensure the inclusion of RESU staff in early project design meetings for capital projects to assist project delivery teams with budgeting for real estate transactions and planning for adequate time to process those transactions, identify potential challenges for transactions given the project design, and allow RESU time to plan for these transactions and potential property management needs.

Implemented: As discussed in Recommendation 5, RESU staff reported ongoing early involvement in project design meetings. Based on this information the corrective actions have been fully implemented.

Recommendation #8: To improve planning for the costs of real estate acquisitions, the RESU Manager should complete a one-time study on (A) the impact of property owner appraisals on acquisition purchase prices over the past five years to identify the differences in appraisal methodologies that led to different appraised values, and (B) the impact of property owner's appraisal on the time to complete an acquisition. The RESU manager should share the research with District Counsel and Valley Water management to determine what changes, if any, should be made to the Valley Water acquisitions process.

Partially Implemented: RESU management reported to Board Audit Committee that it had completed the one-time study and, as a result of this study, it was determined that 80 percent of property owners settled at the fair market appraisal value and the remaining 20 percent of property owners on average settled for more than 10 percent above the fair market appraised value. However, RESU was not able to provide documentation showing the completion of this study. According to RESU management, the study has been lost due to staff and management turnover.

While RESU has reduced the time to complete a transaction from 16 months in 2020 to 13 months in 2025, the purpose of the recommended one-time study was to identify factors that contributed to costs that exceeded expectations as well as unanticipated extensions of the timeline to close a transaction. According to RESU management, despite not being able to provide the results of the recommended study, these factors are largely known and include:

- Preliminary work, including survey and title search, right-of-way plans, and environmental studies.
- Appraisal, review, and offer
- Residential/Commercial tenant relocation if necessary
- Negotiations, which can take time and involve the property owner obtaining their own appraisal
- If the owner does not agree to the sale, legal proceedings may commence, including possible condemnation by court order

Further, according to RESU, it is not uncommon for acquisition of property rights to take over a year or often multiple years to complete. Willing parties on all sides must come to an agreement, otherwise the acquisition becomes a mediation (if agreed upon) or legal matter. An example is the current Coyote Creek Flood Protection Project (CCFPP), of which acquisition of over fifty (50) property rights has taken over two years and is not yet completed.

Recommendation #9: To ensure that Valley Water adheres to "just compensation" principles on delayed real estate acquisitions, Valley Water's CEO should ensure the development of criteria that would require the ordering of an updated appraisal, especially when there is a potential conflict between project deadlines and the need for additional time to finish the acquisition process in accordance with Valley Water goals and state laws.

Implemented: RESU provided the updated *Appraisal Real Property Program (W-630-101)* procedures, which now include criteria and processes for ordering updated appraisals. This demonstrates implementation of the corrective action.

Recommendation #10: To facilitate effective communication with property owners and those wanting to use Valley Water owned land, Valley Water's CEO should leverage use of the existing Customer Resources Management Information System. The CEO should allow its use by RESU and all divisions/units (Community Projects Review Unit (CPRU), Watersheds, Utility) that deliver real estate services to track all external stakeholders contacts (dates, purpose, status) and to be able to research those contacts before connecting with property owners; and develop communication protocols/scripts for use by RESU, Watersheds, and Utility when contacting property owners about the need to use or acquire parcels.

Implemented: RESU developed a webpage that provides information about their services, contact details, and links to informative brochures. The webpage also includes guidance regarding the role of other Valley Water units (i.e., Community Projects Review Unit and Land Management), which could help address other real estate related inquiries. This resource supports consistent communication across RESU and other Valley Water units/divisions.

Recommendation #11: To improve public confidence in its real estate services, the CEO should expand the information available on the Valley Water website about real estate services to describe generally the real estate acquisition process; provide brochures that explain the acquisition process and rights of property owners; provide a guide for property owners and other external parties showing which unit to call—either RESU or CPRU—depending on the service needed; and a frequently asked questions section.

Implemented: See explanation for Recommendation 10.

Recommendation #12: To enhance Valley Water's fiscal performance and asset management strategy, the CEO should:

A. conduct an annual review of the fee schedules maintained by Valley Water to ensure that the fees cover the costs to lease, license, and permit the use of its [land], and

B. shorten the duration and establish regular fee adjustments on future longer-term lease agreements.

Partially Implemented: RESU implemented the corrective action associated with Recommendation 12(b) by demonstrating that their lease agreements shorten the duration and establish regular fee adjustments on longer-term lease agreements. We examined three lease/license agreements initiated after the issuance of the RESU audit in 2020, and found that all three contained fee escalation clauses that allowed RESU to increase fees over the term of long-term leases/licenses.

However, the corrective action related to Recommendation 12A has not been fully implemented. Our review found no evidence that Valley Water conducts an annual review of the fee schedules specifically to ensure that the fees incorporated into RESU contracts cover the costs to lease, license, and permit the use of Valley Water property. According to RESU, this recommendation combines unrelated operational activities that cannot be treated the same. For instance, leasing rates are not determined based on cost of operations, but rather on an assessment of market conditions, and market conditions are evaluated differently between residential and non-residential properties. License and permit fees may more appropriately be based on cost of operations, but may also depend on the extent to which the licensed or permitted activity benefits Valley Water or the broader community. For these, however, much of the responsibility to update rate or fee schedules rests with Valley Water's Community Projects Review Unit (CPRU); RESU's involvement is generally limited to coordinating initial appraisals.

Nonetheless, the intent of this recommendation is not solely to ensure full cost recovery, but to provide Valley Water with sufficient cost and revenue information to support informed decision-making. This includes understanding the cost of administering leases and licenses, the revenue generated, and whether fees are aligned with operational costs, market conditions, or fair market considerations. Such information is critical to ensure fees are neither insufficient to support operations or set higher than warranted. This should include the direct and indirect costs of RESU's operating costs, as well as cost incurred by other supporting units upon which RESU relies to manage the agreements, such as related labor charges, permit processing, and accounting services.

Based on our analysis, we recommend that the BAC keep this performance audit open until full resolution of the audit's findings and recommendations are fully implemented and can be confirmed.