



COUNCIL AGENDA: 03-06-12
ITEM: 3.4

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Dennis Hawkins, CMC
City Clerk

SUBJECT: SEE BELOW

DATE: 2-22-12

SUBJECT: WRITE OFF UNCOLLECTIBLE DEBT

RECOMMENDATION

As recommended by the Public Safety, Finance and Strategic Support Committee on February 16, 2012 and outlined in the attached memo previously submitted to the Public Safety, Finance and Strategic Support Committee, adopt a resolution authorizing the Director of Finance to write off uncollectible accounts in an amount up to \$983,800.69.



Memorandum

TO: PUBLIC SAFETY, FINANCE AND STRATEGIC SUPPORT COMMITTEE

FROM: Julia H. Cooper

SUBJECT: SECOND QUARTER FINANCIAL REPORTS FOR FISCAL YEAR 2011-2012

DATE: February 3, 2012

Approved

Date

2-9-12

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

- a) Accept the Second Quarter Financial Reports for Fiscal Year 2011-2012.
- b) Forward the attached list of bad debt write-offs to the City Council for approval. The list represents 33 accounts in the amount of \$983,800.69.

OUTCOME

Provide the quarterly update on debt management, investment and revenue collection work efforts, and receive approval to forward to City Council recommendation for bad debt write-off.

BACKGROUND

The attached Second Quarter Financial Reports for Fiscal Year 2011-2012 presents the Finance Department's quarterly activity for the City's Debt Management, Investment Management, and Revenue Collection programs. 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. Additionally, the Finance Department is charged with the responsibility of bringing forward periodic listing of bad debt for approval to "write off".

ANALYSIS

This section of the report is divided into the following sections: Debt Management Program, Investment Management Program, Revenue Collection Program, and discussion of the accounts identified for "write off".

Debt Management Program

The City's Debt Management Program is administered in the Treasury Division of the Finance Department and is responsible for managing the City's debt issuance and debt administration activities for all City borrowings (including the Housing Department's Affordable Housing Program).

The City's current general obligation bond rating is Aaa/AAA/AA+ by the three rating agencies based on rating presentations in March 2011.

This Second Quarter Debt Report focuses on the City's debt activities for the period ended December 31, 2011, and relates to the following elements of the City's Debt Management Program:

- Completed financings and current portfolio
- Debt issuance and management activities completed
- Current long-term interest rate environment
- Performance of City's variable rate debt portfolio

The City continues to be recognized nationally for its best practices in debt management and strong financial management. This respect and recognition that the City has attained from the national finance community produces significant financial benefits for the City, such as excellent credit ratings and highly competitive bids for the City's bond issues.

Investment Management Program

A Quarterly Investment Report for the period ended December 31, 2011 will be distributed separately to the Mayor and City Council and will be 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 on the Second Quarter and Fourth Quarter Reports. The materials that are presented in this consolidated report provide a "snapshot" of the investment portfolio. Finance staff will be making a presentation on the Quarterly Investment Report for the period ended December 31, 2011 at the PSFSS meeting on February 16, 2012. The report will be agendaized for acceptance by the City Council pursuant to the Investment Policy.

¹ <http://www.csjfinance.org/>

Revenue Collection Program

The Revenue Collection report highlights the key aspects of the City's ongoing collection efforts. These efforts focused 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 department's collection efforts and summarizes the progress towards meeting our budget collections target.

Write-Offs

Recommended Bad Debt Write-Offs

The Finance Department is requesting the PSFSS Committee to forward the attached list of delinquent accounts, in the amount of \$983,800.69, to the City Council for write-off approval.

Included in this list are approximately 22 UCC-1 Loans in the Revolving Loan Fund ("RLF") totaling approximately \$400,000. For over 20 years, the RLF Program funded over 180 loans totaling over \$4 million to local businesses that were traditionally not served by private sector banks. The Program was funded with grants from the Economic Development Administration ("EDA") and Housing and Community Development Block Grant ("CDBG") funds.

The Office of Economic Development ("OED") assumed responsibility the RLF Program from the Redevelopment Agency in 1992 and in partnership with a local nonprofit loan servicer, administered the RLF Program. In 2007, the nonprofit ceased operations and OED continued operating the Program until June 2009. With budget challenges and staff reductions, OED lacked sufficient staff to effectively manage the RLF Program. In July 2010, the RLF Program was transferred to the Housing Department for on-going portfolio management.

Since July 2010, the Housing Department has been working to locate and bring nonperforming businesses compliant with mixed results. Many of the businesses are no longer in operation, have been nonresponsive, and some business owners have filed Chapter 13 (bankruptcy). Housing staff have also worked with business owners to restructure their promissory notes to bring the delinquent clients current. Lastly, all loans have been sent to the Finance Department for proactive collection actions. As a result of all of these actions, the Finance Department has deemed it necessary to forward some of the loans to Council for write-off approval.

Bad Debt Write-Offs

In addition to proactively collecting the City's delinquent accounts, it is also important to write off the City's uncollectible debts to ensure that the City's financial statements are reflected accurately. On a periodic basis, the Finance Department establishes reserves for bad debts to cover potential write-offs for 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 reserves are 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 City's annual external audit of the City's financial statements, the City's external auditors review the City's bad debt exposure as well as the adequacy of the bad debt reserves.

As accounts are considered for write-off through the City's annual accounts receivable evaluation process, the following criteria is followed to determine if an account should be written off as a bad debt.

- Debtor has no assets; 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 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 is not a relinquishment of the City's claim for debts due the City. In addition, as a last resort for collecting accounts that are delinquent and considered for bad debt write-off status, such accounts can be assigned to the collection agencies under contract with the City to make further attempts for collection action, in order to exhaust all remedies available to the City.

Collection Efforts (Post Write-Off)

Even 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 on a quarterly basis this report for review and approval by the PSFSS Committee. The recommendations for bad debt write off is prepared and presented to the PSFSS Committee in a periodic, as needed basis for its review and approval.

Staff from the Finance Department will be available to answer questions on the Second Quarter Financial Reports for Fiscal Year 2011-2012 at the Public Safety, Finance and Strategic Support Committee meeting on February 16, 2012.

PUBLIC OUTREACH/INTEREST

This item will be posted on the City's website for the PSFSS Committee meeting on February 16, 2012.

