



COUNCIL AGENDA: 3/14/2023

ITEM: 2.9

FILE NO: 23-355

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Toni J. Taber, CMC
City Clerk

SUBJECT: SEE BELOW

DATE: March 14, 2023

SUBJECT: Second Quarter Financial Reports for Fiscal Year 2022-2023

Recommendation

As recommended by the Public Safety, Finance and Strategic Support Committee on February 16, 2023:

(a) Accept the Second Quarter (period ending December 31, 2022) Financial Reports for Fiscal Year 2022-2023 for the following programs:

- (1) Debt Management;
- (2) Investment Management;
- (3) Revenue Management;
- (4) Purchasing & Risk Management.

(b) Adopt a resolution authorizing the Director of Finance to write off uncollectible debts in an amount up to \$619,047.71.

CEQA: Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action. (Finance)

[Public Safety, Finance and Strategic Support Committee referral 2/16/2023 - Item (d)1]



Memorandum

TO: PUBLIC SAFETY, FINANCE, AND
STRATEGIC SUPPORT COMMITTEE

FROM: Julia H. Cooper

SUBJECT: SECOND QUARTER FINANCIAL
REPORTS FOR FISCAL YEAR
2022-2023

DATE: February 1, 2023

Approved

Date

2/6/2023

RECOMMENDATION

- (1) Accept the Second Fiscal Quarter (period ended December 31, 2022) Financial Reports for Fiscal Year 2022-2023 for the following programs:
 - (a) Debt Management
 - (b) Investment Management
 - (c) Revenue Management; and
 - (d) Purchasing and Risk Management
- (2) Refer and cross-reference the Second Quarter Financial Reports for Fiscal Year 2022-2023 to the March 21, 2023 City Council Meeting for full adoption, and
- (3) Forward recommendation to the City Council for the March 21, 2023 Council Meeting to adopt a resolution authorizing the Director of Finance to write-off uncollectible debts in an amount up to \$619,047.71.

SUMMARY AND OUTCOME

Provide the quarterly update on debt management, investment management, revenue management, purchasing and risk management activity, and recommend approval for Director of Finance to write-off uncollectible debt.

BACKGROUND

The attached Second Quarter Financial Reports for Fiscal Year 2022-2023 (quarter ended December 30, 2022) presents the quarterly activity for the City of San José (City) Finance Department Debt Management, Investment Management, Revenue Management, Purchasing and Risk Management programs (Attachment A). Additionally, the Second Quarter Investment

Report has been distributed to the City Council via email and is available on the Finance Department web page¹ and is included as part of the report to the Committee. As part of the ongoing effort to streamline work efforts within the Finance Department, these programs are combined into a single report for submission to the Public Safety, Finance, and Strategic Support Committee (PSFSS Committee) for its review and referral to the City Council for acceptance.

ANALYSIS

A brief narrative discussion is provided below for all programs in this quarterly report:

- Debt Management
- Investment Management
- Revenue Management
- Purchasing Management
- Risk Management

Debt Management Program

This Second Quarter Debt Report focuses on the City's debt activities for the period ended December 31, 2022, 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 during the second quarter (October 1, 2022 through December 31, 2022) and anticipated in the next quarter (January 1, 2023 through March 31, 2023); and
- Current interest rate environment as of December 31, 2022 and credit ratings.

The Debt Management Team will be working with the Housing Department and the City Attorney's Office to update the Debt Management Policy and the Multi-Family Housing Revenue Bond Policy. Staff is planning to present the proposed policy revisions at the March 21, 2023 City Council Meeting.

Investment Management Program

Pursuant to the City Investment Policy, verbal presentations in addition to the written reports are provided to the Public Safety, Finance, and Strategic Support Committee for the Second and Fourth Quarter Reports. The materials presented in this consolidated report provide a "snapshot" of the investment portfolio. The Investment Report will be agendaized for acceptance by the City Council pursuant to the Investment Policy.

¹ <https://www.sanjoseca.gov/your-government/departments/finance/reports/-folder-450>

Revenue Management Program

The Revenue Management report highlights key aspects of the City's ongoing collection efforts. These efforts focus on reducing delinquent accounts receivable and enhancing revenue compliance through three primary collection programs: Accounts Receivable, Business Tax, Revenue Compliance and Monitoring, and Utility Billing. This report highlights the Revenue Management Division's collection efforts and summarizes the progress towards maintaining a Return on Investment ratio of 5 to 1. The Q2 FY 2022-23 Return on Investment is 5.3 to 1.

Overview of Collection Process – City departments issue invoices for various fines, fees, or other 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 the initial invoicing of 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 Investigator Collector in the Finance Department, 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 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, in coordination with Departments and the City Manager's Budget Office, 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 may 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 the PSFSS Committee forward the attached list of delinquent accounts, with delinquent balances totaling \$619,047.71 (Attachment B), to the City Council for write-off approval. This request represents a total of 26 uncollectible invoices representing 26 individuals or businesses with delinquent balances ranging from \$7,034.37 to \$82,755.79.

Collection Efforts (Post Write-Offs) – It should be noted 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.

Accounts Receivable Amnesty Program – The Accounts Receivable Amnesty Program (Program) was developed to encourage delinquent debtors to pay any past due amounts owed to the City. Participants in the Program will have their respective delinquency fees waived, once full payment of the principal balance is received. The Program application period began November 1, 2022 and continues through June 30, 2023, with eligibility limited to invoices billed between April 2020 to August 2021. The debt owed to the City may not pertain to a tax, license or lien collectible, and the debtor must have outstanding delinquent fees remaining.

Activities during the second fiscal quarter included receiving City Council approval of an ordinance authorizing the Director of Finance to administer an Accounts Receivable Amnesty Program which forgives unpaid penalties, interest, and collection expenses accruing to the City of San José General Fund and other funds for certain accounts billed from April 1, 2020 through August 31, 2021. Development work on account-specific, informational letters for each eligible participant was completed in the fiscal quarter as well. Activities for the upcoming fiscal quarter include mailing the detailed letters to the eligible participants in three tranches, which will aid in managing staff effort in responding to submitted applications, and updating the Revenue Management Phone Tree to add an option directing callers interested in the Program directly in contact with Accounts Receivable staff.

Purchasing Program

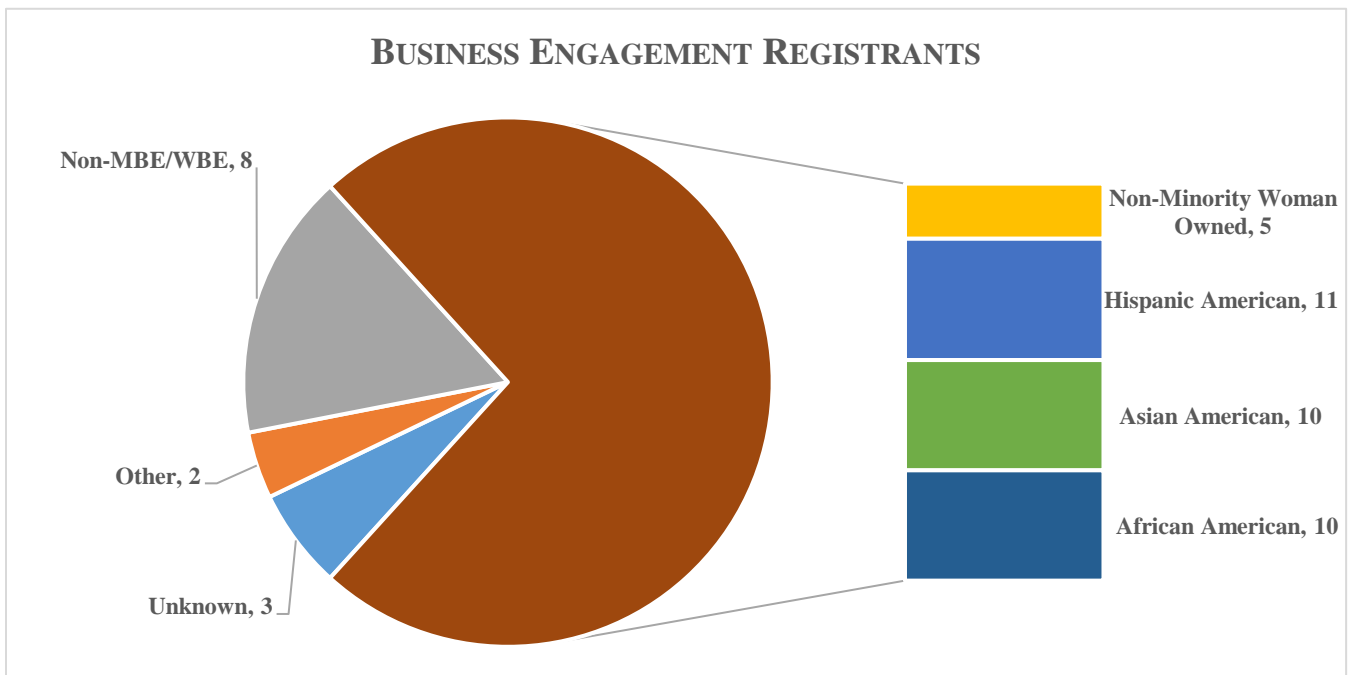
The Purchasing Report highlights the key aspects of the City's purchasing operations. The Purchasing Program of the Finance Department is responsible for the centralized procurement of equipment, supplies, materials, information technology, and non-consulting services, pursuant to

the Chapter 4.12 of Title 4 of the San José Municipal Code. The Purchasing Division’s mission is to deliver procurement and contracting services pursuant to public procurement best practices.

Citywide Disparity Study. This quarter, the Purchasing Division ramped up its multi-lingual, multi-channel Communications and Outreach Plan activities publicizing the Citywide Disparity Study (Study), with the Study website going live on October 25, 2022. The Study was promoted to key stakeholders in the local community, including but not limited to the following:

- Business Ownership Space Meeting – Presentation (November 1, 2022)
- San Jose Small Business Task Force Meeting – Presentation (November 10, 2022)
- Libraries and Community Centers (multi-lingual collateral materials, various dates)

The Study also held its first Business Engagement meeting on November 14, 2022; with 5,644 information emails being sent to San José businesses, and 49 businesses subsequently registered. The ethnic/business type breakdown of the registrants is shown in the chart below; a detailed Information Memorandum regarding the overall status of the Citywide Disparity Study is attached.



Procurement Improvement Initiative. A status report on the Procurement Improvement Initiative and proposed amendments to Title 4 of the San José Municipal Code is provided under separate cover in Item (d) 4 CC 23-022, *Amendments to Title 4 of the Municipal Code Related to Procurement of Goods and Services Status Report.*

Risk Management Program

The Risk Management report highlights the key aspects of the City's risk management program. The Risk Management Program is responsible for procurement and oversight of the City's property and casualty insurance programs. The Program also provides contractual risk management services, property subrogation claims reporting and other key services to City Departments including enterprise departments such as the Airport Department and San José – Santa Clara Regional Wastewater Facility.

CONCLUSION

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 Second Quarter Financial Reports for Fiscal Year 2022-2023 at the PSFSS Committee meeting on February 16, 2023.

COORDINATION

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

PUBLIC OUTREACH

This memorandum will be posted on the City website for the February 16, 2023 PSFSS Committee meeting and on the March 21, 2023 City Council agenda.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a project, Public Project number PP17-010, City Organizational & Administrative Activities resulting in no changes to the physical environment.

PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City’s Open Government Resolution.

