



# 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 website<sup>1</sup>. 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 agendized for acceptance by the City Council pursuant to the Investment Policy.

---

<sup>1</sup> <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



JULIA H. COOPER  
Acting Director of Finance

Attachments



# **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**

---

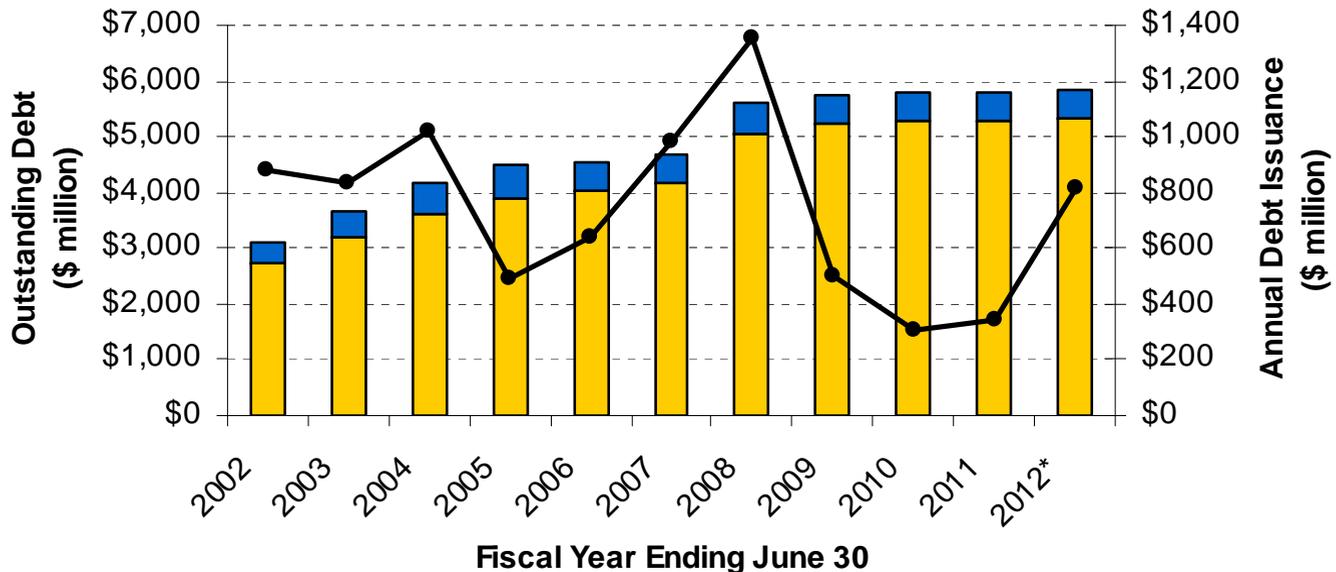
# **Second Quarter Debt Management Report for Fiscal Year 2011-2012**