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

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

CEQA

Not a project


/s/
JULIA H. COOPER
Acting Director of Finance

Attachments

Bad Debt Write-Offs
February 2, 2012

| <i>Type of Debt Owed</i> | <i>Fund #</i> | <i>Account #</i> | <i>Name</i> | <i>Invoice Date</i> | <i>Current Balance (Write-Off Amount)</i> | <i>Reason for Write-off</i> |
|--|---------------|------------------|---|---------------------|---|-----------------------------|
| Airport fees and charges - miscellaneous | 521 | 00000330 | Mexicana Airlines | multiple | \$ 390,683.00 | Bankruptcy |
| Airport fees and charges - miscellaneous | 521 | 000422 | Rich International Airways | multiple | 26,367.65 | Bankruptcy |
| Airport fees and charges - miscellaneous | 521 | 00000208 | Air Laughlin | multiple | 8,791.69 | Bankruptcy |
| Event Charges | 001 | 126496 | San Jose Immigration Coalition | 06/09/06 | 27,624.43 | Out of Business |
| Secured Business Loan (UCC-1 Loan) | 441 & 444 | N/A | Stern-Diaz, Inc. | 09/30/89 | 47,215.30 | Bankruptcy |
| Secured Business Loan (UCC-1 Loan) | 441 & 444 | N/A | Stay Cold Mnfg. | 09/01/87 | 42,250.00 | Bankruptcy |
| Secured Business Loan (UCC-1 Loan) | 441 | N/A | Site For Sore Eyes - Lai/Hoang | 09/06/08 | 37,690.76 | Bankruptcy |
| Secured Business Loan (UCC-1 Loan) | 441 | N/A | Cutting Edge Industries, Inc | 09/01/05 | 35,182.20 | Bankruptcy |
| Secured Business Loan (UCC-1 Loan) | 441 & 444 | N/A | Venture Brewing, Inc. | 06/20/97 | 26,450.84 | Bankruptcy |
| Secured Business Loan (UCC-1 Loan) | 441 | N/A | J&J Collision Center | 05/01/10 | 21,389.14 | Bankruptcy |
| Secured Business Loan (UCC-1 Loan) | 441 & 444 | N/A | Designs for Business | 09/01/87 | 20,767.80 | Bankruptcy |
| Secured Business Loan (UCC-1 Loan) | 441 & 444 | N/A | Metro Café | 05/20/91 | 20,624.36 | Bankruptcy |
| Secured Business Loan (UCC-1 Loan) | 441 | N/A | Lyne's Serenity Child Care | 04/28/02 | 16,571.88 | Bankruptcy |
| Secured Business Loan (UCC-1 Loan) | 441 | N/A | Abel Produce | 12/10/10 | 9,719.40 | Bankruptcy |
| Secured Business Loan (UCC-1 Loan) | 441 & 444 | N/A | Moya Photography - Perez, Joanne | 06/19/98 | 8,000.00 | Bankruptcy |
| Secured Business Loan (UCC-1 Loan) | 441 | N/A | California Glamour Online - Nguyen, Tran | 02/21/06 | 5,848.66 | Bankruptcy |
| Secured Business Loan (UCC-1 Loan) | 441 & 444 | N/A | Chusma House Publication | 05/10/04 | 4,639.82 | Bankruptcy |
| Secured Business Loan (UCC-1 Loan) | 441 | N/A | Headstart Engineering & Programming - Helstrom, G | 07/30/02 | 2,820.06 | Bankruptcy |
| Secured Business Loan (UCC-1 Loan) | 441 & 444 | N/A | Ace Silk Screen - Langdon | 07/27/06 | 3,579.33 | Deceased & No Estate |
| Secured Business Loan (UCC-1 Loan) | 441 & 444 | N/A | Red Brick/Hamburger Mary's | 09/14/00 | 5,290.93 | Settlement with City |
| Secured Business Loan (UCC-1 Loan) | 441 | N/A | Simplee Kidz | 02/01/08 | 4,797.76 | Settlement with City |
| Secured Business Loan (UCC-1 Loan) | 441 & 444 | N/A | Muraira Inc. DBA Federico's | 07/30/92 | 46,915.00 | Statute of Limitations |
| Secured Business Loan (UCC-1 Loan) | 441 & 444 | N/A | Raa McGee's - Van Gelder | 07/15/03 | 17,745.16 | Statute of Limitations |
| Secured Business Loan (UCC-1 Loan) | 441 & 444 | N/A | Andiamo Pizza - Rondon, M | 07/15/97 | 15,634.26 | Statute of Limitations |
| Secured Business Loan (UCC-1 Loan) | 441 & 444 | N/A | Nelson Gouze, Inc. | 03/23/93 | 3,447.94 | Statute of Limitations |
| Secured Business Loan (UCC-1 Loan) | 441 & 444 | N/A | El Tepeyac | N/A | 2,475.43 | Statute of Limitations |
| Subrogation - Property | 001 | 124309 | Vo, Tony | 10/20/05 | 5,453.80 | Statute of Limitations |
| Subrogation - Property | 001 | 131688 | Loretto, Armando | 11/19/07 | 5,331.93 | Statute of Limitations |
| Subrogation - Property | 001 | 129376 | Lemmon, Gary Lee | 03/15/07 | 5,098.39 | Statute of Limitations |
| Subrogation - Workers' Compensation | 001 | 101332 | Hernandez, Alfredo Morales | 09/08/97 | 76,593.39 | Statute of Limitations |
| Subrogation - Workers' Compensation | 001 | 101411 | Gomez, Juan Antonio | 04/19/00 | 13,982.50 | Statute of Limitations |
| Subrogation - Workers' Compensation | 001 | 100525 | Servando, Rosas | 02/05/91 | 12,768.25 | Statute of Limitations |
| Subrogation - Workers' Compensation | 001 | 101773 | Hernandez, Aristel | 02/27/90 | 12,049.63 | Statute of Limitations |
| | | | | | \$ 983,800.69 | |