/s/
JULIA H. COOPER
Director of Finance

Attachment A: Second Quarter (period ended December 31, 2022) Financial Report for Fiscal Year 2023-2023

Attachment B: Write-Off List Over \$5,000, December 31, 2022

Attachment C: Information Memorandum – Citywide Disparity Study Status Report

For questions please contact:

Program	Finance Contact	Finance Division	Phone
Debt Management	Qianyu Sun	Deputy Director, Debt & Treasury Management	(408) 535-7832
Investment Management	Qianyu Sun	Deputy Director, Debt & Treasury Management	(408) 535-7832
Revenue Management	John Kachmanian	Deputy Director, Revenue Management	(408) 535-7034
Purchasing & Risk Management	Luz Cofresí-Howe	Assistant Director of Finance	(408) 535-7041

COMMITTEE AGENDA: FEBRUARY 16, 2023

ITEM: (d) I

FILE: CC-23-019

ATTACHMENT A

SECOND QUARTER FINANCIAL REPORT FISCAL YEAR 2022-2023

Public Safety, Finance and Strategic Support Committee

**Prepared by the Finance Department
February 1, 2023**

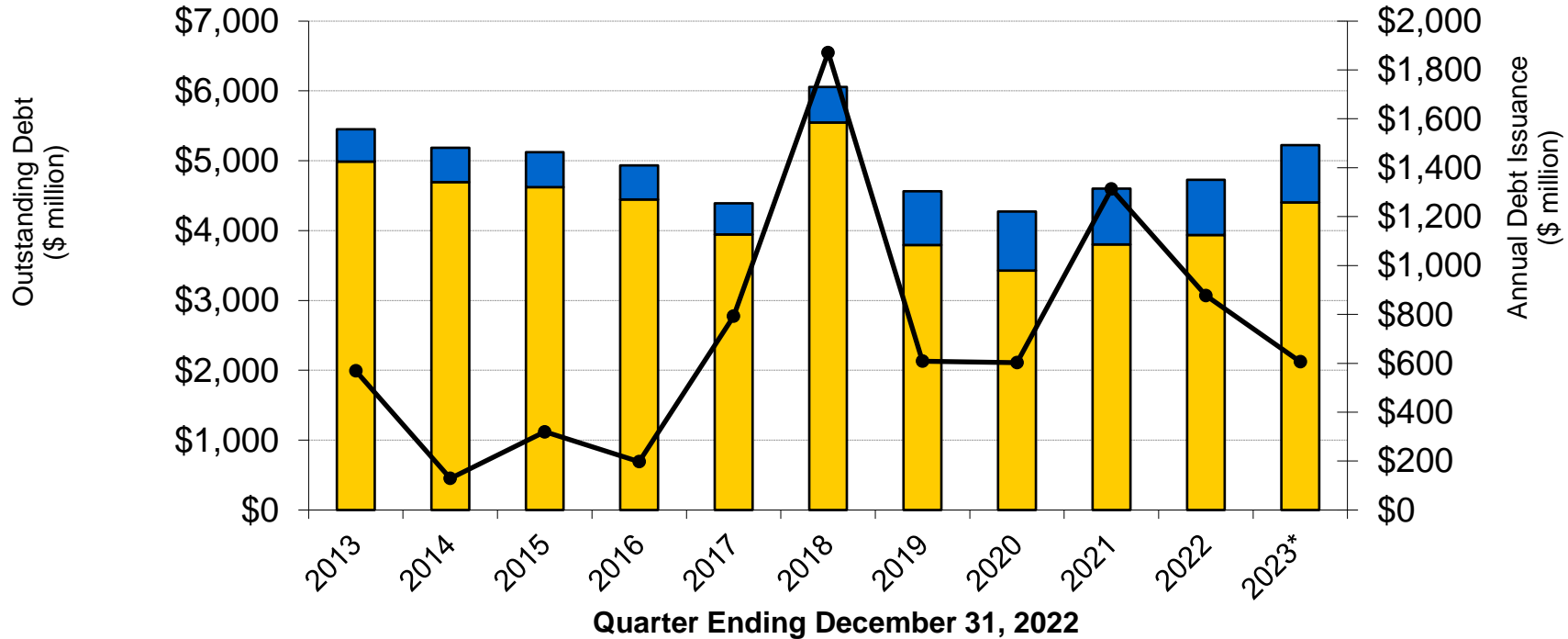


SECOND QUARTER DEBT MANAGEMENT REPORT FISCAL YEAR 2022-2023



OUTSTANDING DEBT ISSUED (CITY AND ALL AGENCIES)

Outstanding Debt as of December 31, 2022: \$5.22 Billion
 FY 2022-23 Year to Date Debt Issuance: \$606.5 Million



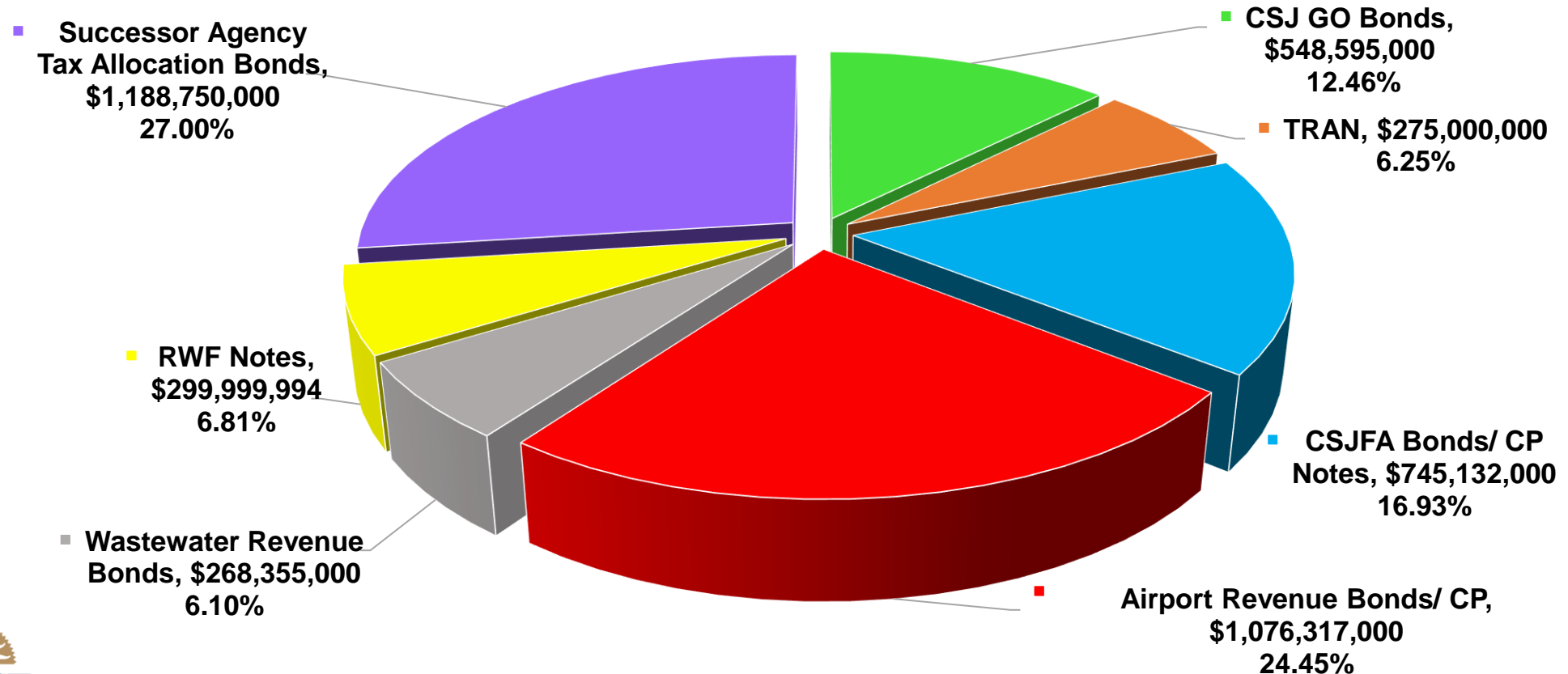
■ City and Related Entity Debt Outstanding
 ■ Conduit Debt Outstanding
 ● Annual Debt Issuance

*YTD Debt Issuance



DIRECT OUTSTANDING DEBT (CITY AND ALL AGENCIES)

Outstanding Debt as of December 31, 2022: \$4.40 Billion
(Excluding Multifamily Housing Revenue Bonds)



DEBT ISSUANCE ACTIVITIES

DURING SECOND QUARTER (OCTOBER – DECEMBER 2022)

- Debt Issuance
 - CSJFA Wastewater Revenue Bonds, Series 2022B (Green Bonds – Climate Bond Certified) – \$268.36 million, December 2022
 - Regional Wastewater Facility Revenue Tax-Exempt Notes –
 - Issued \$63.1 million in October 2022
 - Reached maximum capacity of \$300 million Revolving Line of Credit
 - Notes will be refunded in full with 2022B bond proceeds in March 2023



SELECTED DEBT MANAGEMENT ACTIVITIES DURING SECOND QUARTER (OCTOBER – DECEMBER 2022)

- Request for Proposal
 - SJCE Revolving Credit Facility (\$250 million)
- Reporting
 - Annual Continuing Disclosure and Compliance Reporting
 - 2022 Comprehensive Annual Debt Report (CADR)



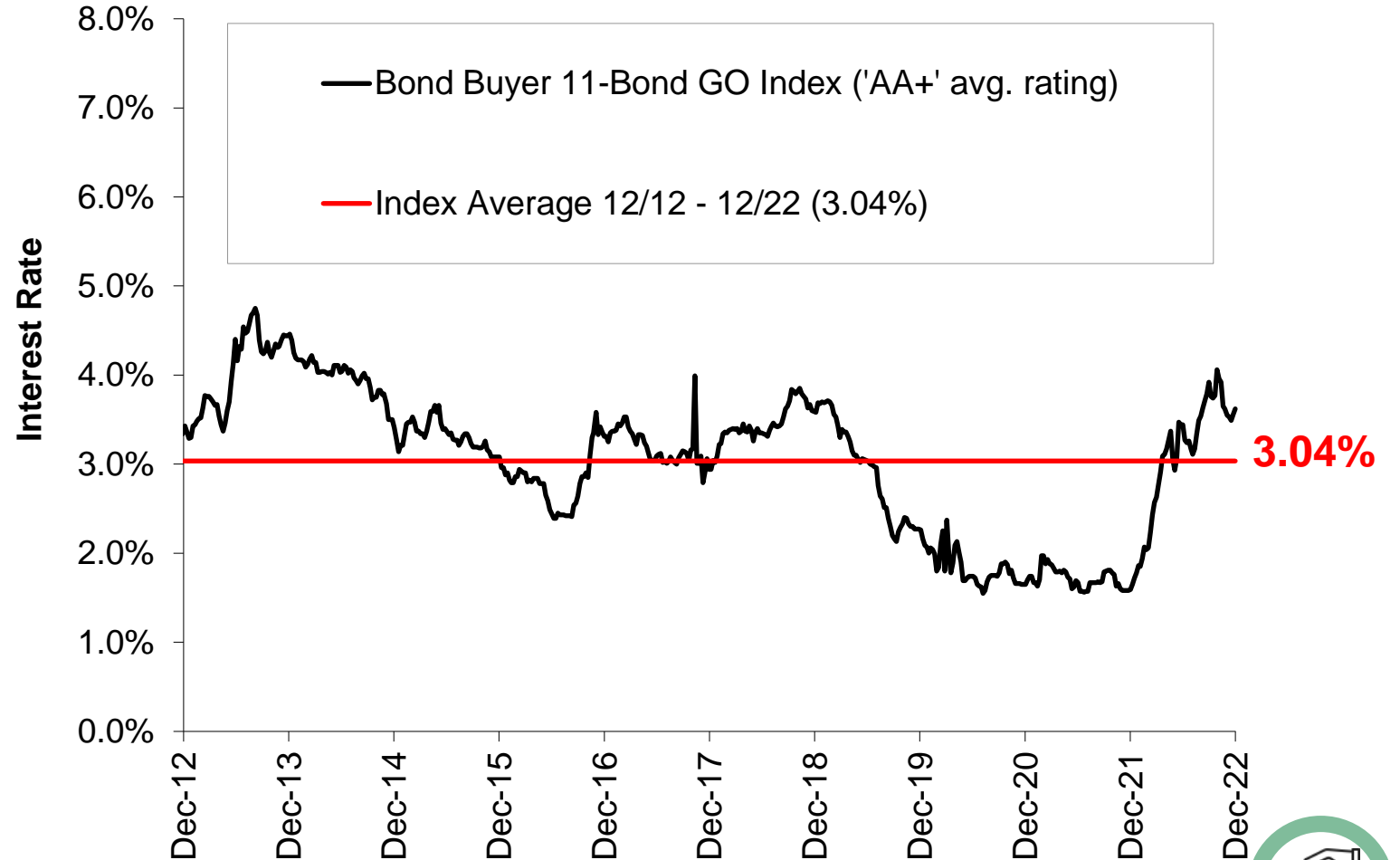
UPCOMING DEBT ISSUANCE AND MANAGEMENT THROUGH MARCH 31, 2023

- Debt Management
 - Repayment of \$300 million of Subordinate Wastewater Revenue Notes, Series A with proceeds of CSJFA Wastewater Revenue Bonds, Series 2022B
 - Redemption of \$137.5 million of Tax Revenue Anticipation Notes
- Reporting
 - CDIAC - Annual Debt Transparency Reporting (ADTR)



