



# Memorandum

**TO:** SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY  
BOARD

**FROM:** Julia H. Cooper

**SUBJECT: AUTHORIZING THE WRITE-OFF  
OF UNCOLLECTIBLE SMALL  
BUSINESS LOAN ACCOUNTS**

**DATE:** May 21, 2018

Approved

*D. D. S. L.*

Date

*5/31/18*

## RECOMMENDATION

Board of the Successor Agency to the Redevelopment Agency (“Successor Agency Board”) adopt a resolution authorizing the Chief Financial Officer to the Successor Agency to the Redevelopment Agency (“Successor Agency”) to write-off uncollectible small business loans in an amount not to exceed \$119,919.90.

## OUTCOME

Adopt a resolution by the Successor Agency Board authorizing the Chief Financial Officer to the Successor Agency to write-off uncollectible small business loan accounts.

## BACKGROUND

The Small Business Loan Program (SBLP) and the program’s lending guidelines were first approved by the former Redevelopment Agency Board on June 25, 2002. The SBLP was operated and managed by the Office of Economic Development (OED) under a Project Service Memorandum Agreement with the Redevelopment Agency from June 2002 until June 2008, at which time the entire program was transferred to the former Redevelopment Agency. The program helped to promote and maintain small businesses in San Jose redevelopment project areas, which helped increase sales tax revenues and generate jobs in redevelopment project areas.

On March 22, 2018, staff requested authority from the Oversight Board to the Successor Agency (“Oversight Board”) to authorize the Chief Financial Officer to the Successor Agency to write-off uncollectible small business loan accounts that remain on the Successor Agency’s accounting books. At this meeting, the question regarding the Oversight Board’s legal authority to approve the small business loan write-offs was raised and the matter was not acted upon by the Oversight Board. Successor Agency staff subsequently evaluated several alternatives as outlined below.

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1. No action and leave the uncollectable loans on the Successor Agency's books and financial statements;
2. (DOF approach) Transfer the loans to the City and have the City write-off the loans;
3. (DOF approach) The Oversight Board terminates the Agreements and thereafter the loans are written off; and
4. The Successor Agency Board authorizes the Successor Agency to write-off the loans.

Staff does not believe that the first three scenarios are the best options. If no action is taken, the loan balances remain on the Successor Agency's books indefinitely, resulting in substandard accounting practice. Applying the State Department of Finance ("DOF") approach of transferring the loans to the City or terminating the loans eliminates the possibility of collecting on these loans in the future and relinquishes any final claims for debt repayment. Staff is being proactive in obtaining approval to write-off the six outstanding loan balances and avoid a possible audit finding. Writing off the uncollectible debts is desirable to facilitate accurate maintenance of the Successor Agency's accounting records.

### ANALYSIS

Since its inception, the SBLP made thirty (30) loans totaling \$1.2 million. While twenty-four of these loans have been paid in full, there are six remaining small business loans that have been in default for several years. On February 22, 2018, the Oversight Board was presented with a Summary of Remaining Dissolution Activities (Item 6.4) which listed the six small business loans in arrears. A description of the six loans, together with Successor Agency collection efforts, are described on Attachment A. Staff recommended that these loan balances be written off since all collection efforts have been exhausted and were unsuccessful. As of May 15, 2018, the uncollectable loan balances, including past-due late fees, total \$119,919.90.

As accounts are considered for write-off, the following criteria is used to determine if an account should be written off as bad debt:

- Debtor has no assets; out of business or has no indication of future assets;
- Debtor has filed bankruptcy;
- Debtor has "skipped", moved or sold property and has no forwarding information; or
- Statute of limitations has expired.

It should be noted that such write-offs are not a relinquishment of final claim for debts due to the Successor Agency. Should new information arise that changes the collectability of these claims, the Successor Agency may attempt to collect payment.

**EVALUATION AND FOLLOW-UP**

This memorandum will not require any follow-up from staff.

**PUBLIC OUTREACH**

This memorandum will be posted on the City's website on or about June 1, 2018 for the June 12, 2018 Council agenda.

**COORDINATION**

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

**COMMISSION RECOMMENDATION/INPUT**

This item does not require any input from a board or commission.

**CEQA**

Not a Project, File No. PP17-007, Preliminary direction to staff and eventual action requires approval from decision-making body.

/s/  
JULIA H. COOPER  
Chief Financial Officer, Successor Agency

For questions, please contact Julia H. Cooper, Chief Financial Officer at (408) 535-7011.

Attachment A: Successor Agency Write-off Report

**Attachment A - Successor Agency to the Redevelopment Agency of the City of San Jose  
Proposed Write-off of Uncollectable Small Business Loan Account Balances**

Borrower	Payment Term	Loan Amount	Balance as of May 15, 2018	Justification for Write-off
Tee Nee Thai Cuisine, Inc.	12/1/09 - 11/30/14	\$ 50,000.00	\$ 9,721.74	Filed Small Claims action against the owners to regain the unpaid balance. The commissioner found in favor of the owners. Criteria: Court ruling
Ngan's Tailoring	12/1/02 - 1/1/13	\$ 20,000.00	\$ 884.10	Initial collection attempts by Finance Staff then by collection agency staff. Criteria: Out of statute
Zanotto's Downtown Market	4/1/10 - 2/1/14	\$ 15,363.00	\$ 16,140.86	Made six visits, sent letters, but the owners were never in the store nor responded to letters. Process server made many attempts to serve court papers, but was unsuccessful. Criteria: "Skip" - unable to locate responsible person.
Hally K. Ono Café	3/1/09 - 1/31/19	\$ 40,000.00	\$ 39,420.68	Business closed and Collection Agency was unable to locate business owners and therefore no assets were able to be recovered. Criteria: "Skip" - sold property and has no forwarding information.
Subway Sandwich #2	2/1/07 - 6/30/12	\$ 40,000.00	\$ 3,771.44	Initial collection attempts by Finance Staff then by collection agency staff. Criteria: Out of statute
House of Siam	12/1/09 - 11/30/14	\$ 50,000.00	\$ 49,981.08	Bankruptcy filed Jan. 2012; and SARA filed claim March 2012. Bankruptcy Trustee designated debt as unsecured and the restaurant closed June 2014. Criteria: Bankruptcy
		<b>\$ 215,363.00</b>	<b>\$ 119,919.90</b>	