



OFFICE OF THE
STATE AUDITOR

Auditor Alert 2022-01

Date: June 1, 2022

Subject: Accounting for Development-related Fees (Building Permits/Plan Reviews)

Introduction

Utah Code limits the amount and use of development-related fees to the reasonable costs of regulation (*Utah Code* [10-9a-510](#) & [17-27a-509](#)). Fees collected for development such as building permits and plan reviews, should be used to regulate development activities and may not exceed a governmental entity's costs of regulation (e.g.; inspection, review, etc.).

In 2022, the Office of the State Auditor (Office) reviewed the fee-related revenues and expenses of a sample of cities and counties. The Office concluded that several entities charged and collected fees that significantly exceeded their fully-burdened regulatory costs.¹ Also, the accounting of indirect costs lacked adequate oversight.

Required Reporting

A governmental entity collecting development-related fees must track revenues and expenses so that excess collections can be properly shown as a restricted fund balance in the annual financial report.² Additionally, an entity must report the fees collected for development and their associated costs to Transparent Utah (transparent.utah.gov) using function codes "101300" and "101701."

An entity may choose to apply reasonable indirect costs. To ensure compliance with development-related fee revenue and use limits, indirect costs allocations should be based on a reasonable methodology, applied to all applicable government functions, and audited so the external auditor may issue an opinion on the restricted fund balance of the entity. The use of an internal service fund may be an appropriate tool to allocate indirect costs across government functions (e.g.; roads, parks, planning and zoning, police, etc.). An entity may use any other appropriate method to track indirect costs.

Implementation

The requirement to show development-related fees as a restricted fund balance on the financial statement will be enforced beginning with reports for entities with fiscal years ending after December 15, 2022, although early implementation is encouraged.

The requirement to report development-related revenues and expenses to the Transparent Utah website using the applicable function code is effective for file submissions after June 15, 2022.

¹ A regulatory fee must bear some reasonable relationship to the cost of the thing said to justify its imposition. *V-1 Oil Co. v. Utah State Tax Comm.* (1996).

² Net position should be reported as restricted when constraints placed on net position use are externally imposed by creditors...laws or regulations of other governments. GASB Codification 1800.157.