Second Quarter Financial Reports for Fiscal Year 2011-2012

**Debt Management Program
Investment Management Program
Revenue Collection Program**

**Public Safety, Finance and
Strategic Support Committee**

**Presented by the Finance Department
February 16, 2012**

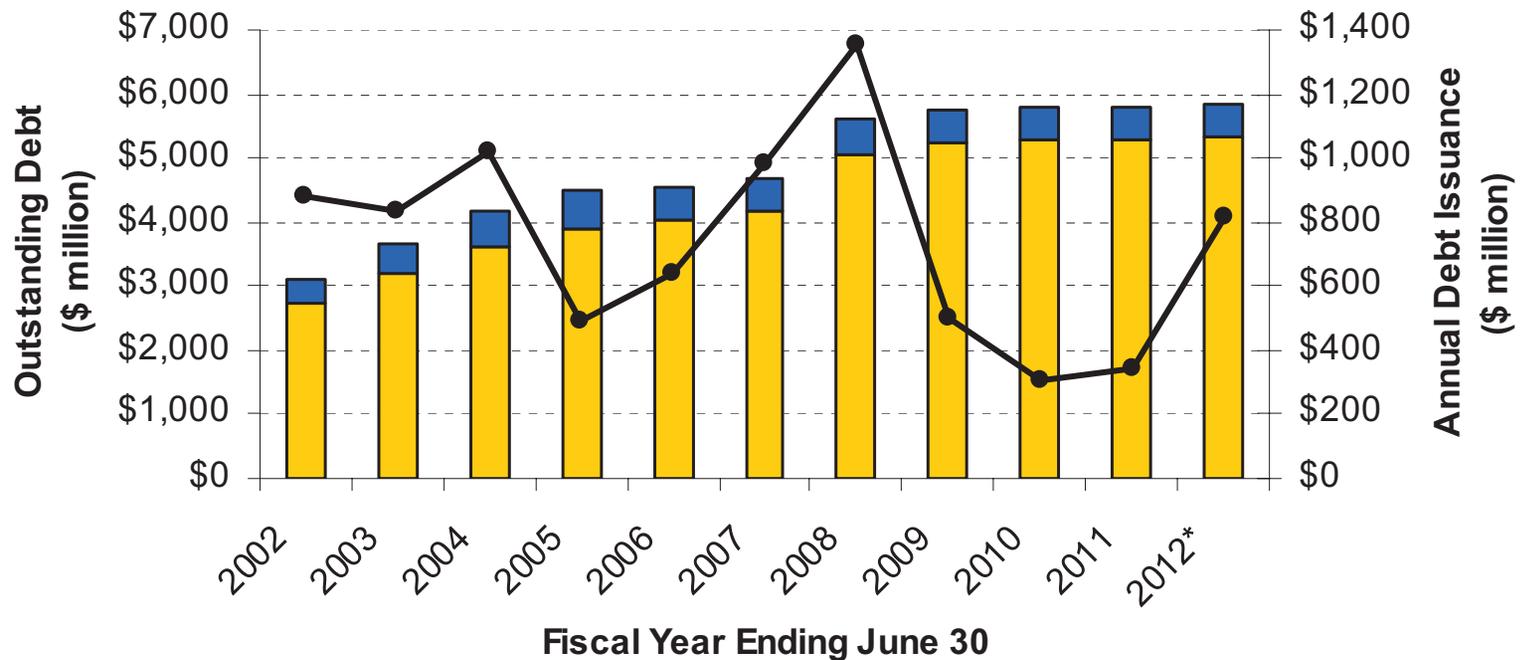
Second Quarter Debt Management Report for Fiscal Year 2011-2012

Outstanding Debt Issued by All Agencies

Outstanding Debt as of December 31, 2011: \$5.8 Billion

FY 2011-12 Projected Debt Issuance: \$910.4 Million

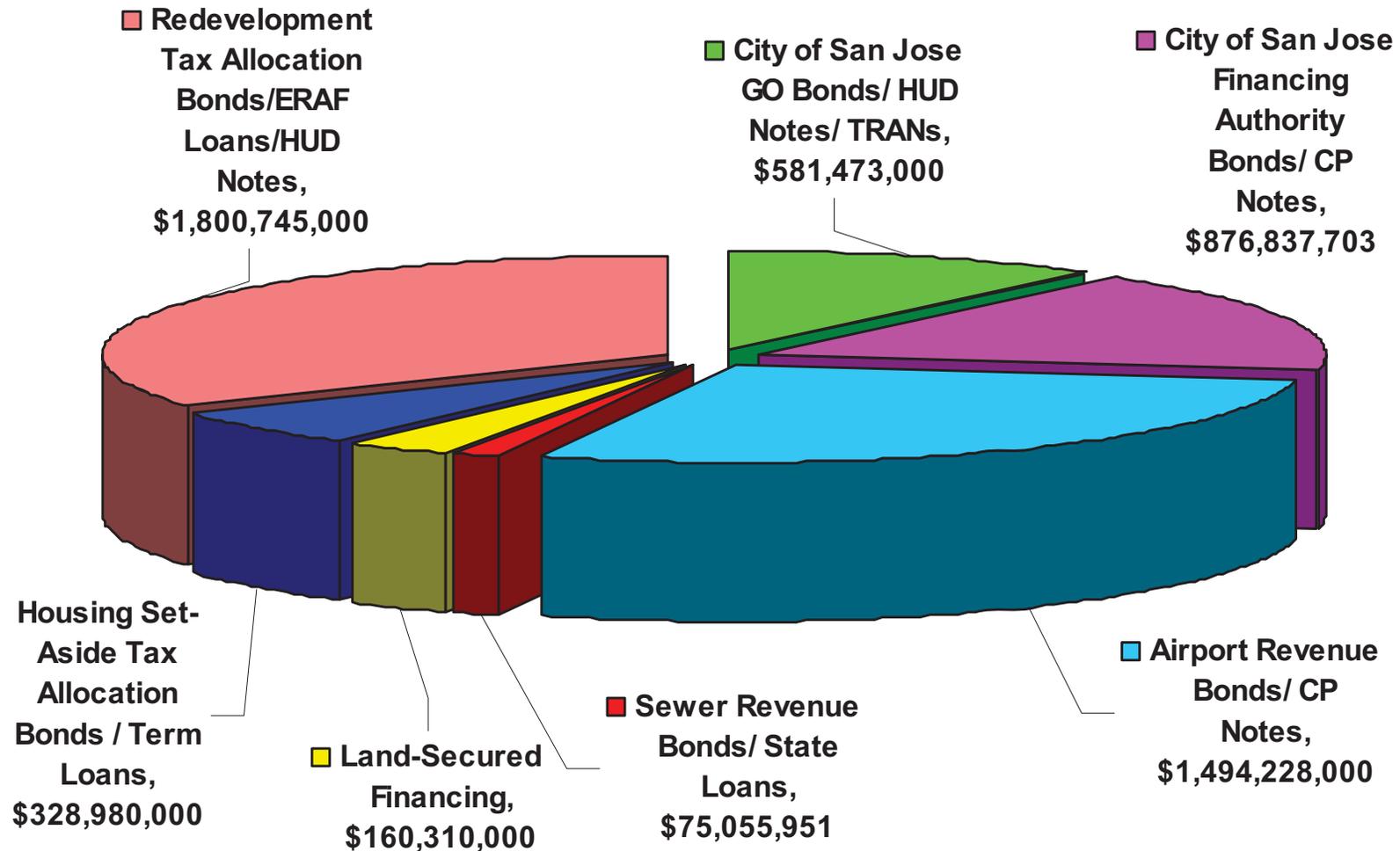
➤ Year-to-Date Debt Issuance: \$819.6 Million



* YTD Debt Issuance

Outstanding Debt Issued by All Agencies Excluding Multifamily Housing Revenue Bonds

Outstanding Debt as of December 31, 2011: \$5,317,629,654*



* Excluding conduit debt issued by the City on behalf of developers of affordable multifamily housing.