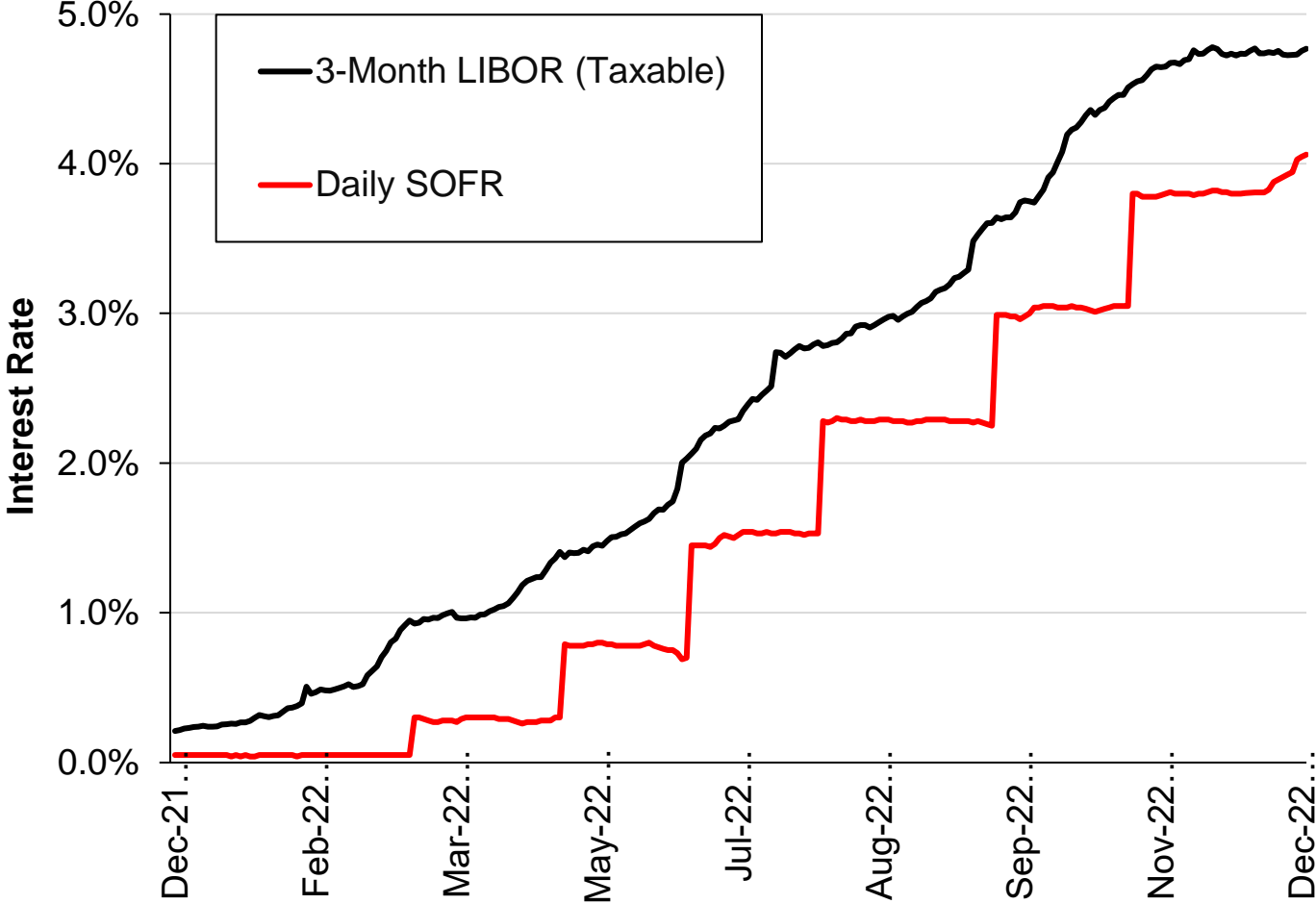
BOND BUYER GO BOND YIELD INDEX

- 10-year history of higher rated (“AA+”) General Obligation debt (20-year term) yield averaged 3.04% and is currently at 3.35% (as of 1/12/23).



VARIABLE INTEREST RATES (TAXABLE)

- Taxable 3-Month LIBOR interest rates paid by the City averaged 4.51% in Q2. The Taxable 3-Month LIBOR and Daily SOFR interest rates are currently 4.81% and 4.31% respectively (as of 1/10/23).



GENERAL OBLIGATION CREDIT RATINGS

- The City's GO Ratings are higher than the State of California's ratings and analogous to Santa Clara County's ratings, which is to be expected given the extent of the tax base and other credit fundamentals that the City and the County share:

Entity	Moody's	S&P	Fitch
CITY OF SAN JOSÉ	Aa1	AA+	AAA
STATE OF CALIFORNIA	Aa2	AA-	AA
SANTA CLARA COUNTY	N/A	AAA	AA+

[1] Moody's does not currently rate Santa Clara County's General Obligation Bonds but maintains an Issuer rating of Aa1.



GENERAL CREDIT RATINGS

CITY OF SAN JOSÉ

- The City of San José continues to maintain very high credit ratings.

Type of Rating	Moody's	S&P	Fitch	KBRA (Kroll)
ISSUER RATING	Aa1 (stable)	AA+ (stable)	AA+ (stable)	N/A
GENERAL OBLIGATION BONDS	Aa1 (stable)	AA+ (stable)	AAA (stable)	N/A
LEASE REVENUE BONDS (ESSENTIAL ASSETS)	Aa2 (stable)	AA (stable)	AA (stable)	N/A
LEASE REVENUE BONDS (LESS ESSENTIAL ASSETS)	Aa3 ^[1] (stable)	AA (stable)	AA- (stable)	N/A

[1] Moody's assigns a rating of Aa3 to CSJFA 2020B and 2022A bonds which the rating agency considers less essential assets.



OTHER CITY CREDIT RATINGS

TYPE OF RATING	MOODY'S	S&P	FITCH	KBRA (KROLL)
SAN JOSÉ AIRPORT BONDS	A2 (stable)	A (stable)	A (stable)	N/A
SARA SENIOR TAX ALLOCATION BONDS	N/A	AA (stable)	AA (stable)	N/A
SARA SUBORDINATE TAX ALLOCATION BONDS	N/A	AA- (stable)	AA- (stable)	N/A
WASTEWATER REVENUE BONDS	N/A ^[1]	AAA (stable)	AAA ^[2] (stable)	AAA (stable)

[1] Moody's does not rate CSJFA Wastewater Revenue Bonds.

[2] KBRA (Kroll) has assigned a rating to the CSJFA Wastewater Revenue Bonds exclusively..



SECOND QUARTER INVESTMENT MANAGEMENT REPORT FOR FISCAL YEAR 2022-2023



INVESTMENT POLICY

(COUNCIL POLICY I-12)

- Investments meet the requirements of the City's Investment Policy and conform with California Government Code section 53601
- Authorized investments are only highly-rated fixed income securities
- Investment Policy is reviewed annually and was last adopted by resolution of the City Council on March 15, 2022
 - Proposed policy changes included on February 16, 2023 PSFSS Committee Agenda
 - City Council approval anticipated on March 21, 2023
- Investment Program is audited semi-annually for compliance purposes



INVESTMENT OBJECTIVES & REPORTING

- Manage investments to meet the City's Investment Policy objectives:
 - Safety
 - Liquidity
 - Yield
- Quarterly reports are available to the public
 - On-line
 - In PSFSS Committee agenda packets
 - In City Council agenda packets (for acceptance)



SOCIALLY RESPONSIBLE INVESTMENT GOALS

- Articulated in Section 22 of the Investment Policy
- Support community well-being through:
 - safe and environmentally sound practices
 - fair labor practices
- Support equality of rights
- Serve all members of the local community
- Promote community economic development



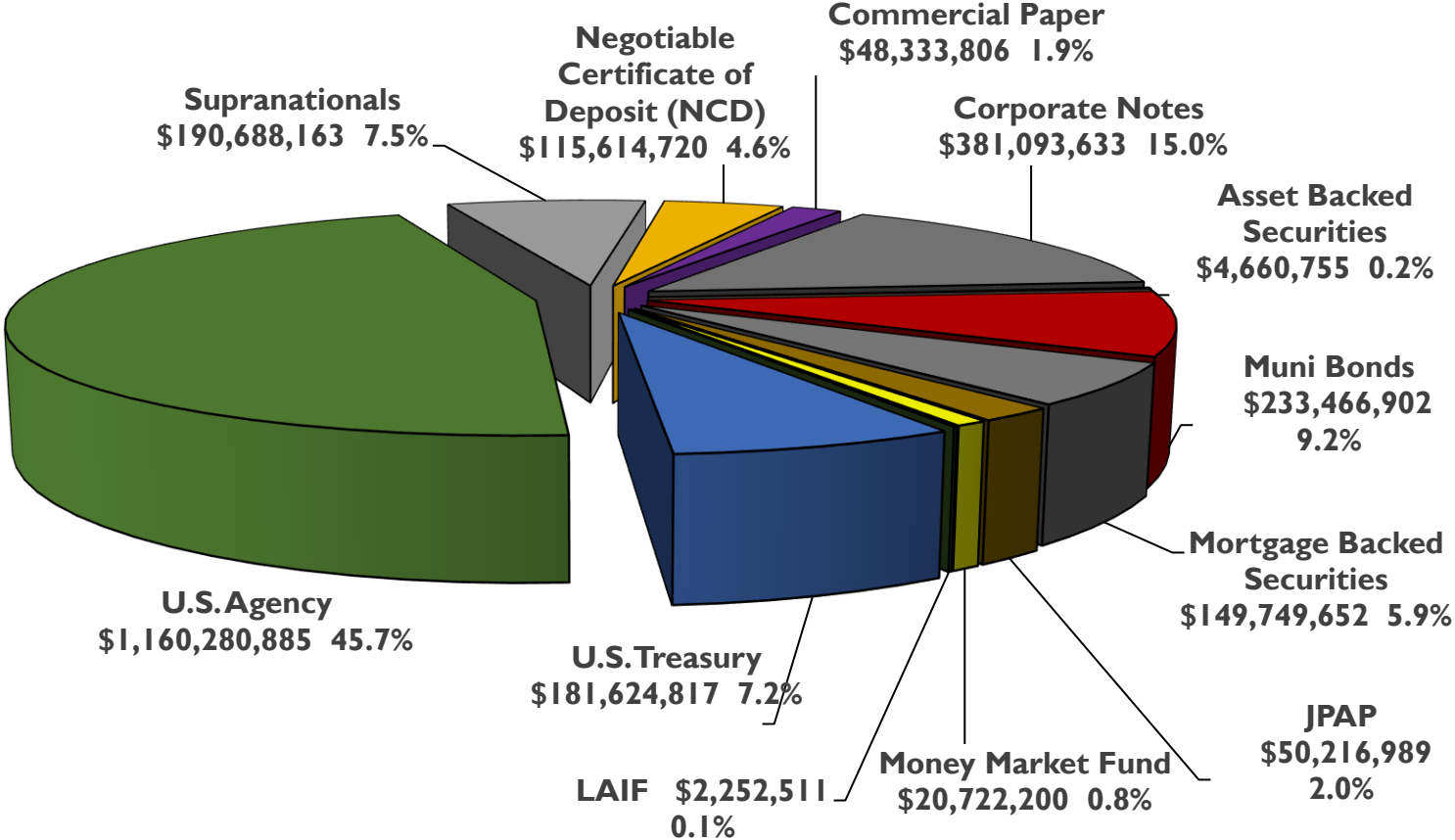
PORTFOLIO PERFORMANCE SUMMARY

Size of Total Portfolio	\$2,538,705,032
Earned Interest Yield	2.233%
Weighted Average Maturity	606 days
Fiscal Year-to-Date Net Income Recognized	\$24,529,648
Exceptions to the City Investment Policy this Quarter	None