# 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

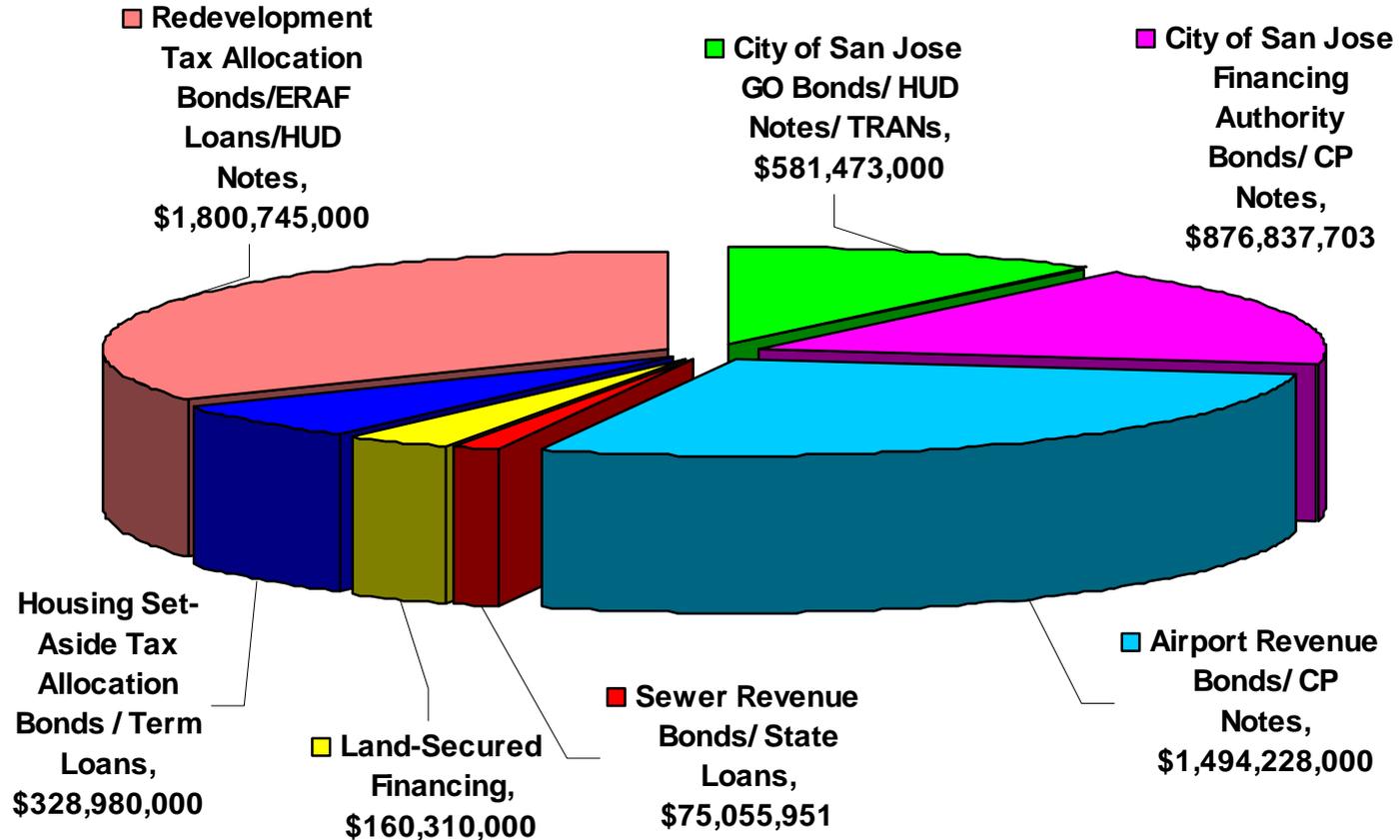
➤ Year-to-Date Debt Issuance: \$819.6 Million