Selected Debt Issuance and Debt Management Activities during 2nd Quarter

- Multifamily Housing Revenue Bonds
 - Issuance of Series 2011A-1 and Series 2011A-2 (totaled \$6.3 million) for Taylor Oaks Apartments project on October 21, 2011
- Airport Revenue Bonds
 - Issuance of Series 2011B (totaled \$271.8 million) on December 14, 2011
- Completion of the 2011 Comprehensive Annual Debt Report
- Annual Compliance Reporting
 - CAFR distribution and other required reporting completed prior to December 31

Selected Debt Issuance and Debt Management Activities during 2nd Quarter (cont.)

- SEC Annual Continuing Disclosure Reporting
 - Timely compilation and distribution of 31 annual Securities and Exchange Commission reports (prior to December 31)
- Continue processing of claims and disbursement of approximately \$7 million in surplus improvement district funds
- Conduct private activity analysis for the City-wide solar power purchase agreement project
- Redevelopment Agency activities
 - Completed the renewal of \$93 million JP Morgan Letters of Credit
 - Assist with financial modeling and transition planning

Debt Issuance and Management Activities Anticipated Through June 30, 2012

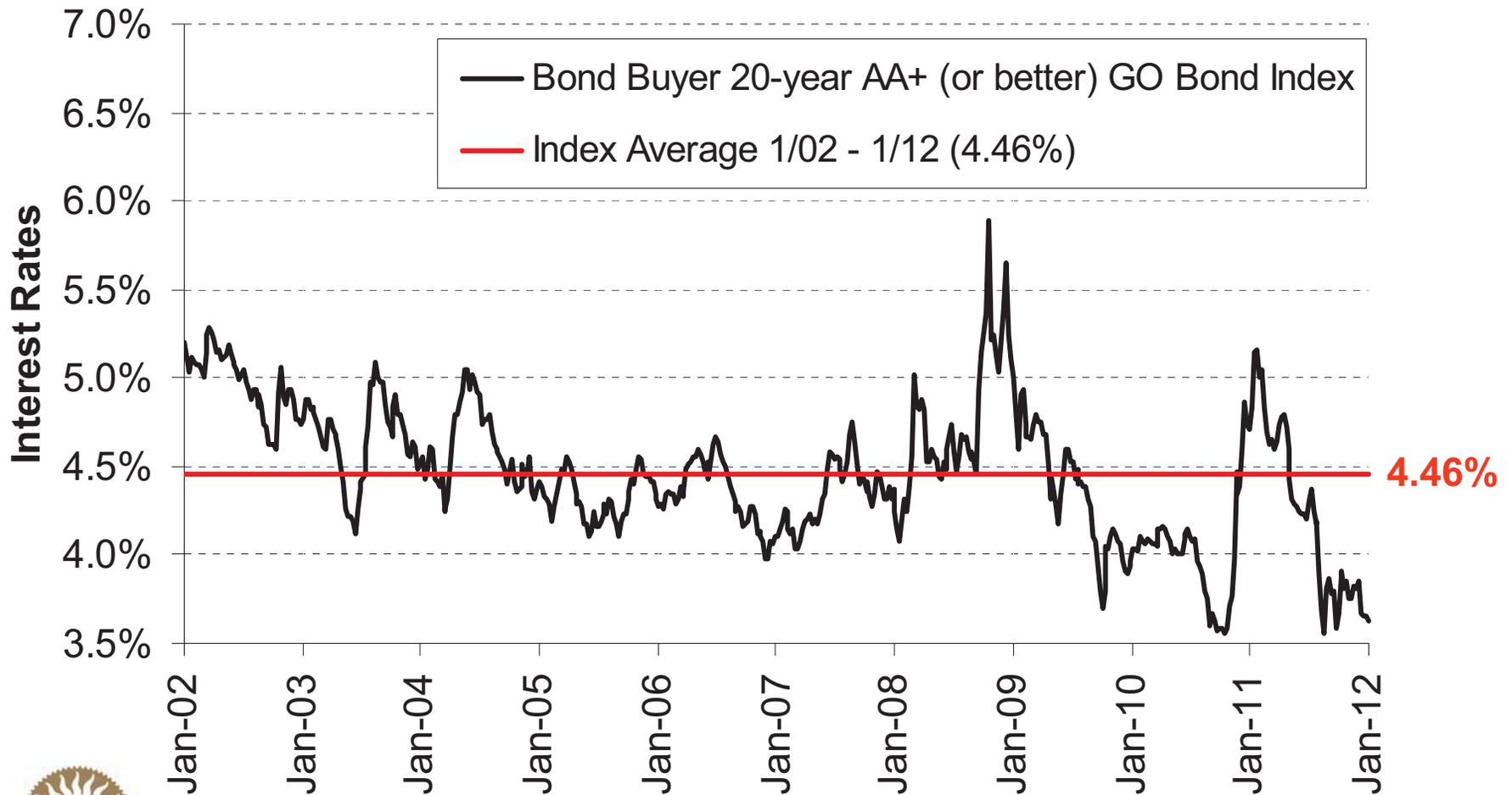
- TRANs Activities:
 - Manage compliance and repayment of the 2011 TRANs
 - Pre-issuance activities related to the 2012 TRANs
- Pre-issuance activities related to the Series 2012 General Obligation Bonds and Refunding
- Continue processing claims for surplus improvement district funds
- Analysis on the formation of Community Facilities District No. 13 (Brookside) and pre-issuance activities related to Mello-Roos Special Tax Bonds

Debt Issuance and Management Activities Anticipated Through June 30, 2012 (con't)

- Issuance and administration of Multifamily Housing Revenue Bond Projects
- Prepare and issue RFPs for financial advisory pools and special tax consultant
- Continue financial modeling, transition planning and dissolution for the Redevelopment Agency
- Participate in the financing and private activity analyses related to the installation of photovoltaic systems citywide.