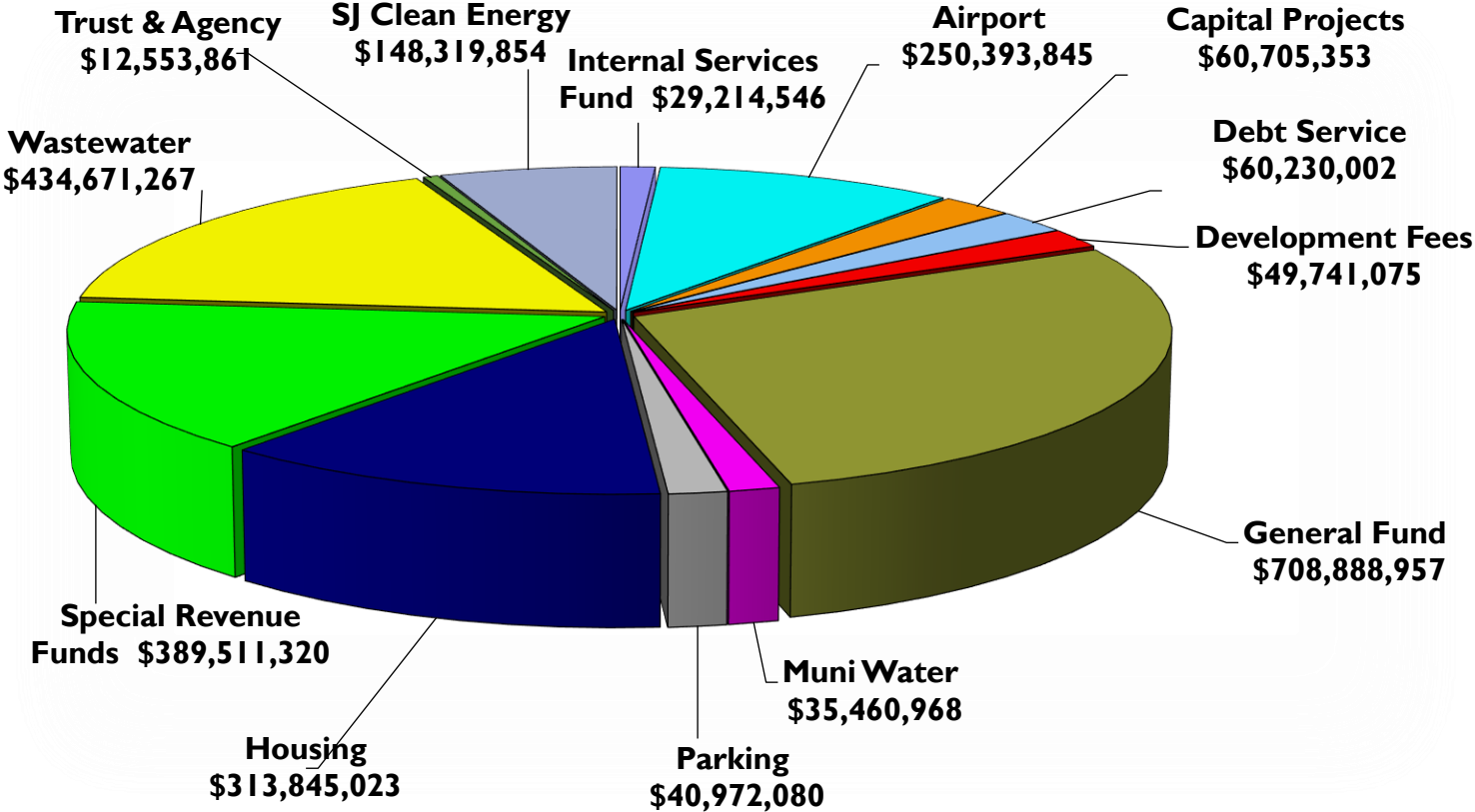
PORTFOLIO INVESTMENTS

Total Investment Portfolio
\$2,538,705,032



INVESTMENTS BY FUND

The \$708.9 million in the General Fund presented includes \$613,707,115 of General Fund monies, as well as \$95,181,842 in other, separately tracked general funds, such as the Emergency Reserve Fund, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the American Rescue Plan Act (ARPA) of 2021 and other smaller funds and reserves.



GENERAL FUND BALANCE

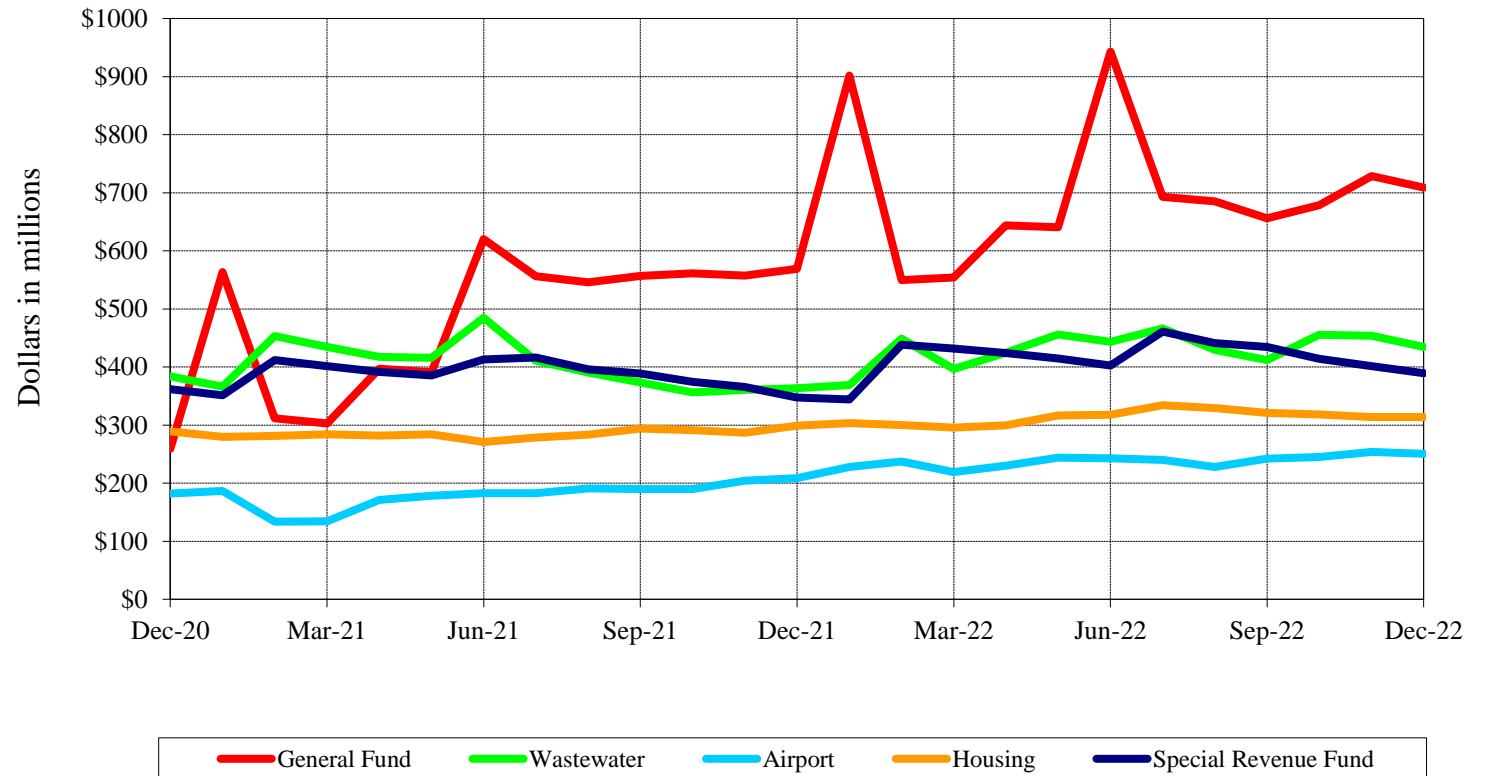
- General Fund balance increased by \$52.8 million during the quarter, with the receipt of property tax advances, and ended with a balance of \$708.9 million as of December 31, 2022
 - General Fund balance usually peaks during the months of January and June, when the bulk of property taxes are received, declines in the summer when the City implements retirement prefunding, and declines throughout the rest of the year due to debt service payments and operational expenditures
- Projected investment maturities, cash and revenues are sufficient to cover anticipated expenditures for the next six months



COMPARISON OF CASH BALANCES

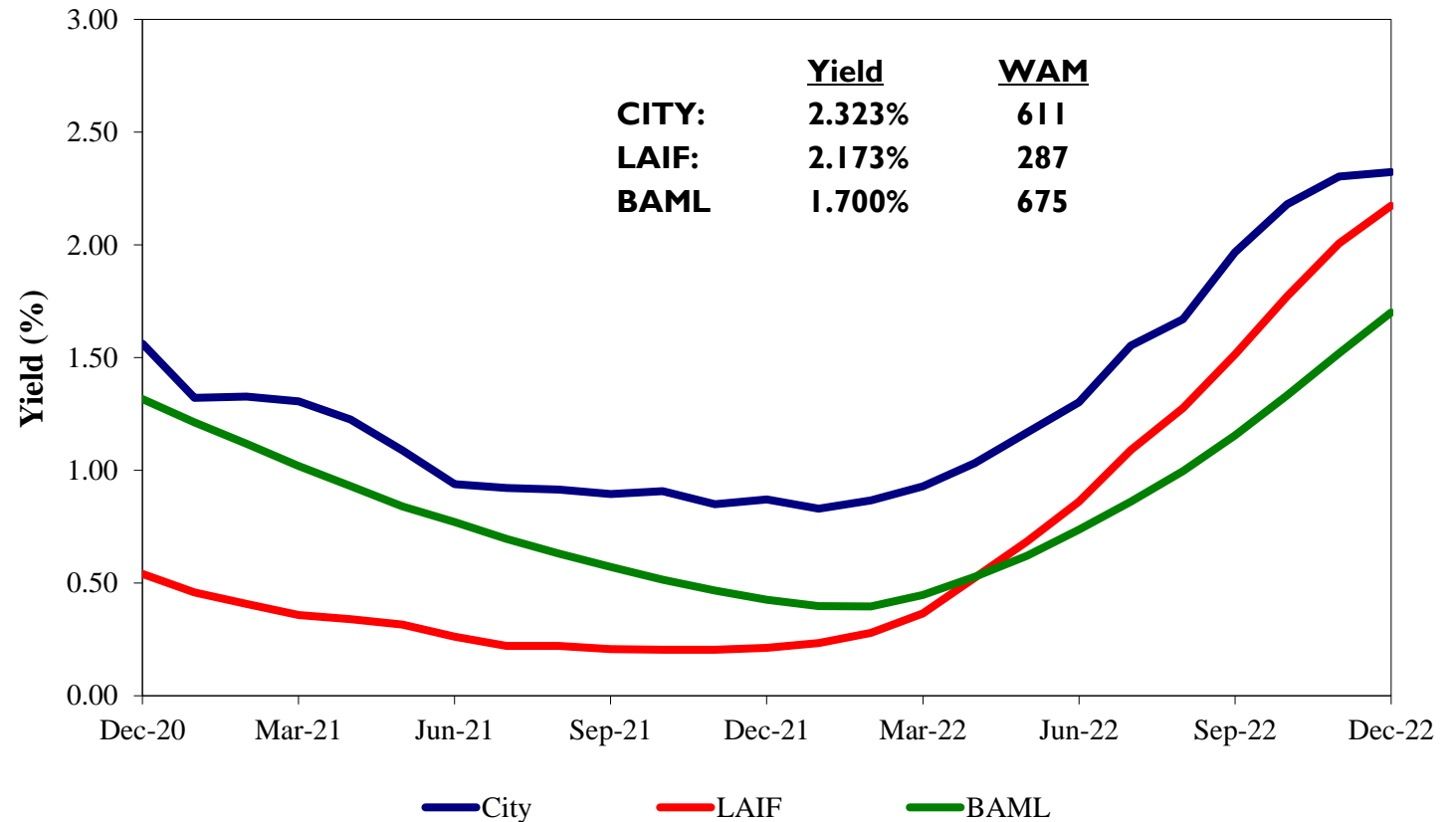
(BY SELECT FUNDS)

The following graph compares monthly balances of the five largest City funds as reported by FMS.



BENCHMARK COMPARISONS

- City refers to City's Fund 3 Portfolio, and the yield data are month-end weighted average yields.
- LAIF refers to the State of CA Local Agency Investment Fund and yield data are average monthly effective yields.
- BAML refers to Bank of America Merrill Lynch 1-3 Year AAA-A US Corporate & Government Index and yield data are rolling 2-year effective yield.