\* 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

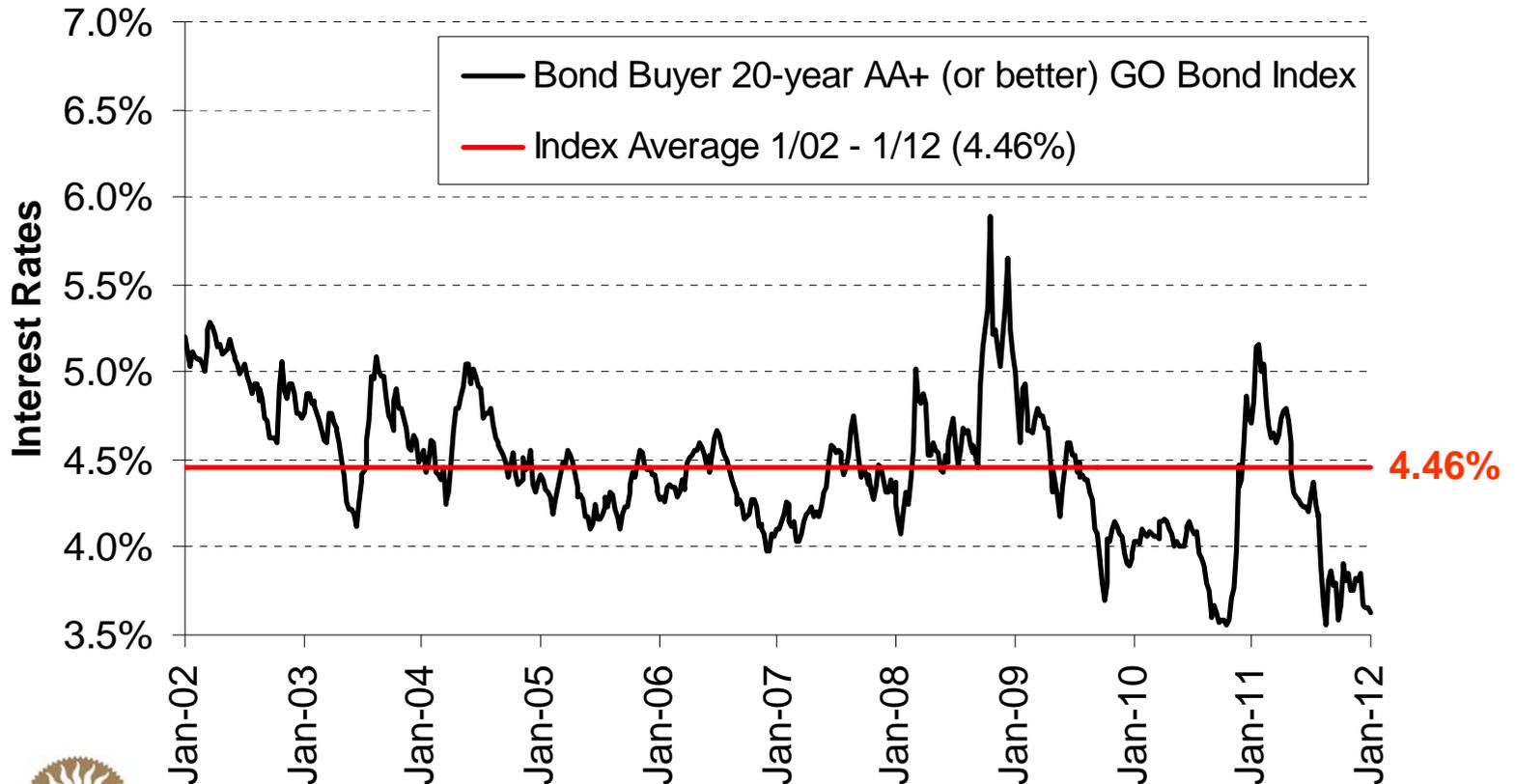
# Debt Issuance and Management Activities Anticipated Through June 30, 2012 (con't)

---

- 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.

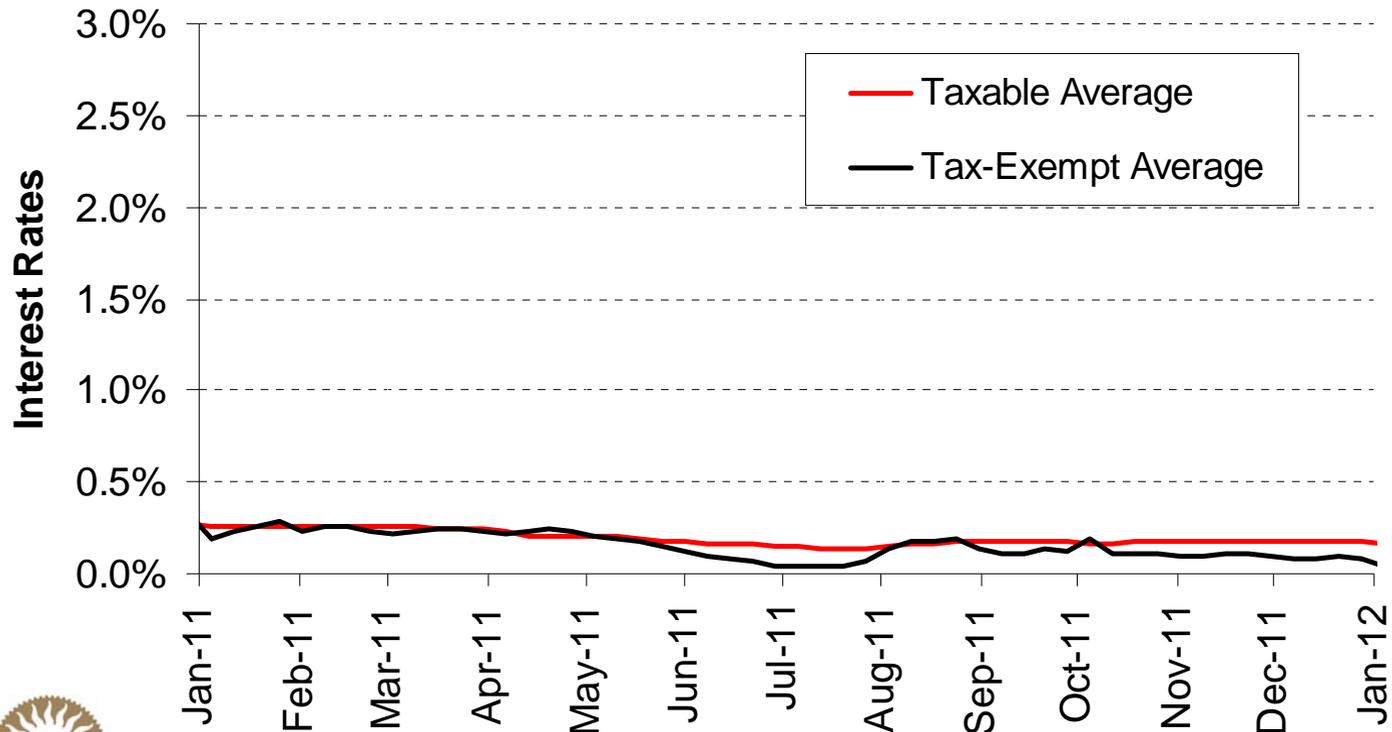
# Ten-Year Tax-Exempt Market Index (Fixed Rate)