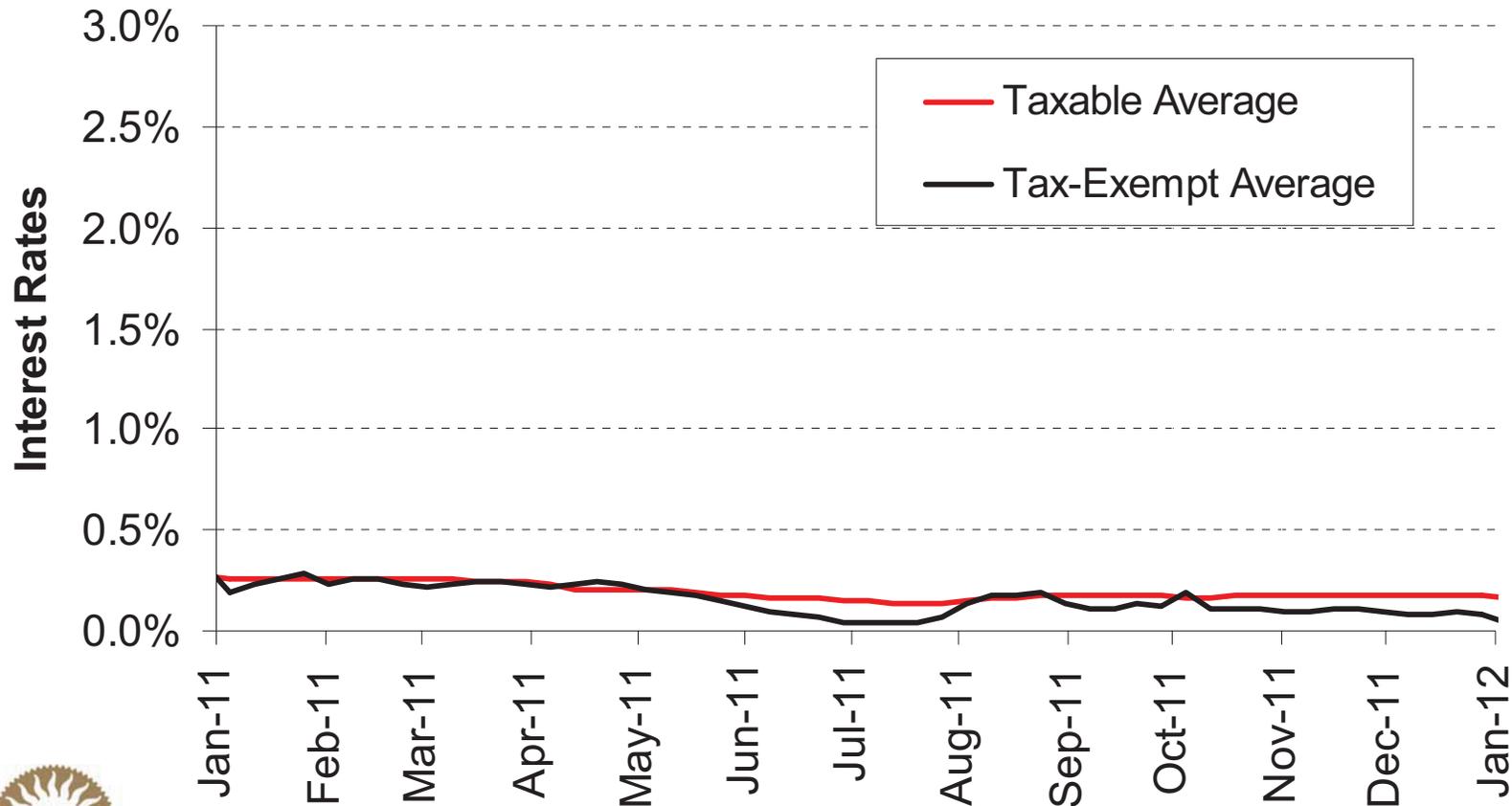
Ten-Year Tax-Exempt Market Index (Fixed Rate)

- Tax-exempt long-term interest rates remained around 4.46% in Q2 and are currently at 3.36% (as of 1/15/12)



City of San José Actual Weekly Average Variable Taxable and Tax-Exempt Interest Rates

- Tax-exempt weekly interest rates paid by the City averaged 0.11% in Q2 and are currently at 0.03% (as of 1/15/12)
- Taxable weekly interest rates paid by the City averaged 0.18% in Q2 and are currently at 0.16% (as of 1/15/12)



City of San José – General Credit Rating

- The City maintains high general obligation credit ratings from all three national rating agencies of AAA/Aaa/AA+.
- Taken together, the credit ratings of the City, the Redevelopment Agency, and the Financing Authority range from BB to AAA .
- City general obligation bonds continues to be rated higher than State of California (A-/A1/A-) and County of Santa Clara (Aa1/AA+/--)

Second Quarter Investment Report for Fiscal Year 2011-2012

Investment Objectives & Reporting

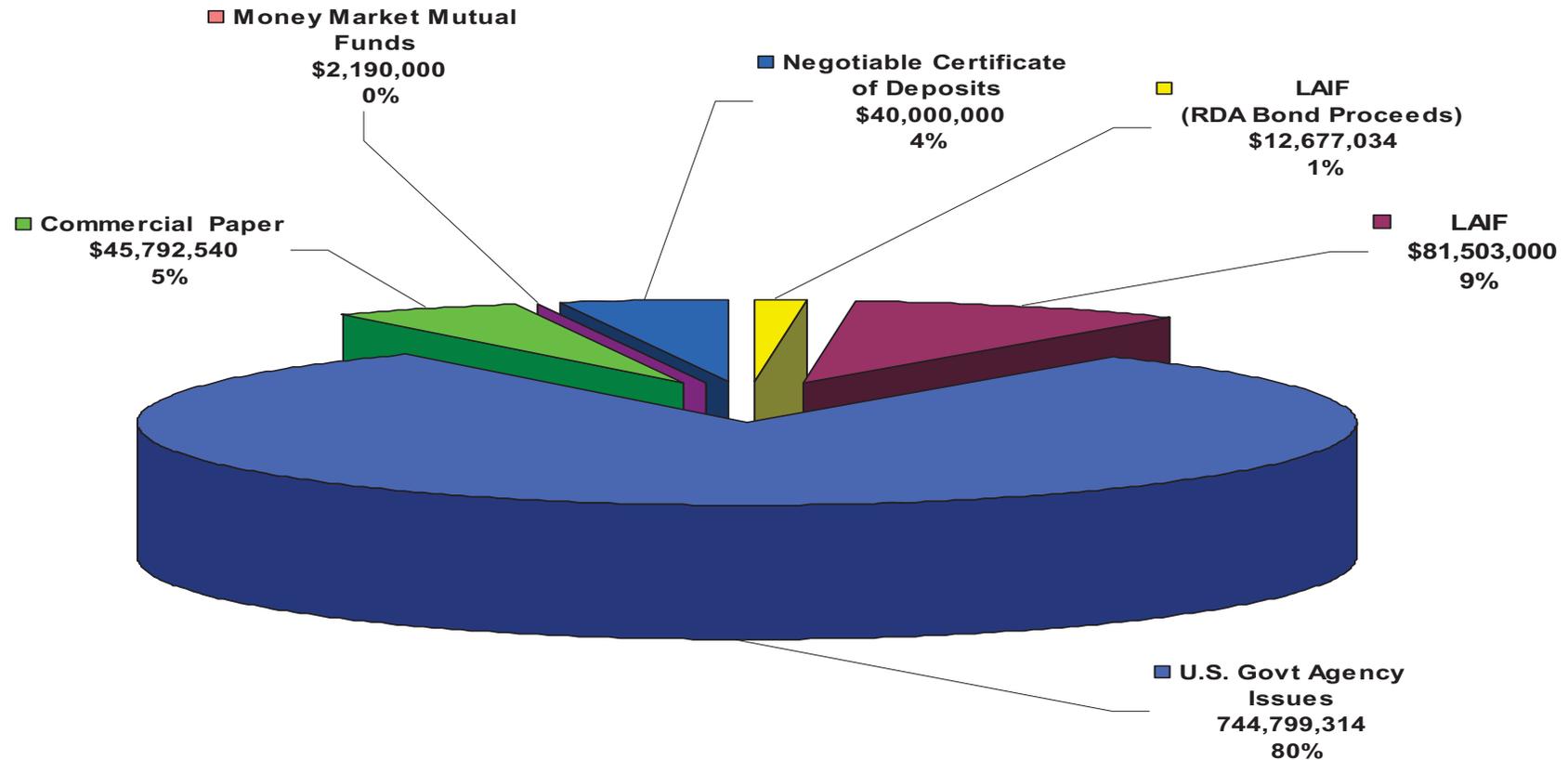
- Manage investments to meet the City's objectives:
 - Safety
 - Liquidity
 - Yield
- Quarterly reports available on-line and placed on PSF&SS Committee agenda
<http://www.csjfinance.org/>