INVESTMENT STRATEGY

- Continue matching known expenditures with suitable investments within the 24-month horizon
- Extend a portion of the portfolio beyond two-year term, when appropriate, to provide income and structure to the portfolio
- Maintain the diversification of the portfolio
- Focus on core objectives of safety, liquidity, and yield



SECOND QUARTER REVENUE MANAGEMENT REPORT FOR FISCAL YEAR 2022-2023



REVENUE MANAGEMENT PROGRAMS

- The Revenue Management Program focuses on collecting all outstanding receivables, with an emphasis on reducing delinquent accounts and enhancing revenue compliance, through four primary collection programs:
 - Accounts Receivable
 - Business Tax
 - Compliance and Monitoring
 - Utility Billing
- Revenue Management also is implementing an Accounts Receivable Amnesty Program to encourage eligible debtors to pay their principal balances
- Efforts may span several reporting periods, and actual collections are reported as funds received by the City.



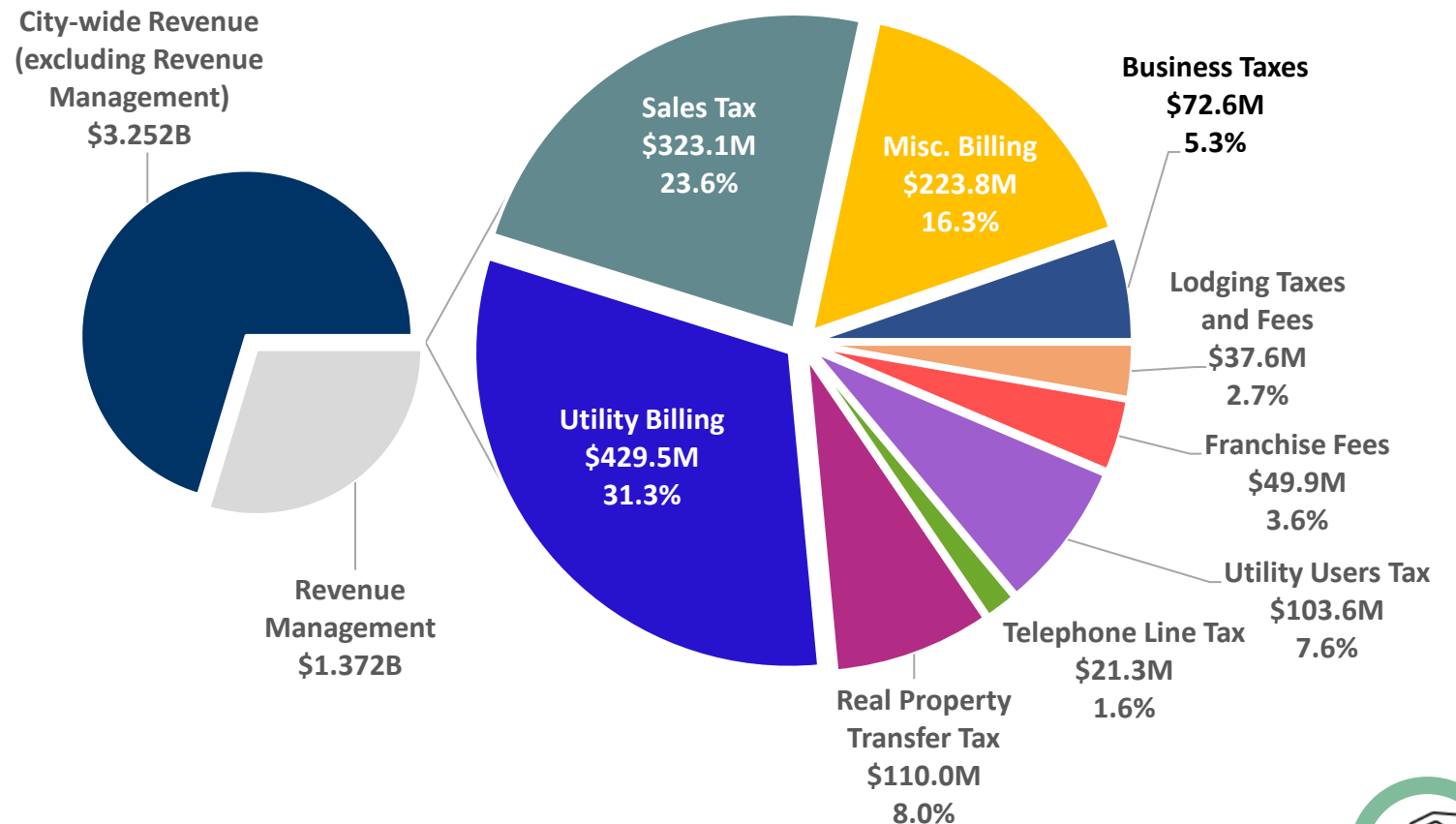
REVENUE MANAGEMENT PORTFOLIO

FY 2021-22 REVENUE (\$ IN MILLIONS)

Total Revenue: \$4.624B

Source: 2021-22 City Manager's
Budget Office Annual Report

(Graph is updated annually)

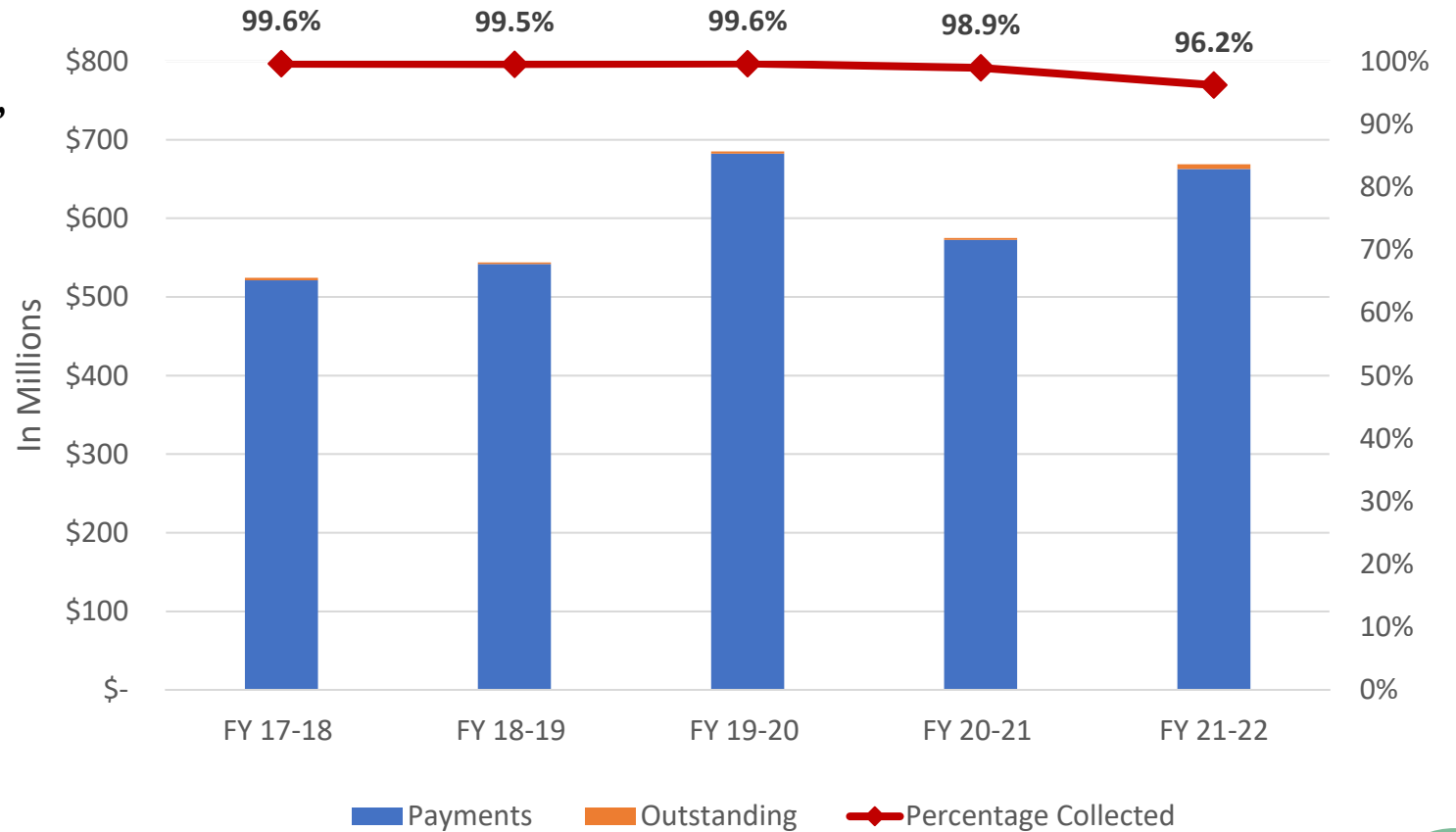


INVOICING AND PAYMENTS

FIVE-YEAR HISTORY (FY 2017-18 TO FY 2021-22)

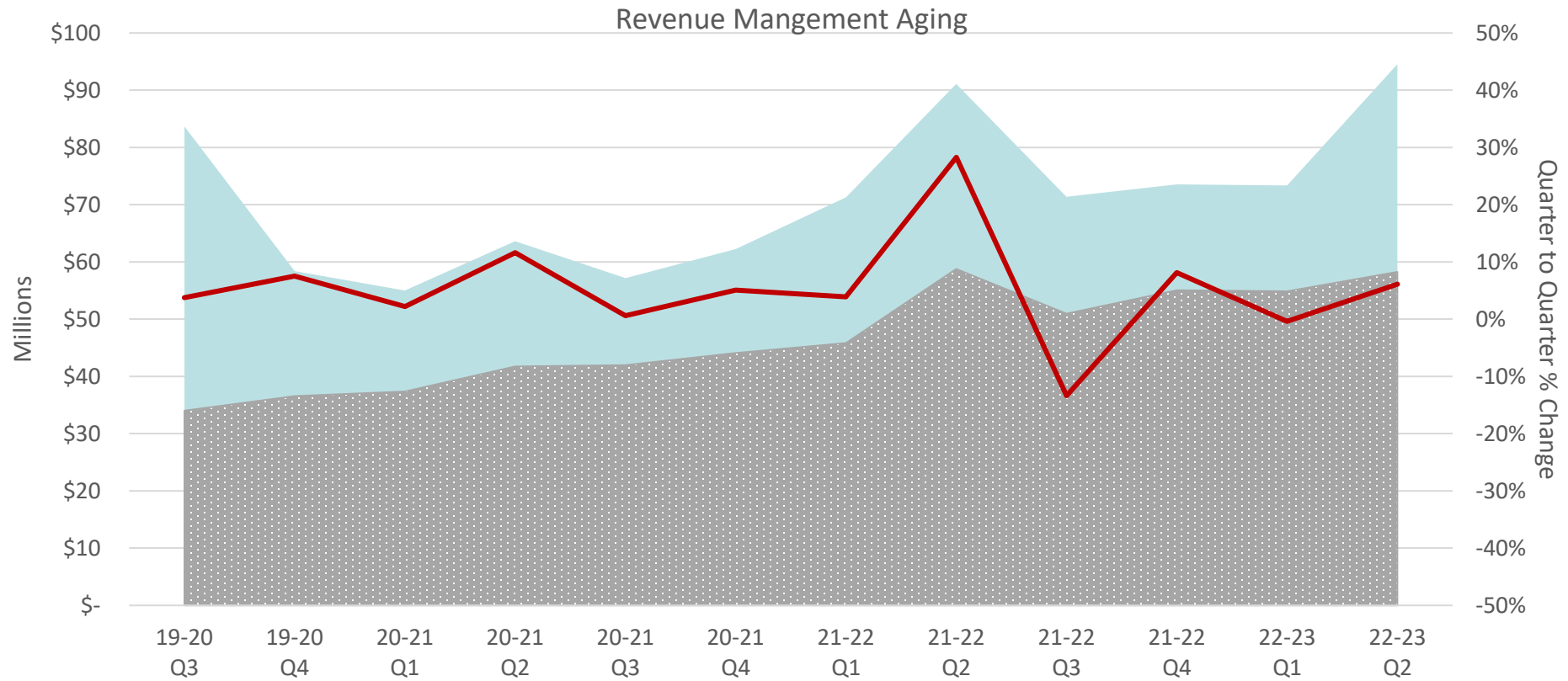
Includes invoices billed through the Business Tax System, the centralized Accounts Receivable system (RevQ), and the Utility Billing System.