- 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

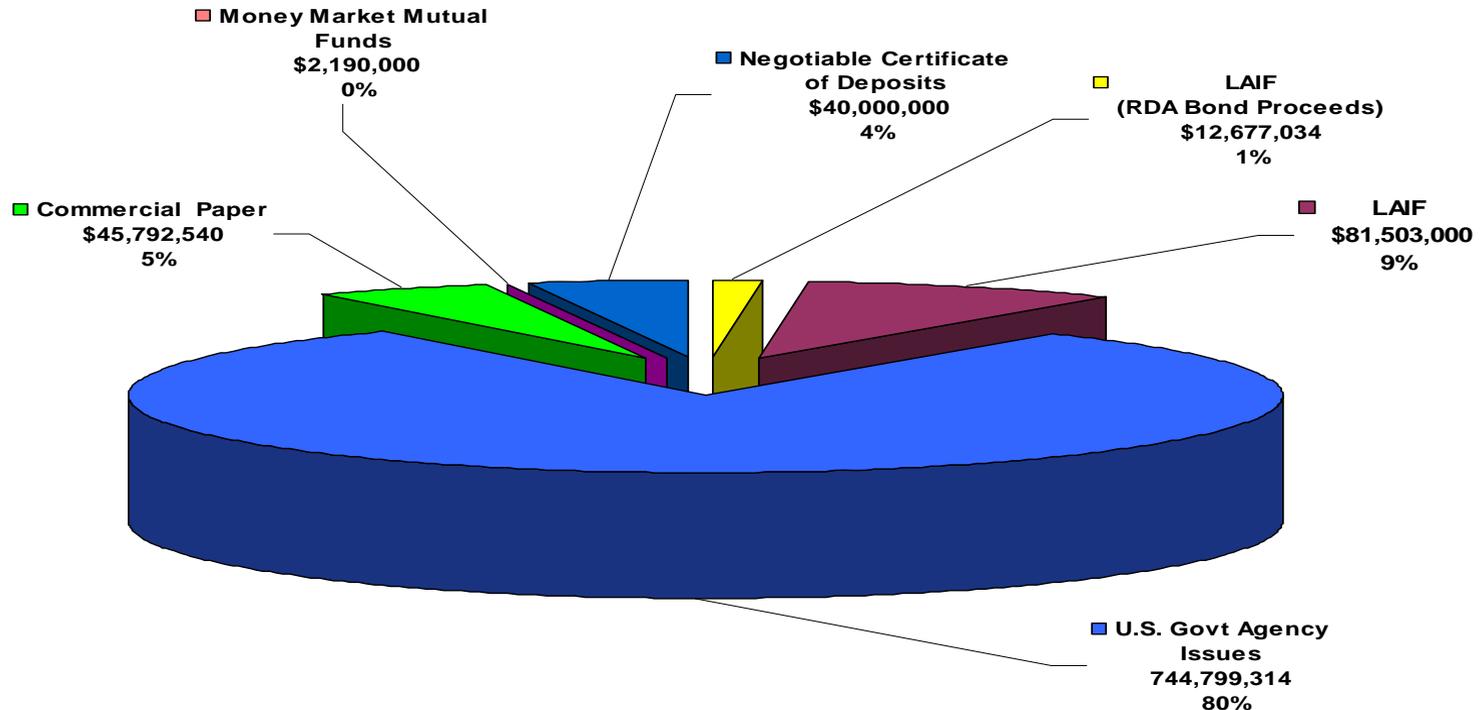
---

- 