Summary of Portfolio Performance for Quarter ended December 31, 2011

- Size of total portfolio - \$926,961,888
- Earned interest yield - 0.750%
- Weighted average days to maturity 524 days
- Fiscal year-to-date net interest earnings, all funds - \$3,252,590
- No sale of securities, therefore no gains/losses from sales
- No exceptions to the City's Investment Policy during Q2 2011-12

Portfolio Statistics

Composition of City's Investment Portfolio

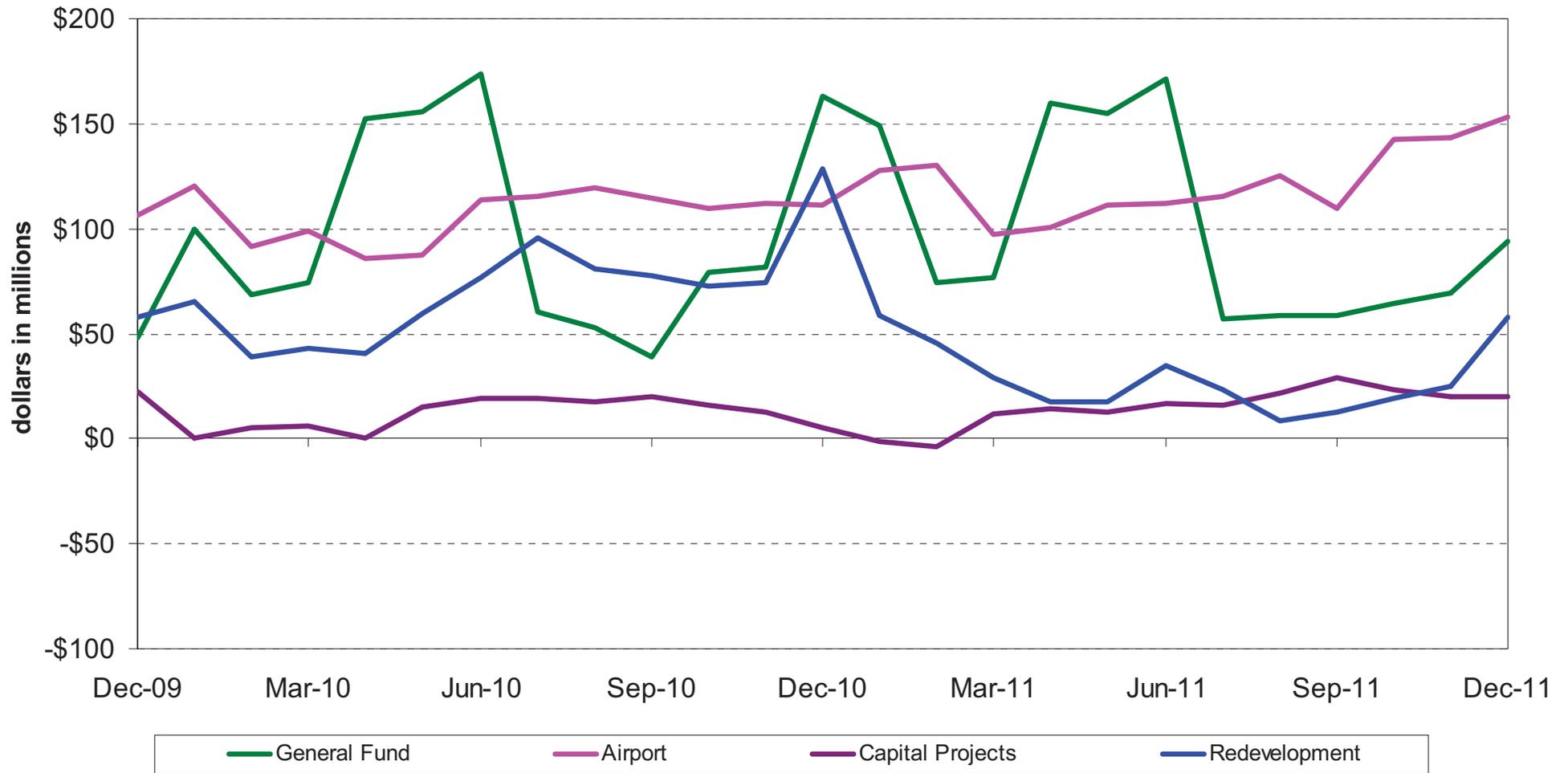


Total Investment Portfolio = \$926,961,888