(Graph is updated annually)



OUTSTANDING RECEIVABLES

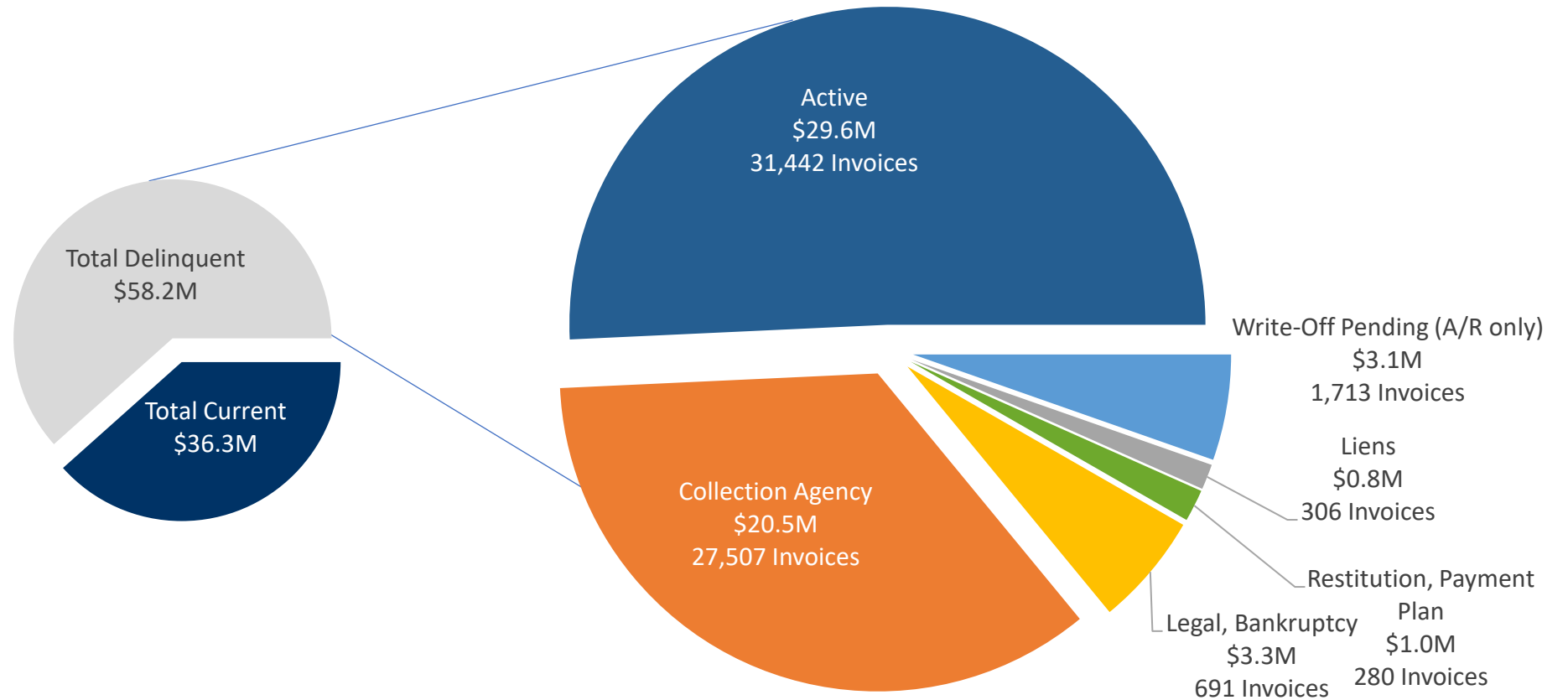
THREE-YEAR HISTORY (Q3 FY 2019-20 To Q2 FY 2022-23)



FY 2022-23 Q2 DELINQUENT RECEIVABLES

COLLECTION STATUS SUMMARY (\$ IN MILLIONS)

Revenue Management



As of December 31, 2022

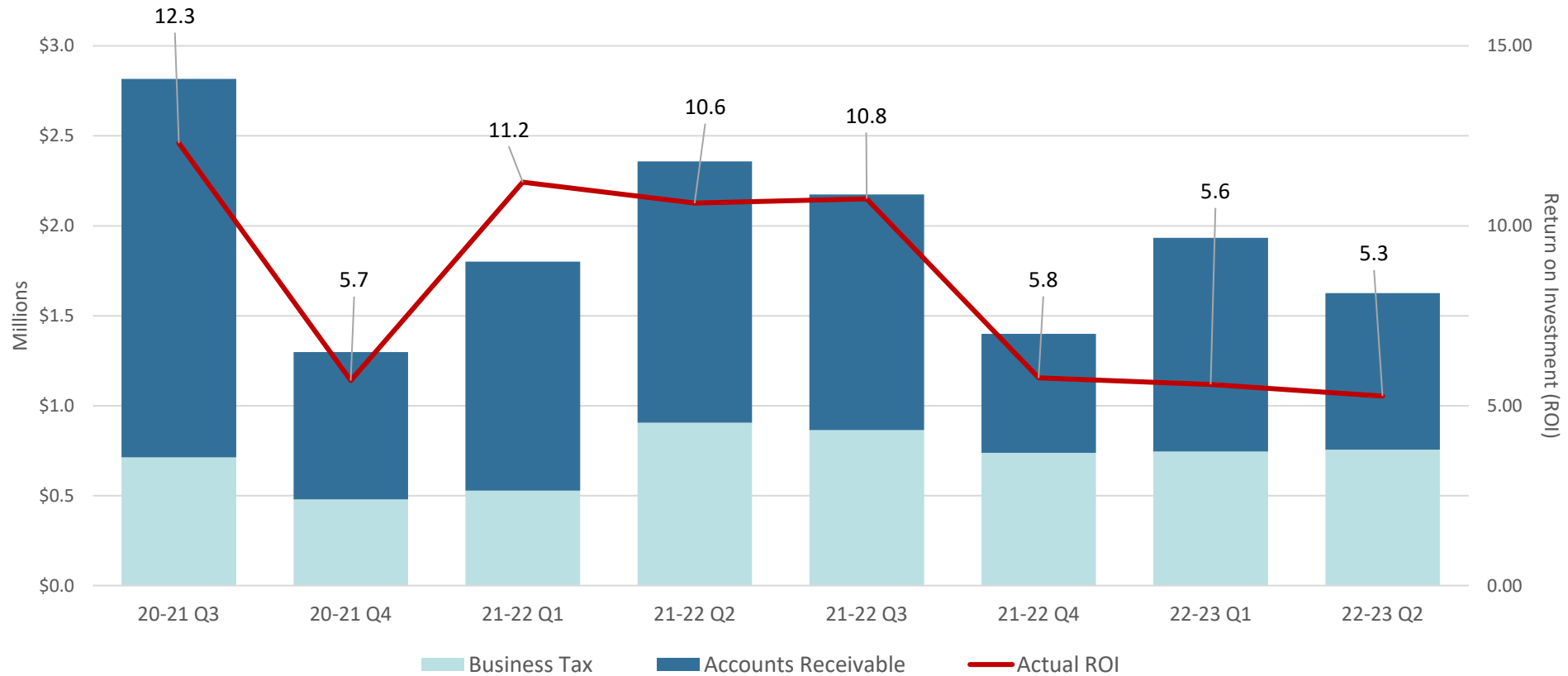
*Rounded



COLLECTIONS & RETURN ON INVESTMENT

REVENUE MANAGEMENT COLLECTIONS

(Q3 FY 2020-21 TO Q2 FY 2022-23)



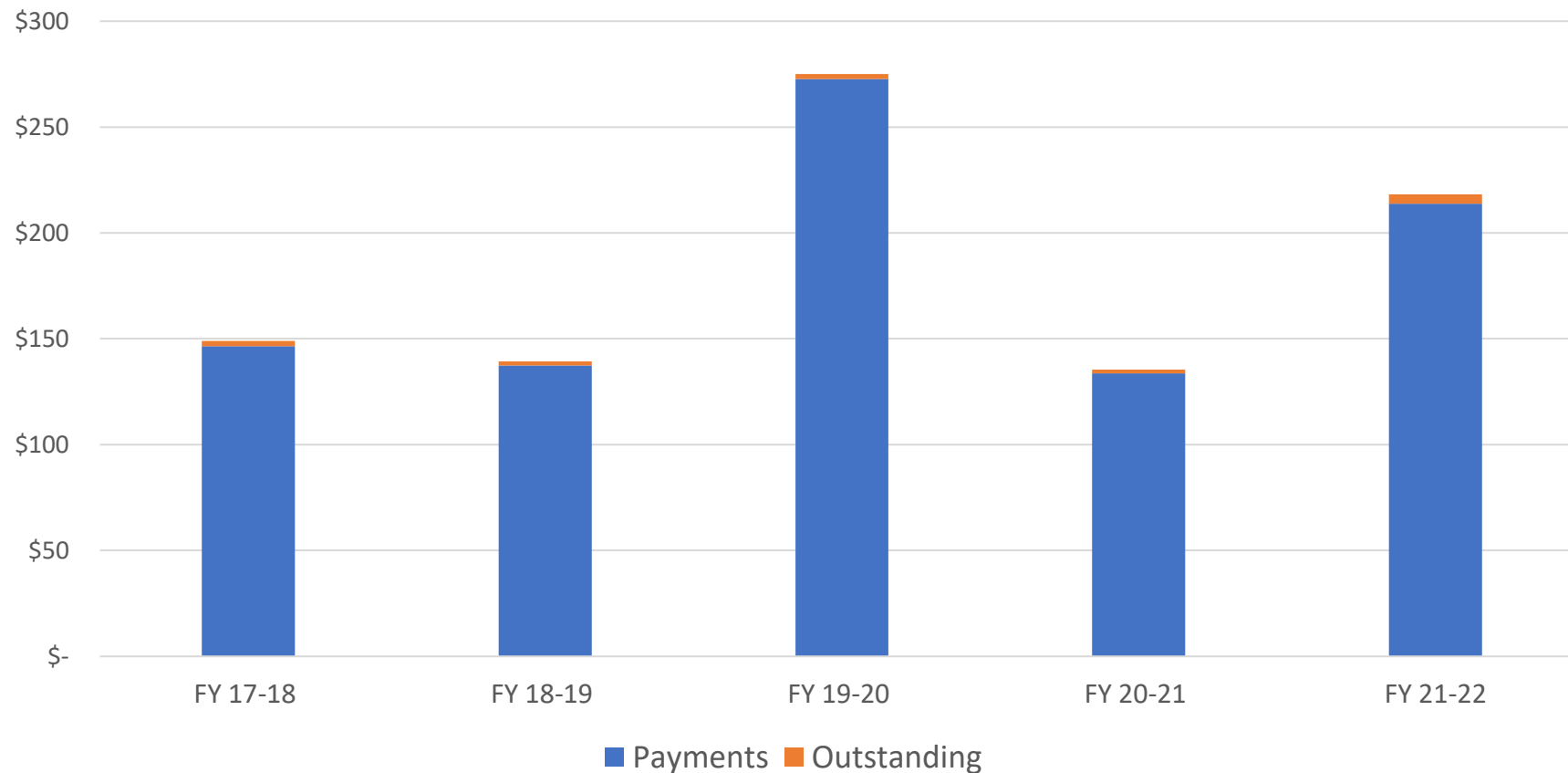
COLLECTION AND WRITE-OFF PROCESS

- Delinquency Notifications Sent to Debtor
 - 30 Day Notice, 60 Day Notice, Final Notice
- Collection Agency Referral Analysis
 - Cost-benefit analysis of staff time vs. receivable amount
 - City's ability to collect through alternative means
 - Type of service billed or receivable amount
- Analysis for Write-Off
 - Collection efforts exhausted
 - Debtor has no assets, filed bankruptcy, expiration of statute, deceased, incarcerated, or “skipped”