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

---



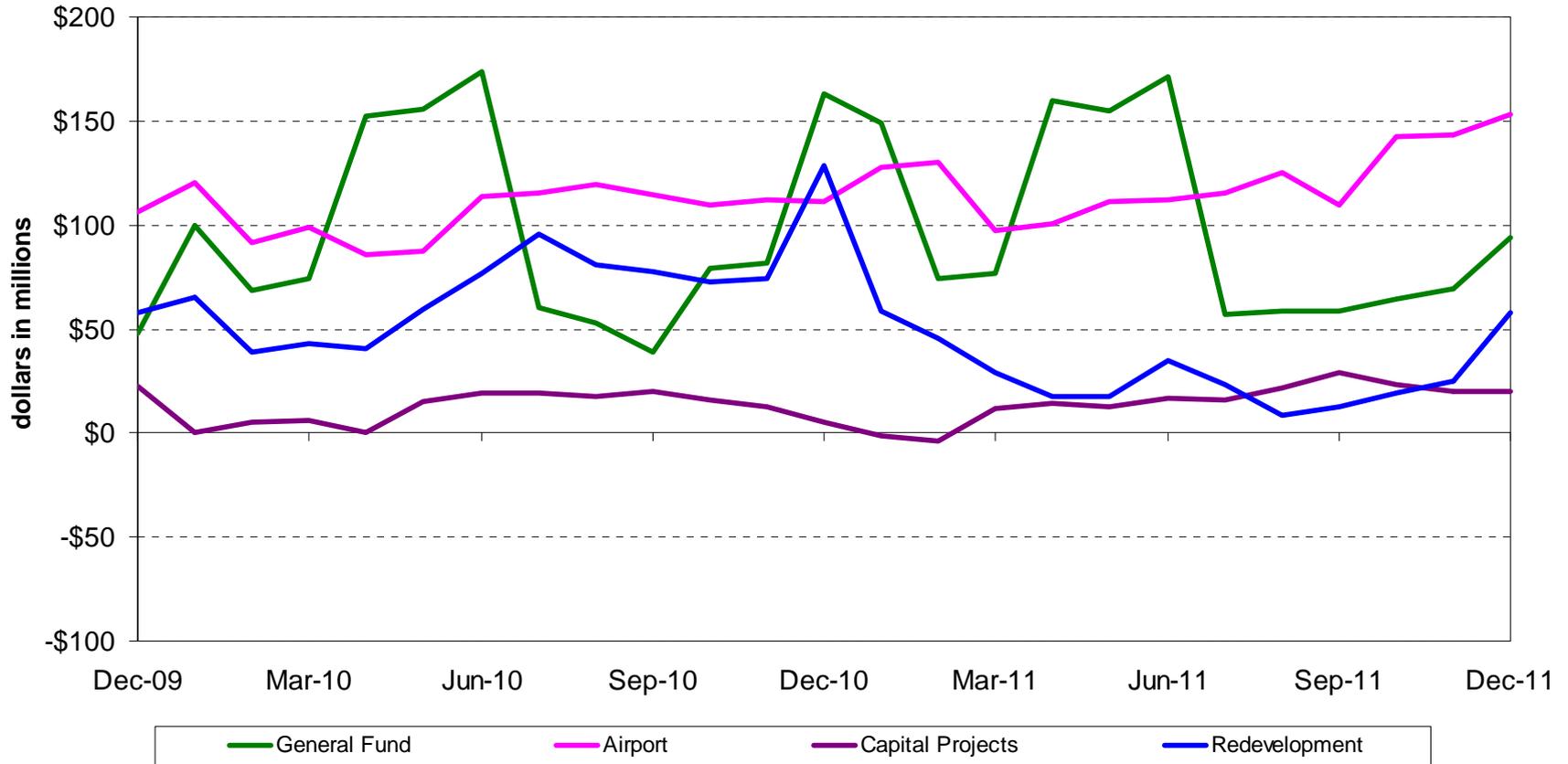
Total Investment Portfolio = \$926,961,888