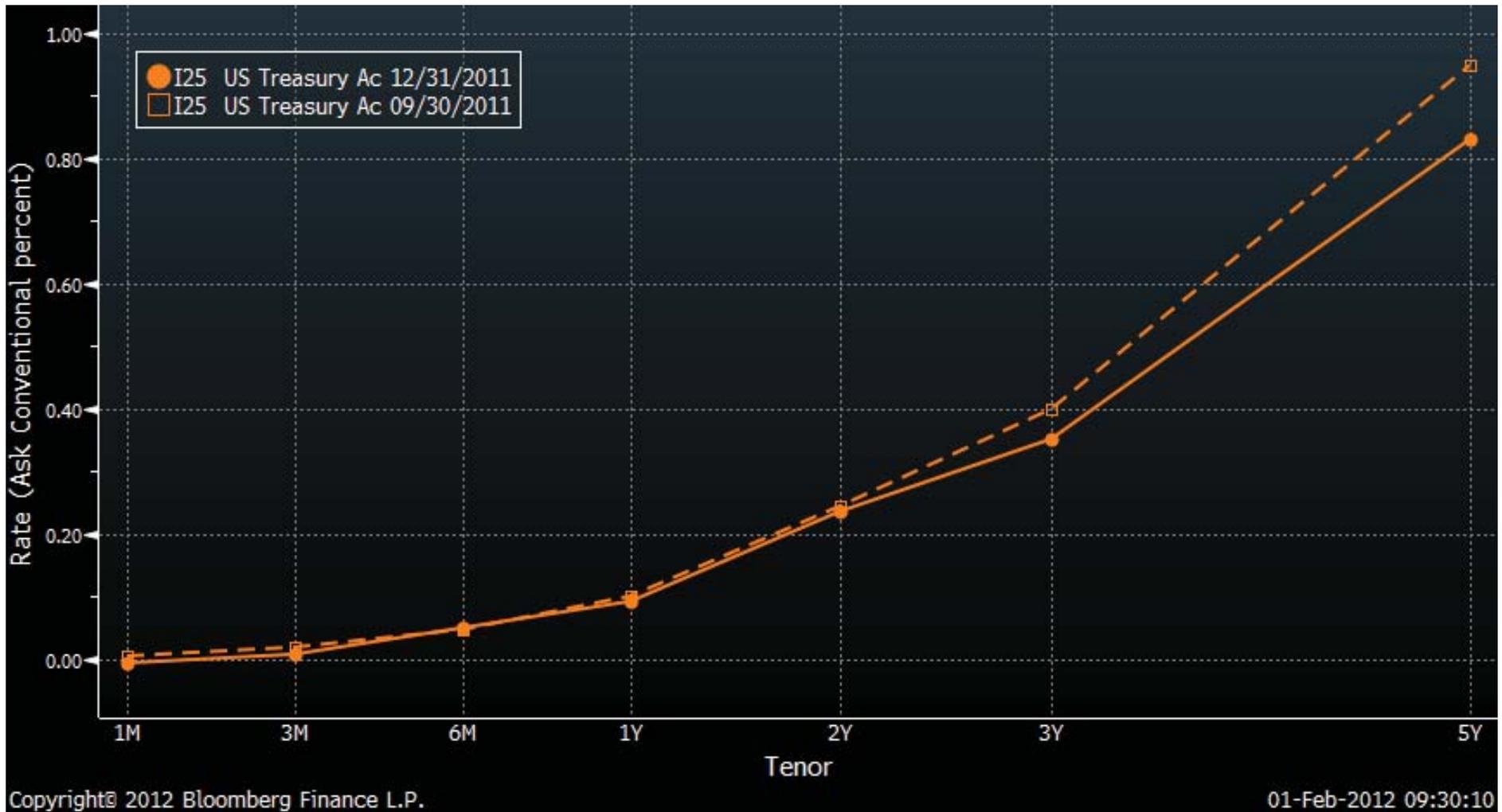
General Fund Earnings and Cash Balances

- General Fund cash balance increased by \$35 million to \$93 million in Q2 primarily due to:
 - Receipt of property tax distribution in December 2011
- Projected investment maturities and revenue are sufficient to cover anticipated expenditures for the next six months.

Comparison of Cash Balances by Select Funds

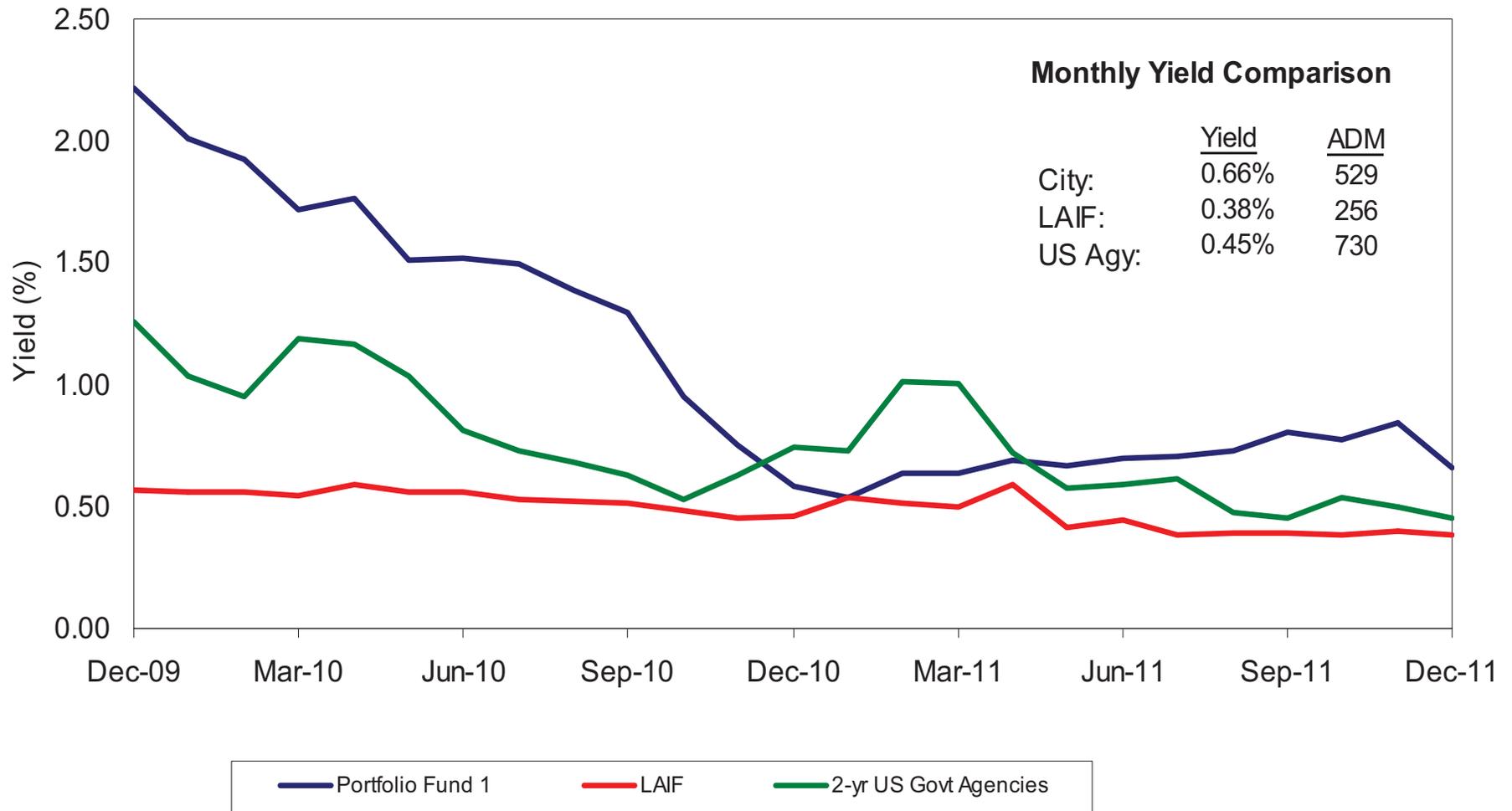


US Treasury Yield Comparisons



During the second quarter of FY2011-12, the 1-5 year Treasury yield curve dropped.