ACCOUNTS RECEIVABLE INVOICING & PAYMENTS

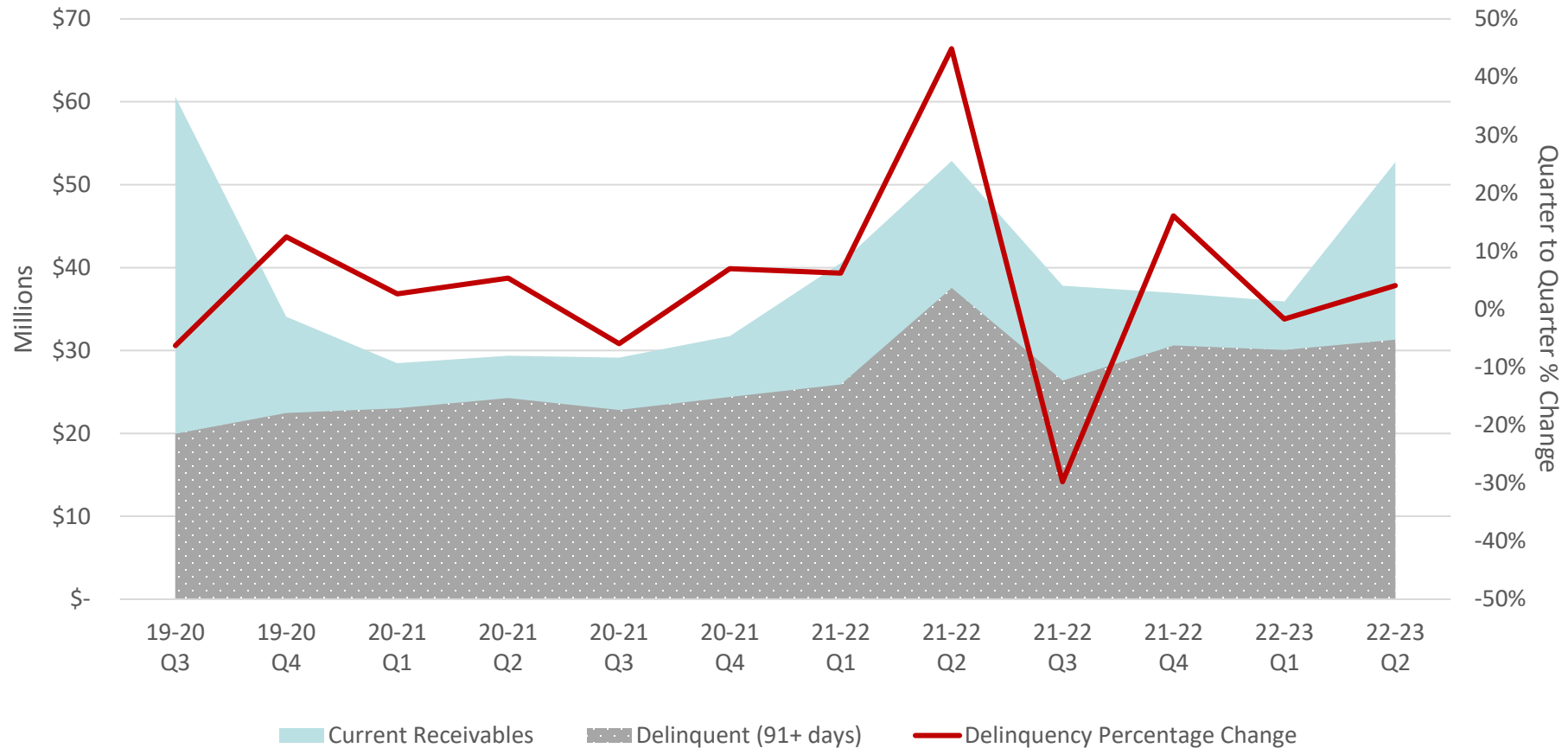
FIVE-YEAR HISTORY (FY 2017-18 TO FY 2021-22)



OUTSTANDING RECEIVABLES

ACCOUNTS RECEIVABLE

THREE-YEAR HISTORY (Q3 FY 2019-20 To Q2 FY 2022-23)

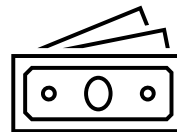


SECOND QUARTER PURCHASING AND RISK MANAGEMENT REPORT FOR FISCAL YEAR 2022-2023



PURCHASING PROGRAM

The Purchasing Division of the Finance Department is responsible for the centralized procurement of equipment, supplies, materials, Information Technology (IT), and non-consulting services, pursuant to the City of San José Municipal Code Title 4, Chapter 4.12.



PURCHASING TRANSACTIONS COMPLETED

SECOND QUARTER FY2022-23

PROCUREMENT TYPE	SECOND QUARTER TRANSACTIONS	FISCAL YEAR TO DATE
Request for Quotes Awarded	13	25
Request for Bids Awarded	13	21
Request for Information Completed	1	4
Request for Proposals Completed	0	1
Purchase Orders and Purchase Order Adjustments Issued	405	1,186
New Agreements Negotiated and Executed	3	9
Amendments, Change Orders, Service Orders, Options Executed	34	63
Council Memoranda Issued	12	24
Purchase Order & Contract Dollars Procured	\$61,077,861	\$244,388,798



PROCUREMENT IMPROVEMENT UPDATE

- Procurement Improvement is a Strategic Support initiative under the City Roadmap
- Staff presenting status report, proposed Municipal Code changes today
 - Item (d) 4 CC 23-022, *Amendments to Title 4 of the Municipal Code Related to Procurement of Goods and Services Status Report*
- Staff continues review and consideration of other recommendations from Procurement Improvement Study



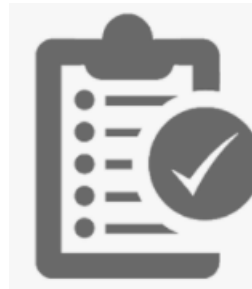
DISPARITY STUDY UPDATE

- A Citywide Disparity Study is underway to evaluate any need for new procurement policies to facilitate participation of diverse business enterprises in City contracting.
- Finance-Purchasing, in collaboration with the City Manager's Office of Communications, Racial Equity and Economic Development & Cultural Affairs, is working with MGT of America Consulting, LLC to deliver this scope of work.
- Completed Activities this Quarter
 - City Disparity Study multi-lingual website went live on October 25, 2022
<https://www.sanjoseca.gov/your-government/departments-offices/finance/disparity-study>
 - First Business Engagement Meeting held November 14, 2022
- Upcoming Activities for Next Quarter



RISK MANAGEMENT PROGRAM

The Division is responsible for the procurement and oversight of the City's property and casualty insurance programs and providing contractual risk management services, property subrogation claims reporting and other key services to City Departments



RISK MANAGEMENT TRANSACTIONS COMPLETED

SECOND QUARTER FY2022-23

TRANSACTION TYPE	SECOND QUARTER TRANSACTIONS	FISCAL YEAR TO DATE
Request for Contract Insurance Specifications	245	504
Request for Insurance Compliance Review	124	256
Request for Letters of Self-Insurance	14	40
Subrogation Dollars Billed to Responsible Third Parties	\$249,761	\$539,046
Council and Committee Memorandums Issued	0	3



**Attachment B.
Write-Offs > \$5,000**

<i>Debtor</i>	<i>Invoice Number</i>	<i>Invoice Type</i>	<i>Entered Date</i>	<i>Invoice Balance (Write-off Balance)</i>	<i>Fund</i>	<i>Reason for Write-off</i>
BEBE RELAXATION FOOT SPA	1154800	MASSAGE PERMIT	4/24/2018	\$7,034.37	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
HUNG NGUYEN	1154972	MASSAGE PERMIT	5/1/2018	\$7,034.37	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
SUPER PRO RACING	1144794	NONSUFFICIENT FUND CHECK	11/22/2016	\$7,694.20	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
EFRAIN DOMINGUEZ	1146087	PROPERTY SUBROGATION	02/28/2017	\$11,721.25	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
JUAN PEREZ	1148568	PROPERTY SUBROGATION	08/24/2017	\$12,373.96	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
LEAH VINIK	1019579	PROPERTY SUBROGATION	07/27/2004	\$13,178.54	001	Out of Statute/Out of State (NY) Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.

**Attachment B.
Write-Offs > \$5,000**

<i>Debtor</i>	<i>Invoice Number</i>	<i>Invoice Type</i>	<i>Entered Date</i>	<i>Invoice Balance (Write-off Balance)</i>	<i>Fund</i>	<i>Reason for Write-off</i>
DAVID LINARES	1149480	PROPERTY SUBROGATION	10/30/2017	\$13,456.84	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
MARCIS ZUNIGA	1147122	PROPERTY SUBROGATION	05/11/2017	\$13,522.51	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
ELIZABETH GALAN	1152977	PROPERTY SUBROGATION	02/21/2018	\$14,297.82	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
JUAN MEDINA	1145258	PROPERTY SUBROGATION	01/10/2017	\$14,384.78	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
ERICK BARRIOS	1146298	PROPERTY SUBROGATION	03/14/2017	\$14,580.42	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
DAVID SILVERMAN	1146985	PROPERTY SUBROGATION	04/25/2017	\$15,168.37	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
HARRY FROMM	1140245	PROPERTY SUBROGATION	03/09/2016	\$15,994.95	001	Debtor deceased Car was stolen

**Attachment B.
Write-Offs > \$5,000**

<i>Debtor</i>	<i>Invoice Number</i>	<i>Invoice Type</i>	<i>Entered Date</i>	<i>Invoice Balance (Write-off Balance)</i>	<i>Fund</i>	<i>Reason for Write-off</i>
ROGELIO QUEJA	1146668	PROPERTY SUBROGATION	04/04/2017	\$16,170.74	001	Out of Statute Initial collection attempts by Finance Staff Restitution Order/Probation Expired
MARK MILIOTO	1144173	PROPERTY SUBROGATION	10/06/2016	\$17,095.69	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
ELAINE BENTON	1147785	PROPERTY SUBROGATION	5/16/2019	\$20,639.27	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
KATHLEEN JOBKE	1149889	PROPERTY SUBROGATION	11/6/2017	\$20,954.65	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
VU NGUYEN	1142018	PROPERTY SUBROGATION	06/07/2016	\$20,955.00	001	Out of Statute Unable to Locate Initial collection attempts by Finance Staff
ANN VILLALOBOS-GUTIERREZ	1167393	PROPERTY SUBROGATION	4/17/2019	\$23,148.33	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
ANDREW MACNAB	1149034	PROPERTY SUBROGATION	10/10/2017	\$23,347.21	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.

**Attachment B.
Write-Offs > \$5,000**

<i>Debtor</i>	<i>Invoice Number</i>	<i>Invoice Type</i>	<i>Entered Date</i>	<i>Invoice Balance (Write-off Balance)</i>	<i>Fund</i>	<i>Reason for Write-off</i>
ROSELLA LOPES	1056551	PROPERTY SUBROGATION	03/13/2015	\$24,716.04	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
LUIS HERNANDEZ	1149049	PROPERTY SUBROGATION	10/12/2017	\$33,499.66	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
GABRIEL MARTINEZ	1167943	PROPERTY SUBROGATION	5/9/2019	\$42,698.13	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
TAMARA WILLIAMS	1167833	PROPERTY SUBROGATION	5/7/2019	\$60,485.78	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
MOISES LANDAVERDE	1165071	PROPERTY SUBROGATION	02/06/2019	\$72,139.04	001	Filed Chapter 7 discharged Paid \$5,600
RAUL MADRIGAL	1167953	PROPERTY SUBROGATION	5/9/2019	\$82,755.79	001	Out of Statute Collection Agency Assignment Initial collection attempts by Finance Staff then by collection agency staff.
26 INVOICES				\$619,047.71		



Memorandum

TO: PUBLIC SAFETY, FINANCE,
AND STRATEGIC SUPPORT
COMMITTEE

FROM: Julia H. Cooper

SUBJECT: CITYWIDE DISPARITY STUDY –
STATUS REPORT

DATE: February 1, 2023

Approved

Date

2/8/2023

INFORMATION

In May 2022, the City of San José (City) engaged MGT of America Consulting, LLC to support the City in studying its efforts to encourage participation of diverse business enterprises in the City procurement and contracting processes, and provide recommendations and refinements the City may take to increase the participation of diverse business enterprises. This Information Memorandum presents the status of the Citywide Disparity Study (Study).

BACKGROUND

A Disparity Study is used to determine if businesses – typically minority, women, and veteran-owned – face any barriers in the respective entity’s procurement and contracting processes. The Citywide Disparity Study is assessing City efforts to encourage participation and provide policy/procedure recommendations and refinements the City may take to increase participation of these groups. This specialized work effort includes a review of City procurement and contracting programs, data gathering for statistical and econometric analysis, vendor and community outreach, and a final report.

