



Memorandum

TO: PUBLIC SAFETY, FINANCE, AND
STRATEGIC SUPPORT COMMITTEE

FROM: Julia H. Cooper

**SUBJECT: SECOND QUARTER FINANCIAL
REPORTS FOR FISCAL YEAR
2017-2018**

DATE: January 31, 2018

Approved

Date

2/7/18

RECOMMENDATION

- (1) Accept the following Second Quarter (period ending December 31, 2017) Financial Reports for Fiscal Year 2017-2018 for the following programs:
 - (a) Debt Management Report
 - (b) [Investment Management Report](#)
 - (c) Revenue Collection Report; and
- (2) Refer the Second Quarter Financial Reports for Fiscal Year 2017-2018 to the March 6, 2018, City Council meeting for full adoption.

OUTCOME

Provide the quarterly update on debt management, investment management, and revenue collection work efforts.

BACKGROUND

The attached Second Quarter Financial Reports for Fiscal Year 2017-2018 presents the Finance Department's quarterly activity for the City's Debt Management, Investment Management, and Revenue Collection 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 page at <http://www.sanjoseca.gov/index.aspx?NID=759>. 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 (the "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 Collection Program which includes Marijuana Business Tax.

Debt Management Program

This Second Quarter Debt Report focuses on the City's debt activities for the period ended December 31, 2017, 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-Aa3¹/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 December 31, 2017.

Investment Management Program

A quarterly investment report for the period ended December 31, 2017, was distributed separately to the Mayor and City Council and is posted on the Finance Department website². 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.

Revenue Collection Program

The Revenue Collection report highlights the key aspects of the City's ongoing collection efforts. These efforts focus on reducing delinquent accounts receivable and enhanced revenue compliance in three primary collection programs: Business Tax, Accounts Receivable, and Revenue Compliance and Monitoring. This report provides the highlights of the Revenue Management Division's collection efforts and summarizes the progress towards meeting the annual collection target of \$7.5 million. Actual collections through the second quarter of fiscal

¹ 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)

² <http://www.sanjoseca.gov/index.aspx?NID=759>

year 2017-18 are approximately \$6.5 million which represents 86.8% of the annual collection target. Additionally, specific information is provided on Marijuana Business Tax collection and compliance efforts as well as the Business Tax Modernization changes that went into effect July 1, 2017.

Marijuana Business Tax ("MBT")

MBT Revenue Collection – The MBT revenue collected this fiscal year through December 2017 was approximately \$4.8 million. This is 14.9% higher than the revenues collected through the same period in the prior fiscal year that totaled \$4.2 million.

MBT Compliance – There are a total of 16 registered collectives in the City's Medical Marijuana regulatory program. All 16 are remitting MBT timely and are compliant with the MBT ordinance. As of December 31, 2017, there were seven non-registered MBT accounts which were delinquent and required further staff collection efforts. The summary of staff collection efforts related to the seven delinquent accounts were as follows:

- Six of the non-compliant store fronts have been closed through Code Enforcement action.
 - Four are actively being pursued by City staff for collection of taxes owed.
 - One account remains with the City Attorney's Office for legal action.
 - One account is currently in the settlement process with the City Attorney's Office.
- One newly identified non-registered store front has been contacted for an audit and is an item of interest with the City Attorney's Office.

Business Tax Code Changes effective July 1, 2017

The City's Business Tax was first adopted on July 15, 1963. The methodology used for calculating the City's former Business Tax was adopted in 1984. The Business Tax Modernization Measure (Measure G) was approved by a majority of San José voters on November 8, 2016, went into effect July 1, 2017, and represents the first tax increase since 1986.

The voter-approved Business Tax Modernization changes require outreach to the business community through a variety of mediums. Staff from the Finance Department and the Office of Economic Development have provided various outreach efforts which are ongoing. Information regarding changes to the tax can be found on the Finance Department's landing page (<http://www.sanjoseca.gov/index.aspx?nid=5378>). Specific examples of ongoing outreach efforts are as follows:

- The Finance Department commenced a letter campaign targeting small residential landlords that are now required to register and remit the Business Tax. Approximately, 23,400 letters have been mailed to date.
- The City Council has extended the deadline for residential landlords with 2 or less units to register until June 30, 2018. From February to April 2018, a second mailing of

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notification letters will be mailed to potential residential landlords that have not yet responded.

- An advertisement was placed on the Silicon Valley Organization's website on October 5, 2017 to run through the end of November 2018 and can be viewed at <https://www.thesvo.com/about-commerce/>.
- Additional advertisements will be extended through November 2018 with Radio KRTY/KLIV, San Jose Mercury News, Metro Silicon Valley, and VTA buses.

As of July 1, 2017, taxpayers can access an online payment portal to pay Business Tax and businesses can register online for Business Tax accounts at the Finance Department's website. As of January 9, 2018, a total of 4,343 new Business Tax registrations of residential landlords resulting from the tax modernization have paid \$846,885 in business taxes resulting in ongoing revenue to the City.

EVALUATION AND FOLLOW-UP

The Finance Department prepares this report on a quarterly basis for review and approval by the PSFSS Committee. Finance Department staff will be available to answer questions on the Second Quarter Financial Reports for Fiscal Year 2017-2018 at the PSFSS Committee meeting on February 15, 2018.

PUBLIC OUTREACH/INTEREST

This memorandum will be posted on the City's website for the February 15, 2018, PSFSS Committee meeting and the March 6, 2018, City Council meeting.

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: Second Quarter Financial Reports for Fiscal Year 2017-2018