



Memorandum

TO: PUBLIC SAFETY, FINANCE, AND
STRATEGIC SUPPORT COMMITTEE

FROM: Julia H. Cooper

SUBJECT: FIRST QUARTER FINANCIAL
REPORTS FOR FISCAL YEAR
2018-2019

DATE: October 31, 2018

Approved

Date

10-31-18

RECOMMENDATION

- (1) Accept the following First Quarter (period ending September 30, 2018) Financial Reports for Fiscal Year 2018-2019 for the following programs:
 - (a) Debt Management
 - (b) Investment Management
 - (c) Revenue Management;
- (2) Forward recommendation to the City Council to adopt a resolution authorizing the Director of Finance to write-off uncollectible debts in an amount up to \$99,605.19; and
- (3) Refer the First Quarter Financial Reports for Fiscal Year 2018-2019 to the December 4, 2018, City Council meeting for full adoption.

OUTCOME

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

BACKGROUND

The attached First Quarter Financial Reports for Fiscal Year 2018-2019 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 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 ("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, 2018, 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 September 30, 2018.

Investment Management Program

A quarterly investment report for the period ended September 30, 2018, 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 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

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 Recreational Facilities (Aa3)

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

compliance through four primary collection programs: Accounts Receivable, Business Tax, Compliance and Monitoring, and Utility Billing. This section of the quarterly report has been significantly revised from prior year's report to better address the revenue collection, monitoring, and compliance review activities of the Revenue Management Division. 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 2018-19 is 6.2 to 1. This report also includes a discussion of the bad debt write-off process. Finally, we have removed the supplemental information on the Marijuana Business Tax ("MBT"). The MBT reporting was added to the report several years ago when it was a new tax revenue stream, given that revenues have stabilized and revenue performance is reported in the Bi-Monthly Financial Report presented to the PSFSS Committee, we have elected to remove the discussion. If issues arise during the quarter related to MBT collections, the Department will include a narrative discussion.

Bad Debt Write-Off Process

Overview of Collection Process – City departments issue invoices to debtors for various 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 in various department's standalone billing systems. Each department is responsible for mailing invoices to the appropriate party.

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 City 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, a 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 debts 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 the 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 budget development and

Annual Report 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) in amount. 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 \$99,605.19 (Attachment B), to the City Council for write-off approval. This request represents a total of 7 uncollectible accounts representing 7 individuals or businesses with delinquent balances ranging from \$5,388.64 to \$42,607.36.

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 the City. After writing off accounts that are deemed uncollectible, the Finance Department will continue to pursue collection on these accounts to the extent legally possible.

EVALUATION AND FOLLOW-UP

The Finance Department prepares this report on a quarterly basis for review and approval by the PSFSS Committee. Finance Department will present the Investment Report and staff will be available to answer questions on the balance of the First Quarter Financial Reports for Fiscal Year 2018-2019 at the PSFSS Committee meeting on November 15, 2018.

PUBLIC OUTREACH/INTEREST

This memorandum will be posted on the City's website for the November 15, 2018, PSFSS Committee meeting and the December 4, 2018, City Council meeting.

October 31, 2018

Subject: First Quarter Financial Reports for Fiscal Year 2018-2019

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COORDINATION

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

/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 2018-2019

Attachment B: Write-Off Report November 2018