# General Fund Earnings and Cash Balances

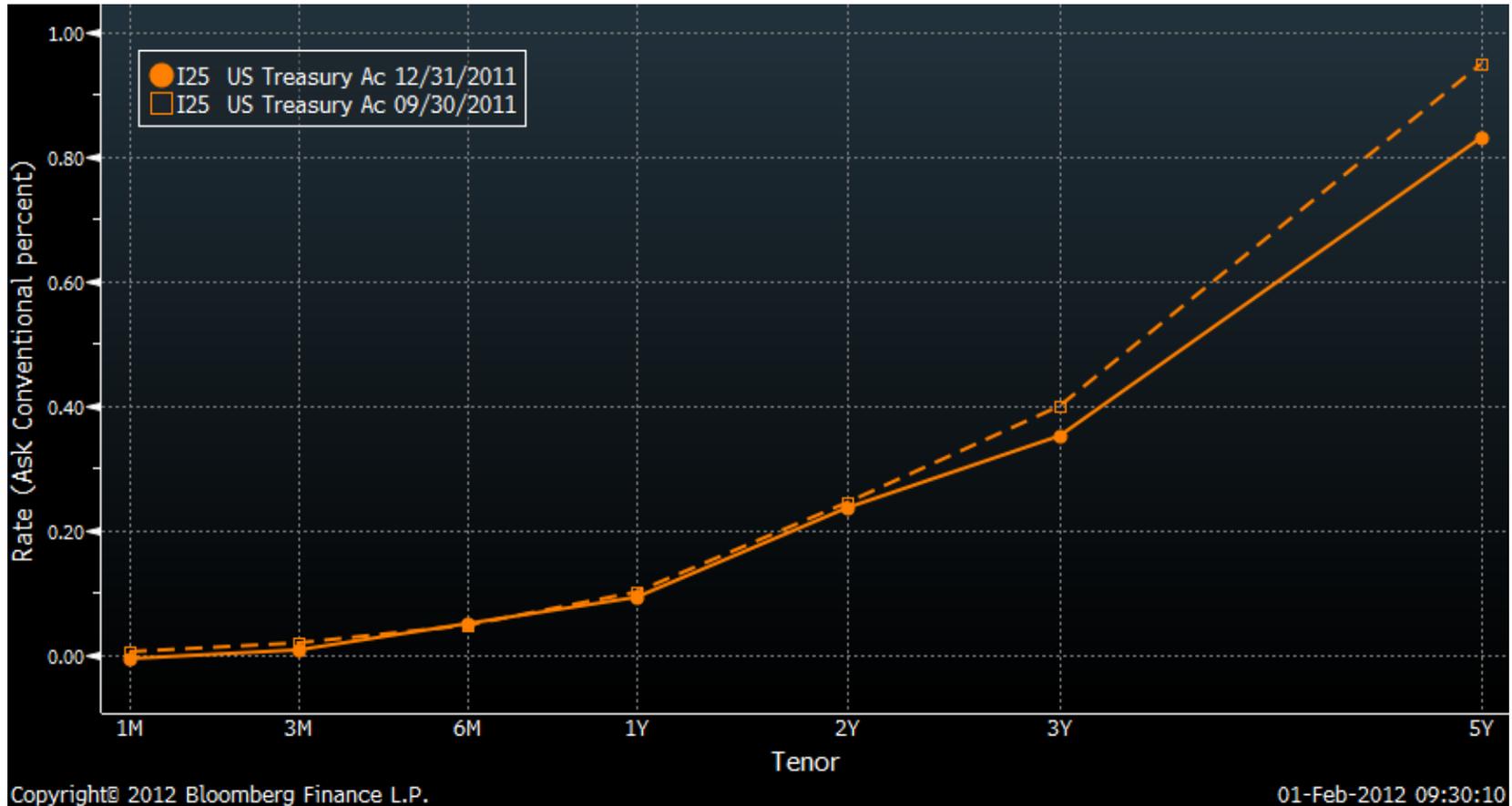
---

- 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

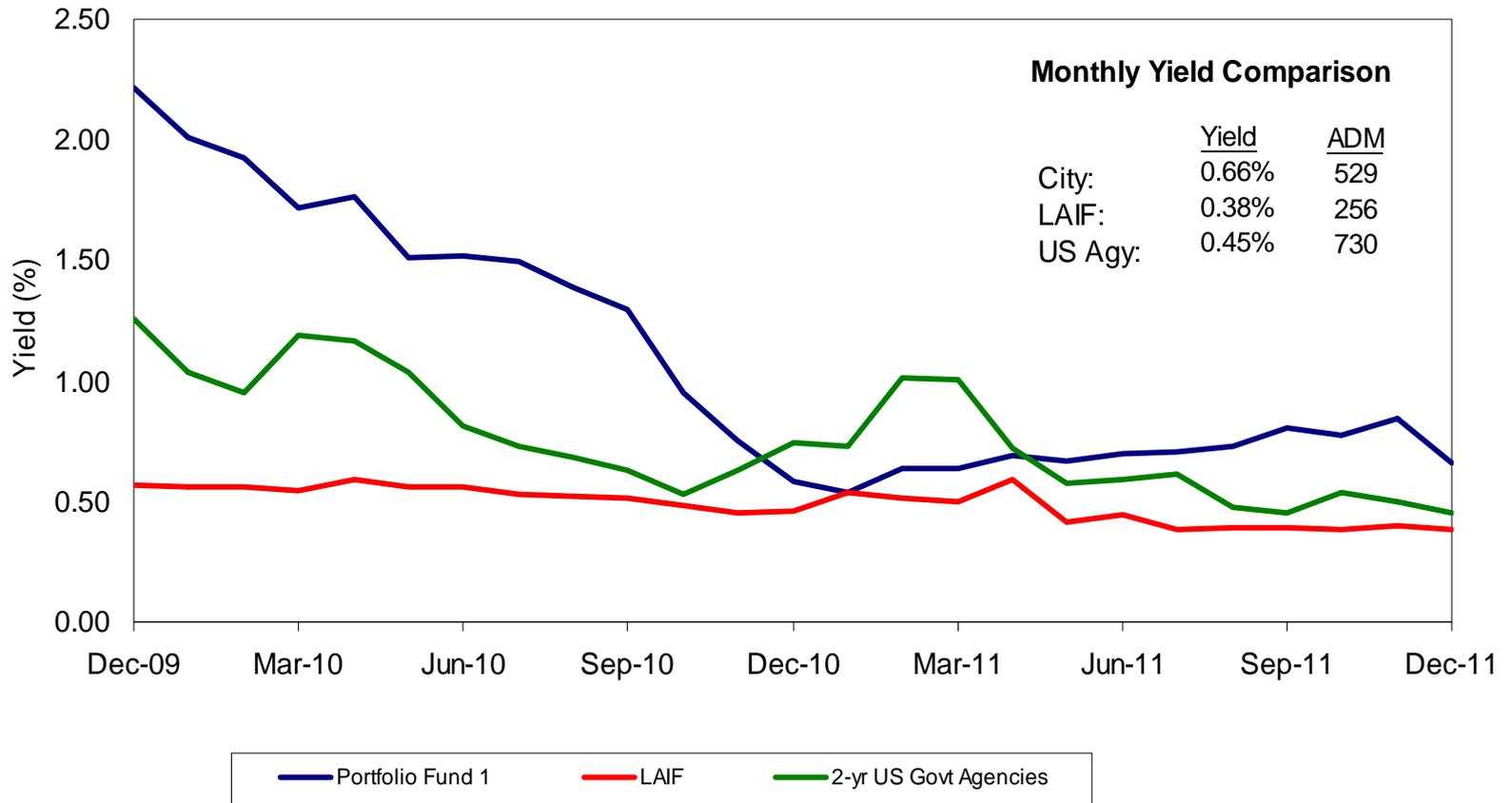


# US Treasury Yield Comparisons



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
<b>Total Program Collections</b>	<b>\$3,279,900*</b>	<b>\$1,493,218</b>