At the December 9, 2020 City Council Joint Meeting for the Rules and Open Government Committee and Committee of the Whole, the City Council referred a memorandum regarding *Procurement Programs for Minority-Owned and Other Businesses*¹ to a full City Council meeting to, among other recommendations,

¹ December 9, 2020, Item G.6, File No. ROGC 20-634:

<https://sanjose.legistar.com/LegislationDetail.aspx?ID=4711060&GUID=E3339C21-6F95-4E11-8BAB-73360DB544A5&Options=&Search=>

- ❖ *Explore options for implementing a Disparity Study to evaluate and potentially determine the need for new procurement policies that facilitate participation of Minority, Women, and Other owned Business Enterprises (MWOBE) as appropriate; and*
- ❖ *Return to Council in spring 2021 with proposal, cost estimate, and scope of study to be considered in the annual budget process.*

The City Council approved these recommendations at its January 12, 2021 City Council meeting².

The Administration submitted Manager’s Budget Addendum No. 14 on May 20, 2021³, which provided an estimate of \$700,000 to complete a study of disparities in City contracting. This estimate was based on limited research of contracts from other agencies who had performed similar studies. In the Mayor’s June Budget Message for Fiscal Year 2021-2022⁴, the City Manager was

“...directed to report to the City Council by October with a detailed cost estimate of a Disparity Study, or explore the option of issuing an RFQ [Request for Quotes] to better understand the potential cost from the consultants themselves... [and] allocate \$50,000 from the Essential Services Reserve to start this work...”

Staff reviewed the scope and cost of disparity studies conducted by multiple jurisdictions within California, identifying the following three cities which performed recent, similar in size and scope disparity studies:

Report Year	Entity	Study Cost
2015	San Francisco Municipal Transportation Agency	\$450,000
2017	City of Oakland	\$490,875
2020	City of San Diego	\$477,000

Consequently, as directed in the City Council-approved Mayor’s March 2022 Budget Message for Fiscal Year 2022-2023⁵, and approved by the City Council, one-time funds of \$400,000 were

² January 12, 2021, Item 3.5, File No. 21-001:

<https://sanjose.legistar.com/LegislationDetail.aspx?ID=4731105&GUID=1F5C1D40-9F38-4049-B24E-8728B134B3C5&Options=&Search=>

³ May 20, 2021, Manager’s Budget Addendum No. 14 – Disparity Study:

<https://www.sanjoseca.gov/home/showpublisheddocument/73255/637571278964970000>

⁴ June 15, 2021, Item 3.3, File No. 21-1378:

<https://sanjose.legistar.com/LegislationDetail.aspx?ID=4970402&GUID=160FA496-5BF9-4779-8244-923E527938BC&Options=&Search=>

⁵ March 15, 2022, Item 3.3, File No. 22-310:

<https://sanjose.legistar.com/LegislationDetail.aspx?ID=5472236&GUID=64AE98C2-C570-4B5F-8057-D51C2CD30E0A&Options=&Search=>

added in the FY 2022-23 Adopted Operating Budget⁶ to support the Disparity Study, with an additional \$50,000 anticipated in one-time funding from a non-governmental entity for a total Citywide Disparity Study budget of \$500,000. The City received the \$50,000 gift from Silicon Valley Community Foundation for the Disparity Study on May 13, 2022.

In February 2022 the City learned the County of Santa Clara (County) executed an agreement with MGT of America Consulting LLC (MGT) to conduct a County-wide disparity study as a result of a competitive Request for Proposals process. Staff reviewed the County Request for Proposals documents, which included the requisite public agency purchase (also known as “piggyback”) language⁷. This language allowed the City to leverage the County procurement and enter into a contract directly with MGT.

On May 10, 2022, the City of San José (City) engaged with MGT of America Consulting, LLC (MGT) to discuss a potential contract for MGT to support the City in assessing its efforts to encourage participation of diverse business enterprises in the City procurement and contracting processes, and provide recommendations and refinements the City could take to increase the participation of diverse business enterprises. On June 14, 2022, the City Council authorized the City Manager to negotiate and execute an agreement with MGT for a Citywide Disparity Study and related services⁸ for a total of \$410,470 plus contingency of \$89,530 for a total contract value of \$500,000.

CURRENT STATUS

The Administration transitioned the lead project management responsibilities of the Citywide Disparity Study from the Public Works Department⁹ to the Purchasing & Risk Management Division of the Finance Department beginning with the May 2022 discussions with MGT. The high-level tasks and proposed timeline of the Study, as excerpted from the executed MGT contract, follows:

⁶ Page 893, 2022-23 Adopted Operating Budget,

<https://www.sanjoseca.gov/home/showpublisheddocument/91599/638095680288270000>

⁷ San José Municipal Code 4.12.225 – Public agencies purchases (B.2):

https://library.municode.com/ca/san_jose/codes/code_of_ordinances?nodeId=TIT4REFIBUTA_CH4.12PRGOSE_PT3PRPR_4.12.225PUAGPU

⁸ June 14, 2022, Item 2.14, File No. 22-898:

<https://sanjose.legistar.com/LegislationDetail.aspx?ID=5666478&GUID=4D1C6093-0506-4E06-954A-880B0DF6C93D&Options=&Search=>

⁹ December 9, 2020, Item G.6, File No. ROGC 20-634 (Early Consideration Form)

<https://sanjose.legistar.com/View.ashx?M=F&ID=9002742&GUID=517CBAA4-E9C1-4ED3-AC65-A9243F78D5F6>

STUDY COMPONENTS / TASKS	MONTH											
	1	2	3	4	5	6	7	8	9	10	11	12
1. Project Initiation												
2. Legal Review												
3. Procurement and Program Policy Review												
4. Data Assessment, Collection, and Preparation												
5. Identify Geographic and Product Markets												
6. Utilization Analysis												
7. Availability Analysis												
8. Public Sector Disparity Analysis												
9. Private Market and Non-Goals Disparity Analyses												
10. Regression Analysis												
11. Anecdotal Data Collection and Analysis												
12. Workforce Diversity Goals												
13. Recommendations												
14. Goal Setting												
15. Prepare and Present Final Report												

As of December 31, 2022, the following tasks, in collaboration with City Council District 1 (former Vice Mayor Chappie Jones), the City Manager’s Offices of Communications, Economic Development & Cultural Affairs, and Racial Equity, and the Department of Public Works, have been completed:

- ❖ Project Kick-off Meeting held June 7, 2022
- ❖ Data Queries of the City’s Financial Management Systems (FMS) Vendor Database completed for public works/construction, goods, non-consulting/other services, and professional services from July 1, 2016, through June 30, 2021 and submitted to MGT
- ❖ Procurement and contracting policies, ordinances and procedures submitted to MGT
- ❖ City Roadmap – Procurement Improvement Status Report (Guidehouse Procurement Review)¹⁰ submitted to MGT
- ❖ Approved and deployed the multi-lingual¹¹ Communications and Outreach Plan, which included the following tactics and activities:
 - Published Community Engagement Website¹² and multi-lingual feedback forms
 - Distributed a press release about the Study
 - Promoted the Study to key stakeholders in the local community, including but not limited to:
 - Business Ownership Space Meeting – Presentation (11/1/2022)
 - San Jose Small Business Task Force Meeting – Presentation (11/10/2022)
 - Distributed multi-lingual collateral materials to all City Council District offices for communication with constituents, posted in City libraries and community centers, and emails were sent to Community-Based Organizations, multicultural Chambers of Commerce and other business support agencies to publicize the Study.
 - Promoted the Study via social media

¹⁰ May 10, 2022, Item 3.7, File No. 259: <https://sanjose.legistar.com/LegislationDetail.aspx?ID=5567613&GUID=18B91667-1895-4905-ABAE-2E711A986346&Options=&Search=>

¹¹ English, Spanish, Vietnamese and Chinese

¹² City of San José Disparity Study Website: <https://www.sanjoseca.gov/your-government/departments-offices/finance/disparity-study>

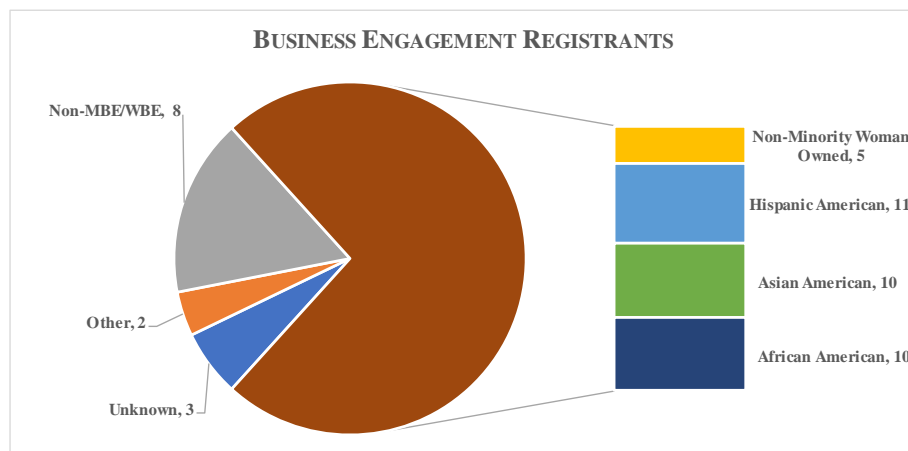
- ❖ Following are social media saturation statistics to date, provided by the Office of Communications:

Date	Response Type	Facebook	Nextdoor	LinkedIn
11/3/2022	Impressions	1,822	8,724	2,049
11/3/2022	Engagements	30	3	N/A
11/3/2022	Reactions	N/A	N/A	25
11/3/2022	Clicks	N/A	N/A	34

Date	Media Type	Facebook	Twitter	Instagram
11/14/2022	Impressions	2,427	1,127	982
11/14/2022	Engagements	48	18	22

Webpage Statistics	City Website – Disparity Study	City Website – Flyers
Page View	466	20
Weblink	Disparity Study - Landing Page	Disparity Study - Flyers

- ❖ Held initial Business Engagement Meeting (11/14/2022) to obtain first-hand experiences of businesses who have done business or attempted to do business with the City or the City’s prime vendors:
 - Former Vice Mayor Chappie Jones kicked off the Business Engagement Meeting
 - In addition to City social media announcements, MGT distributed an announcement of the meeting via email to 5,644 firms/organizations who have previously done business with the City, are located within the San José-San Francisco-Oakland Combined Statistical Area (CSA) or are local trade associations/professional organizations.
 - A total of 49 firms/organizations registered to attend this meeting and 53% (26) of registrants attended. The ethnic/business type breakdown of the registrants is shown in the following chart:



- During this meeting, firms were given an opportunity to speak privately in one-on-one sessions with MGT regarding their experiences. Of 16 firms which selected this option, 38% (6) of these firms attended the private sessions.
- Translation services in four languages (English, Spanish, Vietnamese and Chinese) were provided for the Business Engagement Meetings and the private business meetings.

UPCOMING ACTIVITIES

The following high-level activities will be completed for the next quarterly reporting period:

- ❖ Data assessment, additional collection and analysis
 - Review preliminary prime utilization data with the City to identify purchases that should be excluded from analysis (i.e. personnel reimbursements, utilities, etc.)
 - Collect subcontractor information from City departments/contract managers
- ❖ Anecdotal data collection and analysis
 - Interviews with trade associations and business organizations.
 - Distribute vendor survey questionnaire, focus group guides, and quantitative (availability) survey instruments.
- ❖ Complete Legal Review chapter of the final report and review with MGT
- ❖ Hold Business Engagement focus groups with specific industries

Tentatively Scheduled Dates & Times	Industries
Tuesday, March 14 at 9 AM – 11 AM PST	Construction Primes
Tuesday, March 14 at 1 PM – 3 PM PST	Construction Subcontractors
Tuesday, March 21 at 9 AM – 11 AM PST	Architecture & Engineering and Professional Services
Tuesday, March 21 at 1 PM – 3 PM PST	Goods and Other Services

FINAL REPORT

The current Citywide Disparity Study workplan forecasts the final report will be published in the Summer 2023. Staff contemplates advancing recommendations for City Council consideration in the Fall 2023.

/s/
JULIA H. COOPER
Director of Finance

For questions, please contact Luz Cofresí-Howe, Assistant Director of Finance, at luz.cofresi-howe@sanjoseca.gov or (408) 535-7041.