



Memorandum

TO: PUBLIC SAFETY, FINANCE, AND
STRATEGIC SUPPORT COMMITTEE

FROM: Julia H. Cooper

SUBJECT: FIRST QUARTER FINANCIAL
REPORTS FOR FISCAL YEAR
2019-2020

DATE: November 6, 2019

Approved

Date

11-6-19

RECOMMENDATION

- (1) Accept the First Quarter (period ending September 30, 2019) Financial Reports for Fiscal Year 2019-2020 for the following programs:
 - (a) Debt Management
 - (b) Investment Management
 - (c) Revenue Management;
- (2) Forward recommendation to the City Council for the December 10, 2019 Council Meeting to adopt a resolution authorizing the Director of Finance to write-off uncollectible debts in an amount up to \$381,357.80;
- (3) Refer the First Quarter Financial Reports for Fiscal Year 2019-2020 to the December 10, 2019, City Council Meeting for full adoption.

OUTCOME

Provide the quarterly update on debt management, investment management, revenue management work efforts, and write-off uncollectable debt.

BACKGROUND

The attached First Quarter Financial Reports for Fiscal Year 2019-2020 presents the Finance Department's quarterly activity for the City's Debt Management, Investment Management, and Revenue Management programs (Attachment A). Additionally, the First Quarter Investment

Report has been distributed to the City Council via email and is available on the Finance Department web page¹. As part of the ongoing effort to streamline work efforts within the Finance Department, these three reports are combined in one single report for submission to the Public Safety, Finance, and Strategic Support Committee ("PSFSS Committee") for its review and acceptance. A brief narrative discussion is provided below for all three components of this quarterly report.

ANALYSIS

This section of the report is divided into the following sections: Debt Management Program, Investment Management Program, and Revenue Management Program.

Debt Management Program

This First Quarter Debt Report focuses on the City's debt activities for the period ended September 30, 2019, and relates to the following elements of the City's Debt Management Program:

- Completed financings and current debt portfolio
- Debt issuance and management activities completed and anticipated to fiscal year end
- Current interest rate environments and credit ratings

The City's current general obligation bonds are rated Aa1/AA+/AA+ and lease revenue bonds are rated Aa2-Aa3²/AA/AA by the Moody's Investors Services Inc., Standard & Poor's Ratings Services, and Fitch Ratings, respectively. These ratings are based on the rating reviews through September 30, 2019.

Investment Management Program

A quarterly investment report for the period ended September 30, 2019, was distributed separately to the Mayor and City Council and is posted on the Finance Department website¹. Pursuant to the City's Investment Policy, verbal presentations in addition to the written reports are provided to the PSFSS Committee for the Second and Fourth Quarter Reports. The materials that are presented in this consolidated report provide a "snapshot" of the investment portfolio. The report will be agendized for acceptance by the City Council pursuant to the Investment Policy.

¹ <http://www.sanjoseca.gov/index.aspx?NID=759>

² Moody's determines its lease revenue bond ratings in part based on "essentiality" of leased asset; bonds tied to an essential asset, like City Hall carries higher rating (Aa2) than bonds tied to a less essential asset such as Convention Center (Aa3)

Revenue Management Program

The Revenue Management report highlights the key aspects of the City's ongoing collection efforts. These efforts focus on reducing delinquent accounts receivable and enhancing revenue compliance through four primary collection programs: Accounts Receivable, Business Tax, Compliance and Monitoring, and Utility Billing. This report provides the highlights of the Revenue Management Division's collection efforts and summarizes the progress towards maintaining a return on investment ratio of 5.5 to 1. Actual return on investment through the first quarter of fiscal year 2019-2020 is 5.9 to 1.

Bad Debt Write-Off Process

Overview of Collection Process – City departments issue invoices to debtors for various fines, fees, or costs incurred by the City. Invoices are entered in the City's centralized Accounts Receivable system, RevQ, or referred to the Accounts Receivable group for accounts generated by City departments through stand-alone billing systems. Each department is responsible for invoicing the appropriate parties.

If an account has an unpaid balance after 30 days, a delinquency notice, including any additional interest, penalties, and applicable fees, is generated and mailed to the debtor. The account is then assigned to a Finance Investigator Collector, who begins the revenue collection process by contacting the debtor to attempt to collect the past due amount. After 60 days, a second collection notice, including any additional interest, penalties, and other fees, is mailed to the debtor. At this point, a collection cost recovery fee is added to each account. This cost recovery fee is reviewed and set on an annual basis. After approximately 120 days, the Senior Investigator Collector reviews each remaining delinquent invoice with Investigator Collectors to determine the appropriate action to take against the debtor to collect the outstanding balances.

Overview of the Bad Debt Write-Off Process – In addition to proactively collecting the City's delinquent accounts, it is also important to write-off the City's uncollectible debts to ensure the accuracy of the City's financial statements. On a periodic basis, the Finance Department, coordinating with departments, establishes reserves for bad debt to cover potential write-offs of uncollectable accounts. The bad debt reserves are funded as an estimate of total billings each year, in each revenue category billed. The accounts recommended for bad debt write-off will be offset by bad debt reserves that have been established.

The annual analysis of the City's bad debt reserve is conducted by the Finance Department and reviewed by the City Manager's Budget Office during the year-end closing process. In addition, during the preparation of the City's annual financial statements, the City's external auditors review the City's bad debt exposure as well as the adequacy of the bad debt reserves.

The Director of Finance is authorized to write-off as uncollectible any account or claim not exceeding five thousand dollars (\$5,000). No account or claim of the City exceeding \$5,000 shall be written off as uncollectible without the express authorization of the City Council. As accounts are considered for write-off through the City's evaluation process, the following criteria is used to determine if an account should be written off as bad debt:

- Debtor has no assets, is out of business, or has no indication of future assets;
- Debtor is deceased and has no estate;
- Debtor is incarcerated for an extended or unknown period;
- Debtor filed bankruptcy;
- Debtor "skipped", moved, or sold property with no forwarding information; and/or
- Statute of limitations has expired.

Recommended Bad Debt Write-Offs – The Finance Department recommends that the Public Safety, Finance, and Strategic Support Committee forward the attached list of delinquent accounts, with delinquent balances totaling \$381,357.80 (Attachment B), to the City Council for write-off approval. This request represents a total of 39 uncollectible invoices representing 37 individuals or businesses with delinquent balances ranging from \$5,049.60 to \$29,257.69.

Collection Efforts (Post Write-Offs) – It should be noted that a write-off is not a relinquishment of the City's claim for debts due to the City. Should new information arise that changes the collectability of these claims, the City may attempt to collect payment.

EVALUATION AND FOLLOW-UP

The Finance Department prepares this report on a quarterly basis for review and approval by the PSFSS Committee. The Finance Department staff will be available to answer questions on the First Quarter Financial Reports for Fiscal Year 2019-2020 at the PSFSS Committee meeting on November 21, 2019.

PUBLIC OUTREACH/INTEREST

This memorandum will be posted on the City's website for the November 21, 2019, PSFSS Committee meeting and the December 10, 2019, City Council meeting.

November 6, 2019

Subject: First Quarter Financial Reports for Fiscal Year 2019-2020

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COORDINATION

This memorandum has been coordinated with the City Attorney's Office and City Manager's Budget Office.

/s/

JULIA H. COOPER

Director of Finance

For questions, please contact Lisa Taitano, Assistant Director of Finance, at (408) 535-7041.

Attachment A: First Quarter Financial Reports for Fiscal Year 2019-2020

Attachment B: FY 2019-2020 Q1 Write-Off Report