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

# Return on Investment (ROI)

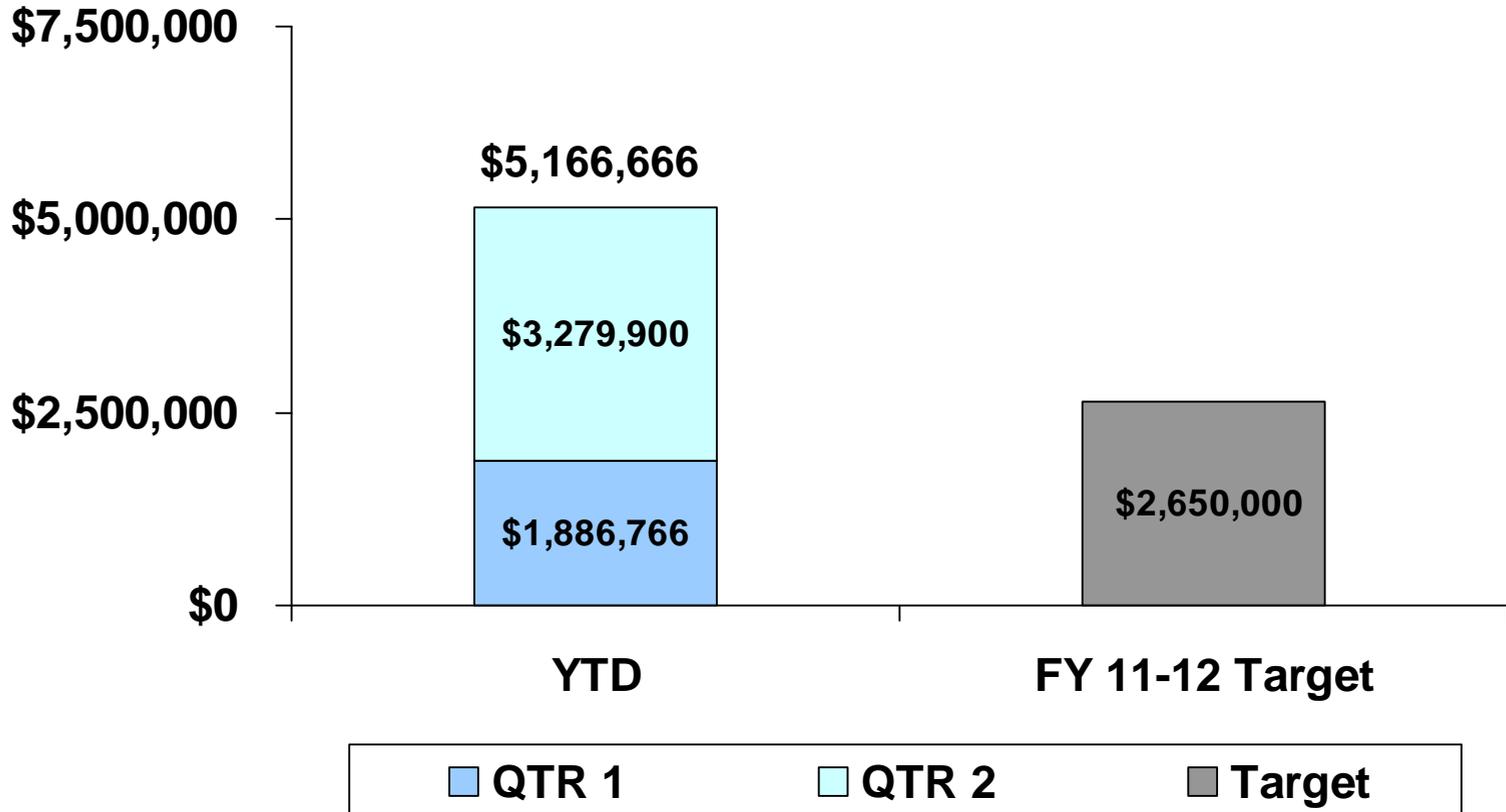
## Quarter to Quarter Comparison

---

	<u>FY 2011-12</u> <u>2nd Quarter</u>	<u>FY 2010-11</u> <u>2nd Quarter</u>
<b>Total Return on Investment</b>	\$10.07	\$4.41
<b>Return on Investment by Program</b>		
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*

# 2<sup>nd</sup> 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
<b>Total Accounts Receivable</b>	<b>\$ 20,400,058</b>	<b>\$ 22,397,520</b>

\* 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.