Monthly Portfolio Performance Benchmark Comparison



Second Quarter Revenue Collection Report for Fiscal Year 2011-2012

Revenue Collection Program

- Finance Department revenue collection efforts focus on proactive collection, reducing delinquent accounts receivable and enhancing revenue compliance
- Efforts may span several reporting periods, and actual collections are reported when funds are received by the City

Revenue Collection Results – Quarter to Quarter Comparison

| <u>Collections</u> | <u>FY 2011-12 2nd Quarter</u> | <u>FY 2010-11 2nd Quarter</u> |
|-----------------------------------|-----------------------------------|-----------------------------------|
| Business Tax Delinquencies | \$555,880 | \$473,301 |
| Accounts Receivable Delinquencies | 836,484 | 640,553 |
| Revenue Compliance/Monitoring | 1,887,536 | 379,364 |
| Total Program Collections | \$3,279,900* | \$1,493,218 |

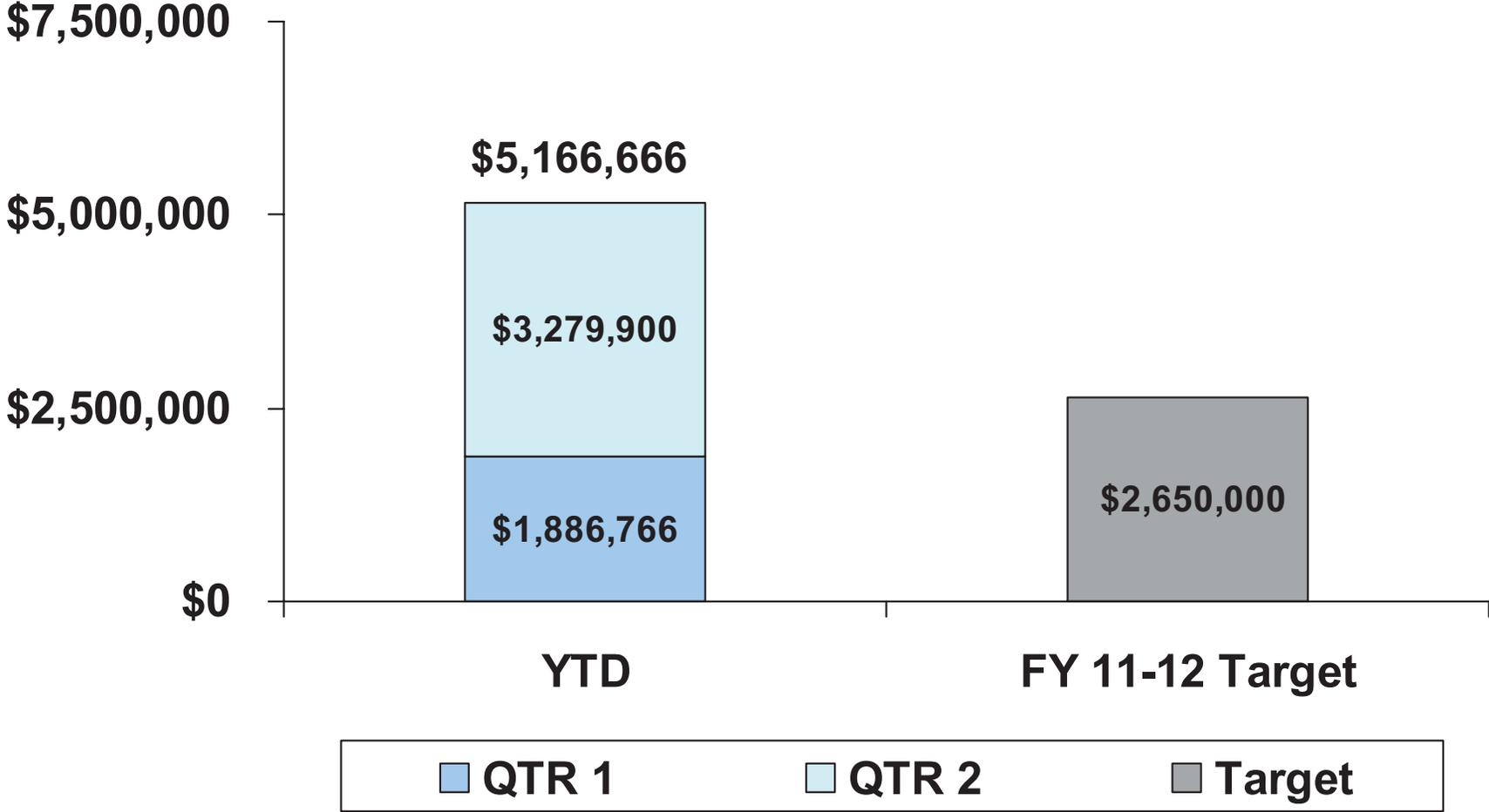
**Revenue Compliance recovered \$1.56M from the PG&E premise address reviews.*

Return on Investment (ROI) Quarter to Quarter Comparison

| | <u>FY 2011-12 2nd Quarter</u> | <u>FY 2010-11 2nd Quarter</u> |
|--|-----------------------------------|-----------------------------------|
| Total Return on Investment | \$10.07 | \$4.41 |
| Return on Investment by Program | | |
| Business Tax Delinquencies | 4.44 | 3.23 |
| Accounts Receivable Delinquencies | 10.25 | 8.32 |
| Revenue Compliance/Monitoring | 15.88 | 3.30 |

- *Return on Investment is the dollar return (revenue) for every dollar spent on program costs*
- *Program costs only include direct costs in the Finance Department*

2nd Quarter Revenue Collection Results YTD – 195% of Annual Target



Accounts Receivable Balance

| | As of Dec 31, 2011 | As of Sept 30, 2011 |
|----------------------------------|-----------------------|------------------------|
| <u>Current Receivables</u> | | |
| 0-60 Days | \$ 2,841,568 | \$ 7,081,594* |
| 61-90 Days | 954,330 | 417,414 |
| Total Current Receivables | \$ 3,795,898 | \$ 7,499,008 |
| <u>Delinquent Receivables</u> | | |
| 91-365 Days | \$ 4,041,611 | \$ 2,968,743 |
| Over 1 year | 12,562,549 | 11,929,769 |
| Total Delinquent Receivables | \$ 16,604,160 | \$ 14,898,512 |
| Total Accounts Receivable | \$ 20,400,058 | \$ 22,397,520 |

**Increase in current receivables reflect large billings by the Department of Transportation and Environmental Services Department.*

Recommendation

- Accept the Second Quarter Financial Reports for Fiscal Year 2011-2012 for the following programs:
 - Debt Management
 - Investment Management
 - Revenue Collection
- Forward the attached list of bad debt write-offs to the City Council for approval. The list represents 33 accounts in the amount of \$983,800.69.